

FLATHEAD COUNTY
ECONOMIC DEVELOPMENT AUTHORITY

A COMPONENT UNIT OF
FLATHEAD COUNTY, MONTANA

Fiscal year Ended June 30, 2014

AUDIT REPORT

Denning, Downey & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

FLATHEAD COUNTY
ECONOMIC DEVELOPMENT AUTHORITY

A COMPONENT UNIT OF
FLATHEAD COUNTY, MONTANA

Fiscal year Ended June 30, 2014

TABLE OF CONTENTS

Organization	1
Management Discussion and Analysis	2-7
Independent Auditor’s Report	8-9
Financial Statements	
<u>Government-wide Financial Statements</u>	
Statement of Net Position	10
Statement of Activities	11
<u>Fund Financial Statements</u>	
Balance Sheet – Governmental Funds	12
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	13
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds	14
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
Notes to Financial Statements	16-24
Required Supplementary Information	
Budgetary Comparison Schedule	25
Independent Auditor’s Report on Compliance and 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	26-27
Report on Prior Audit Recommendations	28

Flathead County Economic Development Authority

FLATHEAD COUNTY, MONTANA

ORGANIZATION

Fiscal Year Ended June 30, 2014

BOARD OF COUNTY DIRECTORS

Turner Askew
Jeannie Luckey
Don Bennet
Rick Blake
Lyle Mitchell
Scott Mizner
Paul Johannsen

Chairperson
Vice Chairperson
Director
Director
Director
Director
Director

OFFICIALS

Kellie Danielson
Carol Oberndorfer
Kim Morisaki

President
Operations Manager
Client Development Manager



Flathead/Glacier Park Region Montana

Management's Discussion and Analysis

The Flathead County Economic Development Authority, FCEDA, is a quasi-governmental unit of Flathead County Government. The "Authority" was created in 1999 to promote economic development activities in Flathead County. The day-to-day operations, budget, and board management is conducted by the Authority's contracted management agency, Jobs Now, Inc. dba Montana West Economic Development. The annual budget is constructed and approved by the governing Board of Directors for the Authority. The Board of Directors for the Authority are appointed, with terms, by the Flathead County Commissioners. The Board of the Authority approves the expenditures of the Authority.

The financial statements of the Authority are prepared by the staff of Montana West Economic Development. Albita MIP Fund Accounting software is used since 1/01/2012. An independent accounting firm in Kalispell, Montana audits the Authority annually. The firm of Denning, Downey and Associates is a certified public accounting firm with expertise in government accounting practices.

Our discussion and analysis of the Authority's financial performance provides an overview of the financial activities for the fiscal year end June 30, 2014. The following "financial highlights" summarize the Authority's audited financial statements and accompanying notes.

Financial Highlights

- The Authority's net assets increased \$248,083 primarily due to the transfer of ownership of the City of Kalispell's portion of Gateway West Mall and parking lot to the Authority in 2013. The purpose is to consolidate the ownership and management of the Gateway West Mall facility leased to Teletech, a large employer. The City and the Authority were joint owners of the facility since 2000.
- The Authority's 2013-2014 revenues were derived from: a) \$473,155 from general-purpose property taxes, b) \$13 from licenses and permit, c) \$11,333 from interest earnings, d) \$421,371 from intergovernmental revenues, e) and \$29,789 from miscellaneous revenue, for total revenues of \$935,661.
- Expenditures include general government expenses for community development of \$601,088 and capital outlay of \$45,286.

- The change of fund balance shows a net change of \$289,287 during the reporting year less expenditures that were budgeted.

Using This Report

This audit report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Authority as a whole and present a longer-term view of the Authority's finances. Fund financial statements tell how activities were financed in the short term as well as what remains for future activities.

Two of the most important questions asked about the Authority are "How well did the Authority respond to economic opportunities in the past fiscal year?" and "What ability will it have to respond to future economic development opportunities?" The Statement of Net Assets and Statement of Activities reports include all assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Authority's net assets and changes- the difference between assets and liabilities – as one way to measure the Authority's financial health, or financial position. Over time increases or decreases in the Authority's net assets are an indicator of whether the Authority has been responding to economic development opportunities at a level equal to, above, or below its annual revenue. When reviewing the Authority's overall financial position, however, other non-financial factors would also be considered, such as changes in the property tax assessment formula, which is determined by the State Legislature and the amount of mills levied in the taxing jurisdiction of Flathead County.

The fund financial statements provide detailed information about the fund sources for the Authority. These include tax revenues from property tax, interest earnings, permits and licenses and state entitlements. The Montana Department of Commerce Big Sky Trust Fund Program provided grant dollars to eligible business that pass through the Authority's books.

The economic development activities and debt service activities are reported in the statement of Revenues and Expenses, which focus on how money flows into and out of those funds and balances left at year-end that are available for spending. These fund statements provide a detailed short-term view of the Authority's general operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to fund the Authority's programs.

Capital Assets

The Authority has full ownership in 63,000 square feet of a facility located within the Gateway West Mall in Kalispell, Montana. The City of Kalispell owned two-thirds of the facility based on a 2000 deal structure with the Authority to attract a major employer to the area. In 2013, an Interlocal Agreement between The City of Kalispell and Authority transferred the City of Kalispell's two thirds ownership of the facility to the Authority. The Agreement also transferred the City's 50% ownership in a parking lot 1.795 acres located adjacent to the Gateway West Mall to the Authority. The parking lot provides dedicated spaces for the employees of the facility's tenant who currently occupy the space owned by the Authority in Gateway West Mall.

In 2012 the Authority purchased a gravel pit property to develop into a rail-served industrial park for a total purchase price of \$898,128, which includes miscellaneous environmental, legal and closing cost fees. The Authority's expense for the gravel pit acquisition was supplemented by funds from the Economic Development Administration. The property was annexed into the city of Kalispell in 2014. The Authority is contracted with a local engineering firm to design the infrastructure needs at the rail industrial park.

Total net assets as of June 30, 2014 were \$6,069,017. This amount includes \$2,597,012 invested in capital assets, \$136,936 restricted assets and \$3,335,069 in unrestricted assets.

Table 1 - Net Assets

	Governmental Activities		Change Inc (Dec)
	FY14	FY13	
Current and other assets	\$ 3,484,604	\$ 3,177,131	\$ 307,473
Capital assets	2,597,012	2,654,003	-56,991
Total assets	<u>\$ 6,081,616</u>	<u>\$ 5,831,134</u>	<u>\$ 250,482</u>
Other liabilities	\$ 12,599	\$ 10,200	\$ 2,399
Total liabilities	<u>\$ 12,599</u>	<u>\$ 10,200</u>	<u>\$ 2,399</u>
Invested in capital assets, net of debt	\$ 2,597,012	\$ 2,654,003	\$ -56,991
Restricted	136,936	99,478	37,458
Unrestricted (deficit)	3,335,069	3,067,453	267,616
Total net position	<u>\$ 6,069,017</u>	<u>\$ 5,820,934</u>	<u>\$ 248,083</u>

Current and Long Term Liabilities

The Authority has no current and long-term liabilities. However, the Authority provides a guarantee for the USDA Intermediary Relending Program that Jobs Now, Inc. dba Montana West Economic Development administers. The USDA funds are borrowed and paid back with interest by Jobs Now. The purpose of the USDA funding is to create a small business lending portfolio for non-traditional or "gap financing" business loans.

Revenues

The Authority receives tax revenue and generates some tenant income. There is no program revenue generated. The largest source of revenue is from tax revenue. An operating lease with the Gateway West Mall tenant provides annual income that is designated for maintenance and upkeep at the leased facility. This revenue is deposited into a restricted account for facility maintenance purposes. One tenant in the gravel pit property provides lease income to the Authority. The Montana Department of Commerce Big Sky Trust Fund contracts with the Authority to pass grant funds through to eligible business for business growth purposes. At times there is administration income generated from the Big Sky Trust Fund for the management of these grant funds. The Authority and Jobs Now has an agreement for the administration funds to

Be paid to Jobs Now since Jobs Now's staff is performing the duties for the grant funds management, sometimes for as long as 36 months per business.

Expenses

The Authority's expenses are expressed under Functions/Programs and Governmental activities. Specifically, the activities of the Authority are property maintenance related costs and contract services for economic development programs and activities. In 2014 the development costs associated with the rail park planning increased, due to annexation and infrastructure planning. The Authority made improvements to the HVAC system at the Gateway West Mall facility for utility efficiencies.

Table 2 - Changes in Net Assets

	Governmental Activities		Change
	<u>FY14</u>	<u>FY13</u>	<u>Inc (Dec)</u>
Revenues			
<i>Program revenues (by major source):</i>			
Operating grants and contributions	\$ 312,280	\$ 62,275	\$ 250,005
<i>General revenues (by major source):</i>			
Property taxes for general purposes	488,948	461,502	27,446
Licenses and permits	13		13
Miscellaneous	29,789	1,157,077	-1,127,288
Interest/investment earnings	11,333	11,220	113
State Entitlement	46,925	57,365	-10,440
Intergovernmental Agreement		5,000	-5,000
Deficiency tax payment from Teletech	62,160		62,160
Total revenues	\$ 951,448	\$ 1,754,439	\$ -802,991
Program expenses			
Community development	\$ 703,365	\$ 380,572	322,793
Total expenses	\$ 703,365	\$ 380,572	\$ 322,793
Excess (deficiency) before special items and transfers	\$ 248,083	\$ 1,373,867	\$ -1,125,784
Increase (decrease) in net position	\$ 248,083	\$ 1,373,867	\$ -1,125,784

Balance and Transactions of Funds

Property owned

Beginning Balance	7/01/13	\$3,313,518 – accumulated depreciation of \$659,515
Ending Balance	6/30/14	<u>\$2,654,003 – accumulated depreciation of \$761,792</u>
\$ Change		(\$659,515)
% Change		(19.9%)

Fund Balance 7/01/13	\$3,090,329
Fund Balance 6/30/14	<u>\$3,379,703</u>
\$ Change	\$ 289,374
% Change	+109.4%

Overall Financial Position

The Authority's overall financial position has improved in the sense that the asset base has grown with the acquisition of property for shovel ready rail-served industrial sites in 2012 and the transfer of ownership of the City of Kalispell's portion of the Gateway West Mall and parking lot in 2013. The tax revenue continues to fund the activities of the Authority, and expenses do not exceed annual revenue. The management contract with Montana West Economic Development provides the delivery of economic development services without duplicating the overhead costs, providing efficiencies and maximizing a public-private partnership.

Project Commitments

The Authority's board of directors is collaborating with the City of Kalispell to identify a financially feasible plan to relocate a large industrial rail customer from downtown Kalispell to the Authority's industrial property. Once the relocation is accomplished the Authority desires to market the remaining property to rail users and collaborate with the adjoining industrial land owner, BNSF, to grow their tenant numbers. The main objective is to foster jobs and support the City of Kalispell's CORE Area Revitalization Plan. The relocation project allows for the City and BNSF to remove the railroad tracks from downtown Kalispell. There are no longer available sites for new or expanding industrial business in downtown or the CORE area. The area has transitioned to commercial and residential, and the tracks impede development growth in the City's core area. A long term CORE area revitalization plan has been established by the City of Kalispell and adopted by the city council.

The Authority serves as the property manager (through their contract with Montana West Economic Development,) for the Gateway West Mall facility. The facility is leased to a large employer. The relationship with the tenant is key to maintaining and growing the jobs provided by the tenant.

The Authority guarantees the procurement of loan funds from the USDA borrowed by Jobs Now, dba Montana West Economic Development, to revolve out to new and expanding business. The purpose is to foster jobs and business investment. The Montana West business loan unit is highly successful in leveraging private equity and local bank capital to get deals done.

Economic Climate

The recession from 2008 until 2012 took a huge toll on the Flathead business community and residents. Negative growth occurred from 2008 until third quarter 2011. In 2013 the economy was predicted to have grown less than 2%, but positive growth although slow. The outlook for 2015 is continued positive growth from 1.6% to 2%. The Flathead County economy follows the national trend and does not coincide with the State of Montana economy. The Flathead does not have the mineral mining, agriculture or energy sector growth that other areas of Montana experience. Business investment is primarily from expanding local business or start-up companies.

Budget to Actual Variances

The 2013-2014 budget revenue was not met considering unrealized projected grant income and property tax income was less than anticipated. Expenses were low due to budgeted expense items not realized. The annual ongoing expenses are the contract management fee with Jobs Now and property maintenance/ownership fees.

Currently Known Facts

Flathead County Economic Development Authority is supporting county-wide marketing/promotion initiatives by providing funding and collaboration for the delivery of economic development services to grow private sector jobs.



Kellie Danielson, CEcD
CEO, Flathead County Economic Development Authority.

Denning, Downey & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Flathead County Economic Development Authority
Flathead County
Kalispell, Montana

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, and the major fund of Flathead County Economic Development Authority, Flathead County, Montana, as of and for the year ended June 30, 2014, 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 financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and the major fund of Flathead County Economic Development Authority, Flathead County, Montana, as of and for the year ended June 30, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 1 to the financial statements, in 2014, the Flathead County Economic Development Authority, Flathead County, Montana adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and the budgetary comparison information on pages 2 through 7, and 25 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 14, 2015, on our consideration of the Flathead County Economic Development Authority, Flathead County, Montana'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 Flathead County Economic Development Authority, Flathead County, Montana's internal control over financial reporting and compliance.

Derring, Downey and Associates, CPA's, P.C.

April 14, 2015

Flathead County Economic Development Authority, Flathead County, Montana
Statement of Net Position
June 30, 2014

		Governmental Activities
ASSETS		
Current assets:		
Cash and investments	\$	3,255,279
Taxes and assessments receivable, net		92,302
Interest receivable		87
Total current assets	\$	3,347,668
Noncurrent assets		
Restricted cash and investments	\$	136,936
Capital assets - land		1,267,972
Capital assets - construction in progress		45,286
Capital assets - depreciable, net		1,283,754
Total noncurrent assets	\$	2,733,948
Total assets	\$	6,081,616
LIABILITIES		
Current liabilities		
Accounts payable	\$	11,099
Deposits payable		1,500
Total current liabilities	\$	12,599
Noncurrent liabilities		
Total liabilities	\$	12,599
NET POSITION		
Net investment in capital assets	\$	2,597,012
Restricted for community development		136,936
Unrestricted		3,335,069
Total net position	\$	6,069,017

See accompanying Notes to the Financial Statements

Flathead County Economic Development Authority, Flathead County, Montana
Statement of Activities
For the Fiscal Year Ended June 30, 2014

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u> <u>Operating</u> <u>Grants and</u> <u>Contributions</u>	<u>Net (Expenses) Revenues and</u> <u>Changes in Net Position</u> <u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
Primary government:			
Governmental activities:			
Community development	\$ 703,365	\$ 312,280	\$ (391,085)
Total governmental activities	\$ 703,365	\$ 312,280	\$ (391,085)
General Revenues:			
Property taxes for general purposes			\$ 551,108
Licenses and permits			13
Miscellaneous			29,789
Interest/investment earnings			11,333
State entitlement			46,925
Total general revenues, special items and transfers			\$ 639,168
Change in net position			\$ 248,083
Net position - beginning			\$ 5,820,934
Net position - end			\$ 6,069,017

See accompanying Notes to the Financial Statements

Flathead County Economic Development Authority, Flathead County, Montana
Balance Sheet
Governmental Funds
June 30, 2014

		<u>General</u>
ASSETS		
Current assets:		
Cash and investments	\$	3,255,279
Taxes and assessments receivable, net		92,302
Interest receivable		87
Total current assets	\$	<u>3,347,668</u>
Noncurrent assets:		
Restricted cash and investments	\$	136,936
Total noncurrent assets	\$	<u>136,936</u>
Total assets	\$	<u>3,484,604</u>
Current liabilities:		
Accounts payable	\$	11,099
Deposits payable		1,500
Total current liabilities	\$	<u>12,599</u>
Total liabilities	\$	<u>12,599</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources	\$	92,302
Total deferred inflows of resources	\$	<u>92,302</u>
FUND BALANCES		
Restricted	\$	136,936
Unassigned fund balance		3,242,767
Total fund balance	\$	<u>3,379,703</u>

See accompanying Notes to the Financial Statements

Flathead County Economic Development Authority, Flathead County, Montana
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Position
June 30, 2014

Total fund balances - governmental funds	\$	3,379,703
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		2,597,012
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.		92,302
Total net position - governmental activities	\$	<u>6,069,017</u>

See accompanying Notes to the Financial Statements

Flathead County Economic Development Authority, Flathead County, Montana
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2014

		<u>General</u>
REVENUES		
Taxes and assessments	\$	473,155
Licenses and permits		13
Intergovernmental		421,371
Miscellaneous		29,789
Investment earnings		11,333
Total revenues	\$	<u>935,661</u>
EXPENDITURES		
Community development	\$	601,088
Capital outlay		45,286
Total expenditures	\$	<u>646,374</u>
Net Change in Fund Balance	\$	<u>289,287</u>
Fund balances - beginning	\$	3,090,416
Fund balance - ending	\$	<u><u>3,379,703</u></u>

See accompanying Notes to the Financial Statements

Flathead County Economic Development Authority, Flathead County, Montana
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Fiscal Year Ended June 30, 2014

Amounts reported for *governmental activities* in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$ 289,287
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:	
- Capital assets purchased	45,286
- Depreciation expense	(102,277)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:	
- Long-term receivables (deferred revenue)	15,787
Change in net position - Statement of Activities	\$ <u>248,083</u>

See accompanying Notes to the Financial Statements

FLATHEAD COUNTY ECONOMIC DEVELOPMENT AUTHORITY
FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Flathead County Economic Development Authority complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements.

GASBS No. 65, *Items Previously Reported as Assets and Liabilities*, 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. This standard is effective for fiscal year ending June 30, 2014.

Financial Reporting Entity

In determining the financial reporting entity, the Authority complies with the provisions of GASB statement No. 14, *The Financial Reporting Entity*, as amended by GASB statement No. 61, *The Financial Reporting Entity: Omnibus*, and includes all component units of which the Authority appointed a voting majority of the component units' board; the Authority is either able to impose its' will on the unit or a financial benefit or burden relationship exists.

The Authority was created to stimulate and develop commerce, create opportunities for employment, and work towards the advancement of general welfare and prosperity within Flathead County Economic Development Authority jurisdiction. The Authority is a component unit of Flathead County with the Board of the Authority appointed by the Flathead County Commissioners.

Basis of Presentation, Measurement Focus and Basis of Accounting.

Government-wide Financial Statements:

Basis of Presentation

The Government-wide Financial Statements (the Statement of Net Position and the Statement of Activities) display information about the reporting government as a whole and its component units. They include all funds of the reporting entity except fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues.

FLATHEAD COUNTY ECONOMIC DEVELOPMENT AUTHORITY
FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Authority's governmental activities. Direct expenses are those that are specifically associated with a program or function. The Authority does not charge indirect expenses to programs or functions. The types of transactions reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity and 2) operating grants and contributions, and 3) capital grants and contributions. Revenues that are not classified as program revenues, including all property taxes, are presented as general revenues.

Measurement Focus and Basis of Accounting

Government-Wide Financial Statements

On the government-wide Statement of Net Position and the Statement of Activities, activities are presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred regardless of the timing of the cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The Authority generally applies restricted resources to expenses incurred before using unrestricted resources when both restricted and unrestricted net assets are available.

Fund Financial Statements:

Basis of Presentation

Fund financial statements of the reporting Authority are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. A fund is considered major if it is the primary operating fund of the Authority or meets the following criteria:

Total assets, liabilities combined with deferred inflows of resources, revenues, or expenditures/expenses of that individual governmental or enterprise funds are at least 5 percent of the corresponding total for all funds combined.

Measurement Focus and Basis of Accounting

FLATHEAD COUNTY ECONOMIC DEVELOPMENT AUTHORITY
FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

Governmental Funds

Modified Accrual

All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. “Measurable” means the amount of the transaction can be determined. “Available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

The Authority defined the length of time used for “available” for purposes of revenue recognition in the governmental fund financial statements to be upon receipt. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources. General capital asset acquisitions are reported as expenditures in governmental funds and proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. All other revenue items are considered to be measurable and available only when cash is received by the government.

Major Funds:

The Authority reports the following major governmental funds:

General Fund – This is the Authority’s primary operating fund and it accounts for all financial resources of the Authority except those required to be accounted for in other funds.

NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash Composition

Composition of cash, deposits and investments at fair value on June 30, 2014, are as follows:

FLATHEAD COUNTY ECONOMIC DEVELOPMENT AUTHORITY
 FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2014

	<u>Primary Government</u>
<u>Cash on hand and deposits:</u>	
Cash in banks:	
Demand deposits	\$ 2,053,490
Savings deposits	159,266
Time deposits	935,620
Credit union deposits	243,839
Total	\$ <u><u>3,392,215</u></u>

Credit Risk

Section 7-6-202, MCA, limits investments of public money of a local government in the following eligible securities:

(a) United States government treasury bills, notes and bonds and in the United States treasury obligations, such as state and local government series (SLGLS), separate trading of registered interest and principal of securities (STRIPS), or similar United States treasury obligations;

(b) United States treasury receipts in a form evidencing the holder's ownership of future interest or principal payments on specific United States treasury obligations that, in the absence of payment default by the United States, are held in a special custody account by an independent trust company in a certificate or book entry form with the federal reserve bank of New York; or

(c) Obligations of the following agencies of the United States, subject to the limitations in subsection 2 (not included):

- (i) federal home loan bank;
- (ii) federal national mortgage association;
- (iii) federal home mortgage corporation; and
- (iv) federal farm credit bank.

With the exception of the assets of a local government group self-insurance program, investments may not have a maturity date exceeding 5 years except when the investment is used in an escrow account to refund an outstanding bond issue in advance.

Section 7-6-205 and Section 7-6-206, MCA, state that demand deposits may be placed only in banks and Public money not necessary for immediate use by a county, city, or town that is not invested as authorize in Section 7-6-202 may be placed in time or savings deposits with a bank, savings and loan association, or credit union in the state or place in repurchase agreements as authorized in Section 7-6-213.

Section 7-6-202, MCA, as amended, now limits authorized investments in certain securities that previously were permissible investments. The amendment does not apply to and does not require the sale of securities that were legal investments before the effective date of this act. However, the investments reported as collateralized mortgage obligations above are not authorized investments at the current time.

FLATHEAD COUNTY ECONOMIC DEVELOPMENT AUTHORITY
 FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2014

The government has no investment policy that would further limit its investment choices.

The government has no investments that require credit risk disclosure.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. All deposits are carried at cost plus accrued interest. As of June 30, 2014 of the government's bank balance was exposed to custodial credit risk as follows:

	June 30, 2014 <u>Balance</u>
<u>Depository Account</u>	
Insured	\$ 1,735,183
- Collateral held by the pledging bank's trust department but not in the Authority's name.	1,657,992
Total deposits and investments	\$ <u><u>3,393,175</u></u>

Deposit Security

Section 7-6-207, MCA, states (1) The local governing body may require security only for that portion of the deposits which is not guaranteed or insured according to law and, as to such unguaranteed or uninsured portion, to the extent of:

- (a) 50% of such deposits if the institution in which the deposit is made has a net worth of total assets ratio of 6% or more; or
- (b) 100% if the institution in which the deposit is made has a net worth of total assets ratio of less than 6%.

The amount of collateral held for Authority deposits at June 30, 2014, equaled or exceeded the amount required by State statutes.

NOTE 3. RESTRICTED CASH/INVESTMENTS

The following restricted cash/investments were held by the Authority as of June 30, 2014. These amounts are reported within the cash/investment account on the Statement of Net Assets.

<u>Description</u>	<u>Amount</u>
Building Reserve	\$ <u><u>136,936</u></u>

FLATHEAD COUNTY ECONOMIC DEVELOPMENT AUTHORITY
FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 4. RECEIVABLES

An allowance for uncollectible accounts was not maintained for real and personal property taxes receivable. The direct write-off method is used for these accounts.

Property tax levies are set in August, after the County Assessor delivers the taxable valuation information to the County, in connection with the budget process and are based on taxable values listed as of January 1 for all property located in the Entity. Taxable values are established by the Montana Department of Revenue, and a revaluation of all property is required to be completed on a periodic basis. Taxable value is defined by Montana statute as a fixed percentage of market value.

Real property (and certain attached personal property) taxes are billed within ten days after the third Monday in October and are due in equal installments on November 30 and the following May 31. After those dates, they become delinquent (and a lien upon the property). After three years, the County may exercise the lien and take title to the property. Special assessments are either billed in one installment due November 30 or two equal installments due November 30 and the following May 31. Personal property taxes (other than those billed with real estate) are generally billed no later than the second Monday in July (normally in May or June), based on the prior November's levies. Personal property taxes, other than mobile homes, are due thirty days after billing. Mobile home taxes are billed in two halves, the first due thirty days after billing; the second due September 30. The tax billings are considered past due after the respective due dates and are subject to penalty and interest charges.

Taxes that become delinquent are charged interest at the rate of 5/6 of 1% a month plus a penalty of 2%. Real property on which taxes remain delinquent and unpaid may be sold at tax sales. In the case of personal property, the property is to be seized and sold after the taxes become delinquent.

NOTE 6. CAPITAL ASSETS

The Authority's assets are capitalized at historical cost or estimated historical cost. Authority policy has set the capitalization threshold for reporting capital assets at \$5,000. Gifts or contributions of capital assets are recorded at fair market value when received. The costs of normal maintenance and repairs are charged to operations as incurred. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable. Depreciation is recorded on a straight-line basis over the useful lives of the assets as follows:

Buildings	20 years
Improvements other than buildings	20 years

FLATHEAD COUNTY ECONOMIC DEVELOPMENT AUTHORITY
 FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2014

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 which requires the inclusion of infrastructure capital assets in local governments' basic financial statements. In accordance with Statement No. 34, the Authority has no infrastructure to include in the 2014 Basic Financial Statements. The government has elected not to retroactively report general infrastructure assets.

A summary of changes in governmental capital assets was as follows:

Governmental activities:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Balance</u> <u>June 30, 2014</u>
Capital assets not being depreciated:			
Land	\$ 1,267,972	\$ -	\$ 1,267,972
Construction in progress	-	45,286	45,286
Total capital assets not being depreciated	<u>\$ 1,267,972</u>	<u>\$ 45,286</u>	<u>\$ 1,313,258</u>
Other capital assets:			
Buildings	\$ 1,907,167	\$ -	\$ 1,907,167
Improvements other than buildings	138,379	-	138,379
Total other capital assets at historical cost	<u>\$ 2,045,546</u>	<u>\$ -</u>	<u>\$ 2,045,546</u>
Less: accumulated depreciation	\$ (659,515)	\$ (102,277)	\$ (761,792)
Total	<u><u>\$ 2,654,003</u></u>	<u><u>\$ (56,991)</u></u>	<u><u>\$ 2,597,012</u></u>

Governmental activities depreciation expense was charged to functions as follows:

Governmental Activities:	
Community Development	<u>\$102,277</u>

NOTE 9. FUND BALANCE CLASSIFICATION POLICIES AND PROCEDURES

The government considers restricted amounts to have been spent first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available.

Restricted Fund Balance

<u>Major Fund</u>	<u>Amount</u>	<u>Purpose of Restriction</u>
General	\$ 136,936	Building Reserve

FLATHEAD COUNTY ECONOMIC DEVELOPMENT AUTHORITY
FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 10. SERVICES PROVIDED BY OTHER GOVERNMENTS

County Provided Services

The Authority is provided various financial services by Flathead County. The County also serves as cashier and treasurer for the Authority for tax and assessment collections and other revenues received by the County which are subject to distribution to the various taxing jurisdictions located in the County. The collections made by the County on behalf of the Authority are accounted for in an agency fund in the Authority's name and are periodically remitted to the Authority by the County Treasurer. No service charges have been recorded by the Authority or the County.

NOTE 11. RISK MANAGEMENT

The Authority faces considerable number of risks of loss, including (a) damage to and loss of property and contents, (b) employee torts, (c) professional liability, i.e., errors and omissions, (d) environmental damage, (e) workers' compensation, i.e., employee injuries, and (f) medical insurance costs of employees. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Insurance Policies:

Commercial policies transferring all risks of loss, except for relatively small deductible amounts are purchased for property and content damage, employees torts, and professional liabilities. Employee medical insurance is provided for by a commercial carrier. And, given the lack of coverage available, the Authority has no coverage for potential losses from environmental damages.

NOTE 12. SUBSEQUENT EVENTS

In 2014, Flathead County Economic Development Authority assisted Montana West Economic Development in the acquisition and renovation of a vacant office building in Kalispell to house the operations of the Authority and Montana West. The Authority loaned \$475,000 to MWED at a 3.5% interest rate. The Authority made a cash contribution of \$100,000 to Montana West towards the renovation expense. The building will have ADA access. Montana West invested equity into the office renovation and furnishings. The office building does have additional office space to lease to individual small businesses that need a one-room office to conduct their business. The tenant income will assist Montana West with mortgage payments.

FLATHEAD COUNTY ECONOMIC DEVELOPMENT AUTHORITY
 FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2014

In addition, the Authority elected to support the Procurement Technical Assistance Center, PTAC, by integrating the PTAC services into Montana West Economic Development. The Authority determined to provide some financial support towards the PTAC office through an agreement with Montana West. The PTAC office in 2013 reported \$23 million in government contracts awarded to Montana business because of the Kalispell PTAC services. The PTAC was located in Missoula, Montana, yet served mostly Flathead County residents. PTAC officially integrated into Montana West in August 2014 to serve the Flathead County and three surrounding counties citizens.

The Authority elected in third quarter 2014 to support Montana West’s application to the U.S. Department of Treasury for a New Market Tax Credit allocation. The allocation, if awarded, will benefit redevelopment projects in Flathead County, provide income to the organizations, but create additional staff expense to implement the allocation. The Authority and Montana West assessed the allocation expense is well worth the return on business and government investment projects envisioned by local stakeholders for the cities and county.

NOTE 13. SIGNIFICANT CONSTRUCTION COMMITMENTS AND/OR OTHER CONTINGENCIES

In 2012 the Flathead County Economic Development Authority (FCEDA) acquired an exhausted gravel pit mine property at the east end of Kalispell and the west end of Evergreen. The 40 acre property is located alongside the existing railroad tracks which are already zoned as industrial and are adjacent to the Burlington Northern Rail Industrial Property. FCEDA’s intention is to promote a 90 acre rail park in collaboration with other property owners that will improve the condition of existing transportation facilities and systems. The site will be put to a new long-term use while creating jobs and will shift rail use to a location that matches rail access with highway access and is planned for sustained industrial growth. FCEDA started the construction phase of the project during fiscal year 2014 and is currently collaborating with the city of Kalispell, Watco Companies and Burlington Northern Rail Road.

<u>Project Name</u>	<u>Project Authorization</u>	<u>Expended to Date</u>	<u>Commitment</u>	<u>Estimated Required Further Financing</u>
Glacier Rail Park	\$409,000	\$94,000	\$111,250	\$4,000,000

**REQUIRED SUPPLEMENTAL
INFORMATION**

Flathead County Economic Development Authority, Flathead County, Montana
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2014

	General			
	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL	AMOUNTS (BUDGETARY BASIS) See Note A	WITH FINAL BUDGET
RESOURCES (INFLOWS):				
Taxes and assessments	\$ 520,000	\$ 520,000	\$ 473,155	\$ (46,845)
Licenses and permits	-	-	13	13
Intergovernmental	1,400,000	1,400,000	421,371	(978,629)
Miscellaneous	18,000	18,000	29,789	11,789
Investment earnings	7,500	7,500	11,333	3,833
Amounts available for appropriation	\$ 1,945,500	\$ 1,945,500	\$ 935,661	\$ (1,009,839)
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
Community development	\$ 2,084,350	\$ 2,084,350	\$ 601,088	\$ 1,483,262
Capital outlay	-	-	45,286	(45,286)
Total charges to appropriations	\$ 2,084,350	\$ 2,084,350	\$ 646,374	\$ 1,437,976
Net change in fund balance			\$ 289,287	
Fund balance - beginning of the year			\$ 3,090,416	
Fund balance - end of the year			\$ 3,379,703	

Denning, Downey & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

1740 U.S. Hwy 93 South, P.O. Box 1957, Kalispell, MT 59903-1957

**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***

Board of Directors
Flathead County Economic Development Authority
Flathead County
Kalispell, Montana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, and the major fund of Flathead County Economic Development Authority, Flathead County, Montana, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Flathead County Economic Development Authority's basic financial statements and have issued our report thereon dated April 14, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Flathead County Economic Development Authority, Flathead County, Montana'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 Flathead County Economic Development Authority, Flathead County, Montana's internal control. Accordingly, we do not express an opinion on the effectiveness of Flathead County Economic Development Authority's internal control over financial reporting.

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 Flathead County Economic Development Authority's financial statements are free of 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 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.

Derring, Downey and Associates, CPAs, P.C.

April 14, 2015

Denning, Downey & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

1740 U.S. Hwy 93 South, P.O. Box 1957, Kalispell, MT 59903-1957

REPORT ON PRIOR AUDIT REPORT RECOMMENDATIONS

Board of Directors
Flathead County Economic Development Authority
Flathead County
Kalispell, Montana

The prior audit report contained no recommendations.

Denning, Downey and Associates, CPAs, P.C.

April 14, 2015