

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



**BIG SKY ECONOMIC
DEVELOPMENT AUTHORITY**

FINANCIAL REPORT

June 30, 2015 and 2014

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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 statements of net position of Big Sky Economic Development Authority (the Authority) as of June 30, 2015 and 2014, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Big Sky Economic Development Authority as of June 30, 2015 and 2014, 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 and pension schedules be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The schedule of expenditures of federal awards 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 not a required part of the basic financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 6, 2016, 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
January 6, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

BIG SKY ECONOMIC DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended June 30, 2015, 2014, and 2013

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 Statements of Net Position, 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, 2015, 2014 and 2013. 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 eight 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 SBDC also operates the business recruitment and retention program (BEAR). 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 ECONOMIC DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Years Ended June 30, 2015, 2014, and 2013

BUSINESS DEVELOPMENT ACTIVITIES (CONTINUED)

In May 2015, the U.S. Small Business Administration (SBA) issued a Notice of Award to Big Sky EDA to operate a regional Veteran's Business Outreach Center (VBOC). The mission of the VBOC is to help create, develop and retain veteran-owned small business enterprises. The Notice of Award provides \$348,735 of funding for the period May 1, 2015 to April 30, 2016 with options to extend for an additional two years. There is no matching requirement for this award.

During 2002, Big Sky EDA created a separate private non-profit corporation, Big Sky Economic Development Corporation (Big Sky EDC), whose purpose is to promote economic development through business recruitment, retention and finance. Big Sky EDC consists of approximately 140 Billings-area businesses who donate time and financial resources toward job-creating activities in Yellowstone County. Big Sky EDA furnishes office space, management and staffing resources in support of Big Sky EDC's activities, a portion of which is donated on an in-kind basis. Big Sky EDC engages in two primary activities in support of economic development: Business recruitment and business finance. Prior to FY2015, Big Sky EDC also operated the afore-mentioned BEAR program.

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 an 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, 2015, 2014, and 2013

NET POSITION SUMMARY

	<u>2015</u>	<u>2014</u>	<u>2013</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
ASSETS			
Cash and cash equivalents	\$ 1,029,984	\$ 1,172,446	\$ 1,084,558
Receivables	400,364	270,207	235,347
Other assets	<u>6,935</u>	<u>22,346</u>	<u>26,526</u>
Current assets	1,437,283	1,464,999	1,346,431
Land	40,236	40,236	40,236
Depreciable capital assets, net	9,059,606	9,330,309	9,601,023
Restricted cash	<u>721,756</u>	<u>621,249</u>	<u>445,446</u>
	<u>11,258,881</u>	<u>11,456,793</u>	<u>11,433,136</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension contributions and adjustments	<u>69,590</u>	-	-
Total deferred outflows of resources	<u>69,590</u>	-	-
	<u>\$ 11,328,471</u>	<u>\$ 11,456,793</u>	<u>\$ 11,433,136</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION			
LIABILITIES			
Current liabilities	\$ 827,062	\$ 798,256	\$ 751,235
Long term debt	<u>6,951,220</u>	<u>7,053,923</u>	<u>7,535,792</u>
Total liabilities	<u>7,778,282</u>	<u>7,852,179</u>	<u>8,287,027</u>
DEFERRED INFLOWS OF RESOURCES			
Pension adjustments	<u>107,239</u>	-	-
Total deferred inflows of resources	<u>107,239</u>	-	-
NET POSITION			
Net investment in capital assets	2,123,920	1,921,380	1,750,092
Unrestricted	<u>1,319,030</u>	<u>1,683,234</u>	<u>1,396,017</u>
	<u>3,442,950</u>	<u>3,604,614</u>	<u>3,146,109</u>
	<u>\$ 11,328,471</u>	<u>\$ 11,456,793</u>	<u>\$ 11,433,136</u>

Big Sky EDA maintains a stable financial position characterized by current ratios of approximately 1.7, 1.8 and 1.8 to 1 at June 30, 2015, 2014 and 2013, 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, 2015, 2014, and 2013**

CAPITAL ASSETS AND DEBT ADMINISTRATION

As of June 30, 2015, 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 (GE Capital) as described in Note 6 to the accompanying financial statements.

As of June 30, 2015, the Authority had approximately \$7 million in long-term debt. This debt is primarily 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.

In April 2015, General Electric Corporation (GE) announced its intention to sell substantially all of its GE Capital assets. The GE announcement indicated that the divestiture of GE Capital may take up to two or more years to complete. GE Capital does not presently know how this will impact the General Electric Center of Excellence. The lease agreement between Big Sky EDA and GE Capital obligates GE Capital's rental payment through January 2021.

RESULTS OF OPERATIONS SUMMARY

In fiscal 2015, 2014 and 2013 Big Sky EDA recorded \$703,192, \$820,535 and \$604,339 in operating income, respectively.

The year-over-year change in operating income between fiscal 2015 and 2014 is primarily due to greater year-over-year business recruitment and marketing expenses. Also contributing to the variance is fewer staffing vacancies incurred in fiscal 2015 compared to fiscal 2014.

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.

BIG SKY ECONOMIC DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Years Ended June 30, 2015, 2014, and 2013

REVENUE SOURCES

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Intergovernmental:			
U. S. Department of Defense	\$ 495,231	\$ 432,380	\$ 413,357
U. S. Small Business Administration	96,273	68,605	114,046
U.S. Department of Housing & Urban Development	2,190	4,100	330
U.S. Department of Commerce	12,718	14,788	37,494
U.S. Environmental Protection Agency	34,518	-	-
Other grant revenue	11,734	-	-
Health levy revenues	73,072	52,980	61,788
Property tax revenues	1,130,223	1,100,461	1,073,284
Grants administration	5,944	6,631	5,605
Rental and related income	1,036,872	1,034,304	1,207,091
Recovery of protested taxes	82,710	103,957	-
EDC staffing services	372,980	363,683	286,424
Targeted Industry Analysis	-	-	68,609
Workforce Development grant	24,463	-	-
Big Sky Trust Fund	9,235	10,766	-
Other	<u>14,550</u>	<u>13,002</u>	<u>33,526</u>
Operating Revenues	3,402,713	3,205,657	3,301,554
Interest income	<u>6,719</u>	<u>3,676</u>	<u>2,322</u>
Total Revenues	<u>\$ 3,409,432</u>	<u>\$ 3,209,333</u>	<u>\$ 3,303,876</u>

Fiscal 2015 Compared to Fiscal 2014

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 considers 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 2015 and 2014, some of the aforementioned Yellowstone County taxpayers settled their protests. Consequently, Big Sky EDA recorded \$82,710 and \$103,957 as Recovery of Protested Taxes in 2015 and 2014, respectively with a remaining \$56,827 in protested taxes at June 30, 2015.

In fiscal 2015, Big Sky EDA received a \$400,000 Brownfields Assessment Grant from the US Environmental Protection Agency. As of June 30, 2015, Big Sky EDA had drawn \$34,518 from the grant.

In fiscal 2015, Big Sky EDA received a \$25,000 grant from the Montana Department of Commerce to develop a workforce development plan for Yellowstone County. Big Sky EDA received \$5,500 from private donors in fiscal 2015 and 2014 as matching funds for the grant.

BIG SKY ECONOMIC DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Years Ended June 30, 2015, 2014, and 2013

Fiscal 2015 Compared to Fiscal 2014 (Continued)

In fiscal 2015, the revenues associated with the PTAC program increased by \$62,851. Approximately \$26,000 of the increase is due to a one-time increase in funding that did not require matching funds from Big Sky EDA. The remaining increase in revenue is attributable to the reimbursement of additional program costs, the largest portion of which is associated with greater year-over-year satellite and sub-center expenses.

Fiscal 2014 Compared to Fiscal 2013

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.

EXPENSES

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Procurement Technical Assistance program	\$ 595,942	\$ 531,300	\$ 517,885
Small Business Development Center	279,246	161,412	209,516
General Electric Capital Corporation	460,044	434,811	580,268
Economic Development Corporation	740,915	771,544	547,350
Veterans Business Outreach Center	9,478	-	-
Targeted Industry Analysis	-	-	72,311
Workforce Development	65,927	-	-
Community Development	434,271	352,680	347,025
Administration	103,939	126,794	419,500
Other	<u>9,759</u>	<u>6,581</u>	<u>3,362</u>
Operating expenses	2,699,521	2,385,122	2,697,217
Interest expense	<u>389,106</u>	<u>365,706</u>	<u>388,824</u>
Total expenses	<u>\$ 3,088,627</u>	<u>\$ 2,750,828</u>	<u>\$ 3,086,041</u>

Fiscal 2015 Compared to Fiscal 2014

As discussed above, the PTAC program incurred additional program expenses in fiscal 2015 as compared to fiscal 2014, primarily related to consulting expenses and satellite/sub-center program costs.

The year-over-year increase in Small Business Development Center expenses is due to the addition of one business advisor.

The fiscal 2015 increase in Community Development expenses is due primarily to consulting fees associated with the development of a Targeted Economic Development District and consulting fees associated with an industrial park feasibility study. The fiscal 2015 increase also reflects comparatively lower Community Development staffing levels in fiscal 2014.

BIG SKY ECONOMIC DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Years Ended June 30, 2015, 2014, and 2013

EXPENSE SOURCES (CONTINUED)

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.

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.

SUMMARY

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

FINANCIAL STATEMENTS

BIG SKY ECONOMIC DEVELOPMENT AUTHORITY
STATEMENTS OF NET POSITION
June 30, 2015

	<u>2015</u>	<u>2014</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,029,984	\$ 1,172,446
Receivables:		
Property taxes	73,923	187,955
Grants and other	257,077	204,040
Related party	126,191	25,614
Allowance for doubtful accounts	(56,827)	(147,402)
Prepaid expenses	<u>6,935</u>	<u>22,346</u>
Total current assets	1,437,283	1,464,999
CAPITAL ASSETS, net	9,099,842	9,370,545
RESTRICTED CASH	<u>721,756</u>	<u>621,249</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension contributions and adjustments	<u>69,590</u>	-
Total deferred outflows of resources	<u>69,590</u>	-
Total assets and deferred outflows of resources	<u>\$ 11,328,471</u>	<u>\$ 11,456,793</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 145,629	\$ 131,977
Interest payable	2,005	3,763
Unearned rent	75,114	75,114
Deferred revenue	10,000	-
Accrued compensated absences	87,803	86,129
Current portion long-term liabilities	<u>506,511</u>	<u>501,273</u>
	<u>827,062</u>	<u>798,256</u>
LONG -TERM LIABILITIES		
Business incentive commitments, net of current portion	45,835	66,825
Long-term debt payable, net of current portion	6,490,400	6,987,098
Public Employees' Retirement System pension liability	<u>414,985</u>	-
	<u>6,951,220</u>	<u>7,053,923</u>
Total liabilities	<u>7,778,282</u>	<u>7,852,179</u>
DEFERRED INFLOWS OF RESOURCES		
Pension adjustments	<u>107,239</u>	-
Total deferred inflows of resources	<u>107,239</u>	-
NET POSITION		
Net investment in capital assets	2,123,920	1,921,380
Unrestricted	<u>1,319,030</u>	<u>1,683,234</u>
	<u>3,442,950</u>	<u>3,604,614</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 11,328,471</u>	<u>\$ 11,456,793</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, 2015

	<u>2015</u>	<u>2014</u>
OPERATING REVENUES		
Intergovernmental		
U. S. Department of Defense	\$ 495,231	\$ 432,380
U. S. Small Business Administration	96,273	68,605
U. S. Department of Housing and Urban Development	2,190	4,100
U. S. Department of Commerce	12,718	14,788
U. S. Environmental Protection Agency	34,518	-
Other grant revenue	11,734	-
Health levy revenues	73,072	52,980
Property tax revenues	1,130,223	1,100,461
Recovery of protested taxes	82,710	103,957
Grants administration	5,944	6,631
Rental and related income	1,036,872	1,034,304
EDC staffing services	372,980	363,683
Workforce Development grant	24,463	-
Big Sky Trust Fund	9,235	10,766
Other	14,550	13,002
Total operating revenues	<u>3,402,713</u>	<u>3,205,657</u>
OPERATING EXPENSES		
Business Development:		
Procurement Technical Assistance program	595,942	531,300
Small Business Development Center	279,246	161,412
General Electric Capital Corporation	460,044	434,811
Economic Development Corporation - In-kind support	367,935	407,236
- Program expenses	372,980	364,308
Veterans Business Outreach Center	9,478	-
Workforce Development	65,927	-
Community Development	434,271	352,680
Administration	103,939	126,794
Other	9,759	6,581
Total operating expenses	<u>2,699,521</u>	<u>2,385,122</u>
Operating income	<u>703,192</u>	<u>820,535</u>
Non-operating revenues (expenses):		
Interest income	6,719	3,676
Interest expense	<u>(389,106)</u>	<u>(365,706)</u>
Total non-operating revenues (expenses):	<u>(382,387)</u>	<u>(362,030)</u>
Change in net position	320,805	458,505
Net position, beginning of year	3,604,614	3,146,109
Prior period adjustment	<u>(482,469)</u>	<u>-</u>
Net position, beginning of year, as restated	<u>3,122,145</u>	<u>3,146,109</u>
Net position, end of year	<u>\$ 3,442,950</u>	<u>\$ 3,604,614</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, 2015

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Intergovernmental grants	\$ 599,627	\$ 486,958
Health levy revenues	73,072	52,980
Property tax revenues	1,244,255	1,169,673
Recovery of protested taxes	82,710	82,057
Grants administration	5,944	17,397
Rental income	1,046,872	1,109,418
EDC staffing services	272,403	363,683
Workforce Development grant	24,463	290
Big Sky Trust Fund	9,235	-
Other operating receipts	29,961	38,759
Business development costs paid	(1,805,444)	(1,464,256)
	(9,478)	-
Workforce Development costs paid	(65,927)	-
Community development costs paid	(434,271)	(593,170)
Administrative costs paid	(209,023)	(89,823)
Other	<u>(9,759)</u>	<u>(6,581)</u>
Net cash flows from operating activities	<u>854,640</u>	<u>1,167,385</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received on investments	<u>6,719</u>	<u>3,676</u>
Net cash flows from investing activities	<u>6,719</u>	<u>3,676</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Interest paid	(327,834)	(361,604)
Principal payments on long-term debt	<u>(473,245)</u>	<u>(442,004)</u>
Net cash flows from capital and related financing activities	<u>(801,079)</u>	<u>(803,608)</u>
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES		
Interest paid	(63,030)	(9,764)
Principal payments on business incentive commitment	<u>(39,205)</u>	<u>(93,998)</u>
Net cash flows from non-capital and related financing activities	<u>(102,235)</u>	<u>(103,762)</u>
Net change in cash and cash equivalents	(41,955)	263,691
Cash and cash equivalents, beginning of year	<u>1,793,695</u>	<u>1,530,004</u>
Cash and cash equivalents, end of year	<u>\$ 1,751,740</u>	<u>\$ 1,793,695</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, 2015

	<u>2015</u>	<u>2014</u>
SCHEDULE OF CASH AND CASH EQUIVALENTS		
AT END OF YEAR		
Cash and cash equivalents	\$ 1,029,984	\$ 1,172,446
Restricted cash	<u>721,756</u>	<u>621,249</u>
Cash and cash equivalents	<u>\$ 1,751,740</u>	<u>\$ 1,793,695</u>
RECONCILIATION OF OPERATING INCOME (LOSS)		
TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	\$ 703,192	\$ 820,535
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation and amortization	270,703	270,714
Pension adjustments	(29,835)	-
Change in assets and liabilities:		
Receivables	(39,582)	36,264
Allowance for doubtful accounts	(90,575)	(71,124)
Prepaid expenses	15,411	4,180
Accounts payable and other accrued expenses	13,652	42,734
Unearned rent	-	75,114
Compensated absences	1,674	(11,032)
Deferred revenue	<u>10,000</u>	<u>-</u>
Net cash from operating activities	<u>\$ 854,640</u>	<u>\$ 1,167,385</u>
SCHEDULE OF NONCASH TRANSACTIONS		
Addition of Public Employees' Retirement System pension liability	\$ 414,985	\$ -
Addition of deferred outflows related to pension liability	(39,755)	-
Addition of deferred inflows related to pension liability	<u>107,239</u>	<u>-</u>
	<u>\$ 482,469</u>	<u>\$ -</u>

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

BIG SKY ECONOMIC DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

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, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting and Basis of Presentation (continued)

In the fiscal year ended June 30, 2011, the Authority implemented the provisions of GASB Statement 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. Net position represent the result of assets plus deferred outflows of resources less liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets plus capital-related deferred outflows, net of accumulated depreciation and also reduced by the outstanding balances of any borrowing used in the acquisition, construction, or improvement of those assets and any capital-related deferred inflows of resources. Net position is reported as restricted when there are limitations imposed on its use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

Cash and Cash Equivalents

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

Capital Assets

Capital assets 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. Capital 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.

BIG SKY ECONOMIC DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property Tax Revenues

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

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.

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, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements

The Authority has adopted the provisions of the following GASB pronouncement for the year ended June 30, 2015:

- *Statement No. 68* – Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27. This primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities.
- *Statement No. 71* – Pension Transition for Contributions Made Subsequent to the Measurement Date—An Amendment to GASB Statement No. 68. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government’s beginning net pension liability.

NOTE 2. CASH AND CASH EQUIVALENTS

The Authority’s bank balances amounted to \$1,532,366 and \$1,419,668 as of June 30, 2015 and 2014, respectively. From time to time, certain bank accounts that are subject to limited FDIC coverage exceed their insured limits. At June 30, 2015, bank balances for these accounts exceeded insured limits by \$1,032,366.

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 equivalents balances with Yellowstone County as of June 30, 2015 and 2014 was \$349,856 and \$412,533, 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.

BIG SKY ECONOMIC DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2015

NOTE 2. CASH AND CASH EQUIVALENTS (CONTINUED)

The composition of cash and cash equivalents as shown on the Statement of Net Position follows:

	<u>2015</u>	<u>2014</u>
Amounts held at financial institutions	\$ 1,401,884	1,381,162
Amounts held at Yellowstone County	<u>349,856</u>	<u>412,533</u>
Total	<u>\$ 1,751,740</u>	<u>\$ 1,793,695</u>

NOTE 3. CAPITAL ASSETS

Activity for capital assets for the fiscal years ended June 30, 2015 and 2014 is summarized below:

	<u>Balance as of</u> <u>July 1, 2014</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance as of</u> <u>June 30, 2015</u>
<u>2015:</u>				
Property and equipment, not being depreciated:				
Land	\$ 40,236	\$ -	\$ -	\$ 40,236
Total property and equipments, not being depreciated	<u>40,236</u>	<u>-</u>	<u>-</u>	<u>40,236</u>
Property and equipment, being depreciated:				
Land improvements	1,405,788	-	-	1,405,788
Building and improvements	9,403,495	-	-	9,403,495
Furniture and equipment	<u>40,159</u>	<u>-</u>	<u>-</u>	<u>40,159</u>
Total property and equipment, being depreciated:	<u>10,849,442</u>	<u>-</u>	<u>-</u>	<u>10,849,442</u>
Total property and equipment	10,889,678	-	-	10,889,678
Less accumulated depreciation	<u>(1,519,133)</u>	<u>(270,703)</u>	<u>-</u>	<u>(1,789,836)</u>
Property and equipment, net	<u>\$ 9,370,545</u>	<u>\$ (270,703)</u>	<u>\$ -</u>	<u>\$ 9,099,842</u>
<u>2014:</u>				
Property and equipment, not being depreciated:				
Land	\$ 40,236	\$ -	\$ -	\$ 40,236
Total property and equipments, not being depreciated	<u>40,236</u>	<u>-</u>	<u>-</u>	<u>40,236</u>
Property and equipment, being depreciated:				
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>
Total property and equipment, being depreciated:	<u>10,960,872</u>	<u>-</u>	<u>(111,430)</u>	<u>10,849,442</u>
Total property and equipment	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>
Property and equipment, net	<u>\$ 9,641,259</u>	<u>\$ (270,714)</u>	<u>\$ -</u>	<u>\$ 9,370,545</u>

BIG SKY ECONOMIC DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2015

NOTE 3. CAPITAL ASSETS (CONTINUED)

Depreciation expense for the years ended June 30, 2015 and 2014 totaled \$270,703 and \$270,714, respectively, and has been charged to the following functions in the accompanying financial statements, based on the related capital assets:

	<u>2015</u>	<u>2014</u>
General Electric Capital Corporation	\$ 270,703	\$ 265,445
Administration	<u>-</u>	<u>5,269</u>
	<u>\$ 270,703</u>	<u>\$ 270,714</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. 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 fiscal year 2015, the Authority made its tenth and final payment to Charter, thus relieving the Authority of its business incentive commitment.

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%.

BIG SKY ECONOMIC DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2015

NOTE 4. LONG-TERM LIABILITIES (CONTINUED)

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. The Stockman Bank loan adjusted to 4% during the year ended June 30, 2015. 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 the 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, 2015 and 2014 is as follows:

	Charter Incentive Commitment	GECC Incentive Commitment	MBOI Infrastructure	MBOI Participation	Stockman Participation	Total
<u>2015:</u>						
July 1, 2014	\$ 19,404	\$ 86,627	\$ 2,841,151	\$ 2,756,217	\$ 1,851,797	\$ 7,555,196
Principal payments	(19,404)	(19,802)	(328,716)	(81,793)	(62,735)	(512,450)
June 30, 2015	-	66,825	2,512,435	2,674,424	1,789,062	7,042,746
Less current portion	-	(20,990)	(342,693)	(85,395)	(57,433)	(506,511)
Long-term debt	<u>\$ -</u>	<u>\$ 45,835</u>	<u>\$ 2,169,742</u>	<u>\$ 2,589,029</u>	<u>\$ 1,731,629</u>	<u>\$ 6,536,235</u>
<u>2014:</u>						
July 1, 2013	\$ 94,721	\$ 105,308	\$ 3,156,213	\$ 2,834,246	\$ 1,900,710	\$ 8,091,198
Principal payments	(75,317)	(18,681)	(315,062)	(78,029)	(48,913)	(536,002)
June 30, 2014	19,404	86,627	2,841,151	2,756,217	1,851,797	7,555,196
Less current portion	(19,404)	(19,802)	(328,716)	(81,792)	(51,559)	(501,273)
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>

BIG SKY ECONOMIC DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2015

NOTE 4. LONG-TERM LIABILITIES (CONTINUED)

Debt Service Requirements

The annual debt service requirements to maturity, including principal and interest, for long-term debt as of June 30, 2015 are as follows:

Year	GECC Incentive Commitment		MBOI Infrastructure Loan	
	Principal	Interest	Principal	Interest
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	-	-	389,499	53,627
2020	-	-	406,287	36,839
2021-2025	-	-	642,821	21,869
	66,825	8,175	2,512,435	367,887
Less current portion	<u>(20,990)</u>	<u>(4,010)</u>	<u>(342,693)</u>	<u>(100,433)</u>
Total	<u>\$ 45,835</u>	<u>\$ 4,165</u>	<u>\$2,169,742</u>	<u>\$ 267,454</u>

Year	MBOI Participation Loan		Stockman Participation Loan		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$ 85,395	\$ 124,397	\$ 57,433	\$ 82,557	\$ 506,511	\$ 311,397
2017	89,878	120,261	60,400	79,590	530,341	287,914
2018	94,212	115,927	63,282	76,708	554,401	263,856
2019	98,757	111,382	66,302	73,689	554,558	238,698
2020	103,521	106,618	69,271	70,719	579,079	214,176
2021-2025	597,498	453,197	400,107	299,846	1,640,426	774,912
2026-2030	756,186	294,509	505,155	194,797	1,261,341	489,306
2031-2035	848,977	94,766	567,112	62,846	1,416,089	157,612
	2,674,424	1,421,057	1,789,062	940,752	7,042,746	2,737,871
Less current portion	<u>(85,395)</u>	<u>(124,397)</u>	<u>(57,433)</u>	<u>(82,557)</u>	<u>(506,511)</u>	<u>(311,397)</u>
Total	<u>\$ 2,589,029</u>	<u>\$ 1,296,660</u>	<u>\$1,731,629</u>	<u>\$ 858,195</u>	<u>\$ 6,536,235</u>	<u>\$ 2,426,474</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, 2015, the outstanding balance on such note is \$269,525. The final payment on this note is due December 9, 2024.

BIG SKY ECONOMIC DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2015

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, 2015, the outstanding balance on such note is \$586,603. 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, 2015 and 2014. Accumulated depreciation on the leased property was \$1,749,679 and \$1,478,971 as of June 30, 2015 and 2014, 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, 2015 and 2014, the Authority was reimbursed by GECC \$140,236 and \$132,935, 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, 2015

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, after considering Stockman Bank's rate adjustment (see Note 4), 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, 2015 and 2014, 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, 2015 and 2014, totaled \$111,843 and \$111,783, respectively. The lease expense allocated to each program is 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: \$113,646 in 2016, \$115,509 in 2017, \$117,372 in 2018, and \$119,235 in 2019.

The Authority has executed a sublease agreement for office space located in the same building as the Authority that is dedicated to the Veterans' Business Outreach Center program. The Authority executed a sublease agreement with a current tenant for a three-year period beginning July 29, 2015. Minimum payments under the sublease are \$8,324 for FY 2016 and \$7,920 for FY 2017 and FY 2018.

NOTE 8. RETIREMENT PLAN

The Authority participates in the following retirement plan:

Plan Description

Public Employees' Retirement System (PERS)

The PERS-Defined Benefit Retirement Plan (DBRP), administered by the Montana Public Employee Retirement Administration (MPERA), is a multiple-employer, cost-sharing plan established July 1, 1945, and governed by Title 19, chapters 2 & 3, Montana Code Annotated (MCA). This plan covers the State, local governments, certain employees of the Montana University System, and school districts.

BIG SKY ECONOMIC DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2015

NOTE 8. RETIREMENT PLAN (CONTINUED)

Plan Description (Continued)

Public Employees' Retirement System (PERS) (Continued)

Monthly Benefit Formula

Members hired prior to July 1, 2011:

- Less than 25 years of membership service: 1.785% of HAC per year of service credit;
- 25 years of membership service or more: 2% of HAC per year of service credit.

Members hired on or after July 1, 2011:

- Less than 10 years of membership service: 1.5% of HAC per year of service credit;
- 10 years or more, but less than 30 years of membership service: 1.785% of HAC per year of service credit;
- 30 years or more of membership service: 2% of HAC per year of service credit.

Guaranteed Annual Benefit Adjustment (GABA)*

- 3% for members hired prior to July 1, 2007
- 1.5% for members hired on or after July 1, 2007

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

*At this time, as a result of permanent injunction issued in the AMRPE vs State litigation, the GABA rate in effect is being used in the calculation. Clarification of the GABA rate for members hired on or after July 1, 2013, is pending.

Total number of members (employees) covered by benefit terms as of June 30, 2015:

1. Active plan members: 28,237
2. Inactive members entitled to but not yet receiving benefits or a refund:
 - Vested: 2,925
 - Non-vested: 8,839
3. Inactive members and beneficiaries currently receiving benefits:
 - Service Retirements: 20,080
 - Disability Retirements: 176
 - Survivor Benefits: 425

BIG SKY ECONOMIC DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2015

NOTE 8. RETIREMENT PLAN (CONTINUED)

Overview of Contributions

1. Rates are specified by state law for periodic employer and employee contributions. The State legislature has the authority to establish and amend contribution rates to the plan.
2. Member contributions to the system:
 - a. Plan members are required to contribute 7.90% of member's compensation. Contributions are deducted from each member's salary and remitted by participating employers.
 - b. The 7.90% member contributions is temporary and will be decreased to 6.9% on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and additional member contribution rates.
3. Employer contributions to the system:
 - a. State and University System employers are required to contribute 8.27% of members' compensation.
 - b. Local government entities are required to contribution 8.17% of members' compensation.
 - c. School district employers contributed 7.90% of members' compensation.
 - d. Following the 2013 Legislative Session, PERS-employer contributions were temporarily increased. Effective July 1, 2013, employer contributions increased 1.0%. Beginning July 1, 2014, employer contributions will increase an additional 0.1% a year over 10 years, through 2024. The employer additional contributions including the 0.27% added in 2007 and 2009, terminates on January 1 following actuary valuation results that show the amortization period of the PERS-DBRP has dropped below 25 years and would remain below 25 years following the reductions of both the additional employer and member contributions rates.
 - e. Effective July 1, 2013, the additional employer contributions for DCRP and MUS-RP is allocated to the defined benefit plan's Plan Choice Rate unfunded liability.
 - f. Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.
4. Non Employer Contributions
 - a. Special Funding
 - i. The State contributes 0.1% of members' compensation on behalf of local government entities.
 - ii. The State contributes 0.37% of members' compensation on behalf of school district entities.
 - b. Not Special Funding
 - i. The State contributes from the Coal Tax Severance fund

BIG SKY ECONOMIC DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2015

NOTE 8. RETIREMENT PLAN (CONTINUED)

Stand-Alone Statements

The PERS financial information is reported in the Public Employees' Retirement Board's Comprehensive Annual Financial Report (CAFR). It is available from the PERB at 100 North Park, PO Box 200131, Helena, MT 59620-0131, 406-444-3154.

CAFR information including stand-alone financial statements can be found on the website at <http://mpera.mt.gov/annualReports.shtml>.

The latest actuarial valuation and experience study can be found at the website at <http://mpera.mt.gov/actuarialValuations.asp>.

Actuarial Assumptions

The Total Pension Liability as of June 30, 2014, is based on the results of an actuarial valuation date of June 30, 2014. There were several significant assumptions and other inputs used to measure the Total Pension Liability. The actuarial assumptions used in the June 30, 2014, valuation were based on the results of the last actuarial experience study, dated May 2010, for the six-year period July 1, 2003 to June 30, 2009.

Among those assumptions were the following:

- General Wage Growth* 4.00%
*includes inflation at 3.00%
- Merit Increases 0% to 6%
- Investment Return 7.75%
- Postretirement Benefit Increases
 - 3% for members hired prior to July 1, 2007
 - 1.5% for members hired on or after July 1, 2007

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

*At this time as a result of permanent injunction issued in the AMRPE vs State litigation, the GABA rate in effect is being used in the calculation. Clarification of the GABA rate for members hired on or after July 1, 2013 is pending

- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

BIG SKY ECONOMIC DEVELOPMENT AUTHORITY
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2015

NOTE 8. RETIREMENT PLAN (CONTINUED)

Discount Rate

The discount rate used to measure the Total Pension Liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities will be made based on the Board's funding policy, which establishes the contractually required rates under Montana Code Annotated. The State contributes 0.1% of salaries for local governments and 0.37% for school districts. In addition, the State contributes coal severance tax and interest money from the general fund. The interest is contributed monthly and the severance tax is contributed quarterly. Based on those assumptions, the System's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2122. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability. No municipal bond rate was incorporated in the discount rate.

Target Allocations

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash Equivalents	2.00%	-0.25%
Domestic Equity	36.00%	4.80%
Foreign Equity	18.00%	6.05%
Fixed Income	24.00%	1.68%
Private Equity	12.00%	8.50%
Real Estate	8.00%	4.50%

The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the System. The most recent analysis, performed for the period covering fiscal years 2003 through 2009, is outlined in a report dated May 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption including rates of return adopted by similar public sector systems, and by using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates are presented as the arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2014, is summarized in the above table.

BIG SKY ECONOMIC DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2015

NOTE 8. RETIREMENT PLAN (CONTINUED)

Sensitivity Analysis

	1.0% Decrease <u>(6.75%)</u>	Current Discount <u>Rate</u>	1.0% Increase <u>(8.75%)</u>
PERS' Net Pension Liability	\$1,982,274,732	\$1,246,010,898	\$625,044,646
Big Sky Economic Development Authority's Net Pension Liability	\$660,198	\$414,985	\$208,172

In accordance with GASB 68 regarding the disclosure of the sensitivity of the Net Pension Liability to changes in the discount rate, the above table presents the Net Pension Liability calculated using the discount rate of 7.75%, as well as what the Net Pension Liability would be if it were calculated using a discount rate that is 1.00% lower (6.75%) or 1.00% higher (8.75%) than the current rate.

Summary of Significant Accounting Policies

The Montana Public Employee Retirement Administration (MPERA) prepares its financial statements using the accrual basis of accounting. For the purposes of measuring the Net Pension Liability, deferred inflows of resources and deferred outflows of resources related to pensions, Pension Expense, information about the fiduciary net position and additions to/deductions from fiduciary net position have been determined on the same accrual basis as they are reported by MPERA. For this purpose, member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Revenues are recognized in the accounting period they are earned and become measurable. Benefit payments and refunds are recognized in the accounting period when due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred. Investments are reported at fair value. MPERA adheres to all applicable Governmental Accounting Standards Board (GASB) statements.

Net Pension Liability

In accordance with GASB Statement 68, Accounting and Financial Reporting for Pensions, employers are required to recognize and report certain amounts associated with their participation in the Public Employees' Retirement System (PERS). Statement 68 became effective June 30, 2015, and includes requirements to record and report their proportionate share of the collective Net Pension Liability, Pension Expense, Deferred Inflows, and Deferred Outflows of resources associated with pensions.

In accordance with Statement 68, PERS has a special funding situation in which the State of Montana is legally responsible for making contributions directly to PERS on behalf of the employers. Due to the existence of this special funding situation, local governments and school districts are required to report the portion of the State of Montana's proportionate share of the collective Net Pension Liability that is associated with the employer.

BIG SKY ECONOMIC DEVELOPMENT AUTHORITY
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2015

NOTE 8. RETIREMENT PLAN (CONTINUED)

Net Pension Liability (Continued)

The State of Montana also has a funding situation that is not Special Funding whereby the State General Fund provides contributions from the Coal Severance Tax and interest. All employers are required to report the portion of Coal Tax Severance Tax and interest attributable to the employer.

	Net Pension Liability as of <u>June 30, 2013</u>	Net Pension Liability as of <u>June 30, 2014</u>	Percent of <u>Collective NPL</u>
Employer			
Proportionate Share	\$534,172	\$414,985	.0333050%
State of Montana Proportionate Share associated with Employer	<u>6,521</u>	<u>5,067</u>	<u>.0423080%</u>
Total	<u>\$540,693</u>	<u>\$420,052</u>	<u>.0756130%</u>

At June 30, 2015, the Authority recorded a liability of \$414,985 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2014, and the Total Pension Liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of July 1, 2014. The Authority's proportion of the Net Pension Liability was based on the Authority's contributions received by PERS during the measurement period July 1, 2013, through June 30, 2014, relative to the total employer contributions received from all of PERS' participating employers. At June 30, 2014, the Authority's proportion was .033305 percent.

Changes in actuarial assumptions and methods: There were no changes in assumptions or other inputs that affected the measurement of the Total Pension Liability.

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

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

BIG SKY ECONOMIC DEVELOPMENT AUTHORITY
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2015

NOTE 8. RETIREMENT PLAN (CONTINUED)

Pension Expense

At June 30, 2015, the Authority recognized a pension expense of \$36,867 for its proportionate share of the PERS' Pension Expense. The Authority also recognized grant revenue of \$11,734 for the support provided by the State of Montana for its proportionate share of the pension expense that is associated with the Authority.

	Pension expense as of <u>June 30, 2014</u>
Employer's Proportionate Share	\$25,133
State of Montana Proportionate Share associated with the Employer	<u>11,734</u>
Total	<u>\$36,867</u>

Recognition of Beginning Deferred Outflow - GASB 71

At June 30, 2015, the Authority recognized a beginning deferred outflow of resources for the employer's fiscal year 2014 contributions of \$51,703.

Deferred Inflows and Outflows

At June 30, 2015, the Authority reported its proportionate share of PERS' deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between actual and expected experience	\$ -	\$ -
Changes in assumptions	-	-
Difference between projected and actual earnings on pension plan investments	-	107,225
Changes in proportion differences between employer contributions and proportionate share of contributions	14,620	14
Difference between actual and expected contributions	-	-
#Contributions paid to PERS subsequent to the measurement date – fiscal year 2015	<u>54,970</u>	<u>-</u>
Total	<u>\$ 69,590</u>	<u>\$ 107,239</u>

*Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2016.

BIG SKY ECONOMIC DEVELOPMENT AUTHORITY
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2015

NOTE 8. RETIREMENT PLAN (CONTINUED)

Deferred Inflows and Outflows (Continued)

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in Pension Expense as follows:

<u>Year Ended</u>	<u>Deferred Inflows and Outflows of Resources</u>	<u>Amounts recognized in Pension Expense as an increase or (decrease) to Pension Expense</u>
2016	\$ 21,937	\$ (21,937)
2017	21,937	(21,937)
2018	26,806	(26,806)
2019	-	-
2020	-	-
Thereafter	-	-

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.

BIG SKY ECONOMIC DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2015

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*.

The Authority provided services amounting to \$740,915 and \$771,544 to Big Sky EDC in 2015 and 2014, 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, 2015 and 2014, the Authority has a receivable from Big Sky EDC in the amount of \$126,191 and \$25,614, 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 \$702,437 and \$609,169 in these accounts as of June 30, 2015 and 2014, 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 \$19,319 and \$12,080 in this account as of June 30, 2015 and 2014, respectively.

BIG SKY ECONOMIC DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2015

NOTE 13. PRIOR PERIOD ADJUSTMENT

For the year ended June 30, 2015, the Authority has implemented GASB Statement No. 68, regarding the reporting of pension liabilities, and GASB Statement No. 71, regarding reporting of pension contributions subsequent to the measurement date of June 30, 2014. Accordingly, beginning net position has been restated to reflect the previously unrecognized pension liability as follows:

Beginning net position, as originally reported	\$ 3,604,614
Pension liability, June 30, 2013	(534,172)
Retirement contributions in 2014	<u>51,703</u>
Net restatement	<u>(482,469)</u>
Beginning net position, as restated	<u>\$ 3,122,145</u>

As the pension expense, deferred inflows and deferred outflows related to the net pension liability were not available for the period ending June 30, 2014, the prior year financial statements have not been restated.

BIG SKY ECONOMIC DEVELOPMENT AUTHORITY
 SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 June 30, 2015

Schedule of Proportionate Share of the Net Pension Liability:	
Employer's proportion of the net pension liability	\$ 414,985
Employer's proportionate share of the net pension liability associated with the Employer	0.03331%
State of MT proportionate share of the net pension liability associated with the Employer	<u>5,068</u>
Total	<u><u>\$ 420,053</u></u>
Employer's covered-employee payroll	\$ 377,013
Employer's proportionate share of the net pension liability as of its covered-employee payroll	110.072%
Plan fiduciary net position the total pension liability	79.90%

BIG SKY ECONOMIC DEVELOPMENT AUTHORITY
SCHEDULE OF PENSION CONTRIBUTIONS
June 30, 2015

Schedule of Contributions:

Contractually required contributions	\$	51,703
Contributions in relation to the contractually required contributions		51,703
Contribution deficiency (excess)		-
Employer's covered-employee payroll		377,013
Contributions of covered-employee payroll		13.7137%

SINGLE AUDIT

BIG SKY ECONOMIC DEVELOPMENT AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2015

Federal Grantor/Pass-Through Grantor/ Program Title	CFDA Number	Expenditures
MAJOR PROGRAM		
U.S. Department of Defense		
Procurement Technical Assistance	12.002	\$ 39,758
Procurement Technical Assistance	12.002	<u>455,473</u>
Total Department of Defense		<u>495,231</u>
TOTAL MAJOR PROGRAMS		<u>495,231</u>
OTHER FEDERAL AWARDS		
U.S. Department of Commerce		
Economic Development		
Local Technical Assistance Projects	11.303	<u>12,718</u>
U.S. Environmental Protection Agency		
EPA National Brownfields Assessment Grants	66.818	<u>34,518</u>
U.S. Department of Housing & Urban Development:		
Special Project Grant	14.251	<u>2,190</u>
U.S. Small Business Administration		
Passed through Montana Department of Commerce		
Small Business Development Center	59.037	41,927
Small Business Development Center	59.037	44,318
Veteran's Business Outreach Center	59.044	<u>11,752</u>
		<u>97,997</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS		<u>\$ 642,654</u>

BIG SKY ECONOMIC DEVELOPMENT AUTHORITY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2015

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, 2015 for the following programs:

U.S. Department of Defense:	
PTA - SP4800-12-1422	\$ <u>318,714</u>
U.S. Small Business Administration	
SBDC - 14-51-009	5,390
SBDC - 14-51-009	<u>41,781</u>
	<u>47,171</u>
Total	<u>\$ 365,885</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, 2015:

	<u>2015</u>
Kalispell Area Chamber of Commerce	\$ 5,576
Missoula Area Economic Development Corporation	7,951
Montana West Economic Development	60,745
University of Montana	60,027
Montana State University	8,524
Great Falls Development Authority	29,262
Ravalli County Economic Development Authority	18,005
Butte Local Development	28,032
Lake County Community Development Corporation	32,290
Snowy Mountain Development	<u>19,883</u>
	<u>\$ 270,295</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 year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated January 6, 2016.

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
January 6, 2016

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, 2015. 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 the Authority's major federal program 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 the 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, 2015.

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 its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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
January 6, 2016

BIG SKY ECONOMIC DEVELOPMENT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2015

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, 2015

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

No prior year financial statement findings.



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