

**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 CORPORATION**

**FINANCIAL REPORT**

**June 30, 2015 and 2014**

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statements of financial position of Big Sky Economic Development Corporation (a nonprofit organization) as of June 30, 2015 and 2014, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

**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 an opinion 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. 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 opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Big Sky Economic Development Corporation as of June 30, 2015 and 2014, and the changes in its net assets, functional expenses, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Anderson Zur Muehlen & Co., P.C.*  
Bozeman, Montana  
January 6, 2016

FINANCIAL STATEMENTS

BIG SKY ECONOMIC DEVELOPMENT CORPORATION  
STATEMENTS OF FINANCIAL POSITION  
June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 506,825	\$ 458,086
Accounts receivable	13,250	2,685
Current portion notes receivable, net	221,395	272,637
Prepaid expenses	<u>905</u>	<u>25,433</u>
Total current assets	<u>742,375</u>	<u>758,841</u>
<b>NON-CURRENT ASSETS</b>		
Restricted cash and cash equivalents	847,579	1,001,255
Notes receivable, net of current portion	<u>1,414,337</u>	<u>1,200,452</u>
Total non current assets	<u>2,261,916</u>	<u>2,201,707</u>
Total assets	<u>\$ 3,004,291</u>	<u>\$ 2,960,548</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 12,522	\$ 40,506
Deferred Small Business Credit Initiative revenue	-	485,000
Deferred revenue - program events	-	33,000
Due to related party	126,191	25,615
Current portion of long-term liabilities	<u>20,990</u>	<u>19,802</u>
Total current liabilities	<u>159,703</u>	<u>603,923</u>
<b>LONG TERM LIABILITIES</b>		
Business incentive commitment, net of current portion	<u>45,835</u>	<u>66,825</u>
Total liabilities	<u>205,538</u>	<u>670,748</u>
<b>NET ASSETS</b>		
Unrestricted	480,035	457,082
Temporarily restricted	<u>2,318,718</u>	<u>1,832,718</u>
	<u>2,798,753</u>	<u>2,289,800</u>
Total liabilities and net assets	<u>\$ 3,004,291</u>	<u>\$ 2,960,548</u>

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

**BIG SKY ECONOMIC DEVELOPMENT CORPORATION**  
**STATEMENT OF ACTIVITIES**  
Year Ended June 30, 2015

	2015		
	Unrestricted	Temporarily Restricted	Total
<b>SUPPORT AND REVENUE</b>			
Small Business Credit Initiative grant	\$ -	\$ 485,000	\$ 485,000
Small Business Credit Initiative interest	19,423	-	19,423
Member investor contributions	168,812	-	168,812
In-kind support from related party	367,935	-	367,935
Loan fees	365,949	-	365,949
Interest income	13,266	-	13,266
Recovery of bad debt	3,600	-	3,600
Program event revenues	107,928	-	107,928
Opportunity fund contributions	-	1,000	1,000
Other income	<u>14,289</u>	<u>-</u>	<u>14,289</u>
Total support and revenue	<u>1,061,202</u>	<u>486,000</u>	<u>1,547,202</u>
<b>EXPENSES</b>			
Program expenses			
Business recruitment and retention	293,779	-	293,779
Member-investor relations	255,819	-	255,819
Business financing	<u>381,536</u>	<u>-</u>	<u>381,536</u>
Total program expenses	931,134	-	931,134
General and administrative expenses	<u>102,512</u>	<u>-</u>	<u>102,512</u>
Total operating expenses	<u>1,033,646</u>	<u>-</u>	<u>1,033,646</u>
<b>OPERATING INCOME (LOSS)</b>	27,556	486,000	513,556
<b>OTHER INCOME AND EXPENSE</b>			
Interest expense	<u>4,603</u>	<u>-</u>	<u>4,603</u>
Change in net assets	22,953	486,000	508,953
Net assets, beginning of year	<u>457,082</u>	<u>1,832,718</u>	<u>2,289,800</u>
Net assets, end of year	<u>\$ 480,035</u>	<u>\$ 2,318,718</u>	<u>\$ 2,798,753</u>

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



BIG SKY ECONOMIC DEVELOPMENT CORPORATION  
STATEMENT OF ACTIVITIES  
Year Ended June 30, 2014

	2014		
	Unrestricted	Temporarily Restricted	Total
<b>SUPPORT AND REVENUE</b>			
Small Business Credit Initiative interest	\$ 20,081	\$ -	\$ 20,081
Member investor contributions	186,512	-	186,512
In-kind support from related party	407,236	-	407,236
Loan fees	396,707	-	396,707
Interest income	15,120	-	15,120
Recovery of bad debt	6,989	-	6,989
Program event revenues	21,637	-	21,637
Opportunity fund contributions	-	1,000	1,000
Other income	18,195	-	18,195
Total support and revenue	<u>1,072,477</u>	<u>1,000</u>	<u>1,073,477</u>
<b>EXPENSES</b>			
Program expenses			
Business recruitment and retention	401,881	-	401,881
Member-investor relations	124,112	-	124,112
Business financing	<u>434,872</u>	<u>-</u>	<u>434,872</u>
Total program expenses	960,865	-	960,865
General and administrative expenses	<u>112,809</u>	<u>-</u>	<u>112,809</u>
Total operating expenses	<u>1,073,674</u>	<u>-</u>	<u>1,073,674</u>
<b>OPERATING INCOME</b>	(1,197)	1,000	(197)
<b>OTHER INCOME AND EXPENSE</b>			
Interest expense	<u>5,758</u>	<u>-</u>	<u>5,758</u>
Change in net assets	(6,955)	1,000	(5,955)
Net assets, beginning of year	<u>464,037</u>	<u>1,831,718</u>	<u>2,295,755</u>
Net assets, end of year	<u>\$ 457,082</u>	<u>\$ 1,832,718</u>	<u>\$ 2,289,800</u>

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

**BIG SKY ECONOMIC DEVELOPMENT CORPORATION**  
**STATEMENT OF FUNCTIONAL EXPENSE**  
Year Ended June 30, 2015

	2015				
	Business Recruitment and Retention	Member- Investor Relations	Business Financing	General and Administrative	Total
<b>EXPENSES</b>					
Advertising	\$ -	\$ -	\$ 1,616	\$ -	\$ 1,616
Business recruitment	71,295	-	-	-	71,295
Contributions	1,000	-	-	-	1,000
Dues and subscriptions	344	989	4,037	30	5,400
Salaries and benefits	119,149	105,372	294,236	76,876	595,633
Insurance	1,693	339	822	10,895	13,749
Marketing	67,893	22	-	-	67,915
Membership development	-	3,369	-	-	3,369
Miscellaneous	2,997	6,083	13,449	(34)	22,495
Program events	5,236	125,269	-	-	130,505
Supplies	3,036	3,395	6,471	-	12,902
Postage and delivery	41	-	1,200	-	1,241
Professional fees	4,491	3,181	40,907	14,745	63,324
Rent	13,612	787	2,268	-	16,667
Telephone	2,992	2,176	5,057	-	10,225
Travel and training	-	4,837	11,473	-	16,310
Total expenses	<u>\$ 293,779</u>	<u>\$ 255,819</u>	<u>\$ 381,536</u>	<u>\$ 102,512</u>	<u>\$ 1,033,646</u>

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

**BIG SKY ECONOMIC DEVELOPMENT CORPORATION**  
**STATEMENT OF FUNCTIONAL EXPENSE**  
Year Ended June 30, 2014

	2014				
	Business Recruitment and Retention	Member- Investor Relations	Business Financing	General and Administrative	Total
<b>EXPENSES</b>					
Advertising	\$ -	\$ 91	\$ 2,764	\$ -	\$ 2,855
BEAR program	5,792	-	-	-	5,792
Business recruitment	105,550	-	-	-	105,550
Contributions	-	-	500	-	500
Dues and subscriptions	1,135	632	3,685	-	5,452
Salaries and benefits	207,979	91,990	293,669	87,703	681,341
Insurance	2,099	3	9	10,786	12,897
Loan losses	-	-	46,772	-	46,772
Marketing	10,840	-	-	-	10,840
Membership development	-	388	-	-	388
Miscellaneous	6,061	1,923	20,886	170	29,040
Program events	-	17,624	-	-	17,624
Supplies	4,112	2,863	6,760	-	13,735
Postage and delivery	27	-	1,228	-	1,255
Professional fees	30,932	3,552	50,565	-	85,049
Rent	19,504	(4)	65	14,150	33,715
Repairs	251	283	933	-	1,467
Telephone	2,986	577	1,959	-	5,522
Travel and training	<u>4,613</u>	<u>4,190</u>	<u>5,077</u>	<u>-</u>	<u>13,880</u>
Total expenses	<u>\$ 401,881</u>	<u>\$ 124,112</u>	<u>\$ 434,872</u>	<u>\$ 112,809</u>	<u>\$ 1,073,674</u>

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

BIG SKY ECONOMIC DEVELOPMENT CORPORATION  
STATEMENTS OF CASH FLOWS  
Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 508,953	\$ (5,955)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Change in accounts receivable	(10,565)	2,315
Change in prepaid expenses	24,528	(24,539)
Change in loan loss reserve	-	46,772
Change in accounts payable	(27,984)	4,604
Change in amounts due to related parties	100,576	(21,866)
Change in deferred revenue	<u>(518,000)</u>	<u>(112,915)</u>
Net cash flows from operating activities	<u>77,508</u>	<u>(111,584)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Financing of new notes receivable	(659,800)	(103,000)
Payments from notes receivable	<u>497,157</u>	<u>281,096</u>
Net cash flows from investing activities	<u>(162,643)</u>	<u>178,096</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments made on business incentive commitment	<u>(19,802)</u>	<u>(18,681)</u>
Net change in cash and cash equivalents	(104,937)	47,831
Cash and cash equivalents, beginning of year	<u>1,459,341</u>	<u>1,411,510</u>
Cash and cash equivalents, end of year	<u>\$ 1,354,404</u>	<u>\$ 1,459,341</u>
Presented on the accompanying statement of financial position as:		
Cash and cash equivalents	\$ 506,825	\$ 458,086
Restricted cash and cash equivalents	<u>847,579</u>	<u>1,001,255</u>
	<u>\$ 1,354,404</u>	<u>\$ 1,459,341</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Cash paid for interest	<u>\$ 5,197</u>	<u>\$ 6,319</u>

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

BIG SKY ECONOMIC DEVELOPMENT CORPORATION  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2015 and 2014

**NOTE 1. ORGANIZATION AND PURPOSE**

Big Sky Economic Development Corporation, Inc., (the Organization), a Montana non-profit corporation, was incorporated in 2002. The purpose of the Organization is to work closely with Big Sky Economic Development Authority (the Authority) 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. The Organization emphasizes its efforts on business recruitment, business retention, and small business finance.

The Organization has gained the designation of Certified Development Corporation from the United States Small Business Administration.

Activities of the Organization are supported by Big Sky Economic Development Authority (a related Organization), loan fees generated by the SBA 504 loan program, the State Small Business Credit Initiative, and by contributions from local businesses.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America (GAAP), as codified by the Financial Accounting Standards Board, as applicable to non-profit organizations.

**Basis of Accounting**

The Organization reports information regarding its financial position and activities according to three classes: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The net assets of the Organization are reported as follows:

- *Unrestricted net assets* - Net assets that are not subject to donor-imposed stipulations.
- *Temporarily restricted net assets* - Net assets subject to donor-imposed stipulations that will be met, either by actions of the Organization and/or the passage of time.
- *Permanently restricted net assets* - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use income earned on the restricted assets for general or specific purposes. The Organization has no permanently restricted net assets as of June 30, 2015 and 2014.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets in the period in which the restrictions are satisfied.

BIG SKY ECONOMIC DEVELOPMENT CORPORATION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2015 and 2014

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Contributions**

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the nature of any existing donor restrictions. Contributions from local businesses (Member Investors) are recorded only when a written pledge is received from the donor or when the contribution is received.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported on the statement of activities as net assets released from restrictions.

Donations or contributions received to acquire fixed assets or the actual contribution of fixed assets are accounted for and reported as unrestricted contributions when the assets are placed in service.

**Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Tax Exempt Status**

The Organization is exempt from federal and state income taxes under Internal Revenue Code §501(c)(3). With few exceptions, the Organization is no longer subject to examinations by federal tax authorities for years before 2011.

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, the Organization considers highly liquid investments and debt instruments with an original maturity of three months or less to be cash equivalents. The Organization maintains its cash deposits at various financial institutions whose deposits are insured by the Federal Deposit Insurance Corporation (FDIC) for deposits up to \$250,000. From time to time, certain bank accounts that are subject to limited FDIC coverage may exceed their insured limits. As of June 30, 2015 and 2014, the Organization's deposits exceeded the insured limits by \$1,106,516 and 922,985, respectively.

**Restricted Cash**

Restricted cash consists of amounts received for loan funds and repayments on participation loans that are part of the State Small Business Credit Initiative loan program. These funds must remain in a separate restricted account for the benefit of this program. Restricted cash at June 30, 2015 and 2014 amounted to \$847,579 and \$1,001,255, respectively.

BIG SKY ECONOMIC DEVELOPMENT CORPORATION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2015 and 2014

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Accounts Receivable**

Accounts receivable consist of amounts due under normal trade terms requiring payment within 30 days from the invoice date. Customer account balances with invoices dated over 30 days old are considered delinquent. These balances are stated at face value. Management regularly reviews collectability of all receivables. Receivables are written off once management determines that all collection efforts have been exhausted. The Organization does not maintain an allowance for doubtful accounts, as management considers all accounts to be fully collectible.

**Notes Receivable**

Notes receivable consist of amounts due from businesses participating in the Organization's revolving loan program and the State Small Business Credit Initiative (SSBCI) loan program. The terms of each note, including payment schedules and interest rates, are detailed in the corresponding agreement. Each note is considered to be in good standing if the obligor is remitting payments based on the contractual payment schedule. Otherwise, they are considered to be in default. Notes receivable are stated at unpaid balances, less an allowance for doubtful accounts. The Organization provides for losses on accounts receivable using the allowance method. The allowance is based on experience, third-party contracts, and other circumstances, which may affect the ability of businesses to meet their obligations for repayment. Notes receivables are considered impaired if full principal payments are not received in accordance with the contractual terms. It is the Organization's policy to charge off uncollectible notes receivable when management determines the receivable will not be collected. Customers with payments outstanding 30 days past their scheduled date are considered delinquent. The Organization maintains an allowance of \$105,582 as of each of the years ended June 30, 2015 and 2014. Interest on notes receivable is recognized over the term of the note and is calculated using the simple-interest method on principal amounts outstanding. Notes receivable in default status do not accrue interest.

**In-kind Support from Related Party**

In-kind support from related party includes donated materials, facilities, and services from Big Sky Economic Development Authority and are recorded as support at their estimated market value at the date of donation.

**Deferred Revenue – Program events**

Revenue from program events is recognized when the event takes place. As of June 30, 2014, the Organization had recorded deferred revenues for fees collected before year end for events taking place after year end.

**Advertising**

The Organization expenses advertising costs as they are incurred. Advertising expense during 2015 and 2014 amounted to \$1,616 and \$2,855, respectively.

**Subsequent Events**

Management has evaluated subsequent events through January 6, 2016, the date which the financial statements were available for issue.

**BIG SKY ECONOMIC DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
June 30, 2015 and 2014

**NOTE 3. NOTES RECEIVABLE**

Notes receivable consist of the following as of June 30, 2015 and 2014:

	Portion, Net of Loan Loss Reserve	Non-Current Portion	Total
<u>2015:</u>			
Revolving loan program	\$ 45,117	\$ 139,704	\$ 184,821
SSBCI loan program	<u>176,278</u>	<u>1,274,633</u>	<u>1,450,911</u>
	<u>\$ 221,395</u>	<u>\$ 1,414,337</u>	<u>\$ 1,635,732</u>
<u>2014:</u>			
Revolving loan program	\$ 41,908	\$ 132,550	\$ 174,458
SSBCI loan program	<u>230,729</u>	<u>1,067,902</u>	<u>1,298,631</u>
	<u>\$ 272,637</u>	<u>\$ 1,200,452</u>	<u>\$ 1,473,089</u>

**Revolving Loan Program**

The Organization has established a revolving loan fund to provide low-interest loans to small businesses for start-up or expansion. The following is a summary of notes receivable as of June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
<u>Loan #1</u>		
Matures 01/01/2017, Interest Rate 6.25%	\$ 34,963	\$ 55,444
<u>Loan #2</u>		
Matures 12/01/2014, Interest Rate 9.25%	17,559	17,559
<u>Loan #3</u>		
Matures 11/01/2014, Interest Rate 9.25%	41,251	41,251
<u>Loan #4</u>		
Matures 11/01/2016, Interest Rate 6.25%	5,018	52,281
<u>Loan #5</u>		
Matures 01/01/2018, Interest Rate 7.00%	11,066	14,818
<u>Loan #6</u>		
Matures 09/15/2018, Interest Rate 6.50%	46,772	46,772
<u>Loan #7</u>		
Matures 08/01/2018, Interest Rate 6.00%	27,692	33,000
<u>Loan #8</u>		
Matures 02/01/2017, Interest Rate 6.00%	14,228	18,915
<u>Loan #9</u>		
Matures 12/01/2019, Interest Rate 6.50%	<u>91,854</u>	<u>-</u>
<u>Subtotal</u>	290,403	280,040
Loan loss reserve	<u>(105,582)</u>	<u>(105,582)</u>
Total notes receivable	184,821	174,458
Less current portion	<u>(45,117)</u>	<u>(41,908)</u>
Non-current portion	<u>\$ 139,704</u>	<u>\$ 132,550</u>



BIG SKY ECONOMIC DEVELOPMENT CORPORATION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2015 and 2014

**NOTE 3. NOTES RECEIVABLE (CONTINUED)**

**Revolving Loan Program (Continued)**

The annual note receivable requirements to maturity as of June 30, 2015 for the revolving loan fund are as follows:

<u>Year Ending</u>	<u>Loan #1</u>	<u>Loan #2</u>	<u>Loan #3</u>	<u>Loan #4</u>	<u>Loan #5</u>	<u>Loan #6</u>	<u>Loan #7</u>	<u>Loan #8</u>	<u>Loan #9</u>	<u>Total</u>
2016	\$ 21,770	\$ 17,559	\$ 41,251	\$ 5,018	\$ 4,108	\$ 46,772	\$ 6,163	\$ 6,628	\$ 1,430	\$ 150,699
2017	13,193	-	-	-	4,390	-	6,509	6,974	16,576	47,642
2018	-	-	-	-	2,568	-	6,911	626	19,246	29,351
2019	-	-	-	-	-	-	7,337	-	20,535	27,872
2020	-	-	-	-	-	-	772	-	21,910	22,682
Thereafter	-	-	-	-	-	-	-	-	12,157	12,157
Total principal	34,963	17,559	41,251	5,018	11,066	46,772	27,692	14,228	91,854	290,403
Less loan loss reserve	-	(17,559)	(41,251)	-	-	(46,772)	-	-	-	(105,582)
Less current portion	(21,770)	-	-	(5,018)	(4,108)	-	(6,163)	(6,628)	(1,430)	(45,117)
Long term portion	<u>\$ 13,193</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,958</u>	<u>\$ -</u>	<u>\$ 21,529</u>	<u>\$ 7,600</u>	<u>\$ 90,424</u>	<u>\$ 139,704</u>

During 2011, borrowers of loan #2 and loan #3 became delinquent on their payments. During 2014, borrower of loan #6 became delinquent on their payments. Due to the financial conditions of these borrowers, management does not believe these amounts will be collected in full. Accordingly, the Organization has recorded a loan loss reserve for the principal balance of these three loans. All other loans are being collected based on their contracted payment schedule, and are considered to be accounts in good standing.

**BIG SKY ECONOMIC DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
 June 30, 2015 and 2014

**NOTE 3. NOTES RECEIVABLE (CONTINUED)**

**State Small Business Credit Initiative Loan Program**

During 2012, the Organization partnered with local banks to lend funds to local businesses from funds obtained by the Organization through the State Small Business Credit Initiative. The following is a summary of notes receivable as of June 30, 2015 and 2014 related to the State Small Business Credit Initiative funds:

	<u>2015</u>	<u>2014</u>
<u>Loan #1</u>		
Matures 03/01/2017, Interest Rate .6%	\$ -	\$ 251,366
<u>Loan #2</u>		
Matures 05/15/2018, Interest Rate 1.49%	196,936	260,811
<u>Loan #3</u>		
Matures 08/01/2018, Interest Rate 1.53%	89,287	111,867
<u>Loan #4</u>		
Matures 09/22/2021, Interest Rate 1.54%	325,193	371,365
<u>Loan #5</u>		
Matures 11/07/2022, Interest Rate 1.31%	61,021	67,400
<u>Loan #6</u>		
Matures 12/03/2027, Interest Rate 1.89%	221,968	235,822
<u>Loan #7</u>		
Matures 4/1/2035, Interest Rate 3.62%	482,296	-
<u>Loan #8</u>		
Matures 5/26/2020, Interest Rate 1.67%	74,210	-
<u>Subtotal</u>	1,450,911	1,298,631
Loan loss reserve	-	-
<u>Subtotal</u>	1,450,911	1,298,631
Less current portion	(176,278)	(230,729)
Non-current portion	\$ 1,274,633	\$ 1,067,902

The annual note receivable requirements to maturity as of June 30, 2015 and 2014 for the State Small Business Credit Initiative funds are as follows:

	<u>Loan #2</u>	<u>Loan #3</u>	<u>Loan #4</u>	<u>Loan #5</u>	<u>Loan #6</u>	<u>Loan #7</u>	<u>Loan #8</u>	<u>Total</u>
<u>Year Ending</u>								
2016	\$ 59,610	\$ 22,927	\$ 46,875	\$ 6,789	\$ 14,119	\$ 12,218	\$ 13,740	\$ 176,278
2017	60,505	23,280	47,602	6,879	14,388	12,668	13,972	179,294
2018	61,413	23,639	48,340	6,970	14,662	13,134	14,207	182,365
2019	15,408	19,441	49,090	7,061	14,942	13,618	14,446	134,006
2020	-	-	49,852	7,154	15,226	14,119	14,689	101,040
Thereafter	-	-	83,434	26,168	148,631	416,539	3,156	677,928
Total principal	196,936	89,287	325,193	61,021	221,968	482,296	74,210	1,450,911
Less current portion	(59,610)	(22,927)	(46,875)	(6,789)	(14,119)	(12,218)	(13,740)	(176,278)
Long term portion	\$ 137,326	\$ 66,360	\$ 278,318	\$ 54,232	\$ 207,849	\$ 470,078	\$ 60,470	\$ 1,274,633

Interest income for both programs for the years ended June 30, 2015 and 2014 amounted to \$32,689 and \$35,201, respectively.

BIG SKY ECONOMIC DEVELOPMENT CORPORATION  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2015 and 2014

**NOTE 3. NOTES RECEIVABLE (CONTINUED)**

**Credit Quality Indicators**

All loans undergo multiple underwriting processes. They are analyzed based on credit worthiness, longevity, and collateral. Loans in the revolving loan fund are deemed riskier, as they include little to no collateral. These loans have been underwritten by a bank, but the bank has passed on the loan. As such, they are deemed riskier and categorized as “watch” loans. Loans issued under the SSBCI program are underwritten by a bank, and are split in a 50% participation with the corresponding bank. These loans are considered quality credits, and are categorized as “pass” loans. All loans are categorized at inception, and monitored during the repayment period, as needed.

**Loan Loss Reserve**

As described above, the Organization has established a loan loss reserve. The reserve has been established to specifically offset three notes receivable from the revolving loan fund which are not meeting their contractual payment schedules. No additional reserve is deemed necessary by management, as all other accounts are in good standing and are considered low risk. Management monitors each loan account on an ongoing basis for potential upcoming risks related to declining credit conditions. The activity in the loan loss reserve for the years ended June 30, 2015 and 2014 was as follows:

	<u>2015</u>	<u>2014</u>
Loan loss reserve, beginning of the year	\$ 105,582	\$ 58,810
Increases to the reserve	<u>-</u>	<u>46,772</u>
Loan loss reserve, end of the year	<u>\$ 105,582</u>	<u>\$ 105,582</u>

This activity mirrors the activity in the three identified impaired loans. No loan loss reserve is deemed necessary by management for any of the notes receivable in the SSBCI loan program.

**NOTE 4. SMALL BUSINESS ADMINISTRATION LOAN PROGRAM**

The Organization has been approved as a Certified Development Company (CDC) by the Small Business Administration (SBA). As a CDC, the Organization works with the SBA and private-sector lenders to provide financing to small businesses. The SBA’s CDC/504 loan program is a long-term financing tool for economic development within a community. This program provides growing businesses with long-term, fixed-rate financing for major fixed assets, such as land and buildings. The Organization initiates and administers these loans, collecting loan origination and loan servicing fees.

BIG SKY ECONOMIC DEVELOPMENT CORPORATION  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2015 and 2014

**NOTE 5. STATE SMALL BUSINESS CREDIT INITIATIVE LOAN PROGRAM AND GRANT**

During 2012, the Organization became the recipient of the State Small Business Credit Initiative Grant (SSBCI). Under this program, the Organization received grant funds from the State of Montana to provide loans to small businesses, with participation from local financial institutions. All SSBCI funds are required to be segregated into a separate restricted account, including all funds received from loan repayments received from small businesses. The grant is restricted specifically for this program and the related net assets are restricted until March 31, 2017. At that time, if the State of Montana SSBCI Loan Committee determines that the Organization satisfied all of the program requirements, 98% of the funds will become unrestricted revolving loan funds. The remaining 2% will be granted to the State Tribal Economic Development Commission.

**NOTE 6. LONG TERM DEBT**

In December 2007, the Organization's Board of Directors authorized a job-creating economic incentive arrangement with General Electric Capital Corporation (GECC) to relocate operations to Billings, Montana. As part of the arrangement, the Organization has committed to pay GECC an operating expense subsidy of \$25,000 per year for a period of ten years. Should GECC cease operations during the 10 year term, the Organization shall be deemed relieved of any further obligation. This business incentive agreement was made in conjunction with a lease agreement entered into between the relocating company and Big Sky Economic Development Authority. In the event that the Organization does not satisfy this annual obligation, lease payments between GECC and Big Sky Economic Development Authority will be adjusted for the amounts outstanding. This obligation is presented at the present value of the future payments, discounted at a 6% interest rate.

Future payments on this obligation are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 20,990	\$ 4,010	\$ 25,000
2017	22,250	2,750	25,000
2018	<u>23,585</u>	<u>1,415</u>	<u>25,000</u>
Total	66,825	8,175	75,000
Less current portion	<u>(20,990)</u>	<u>(4,010)</u>	<u>(25,000)</u>
Long term portion	<u>\$ 45,835</u>	<u>\$ 4,165</u>	<u>\$ 50,000</u>

**BIG SKY ECONOMIC DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
 June 30, 2015 and 2014

**NOTE 7. RESTRICTED NET ASSETS**

In accordance with GAAP, the Organization has classified the following net asset balances as of June 30, 2015 and 2014 as temporarily restricted:

	<u>2015</u>	<u>2014</u>
State Small Business Credit Initiative	\$ 2,298,518	\$ 1,813,518
Opportunity Fund	<u>20,200</u>	<u>19,200</u>
	<u>\$ 2,318,718</u>	<u>\$ 1,832,718</u>

**NOTE 8. RELATED PARTY TRANSACTIONS**

**In-Kind Donations**

The Organization's employees are paid by Big Sky Economic Development Authority, a related Organization. A portion of these wages are considered an in-kind contribution from the Authority. The remainder is reimbursed by the Organization. For the years ended June 30, 2015 and 2014, the Organization paid \$375,007 and \$363,683 to the Authority for salaries and wages, insurance, and rent, of which \$126,191 and \$25,615 was reported as due to related party in the accompanying statements of financial position of June 30, 2015 and 2014, respectively.

The Organization was the recipient of donated in-kind wages, facilities, and services from Big Sky Economic Development Authority for the years ended June 30, 2015 and 2014. In-kind support for each fiscal year was comprised of the following:

	<u>2015</u>	<u>2014</u>
Salaries and wages	\$ 169,307	\$ 246,288
Employer contributions	51,320	71,370
Insurance	2,855	2,112
Professional fees	16,435	41,826
Rent	16,667	19,566
Business recruitment	36,086	-
Marketing	50,500	-
Other	<u>24,765</u>	<u>26,074</u>
	<u>\$ 367,935</u>	<u>\$ 407,236</u>

**Bank Deposits**

The majority of cash and cash equivalents of the Organization are held at First Interstate Bank. A member of the Organization's Board of Directors is a Vice President at First Interstate Bank. As of June 30, 2015 and 2014, the Organization held \$1,356,516 and \$936,585, respectively, at First Interstate Bank.

BIG SKY ECONOMIC DEVELOPMENT CORPORATION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2015 and 2014

**NOTE 9. CONCENTRATIONS**

During 2015 and 2014, the Organization participated in the State Small Business Credit Initiative in which it partnered with local banks to lend funds to small businesses and small manufacturers. The Organization received approximately 33% and 2% of its total revenue in 2015 and 2014 from this State Small Business Credit Initiative, respectively.



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