

GREAT FALLS DEVELOPMENT AUTHORITY, INC.

GREAT FALLS, MONTANA

CONSOLIDATED FINANCIAL STATEMENTS

AS OF

JUNE 30, 2007

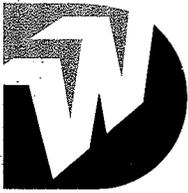
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2006)

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Douglas Wilson & Company, P.C.

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Douglas WILSON
and Company, PC

Board of Directors
Great Falls Development Authority, Inc.
Great Falls, Montana

Douglas N. Wilson, CPA
Dixie L. Swanson, CPA
Randal J. Boysun, CPA
Gerard K. Schmitz, CPA
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INDEPENDENT AUDITOR'S REPORT

Bruce H. Gaare, CPA

We have audited the accompanying consolidated statement of financial position of Great Falls Development Authority, Inc., "the Authority" (a nonprofit organization) as of June 30, 2007, and the related statements of activities and changes in net assets, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from the Authority's 2006 financial statements and, in our report dated November 22, 2006, we expressed an unqualified opinion on these financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Great Falls Development Authority, Inc., as of June 30, 2007, and the changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 18, 2007, on our consideration of Great Falls Development Authority, Inc.'s internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying schedule of federal awards for the year ended June 30, 2007, 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. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Douglas Wilson & Company, P. C.

Great Falls, Montana
September 18, 2007

GREAT FALLS DEVELOPMENT AUTHORITY, INC.

GREAT FALLS, MONTANA

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2007
(WITH COMPARATIVE TOTALS AS OF JUNE 30, 2006)

	<u>6/30/07</u>	<u>6/30/06</u> As Restated
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 121,539	\$ 30,123
Cash Restricted For Loans	1,459,548	982,596
Accounts Receivable	20,494	60,263
Pledges Receivable (Net of Allowance for Doubtful Pledges of \$72,800 in 2007 and \$50,000 in 2006)	13,509	379,105
Prepaid Expenses	1,036	-
Current Portion of Loans Receivable (Net of Allowance for Doubtful Loans of \$63,920 in 2007 and \$4,986 in 2006)	270,067	172,475
Total Current Assets	<u>1,886,193</u>	<u>1,624,562</u>
Furniture and Equipment, Net	<u>30,230</u>	<u>162,007</u>
Noncurrent Portion of Loans Receivable	<u>3,402,622</u>	<u>3,533,063</u>
Total Assets	<u>\$ 5,319,045</u>	<u>\$ 5,319,632</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts Payable	\$ 132,876	\$ 104,260
Accrued Liabilities	16,475	23,357
Note Payable - Operating Line of Credit	150,000	311,503
Current Portion of Long-Term Debt	71,924	17,490
Total Current Liabilities	<u>371,275</u>	<u>456,610</u>
Long-Term Debt, Net of Current Portion	<u>799,012</u>	<u>187,518</u>
Net Assets		
Unrestricted	(536,000)	93,280
Temporarily Restricted	55,094	85,886
Permanently Restricted	4,629,664	4,496,338
Total Net Assets	<u>4,148,758</u>	<u>4,675,504</u>
Total Liabilities and Net Assets	<u>\$ 5,319,045</u>	<u>\$ 5,319,632</u>

See accompanying notes to consolidated financial statements.

GREAT FALLS DEVELOPMENT AUTHORITY, INC.

GREAT FALLS, MONTANA

CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2006)

	2007			2006
	Unrestricted	Temporarily Restricted	Permanently Restricted	As Restated Total
Support and Revenues				
Private Support	\$ 111,842	\$ -	\$ -	\$ 21,204
Public Support	65,000	-	28,000	165,000
Total Support	176,842	-	28,000	186,204
Grants	-	135,402	-	219,445
Contracts and Program Revenues	-	157,376	-	142,575
Interest	102	222,509	-	195,811
Gain on Sale of Building	107,082	-	-	-
Fees and Miscellaneous Income	42,389	9,100	-	43,254
Total Support and Revenues	326,415	524,387	28,000	787,289
Net Assets Released from Restrictions	555,179	(555,179)	-	-
Total Support, Revenues and Reclassifications	881,594	(30,792)	28,000	787,289
Expenses				
Programs and Services	545,340	-	-	207,849
Grants	92,699	-	-	248,378
Management and General	577,569	-	-	701,589
Fundraising	189,940	-	-	-
Total Expenses	1,405,548	-	-	1,157,816
Change in Net Assets	(523,954)	(30,792)	28,000	(370,527)
Transfer To Satisfy Contribution Match Requirement	(138,500)	-	138,500	-
Revolving Loan Fund Expenses In Excess of Earnings	33,174	-	(33,174)	-
Net Assets, Beginning of Year	93,280	85,886	4,496,338	5,046,031
Net Assets (Excess of Liabilities Over Assets), End of Year	\$ (536,000)	\$ 55,094	\$ 4,629,664	\$ 4,675,504

See accompanying notes to consolidated financial statements.

GREAT FALLS DEVELOPMENT AUTHORITY, INC.

GREAT FALLS, MONTANA

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2007
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2006)

	<u>6/30/07</u>	<u>6/30/06 As Restated</u>
Cash Flows From Operating Activities:		
Change in Net Assets	\$ (526,746)	\$ (370,527)
Adjustments To Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization	26,815	37,030
Gain on Sale of Building	(107,082)	-
Increase in Allowance for Doubtful Notes and Pledges Receivable	96,812	-
(Increase) Decrease in Operating Assets:		
Pledges Receivable	327,718	395,697
Interest Receivable	-	26,241
Accounts Receivable	39,769	9,481
Agency Receivable	-	27,186
Prepaid Expenses	(1,036)	721
Increase (Decrease) in Operating Liabilities:		
Accounts Payable	28,616	9,444
Accrued Liabilities	(6,882)	(7,652)
Net Cash Provided (Used) By Operating Activities	<u>(122,016)</u>	<u>127,621</u>
Cash Flows From Investing Activities:		
Principal Payments Received on Notes Receivable	763,673	486,588
Loans Made to Third Parties	(789,758)	(137,750)
Proceeds from Sale of Building	224,762	-
Purchase of Office Furniture and Equipment	(12,718)	-
Net Cash Provided by Financing Activities	<u>185,959</u>	<u>348,838</u>
Cash Flows From Financing Activities:		
Advances Received on Line of Credit and Notes Payable	710,459	30,000
Payments Made on Line of Credit and Notes Payable	(206,034)	(78,756)
(Increase) Decrease in Cash Restricted for Loans	(476,952)	(461,512)
Net Cash Provided (Used) by Financing Activities	<u>27,473</u>	<u>(510,268)</u>
Net Increase (Decrease) in Cash	91,416	(33,809)
Cash and Cash Equivalents, Beginning of Year	30,123	63,932
Cash and Cash Equivalents, End of Year	<u>\$ 121,539</u>	<u>\$ 30,123</u>
Supplemental Information:		
Interest Paid In Cash	<u>\$ 25,073</u>	<u>\$ 22,645</u>
Interest Received in Cash	<u>\$ 222,611</u>	<u>\$ 195,811</u>

See accompanying notes to consolidated financial statements.

GREAT FALLS DEVELOPMENT AUTHORITY, INC.

GREAT FALLS, MONTANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 1: GREAT FALLS DEVELOPMENT AUTHORITY, INC.:

Great Falls Development Authority, Inc. (the "Authority") was formed on May 5, 1990 as Golden Triangle Development Authority, Inc. Its name was later changed to High Plains Development Authority, Inc., and then to Great Falls Development Authority, Inc. The Authority exists to (a) promote, stimulate and effect economic development in Cascade County and the surrounding region; (b) increase the volume of commerce within the jurisdiction of the Great Falls Port Authority; (c) cooperate with other organizations in the development of commerce and other economic activity within the State of Montana; (d) support the creation, expansion, retention and relocation of new and existing businesses and industries within the State of Montana; (e) forge alliances that strengthen workforce skills and recruit new workers to the Great Falls region; and, (f) attract investment to targeted distressed and designated growth areas of the City of Great Falls and Cascade County.

The Authority is a tax exempt organization as described under Section 501(c)(3) of the Internal Revenue Code (the "Code") and is generally exempt from income taxes pursuant to the provisions of Section 501(a) of the Code. The Authority receives funding from the City of Great Falls, Cascade County and businesses and residents of the region. The Authority earns additional revenue through certain loan programs and the provisions of grants and program economic development services under contract with various public and non-profit agencies.

The Authority has been certified as a Community Development Financial Institution ("CDFI") by the U.S. Department of Treasury. As a CDFI the Authority assists businesses, real estate developers and non-profit organizations with business and project planning, growth and modernization plans, and in arranging financial assistance. The Authority operates several loan funds in conjunction with the Economic Development Administration, U.S. Department of Commerce, and the U.S. Environmental Protection Agency. The Authority also operates a sub-center of the Montana Small Business Development ("SBDC") program under contract with the Montana Department of Commerce. The Montana SBDC program is part of the national SBDC program administered by the U.S. Small Business Administration.

The Authority is affiliated with High Plains Financial, Inc. ("HPF") formed on March 28, 2003, to be the financing arm of the Authority. HPF is a tax exempt organization as described under Section 501(c)(3) of the Internal Revenue Code (the "Code") and is generally exempt from income taxes pursuant to the provisions of Section 501(a) of the Code.

HPF has been designated a Certified Development Company ("CDC") by the U.S. Small Business Administration. As a CDC, HPF assists prospective borrowers in arranging financing that will foster economic development, create or preserve jobs and stimulate growth or modernization of small businesses. HPF operates loan funds in conjunction with the U.S. Department of Agriculture, the Montana Board of Investments and the Community Reinvestment Fund. HPF also operates a sub-center of the Montana Procurement Technical Assistance Center ("PTAC") program under a contract with Big Sky EDA. The Montana PTAC program is part of the national PTAC program administered by the U.S. Department of Defense.

GREAT FALLS DEVELOPMENT AUTHORITY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2007

In June, 2007, the Members and Board of Directors of HPF voted unanimously to cease operations as HPF and transfer all its assets and liabilities to the Authority. The purpose of the consolidation is to reduce administrative costs. It is anticipated that the liquidation of HPF will occur in the later part of 2007. No changes in activities or operations are anticipated.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

- A. Basis of Financial Statement Presentation** – The accompanying consolidated financial statements of the Authority have been prepared on the accrual basis of accounting and have been prepared to focus on the Authority as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions.

Unrestricted net assets represent those assets that the Authority may use at its discretion.

Temporarily restricted net assets result from contributions and other inflows of assets whose use by the Authority is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Authority pursuant to those stipulations.

Permanently restricted net assets result from contributions and other inflows of assets whose use by the Authority is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Authority.

- B. Principles of Consolidation** – The consolidated financial statements include the accounts of the Authority and its wholly-owned subsidiary, High Plains Financial, Inc. All material interorganization accounts and balances have been eliminated in consolidation. The Authority intends to liquidate High Plains Financial, Inc. during the fiscal year ended June 30, 2008.
- C. Use of Estimates** – The process of preparing consolidated financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Actual results could differ from those estimates.
- D. June 30, 2006 Financial Information - Restatement** – The consolidated financial statements include certain prior-year summarized financial information. Such information does not include sufficient detail to constitute presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Authority's consolidated financial statements as of and for the year ended June 30, 2006. In addition, certain restatements and reclassifications have been made to the prior year amounts to make them comparable with the 2007 presentation. These restatements and reclassifications had no impact on previously reported activities or net assets in total.

GREAT FALLS DEVELOPMENT AUTHORITY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2007

- E. Cash and Cash Equivalents** - For purposes of the consolidated statement of cash flows, cash and cash equivalents include time deposits, certificates of deposit and money market accounts, all with original maturities of three months or less.
- F. Promises to Give** - The Authority accounts for contributions in accordance with the provisions of Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 116, *Accounting for Contributions Received and Contributions Made*. Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the condition(s) upon which they depend are substantially met.

Contributions of assets other than cash are recorded at their estimated fair value. An allowance for estimated uncollectible pledges and contributions receivable is provided based upon management's judgment, including such factors as prior collection history, the type of pledge or contribution and the nature of the fund-raising activity.

Contributions and pledges received are recorded as unrestricted, temporarily restricted or permanently restricted depending upon the existence and/or nature of donor imposed restrictions.

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 upon the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Consolidated Statement of Activities as net assets released from restrictions.

- G. Accounts Receivable** - Accounts receivable include grants, contracts and other receivables and are reported at amounts management expects to collect on balances outstanding at year-end. Management provides for uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on experience and other factors which may affect the ability of debtors to meet their obligations to the Authority. Balances outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.
- H. Loans Receivable** - Loans receivable are the result of the Authority's lending activities and are carried in the consolidated balance sheet at the amount management expects to collect on unpaid principal balances outstanding at year-end. Management provides for uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on past experience, known and inherent risks in the Authority's loan portfolio, adverse conditions that may affect the borrower's ability to repay, the estimated value of any underlying collateral, current economic conditions and other factors which may affect the ability of debtors to meet their obligations to the Authority. Balances outstanding after management has used reasonable collection

GREAT FALLS DEVELOPMENT AUTHORITY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2007

- H. **Loans Receivable (Continued)** – efforts are written off through a charge to the valuation allowance and a credit to notes receivable. Interest income on notes receivable is recognized over the term of the notes and is calculated in accordance with the terms of the notes. Accrual of interest income is discontinued when management believes that, based upon current economic and business conditions and management's evaluations, the borrowers financial condition is such that collection of interest is doubtful. Interest income is subsequently recognized to the extent cash payments are received until such time as in management's judgment, the borrower's ability to make periodic interest and principal payments has been restored, in which case the loan is returned to accrual status.
- I. **Furniture and Equipment** – Furniture and equipment are stated primarily at cost or, if donated, at the approximate fair value at the date of donation, less accumulated depreciation. Expenditures aggregating \$500 or more are capitalized and depreciated using the straight-line basis over the estimated useful lives of the respective assets ranging from five to ten years.
- J. **Advertising** – The Authority uses advertising to promote its programs and activities. The production costs of advertising are expensed as incurred. Advertising costs totaled \$11,788 during 2007.
- K. **Expense Allocations** – Expenses have been allocated amongst programs and/or services on the basis of actual benefit received and by estimates made by management.

NOTE 3: CONCENTRATIONS AND RISKS:

The Authority maintains cash deposits at financial institutions located in Great Falls, Montana. Deposits at each institution are insured by the Federal Deposit Insurance Corporation up to \$100,000. The Authority has established a repurchase agreement with one such financial institution to collateralize funds held in excess of \$100,000. At June 30, 2007 the Authority had a balance of \$1,307,633 in the repurchase account secured by government securities.

The Authority's existing loans and the market for its lending activities are concentrated in the Great Falls and north central Montana area and are subject to the economic conditions within that area.

NOTE 4: PROMISES TO GIVE:

In 2007 the Authority implemented a "Forward Great Falls" fund-raising campaign to provide revenues to pursue strategies in accordance with the Authority's mission. Statements of intent under the Forward Great Falls campaign are not considered unconditional promises to give. Conditional promises to give are not recognized as assets or as revenues until such time as they become unconditional, that is, when the condition(s) upon which they depend are substantially met.

GREAT FALLS DEVELOPMENT AUTHORITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 4: PROMISES TO GIVE (CONTINUED):

In 2002 the Authority held a "Founding the Future" fund-raising campaign to provide revenues to implement strategies in pursuit of the Authority's mission. Promises to give under the Founding the Future campaign were unconditional. Unconditional promises to give under the Founding Great Falls campaign, all of which are due on or before June 30, 2008, are summarized as follows at June 30, 2007:

Founding The Future Pledges Receivable	\$ 86,309
Less: Allowance For Doubtful Pledges	<u>(72,800)</u>
Pledges Receivable, Net	<u>\$ 13,509</u>

NOTE 5: LOANS RECEIVABLE:

The Authority has the ability to make loans to third parties pursuant to the provisions of programs administered through the United States Economic Development Administration, the United States Environmental Protection Agency and/or the United States Department of Agriculture. The loan portfolio contains notes receivable ranging in principal balance at June 30, 2007 from \$28,560 to \$1,014,487 and bearing interest rates ranging from 4% to 6%.

All notes have been issued with an original maturity of twenty (20) years or less, and are secured by a combination of property and equipment of varying market values. There were no loans receivable on "non-accrual" status at June 30, 2007 and there were no loans receivable more than ninety (90) days past due and still accruing interest at June 30, 2007.

The current portion of loans receivable includes only those principal payments scheduled to be received during the next fiscal year.

Loans receivable issued pursuant to the provisions of programs administered through the indicated agency consisted of the following at June 30, 2007:

U.S. Economic Development Administration	\$3,238,581
U.S. Department of Agriculture	<u>498,028</u>
Total Loans Receivable	3,736,609
Less Allowance For Doubtful Loans	<u>(63,920)</u>
Total Loans Receivable, Net	<u>\$3,672,689</u>

The U.S. Economic Development Administration loans are net of a loan participation sold to the Montana Board of Investments in a prior year. The participation, dated April 14, 2005 is for 67.75% of the 321 Associates LLC note receivable. The participation amount as of June 30, 2007 is \$967,507.

GREAT FALLS DEVELOPMENT AUTHORITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 6: FURNITURE AND EQUIPMENT:

Furniture and equipment consists of office furniture and office equipment, including electronic data processing equipment, with a total gross carrying amount at June 30, 2007 of \$158,971 and total accumulated depreciation at June 30, 2007 of \$128,741. Depreciation expense was \$26,815 for the year ended June 30, 2007. During the year ended June 30, 2007 the Authority sold a building and related fixtures and equipment at a total gain of \$107,082.

NOTE 7: NOTE PAYABLE – OPERATING LINE OF CREDIT:

The Authority has a line-of-credit with First Interstate Bank in the amount of \$150,000, all of which was used at June 30, 2007. The line-of-credit carries interest at the rate of 1% above the prime rate and is payable monthly. The interest rate in effect at June 30, 2007 was 9.25%. The line-of-credit is secured by furniture, equipment and accounts and pledges receivable. The line-of-credit is due on May 30, 2008.

NOTE 8: LONG-TERM DEBT:

Long-term debt consists of the following at June 30, 2007:

Note Payable, U. S. Department of Agriculture - Rural Business Cooperative Service: Dated October 13, 2004, 1% interest, interest only payments until October 13, 2008, then principal and interest in 27 equal annual installments. Note is secured by assignment of loans receivable derived from the proceeds.	\$ 439,881
Note Payable, Montana Board of Investments: Dated November 29, 2004, 2% interest, interest only payments until December 31, 2007, then principal and interest payable quarterly through November 29, 2034. Note is secured by assignment of loans derived from the proceeds.	127,877
Note Payable, City of Great Falls: Dated June 30, 2007, 5% interest, monthly principal and interest payments in the amount of \$5,207 through June 2012.	275,951
Note Payable, First Interstate Bank: Dated September 5, 2006, 8.5% interest, monthly principal and interest payments in the amount of \$630 through October 2011.	26,731
Other	496
	<u>870,936</u>
Less Current Portion of Long-Term Debt	<u>(71,924)</u>
Long-Term Debt	<u>\$ 799,012</u>

GREAT FALLS DEVELOPMENT AUTHORITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2007

Future scheduled principal maturities of the foregoing obligations are as follows:

<u>June 30,</u>	
2007	\$ 71,924
2008	76,443
2009	79,852
2010	83,467
2011	81,136
Thereafter	<u>478,114</u>
	<u>\$ 870,936</u>

NOTE 9: RESTRICTIONS ON NET ASSETS:

Temporarily restricted net assets at June 30, 2007 consisted primarily of grants restricted for particular purposes.

Permanently restricted net assets at June 30, 2007 consisted primarily of amounts restricted for use in making loans to third parties pursuant to the provisions of programs administered through the United States Economic Development Administration, the United States Environmental Protection Agency or the United States Department of Agriculture.

NOTE 10: RETIREMENT PLAN:

The Authority maintains a 401(k) profit sharing plan for its employees. The Authority contributes to the plan at the maximum rate of 6.9% of qualified compensation. The Authority contributed \$7,357 during the year ended June 30, 2007.

NOTE 11: OPERATING LEASE:

The Authority leases office space under an operating lease. Office rent paid during the year ended June 30, 2007 was \$15,480. Future minimum rental payments on non-cancelable operating leases as of June 30, 2007 are as follows:

<u>June 30,</u>	Future Minimum Rental Payments
2008	\$ 28,743
2009	30,089
2010	31,593
2011	33,172
2012	<u>8,393</u>
	<u>\$ 131,990</u>

GREAT FALLS DEVELOPMENT AUTHORITY, INC.

GREAT FALLS, MONTANA

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007**

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U. S. Department of Commerce Economic Development Administration Economic Adjustment Assistance Revolving Loan Funds ("RLF") - Major Program		
Outstanding RLF Loans	11.307	\$ 3,238,581
Cash Balance Available	11.307	1,390,464
Administrative Costs	11.307	234,328
		<u>\$ 4,863,373</u>
U. S. Environmental Protection Agency Brownsfield Assessment and Cleanup Cooperative Agreements Brownsfield Revolving Loan Fund		
	66.818	\$ 1,461
	66.818	4,201
		<u>\$ 5,662</u>
U. S. Department of the Treasury Community Development Financial Institutions Fund	21.020	\$ 35,589
U. S. Small Business Administration/Montana Department of Commerce/Small Business Development Center	N/A	\$ 55,555
U. S. Department of Defense, Defense Logistics Agency/State of Montana/Procurement Technical Assistance Program	N/A	\$ 74,121
U. S. Department of Housing and Urban Development Statewide Value - Added Commodity Processing Park Rail Spur Development	N/A N/A	\$ 34,522 1,480
Cascade County, Montana/Community Development Block Grant - Economic Development	N/A	1,023
		<u>\$ 37,025</u>
Total Expenditures of Federal Awards		<u>\$ 5,071,325</u>

NOTE 1: BASIS OF PRESENTATION:

This Schedule of Expenditures of Federal Awards includes the 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 OMB Circular A-133, Audits of States, Local Governments and Nonprofit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

GREAT FALLS DEVELOPMENT AUTHORITY, INC.

GREAT FALLS, MONTANA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

NOTE 2: REVOLVING LOANS:

The Authority made loans to two business projects during the fiscal year ended June 30, 2007. The term of each of the two loans is five years and the interest rate on each loan is six percent. The following is a summary of loan activity for the year ended June 30, 2007.

Outstanding Loans, July 1, 2006 as Previously Reported	\$ 4,557,493
Participation Sold To Third Party	<u>(1,014,055)</u>
Outstanding Loans, July 1, 2006 as Restated	3,543,438
Advances Made on New Loans During the Year	450,000
Principal Payments Received on Loans During the Year	<u>(754,857)</u>
Outstanding Loans, June 30, 2007	<u><u>\$ 3,238,581</u></u>

Costs of Administration	
Salaries and Wages	\$ 78,742
Payroll Taxes and Benefits	12,871
Reserve For Loan Losses	50,000
Legal Fees	18,458
Accounting and Auditing Fees	20,125
Other Costs of Administration	54,132
	<u><u>\$ 234,328</u></u>



Douglas WILSON
and Company, PC

Board of Directors
Great Falls Development Authority, Inc.
Great Falls, Montana

Douglas N. Wilson, CPA
Dixie L. Swanson, CPA
Randal J. Boysun, CPA
Gerard K. Schmitz, CPA
Michael A. Diekhans, CPA
Myra L. Bakke, CPA

Bruce H. Gaare, CPA

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of Great Falls Development Authority, Inc., (a non-profit organization) as of and for the year ended June 30, 2007, and have issued our report thereon dated September 18, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Great Falls Development Authority, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures 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 Great Falls Development Authority, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Great Falls Development Authority, Inc.'s internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal courses of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Great Falls Development Authority, Inc.'s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Great Falls Development Authority, Inc.'s financial statements that is more than inconsequential will not be prevented or detected by the Great Falls Development Authority, Inc.'s internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Great Falls Development Authority, Inc.'s internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance

As part of obtaining reasonable assurance about whether Great Falls Development Authority, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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*.

This report is intended for the information of the Board of Directors, management, federal agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Douglas Wilson & Company, P.C.

Great Falls, Montana
September 18, 2007



Douglas WILSON
and Company, PC

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**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

Compliance

We have audited the compliance of Great Falls Development Authority, Inc. (a nonprofit organization) with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" that are applicable to each of its major federal programs for the year ended June 30, 2007. Great Falls Development Authority, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Great Falls Development Authority, Inc.'s management. Our responsibility is to express an opinion on Great Falls Development Authority, Inc.'s compliance based on our audit.

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 Great Falls Development Authority, Inc.'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. Our audit does not provide a legal determination of Great Falls Development Authority, Inc.'s compliance with those requirements.

In our opinion Great Falls Development Authority, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

Management of Great Falls Development Authority, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Great Falls Development Authority, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 Great Falls Development Authority, Inc.'s internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the board of directors, management, others within the organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Douglas Wilson & Company, P.C.

Great Falls, Montana
September 18, 2007

GREAT FALLS DEVELOPMENT AUTHORITY, INC.

GREAT FALLS, MONTANA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? Yes No

Reportable condition(s) identified not considered
to be material weaknesses? Yes None
Reported

Noncompliance material to financial statements noted? Yes No

Federal Awards:

Internal control over major programs:

Material weakness(es) identified? Yes No

Reportable condition(s) identified not considered
to be material weakness(es)? Yes None
Reported

Type of auditor's report issued on compliance for
major programs: Unqualified

Any audit findings disclosed that are required to be
reported in accordance with Circular A-133,
section 510(a)? Yes No

Identification of major programs:

CFDA Number(s)

11.307

Name of Federal Program or Cluster

U.S. Department of Commerce Economic Development
Administration

Dollar threshold used to distinguish between Type A
and Type B programs:

\$300,000

Auditee qualified as low-risk auditee? Yes No

SECTION II - FINANCIAL STATEMENT FINDINGS

None

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None

GREAT FALLS DEVELOPMENT AUTHORITY, INC.

GREAT FALLS, MONTANA

STATUS OF PRIOR YEAR'S RECOMMENDATIONS

JUNE 30, 2007

RECOMMENDATION: We recommend management review the current chart of accounts to determine its appropriateness. Additionally, we recommend further the use of "classes" be used to alleviate some of the detail in the chart of accounts and improve the reporting for certain contract and grant awards.

STATUS: Implemented.

RECOMMENDATION: Based on the activities and operating results of High Plains Financial, we recommend the organization review the need to continue operating as a separate entity. The continued losses from activities should be reviewed to determine if still feasible to continue. At this particular time it would appear there is no practical need to continue operating High Plains Financial as a separate entity. It is our opinion that the same results could be accomplished if High Plains Financial becomes a part of the organization rather operating as a separate entity.

The Revolving Loan Fund has been accounted for as though it was a separate entity. The accounting for this entity may be better served if combined with the organization. The restrictions associated with the Revolving Loan Fund could still be met with the current accounting system.

STATUS: Implemented.

RECOMMENDATION: We recommended a search for unrecorded liabilities be performed annually after each year-end to determine if all expenditures have been properly recorded.

STATUS: Implemented

RECOMMENDATION (June 30, 2006): We recommend all disbursements be approved by the Authority's President or another responsible official. All disbursements should be supported by invoice or other documentation.

STATUS: Implemented.

RECOMMENDATION (June 30, 2006): We recommend all journal entries be supported by documentation adequate enough to support the basis of the entries.

STATUS: Implemented.

RECOMMENDATION (June 30, 2006): We recommend the Authority assign grant administration to the appropriate personnel to assure compliance with the grant documents.

STATUS: Implemented.