

GREAT FALLS DEVELOPMENT AUTHORITY, INC.

GREAT FALLS, MONTANA

CONSOLIDATED FINANCIAL STATEMENTS

AS OF

JUNE 30, 2008

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2007)

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Douglas Wilson & Company, P.C.

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Douglas WILSON
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Great Falls, Montana

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INDEPENDENT AUDITOR'S REPORT

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, 2008, and the related consolidated 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 2007 financial statements and, in our report dated September 18, 2007, 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, 2008, 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 26, 2008, 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, 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, 2008, 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 26, 2008

Great Falls Development Authority, Inc.
Consolidated Statement of Financial Position
As of June 30, 2008
(With Comparative Totals as of June 30, 2007)

| | <u>6/30/08</u> | <u>6/30/07</u> |
|--|----------------------------|----------------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and Cash Equivalents | \$ 17,737 | \$ 121,539 |
| Cash Restricted For Loans and Grants | 643,522 | 1,459,548 |
| Accounts Receivable | 36,033 | 20,494 |
| Pledges Receivable (Net of Allowance for Doubtful Pledges of \$72,800) | - | 13,509 |
| Prepaid Expenses | 1,688 | 1,036 |
| Current Portion of Loans Receivable (Net of Allowance for Doubtful Loans of \$122,000 in 2008 and \$63,920 in 2007) | 191,710 | 270,067 |
| Total Current Assets | <u>890,690</u> | <u>1,886,193</u> |
| Furniture and Equipment, Net | 38,296 | 30,230 |
| Noncurrent Portion of Loans Receivable | <u>4,405,866</u> | <u>3,402,622</u> |
| Total Assets | <u><u>\$ 5,334,852</u></u> | <u><u>\$ 5,319,045</u></u> |
| LIABILITIES AND NET ASSETS | | |
| Current Liabilities | | |
| Accounts Payable | \$ 103,427 | \$ 132,876 |
| Accrued Liabilities | 37,524 | 16,475 |
| Note Payable - Operating Line of Credit | 222,000 | 150,000 |
| Obligation Under Capital Lease | 2,272 | - |
| Current Portion of Long-Term Debt | 102,773 | 71,924 |
| Total Current Liabilities | <u>467,996</u> | <u>371,275</u> |
| Long-Term Obligation Under Capital Lease, Net of Current Portion | <u>8,305</u> | <u>-</u> |
| Long-Term Debt, Net of Current Portion | <u>787,213</u> | <u>799,012</u> |
| Net Assets | | |
| (Excess) of Liabilities Over Unrestricted Assets | (542,908) | (536,000) |
| Temporarily Restricted Net Assets | 26,095 | 55,094 |
| Permanently Restricted Net Assets | 4,588,151 | 4,629,664 |
| Total Net Assets | <u>4,071,338</u> | <u>4,148,758</u> |
| | <u><u>\$ 5,334,852</u></u> | <u><u>\$ 5,319,045</u></u> |

See accompanying notes to consolidated financial statements.

Great Falls Development Authority, Inc.
Consolidated Statement of Activities
For The Year Ended June 30, 2008
(With Comparative Totals For The Year Ended June 30, 2007)

| | 2008 | | | Total | 2007 |
|--|---------------------|---------------------------|---------------------------|---------------------|---------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | | |
| Support and Revenues | | | | | |
| Private Support | \$ 445,014 | \$ - | \$ - | \$ 445,014 | \$ 111,842 |
| Public Support | 150,000 | - | - | 150,000 | 93,000 |
| Total Support | <u>595,014</u> | <u>-</u> | <u>-</u> | <u>595,014</u> | <u>204,842</u> |
| Grants | - | 115,694 | - | 115,694 | 135,402 |
| Contracts and Program Revenues | - | 42,585 | - | 42,585 | 157,376 |
| Expense Reimbursements | 15,809 | 52,967 | - | 68,776 | - |
| Interest | 3 | 233,227 | - | 233,230 | 222,611 |
| Gain on Sale of Building | - | - | - | - | 107,082 |
| Fees and Miscellaneous Income | 59,737 | 19,946 | - | 79,683 | 51,489 |
| Total Support and Revenues | <u>670,563</u> | <u>464,419</u> | <u>-</u> | <u>1,134,982</u> | <u>878,802</u> |
| Net Assets Released | | | | | |
| From Restrictions | 493,418 | (493,418) | - | - | - |
| Total Support, Revenues and Reclassifications | <u>1,163,981</u> | <u>(28,999)</u> | <u>-</u> | <u>1,134,982</u> | <u>878,802</u> |
| Expenses | | | | | |
| Programs and Services Objectives | | | | | |
| Business Attraction and Expansion | 148,795 | - | - | 148,795 | - |
| Real Estate Investment | 90,940 | - | - | 90,940 | - |
| Workforce Development | 58,111 | - | - | 58,111 | - |
| Lending and Finance | 288,202 | - | - | 288,202 | - |
| Business Technical Assistance | 113,473 | - | - | 113,473 | - |
| All Other | - | - | - | - | 545,340 |
| Programs and Services Objectives Expenses | <u>699,521</u> | <u>-</u> | <u>-</u> | <u>699,521</u> | <u>545,340</u> |
| Grants | 216,886 | - | - | 216,886 | 92,699 |
| Management and General | 205,941 | - | - | 205,941 | 577,569 |
| Fundraising | 90,054 | - | - | 90,054 | 189,940 |
| Total Expenses | <u>1,212,402</u> | <u>-</u> | <u>-</u> | <u>1,212,402</u> | <u>1,405,548</u> |
| Change in Net Assets | (48,421) | (28,999) | - | (77,420) | (526,746) |
| Revolving Loan Fund Expenses In Excess of Earnings | 41,513 | - | (41,513) | - | - |
| Net Assets (Excess of Liabilities Over Assets), Beginning of Year | <u>(536,000)</u> | <u>55,094</u> | <u>4,629,664</u> | <u>4,148,758</u> | <u>4,675,504</u> |
| Net Assets (Excess of Liabilities Over Assets), End of Year | <u>\$ (542,908)</u> | <u>\$ 26,095</u> | <u>\$ 4,588,151</u> | <u>\$ 4,071,338</u> | <u>\$ 4,148,758</u> |

See accompanying notes to consolidated financial statements.

Great Falls Development Authority, Inc.
Consolidated Statement of Cash Flows
For The Year Ended June 30, 2008
(With Comparative Totals For The Year Ended June 30, 2007)

| | 6/30/08 | 6/30/07 |
|---|-------------------|-------------------|
| Cash Flows From Operating Activities: | | |
| Change in Net Assets | \$ (77,420) | \$ (526,746) |
| Adjustments To Reconcile Change in Net Assets to Net Cash Provided by (Used in) Operating Activities: | | |
| Depreciation | 19,566 | 26,815 |
| Gain on Sale of Building | - | (107,082) |
| Increase in Allowance For Doubtful Notes and Pledges Receivable | 58,080 | 96,812 |
| (Increase) Decrease in Operating Assets: | | |
| Pledges Receivable | 13,509 | 327,718 |
| Accounts Receivable | (15,539) | 39,769 |
| Prepaid Expenses | (652) | (1,036) |
| Increase (Decrease) in Operating Liabilities: | | |
| Accounts Payable | (29,449) | 28,616 |
| Accrued Liabilities | 21,049 | (6,882) |
| Net Cash Provided By (Used in) Operating Activities | <u>(10,856)</u> | <u>(122,016)</u> |
| Cash Flows From Investing Activities: | | |
| Principal Payments Received on Notes Receivable | 447,613 | 763,673 |
| Loans Made To Third Parties | (1,430,580) | (789,758) |
| Proceeds From Sale of Building | - | 224,762 |
| Purchase of Office Furniture and Equipment | (15,130) | (12,718) |
| Net Cash Provided By (Used in) Investing Activities | <u>(998,097)</u> | <u>185,959</u> |
| Cash Flows From Financing Activities: | | |
| Advances Received on Line of Credit and Notes Payable | 231,830 | 710,459 |
| Payments Made on Line of Credit and Notes Payable | (140,780) | (206,034) |
| Payments Made on Capital Lease | (1,925) | - |
| (Increase) Decrease in Cash Restricted For Loans and Grants | 816,026 | (476,952) |
| Net Cash Provided By (Used in) Financing Activities | <u>905,151</u> | <u>27,473</u> |
| Net Increase (Decrease) in Cash | (103,802) | 91,416 |
| Cash and Cash Equivalents, Beginning of Year | 121,539 | 30,123 |
| Cash and Cash Equivalents, End of Year | <u>\$ 17,737</u> | <u>\$ 121,539</u> |
| Supplemental Information: | | |
| Interest Paid In Cash | <u>\$ 31,308</u> | <u>\$ 25,073</u> |
| Interest Received in Cash | <u>\$ 233,230</u> | <u>\$ 222,611</u> |
| Noncash Investing and Financing Transaction: | | |
| Lease of Equipment | | |
| Equipment | <u>\$ 12,502</u> | <u>\$ -</u> |
| Capital Lease Obligation | <u>\$ 12,502</u> | <u>\$ -</u> |

See accompanying notes to consolidated financial statements.

GREAT FALLS DEVELOPMENT AUTHORITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2008

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)(4) of 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 programs in conjunction with the U.S. Department of Agriculture, the U.S. Small Business Administration, the Montana Board of Investments and the Community Reinvestment Fund.

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.

GREAT FALLS DEVELOPMENT AUTHORITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2008

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 affiliate, High Plains Financial, Inc. All material interorganization accounts and balances have been eliminated in consolidation.
- 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, 2007 Financial Information** – 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, 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.

GREAT FALLS DEVELOPMENT AUTHORITY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2008

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 and changes in net assets 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 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 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 \$21,171 during 2008.
- 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.

GREAT FALLS DEVELOPMENT AUTHORITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2008

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, 2008 the Authority had a balance of \$482,034 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.

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, 2008 from \$27,592 to \$976,198 and bearing interest rates ranging from 4 percent to 10.75 percent.

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, 2008 and there were no loans receivable more than ninety (90) days past due and still accruing interest at June 30, 2008.

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 at June 30, 2008 are:

| | |
|--|----------------------------|
| U.S. Economic Development Administration | \$ 4,122,258 |
| U.S. Environmental Protection Agency | - |
| U.S. Department of Agriculture | <u>597,318</u> |
| Total Loans Receivable | 4,719,576 |
| Less Allowance For Doubtful Loans | <u>(122,000)</u> |
| Total Loans Receivable, Net | <u>\$ 4,597,576</u> |

GREAT FALLS DEVELOPMENT AUTHORITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2008

The U.S. Economic Development Administration loans are net of a loan participation sold to the Montana Board of Investments. The participation is for 67.75% of loan. The amount of the participation at June 30, 2008 was \$912,949.

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, 2008 of \$148,782 and total accumulated depreciation at June 30, 2008 of \$110,486. Depreciation expense was \$19,566 for the year ended June 30, 2008.

NOTE 7: NOTE PAYABLE – OPERATING LINE OF CREDIT:

The Authority has a line-of-credit with First Interstate Bank in the amount of \$272,000, of which \$222,000 was used at June 30, 2008. The line-of-credit carries interest at the rate of 1 percent above the prime rate and is payable monthly. The interest rate in effect at June 30, 2008 was 6%. The line-of-credit is secured by furniture, equipment and accounts and pledges receivable. The line-of-credit is due on August 30, 2008.

NOTE 8: OBLIGATION UNDER CAPITAL LEASE:

The Authority leases office equipment under a capital lease. Future minimum lease payments under the capital lease together with the present value of the net minimum lease payments as of June 30, 2008 are as follows:

| | | |
|---|----|---------------|
| June 30, 2009 | \$ | 3,060 |
| June 30, 2010 | | 3,060 |
| June 30, 2011 | | 3,060 |
| June 30, 2012 | | 3,060 |
| June 30, 2013 | | 255 |
| Total Minimum Lease Payments | | 12,495 |
| Less: Amount Representing Interest | | (1,918) |
| Present Value of Minimum Lease Payments | \$ | 10,577 |

GREAT FALLS DEVELOPMENT AUTHORITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 9: LONG-TERM DEBT:

Long-term debt consists of the following at June 30, 2008:

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. \$ 474,207

Note Payable, Montana Board of Investments: Dated November 29, 2004, 2% interest, quarterly principal and interest payments in the amount of \$1,899 until November 29, 2034. Note is secured by assignment of loans derived from the proceeds 155,921

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. 238,817

Note Payable, First Interstate Bank: Dated September 5, 2006, variable interest rate, 5.25% at June 30, 2008, monthly principal and interest payments in the amount of \$590 through September 2011. 21,041

889,986

(102,773)

Less Current Portion of Long-Term Debt

Long-Term Debt **\$ 787,213**

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

| | |
|---------------|--------------------------|
| June 30, 2009 | \$ 102,773 |
| June 30, 2010 | 93,459 |
| June 30, 2011 | 96,995 |
| June 30, 2012 | 95,241 |
| June 30, 2013 | 33,081 |
| Thereafter | <u>468,437</u> |
| | \$ <u>889,986</u> |

GREAT FALLS DEVELOPMENT AUTHORITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 10: RESTRICTIONS ON NET ASSETS:

Temporarily restricted net assets at June 30, 2008 consisted primarily of grants restricted for particular purposes.

Permanently restricted net assets at June 30, 2008 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 and the United States Department of Agriculture.

NOTE 11: 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 \$8,336 to the plan during the year ended June 30, 2008.

NOTE 12: OPERATING LEASE:

The Authority leases office space under an operating lease. Office rent paid during the year ended June 30, 2008 was \$28,743. Future minimum rental payments on non-cancelable operating leases as of June 30, 2008 are as follows:

| Fiscal Year Ended: | Future Minimum Rental Payments |
|-----------------------|---|
| June 30, 2009 | \$ 30,089 |
| June 30, 2010 | 31,593 |
| June 30, 2011 | 33,172 |
| June 30, 2012 | 8,393 |
| | \$ 103,247 |

**Great Falls Development Authority, Inc.
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2008**

| <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 | \$ 4,122,258 |
| Cash Balance Available | 11.307 | 587,447 |
| Administrative Costs | 11.307 | 238,917 |
| Support for Planning Organizations | 11.302 | 31,688 |
| | | \$ <u>4,980,310</u> |
| U. S. Department of Defense Office of Economic Adjustment/Cascade County, Montana Community Economic Adjustment Diversification Planning | 12.614 | \$ <u>520</u> |
| U. S. Environmental Protection Agency Brownfields Assessment and Cleanup Brownfields Revolving Loan Fund | 66.818 | \$ <u>895</u> |
| U. S. Department of the Treasury Community Development Financial Institutions Fund | 21.020 | \$ <u>32,283</u> |
| U. S. Small Business Administration/Montana Department of Commerce/Small Business Development Center | N/A | \$ <u>53,000</u> |
| U. S. Department of Housing and Urban Development Rail Spur Development | N/A | \$ <u>10,669</u> |
| Total Expenditures of Federal Awards | | \$ <u>5,077,677</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.

NOTE 2: COST SHARING:

This Schedule of Expenditures of Federal Awards does not include the amount of cost sharing funds provided by or through the Authority as required under the terms of certain grants or programs. The Authority provided cost sharing under the U. S. Small Business Administration/Montana Department of Commerce/Small Business Development Center in the amount of \$53,547 and under the U. S. Department of Commerce/Economic Development Administration/Support for Planning Organizations (CFDA 11.302) in the amount of \$13,377.

Great Falls Development Authority, Inc.
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2008

NOTE 3: REVOLVING LOANS:

The Authority made loans to two business projects during the fiscal year ended June 30, 2008. The term of each of the two loans is five years and the interest rate under each loan is six percent. The following is a summary of loan activity for the year ended June 30, 2008.

| | |
|--|----------------------------|
| Outstanding Loans, July 1, 2007 | \$ 3,238,581 |
| Advances Made on New Loans During the Year | 1,309,500 |
| Principal Payments Received on Loans During the Year | <u>(425,823)</u> |
| Outstanding Loans, June 30, 2008 | <u><u>\$ 4,122,258</u></u> |

Costs of Administration

| | |
|-------------------------------|--------------------------|
| Salaries and Wages | \$ 119,956 |
| Payroll Taxes and Benefits | 21,535 |
| Reserve For Loan Losses | 35,000 |
| Legal Fees | 9,995 |
| Insurance | 4,666 |
| Other Costs of Administration | <u>47,765</u> |
| | <u><u>\$ 238,917</u></u> |



Douglas WILSON
and Company, PC

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

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

Bruce H. Gaare, CPA
Dixie L. Swanson, 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, 2008, and have issued our report thereon dated September 26, 2008. 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 26, 2008



Douglas WILSON
and Company, PC

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

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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, 2008. 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, 2008.

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 26, 2008

GREAT FALLS DEVELOPMENT AUTHORITY, INC.

GREAT FALLS, MONTANA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

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:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|-----------------------|--|
| 11.307 | 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, 2008**

None