

GREAT FALLS DEVELOPMENT AUTHORITY, INC.

GREAT FALLS, MONTANA

FINANCIAL STATEMENTS

AS OF

JUNE 30, 2012

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2011)

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Douglas Wilson & Company, P.C.

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Douglas WILSON
and Company, PC

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Great Falls Development Authority, Inc.
Great Falls, Montana

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INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statement of financial position of Great Falls Development Authority, Inc., "the Authority" (a nonprofit organization) as of June 30, 2012, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Authority's 2011 financial statements and, in our report dated November 15, 2011, we expressed an unqualified opinion on those 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 financial statements referred to above present fairly, in all material respects, the financial position of Great Falls Development Authority, Inc., as of June 30, 2012, 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 November 7, 2012, 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 conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in black ink that reads "Douglas Wilson + Company, P.C." The signature is written in a cursive, flowing style.

Great Falls, Montana
November 7, 2012

Great Falls Development Authority, Inc.
Statement of Financial Position
As of June 30, 2012
(With Comparative Totals as of June 30, 2011)

	<u>2012</u>	<u>Restated 2011</u>
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 54,874	\$ 41,880
Cash Restricted For Loans and Grants	3,357,065	1,624,078
Accounts Receivable	72,219	118,692
Prepaid Expenses	-	19,846
Accrued Interest Receivable	13,894	-
Due From High Plains Financial	81	12,453
Current Portion of Loans Receivable (Net of Allowance for Doubtful Loans of \$15,000 in 2012 and 2011)	323,297	1,184,045
Total Current Assets	<u>3,821,430</u>	<u>3,000,994</u>
Furniture and Equipment, Net	<u>23,445</u>	<u>24,734</u>
Noncurrent Portion of Loans Receivable (Net of Allowance for Doubtful Loans of \$470,100 in 2012 and \$220,100 in 2011)	<u>2,730,783</u>	<u>2,167,535</u>
Total Assets	<u>\$ 6,575,658</u>	<u>\$ 5,193,263</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts Payable	\$ 234,433	\$ 70,867
Accrued Liabilities	69,492	67,698
Funds Held in Trust	1,000	-
Deferred Grant Revenues	322,500	-
Notes Payable - Lines-of-Credit	272,535	75,000
Current Portion of Obligation Under Capital Lease	253	2,692
Total Current Liabilities	<u>900,213</u>	<u>216,257</u>
Long-Term Liabilities		
Note Payable, Net of Current Portion	<u>250,000</u>	<u>-</u>
Net Assets		
Unrestricted Net Assets	(243,591)	167,957
Temporarily Restricted Net Assets	1,070,177	26,827
Permanently Restricted Net Assets	4,598,859	4,782,222
	<u>5,425,445</u>	<u>4,977,006</u>
Total Net Assets	<u>\$ 6,575,658</u>	<u>\$ 5,193,263</u>

See accompanying notes to financial statements.

Great Falls Development Authority, Inc.
Statement of Activities and Changes in Net Assets
For The Year Ended June 30, 2012
(With Comparative Totals For The Year Ended June 30, 2011)

	2012			Total	Restated 2011
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Support and Revenues					
Private Support	\$ 288,462	\$ -	\$ -	\$ 288,462	\$ 409,595
Public Support	100,000	-	-	100,000	175,000
Total Support	<u>388,462</u>	<u>-</u>	<u>-</u>	<u>388,462</u>	<u>584,595</u>
Grants	-	1,936,732	70,000	2,006,732	138,765
Contracts and Program Revenues	-	131,348	-	131,348	446,610
Expense Reimbursements	-	-	-	-	1,821
Interest	12	267,061	-	267,073	266,535
Fees and Miscellaneous Income	72,659	14,134	-	86,793	109,229
Total Support and Revenues	<u>461,133</u>	<u>2,349,275</u>	<u>70,000</u>	<u>2,880,408</u>	<u>1,547,555</u>
Net Assets Released					
From Restrictions	<u>1,305,925</u>	<u>(1,305,925)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Support, Revenues and Reclassifications	<u>1,767,058</u>	<u>1,043,350</u>	<u>70,000</u>	<u>2,880,408</u>	<u>1,547,555</u>
Expenses					
Strategic Priorities					
Business Attraction and Expansion	99,655	-	-	99,655	125,018
Great Falls AgriTech Park	111,209	-	-	111,209	43,137
Great Falls Brand Development	50,872	-	-	50,872	50,572
Electric Transmission	-	-	-	-	4,411
Great Falls Angel Network	340	-	-	340	6,381
Targeted Marketing	223,370	-	-	223,370	190,041
Workforce Development	-	-	-	-	1,201
Business Technical Assistance	213,696	-	-	213,696	265,989
Fundraising	128,594	-	-	128,594	35,277
Community and Investor Relations	-	-	-	-	70,129
Grants	803,362	-	-	803,362	29,326
Lending and Finance	669,226	-	-	669,226	377,440
Management and General	131,645	-	-	131,645	59,186
Total Expenses	<u>2,431,969</u>	<u>-</u>	<u>-</u>	<u>2,431,969</u>	<u>1,258,108</u>
Change in Net Assets	<u>(664,911)</u>	<u>1,043,350</u>	<u>70,000</u>	<u>448,439</u>	<u>289,447</u>
Revolving Loan Fund Earnings in Excess of Expenses	<u>253,363</u>	<u>-</u>	<u>(253,363)</u>	<u>-</u>	<u>-</u>
Net Assets, Beginning of Year As Previously Stated	167,957	26,827	4,782,222	4,977,006	4,621,409
Prior Year Restatement	-	-	-	-	66,150
Net Assets, Beginning of Year As Restated	<u>167,957</u>	<u>26,827</u>	<u>4,782,222</u>	<u>4,977,006</u>	<u>4,687,559</u>
Net Assets, End of Year	<u>\$ (243,591)</u>	<u>\$ 1,070,177</u>	<u>\$ 4,598,859</u>	<u>\$ 5,425,445</u>	<u>\$ 4,977,006</u>

See accompanying notes to financial statements.

Great Falls Development Authority, Inc.
Statement of Cash Flows
For The Year Ended June 30, 2012
(With Comparative Totals For The Year Ended June 30, 2011)

	2012	Restated 2011
Cash Flows From Operating Activities:		
Change in Net Assets	\$ 448,439	\$ 289,447
Adjustments To Reconcile Change in Net Assets to Net Cash Provided (Used) By Operating Activities:		
Prior Year Restatement	-	66,150
Grants and Contracts Restricted for Long Term Purposes	(70,000)	(263,505)
Provision for Loan Losses	250,000	-
Depreciation	14,523	14,410
(Increase) Decrease in Operating Assets:		
Accounts Receivable	46,473	(42,033)
Prepaid Expenses	19,846	(10,798)
Accrued Interest Receivable	(13,894)	-
Due from High Plains Financial	12,372	(12,453)
Increase (Decrease) in Operating Liabilities:		
Accounts Payable	163,566	14,014
Accrued Liabilities	1,794	(66,150)
Funds Held in Trust	1,000	-
Deferred Grant Revenues	322,500	54,936
Net Cash Provided (Used) By Operating Activities	1,196,619	44,018
Cash Flows From Investing Activities:		
Principal Payments Received on Notes Receivable	1,202,000	1,105,364
Loans Made To Third Parties	(1,154,500)	(973,450)
Purchase of Office Furniture and Equipment	(13,234)	(4,860)
Net Cash Provided By Investing Activities	34,266	127,054
Cash Flows From Financing Activities:		
Proceeds from Grants and Contracts		
Restricted for Long Term Purposes	70,000	263,505
Advances Received on Lines-of-Credit	197,535	125,000
Advances Received on Long-Term Note Payable	250,000	-
Payments Made on Lines-of-Credit	-	(159,893)
Payments Made on Capital Lease	(2,439)	(3,146)
(Increase) Decrease in Cash Restricted For Loans and Grants	(1,732,987)	(385,461)
Net Cash Used By Financing Activities	(1,217,891)	(159,995)
Net Increase in Cash	12,994	11,077
Cash and Cash Equivalents, Beginning of Year	41,880	30,803
Cash and Cash Equivalents, End of Year	\$ 54,874	\$ 41,880
Supplemental Information:		
Interest Paid In Cash	\$ 7,602	\$ 4,317
Interest Received in Cash	\$ 253,179	\$ 266,524

See accompanying notes to financial statements.

GREAT FALLS DEVELOPMENT AUTHORITY, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE 1: GREAT FALLS DEVELOPMENT AUTHORITY, INC.:

Great Falls Development Authority, Inc. (the "Authority") exists to (a) lead Great Falls economic development efforts to promote growth, diversification and the creation of high wage jobs; (b) promote, stimulate and effect economic development in Cascade County and the surrounding region; (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, the U.S. Department of Commerce, the U.S. Environmental Protection Agency, the Montana Board of Investments, the Montana Department of Commerce, the City of Great Falls and Cascade County. The Authority 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 also operates a satellite 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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

- A. Basis of Financial Statement Presentation** – The accompanying 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.

GREAT FALLS DEVELOPMENT AUTHORITY, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2012

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. **Use of Estimates** – The process of preparing 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.
- C. **June 30, 2011 Financial Information** – The 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 financial statements as of and for the year ended June 30, 2011.
- D. **Cash and Cash Equivalents** – For purposes of the 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.
- E. **Promises to Give** – 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 Statement of Activities and Changes in Net Assets as net assets released from restrictions.

- F. **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

GREAT FALLS DEVELOPMENT AUTHORITY, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2012

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.

- G. Loans Receivable** – Loans receivable are the result of the Authority's lending activities and are carried in the 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 borrower's 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.
- H. 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.
- I. Advertising** – The Authority uses advertising to promote its programs and activities and to market the Great Falls region. The production costs of advertising are expensed as incurred. Advertising costs totaled \$29,148 during 2012.
- J. Expense Allocations** – Expenses have been allocated amongst programs and/or services on the basis of actual benefit received and by estimates made by management.
- K. Income Tax Status** – The Authority is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Authority's tax returns for the years prior to 2009 are generally no longer subject to examination.
- L. Contributed Services and Materials** – Contributed services are reported in the financial statements for voluntary donations of services when those services: (1) create or enhance non-financial assets, or (2) require specialized skills provided by individuals possessing those skills and are services that would be typically purchased if not provided by donation. Donated materials are recorded at their fair value at the date of the gift.

GREAT FALLS DEVELOPMENT AUTHORITY, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE 3: CASH RESTRICTED FOR LOANS AND GRANTS:

The following is a summary of restricted cash by loan program and grant awards as of June 30, 2012:

Economic Development Administration	\$ 1,975,848
Montana Small Business Credit Initiative	788,067
MicroBusiness Finance Program	299,918
EPA Brownfield Revolving Loan Fund	160,060
Community Development Block Grant	95,456
Downtown Revolving Loan Fund	29,457
Small Business Development Program	477
HUD Rail Spur	7,782
Total	<u><u>\$ 3,357,065</u></u>

NOTE 4: 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 \$250,000. The Authority has established a repurchase agreement with one such financial institution to collateralize funds held in excess of the insured amount. At June 30, 2012 the Authority had a balance of \$1,963,649 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 5: PROMISES TO GIVE:

In 2012, 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, i.e., payment is received.

NOTE 6: RELATED PARTY RECEIVABLE:

The Authority provides expertise and management for High Plains Financial, Inc., another similar non-profit organization. Expenses incurred for the benefit of High Plains Financial, Inc. are allocated to High Plains Financial, Inc. on the basis of actual benefit received and by estimates made by management, and totaled \$67,963 for 2012. Related party receivables as of June 30, 2012 are summarized as follows:

High Plains Financial Inc.	<u><u>\$ 81</u></u>
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GREAT FALLS DEVELOPMENT AUTHORITY, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE 7: LOANS RECEIVABLE:

U.S. Economic Development Administration – 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 (EDA). The EDA Revolving Loan Fund (RLF) loan portfolio contains notes receivable ranging in principal balance at June 30, 2012 from \$15,969 to \$806,983 and bearing interest rates ranging from 4% to 12%.

EPA Brownfield Revolving Loan Fund – The Authority has the ability to make loans and grants to third parties pursuant to a Brownfield Assessment and Cleanup Cooperative Agreement with the United States Environmental Protection Agency (EPA). During the fiscal year, the Authority drew \$22,174 against the \$1.0 million available under this agreement. Total draws under the agreement are \$309,919 as of June 30, 2012.

The draws were disbursed for the following:

Center for Mental Health - Grant	\$ 20,350
Administrative Costs - Current Period	1,824
Total	<u>\$ 22,174</u>

Platinum, LLC has a loan balance under the agreement of \$42,409 as of June 30, 2012. The interest rate on this loan is 1%.

Downtown Revolving Loan Fund – The Authority has established the Downtown Revolving Loan Fund in the amount of \$600,000. The City of Great Falls committed \$300,000 in grant funds. First Interstate Bank issued a \$300,000 line of credit to the Authority for the Downtown Revolving Loan Fund. Four additional banks are participating in this line of credit through First Interstate Bank. \$70,000 was received by the Authority from the City of Great Falls during 2012 for loan proceeds for M&L Rentals, LLC. The interest rate on this loan is 4%.

Community Development Block Grant - City of Great Falls – The Authority has established a Great Falls Community Development Block Grant (CDBG) Revolving Loan Fund. The City of Great Falls awarded two \$50,000 CDBG grants to fund this RLF. A total of \$100,000 was drawn in prior fiscal years for loan proceeds to Montana Eggs, LLC and Sapphire, Inc. 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. The interest rates on these loans range from 4.5% to 9.25%.

Montana Department of Commerce MicroBusiness Finance Program – The Authority has entered into a MicroBusiness Finance Program with the Montana Department of Commerce. The Montana Department of Commerce has loaned the Authority \$250,000 as of June 30, 2012.

Montana Department of Commerce Small Business Credit Initiative Loan Participation Program – During 2012, the Authority entered into an agreement with the Montana Department of Commerce for a Small Business Credit Initiative (SSBCI) Loan Participation Program. A total of \$604,664 was loaned out by the Authority during 2012. The funds granted to the Authority under this program are restricted until April 1, 2017, and have been recorded as temporarily restricted net assets.

GREAT FALLS DEVELOPMENT AUTHORITY, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2012

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, 2012:

U.S. Economic Development Administration	\$ 2,670,075
EPA Brownfield Revolving Loan Fund	42,409
Small Business Credit Initiative Loan Participation Program	596,340
Downtown Revolving Loan Fund	141,202
Community Development Block Grant - City of Great Falls	89,154
Total Loans Receivable	<u>3,539,180</u>
Less: Allowance for Doubtful Loans	(485,100)
Total Loans Receivable, Net	<u><u>\$ 3,054,080</u></u>

The U.S. Economic Development Administration loans are recorded 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, 2012 was \$894,081.

The Authority uses payment activity as the primary credit quality indicator for loans receivable. The Authority evaluates the credit quality indicator of its loans receivable on a monthly basis. Loans, by credit quality indicator, are as follows as of June 30, 2012:

Performing	\$ 3,289,180
Nonperforming	250,000
Total	<u><u>\$ 3,539,180</u></u>

The following table presents by the changes in the allowance for loan losses and the recorded investment in loans:

	<u>Performing</u>	<u>Nonperforming</u>	<u>Total</u>
Allowance for Doubtful Loans:			
Beginning Balance	\$ 235,100	\$ -	\$ 235,100
Charge-Offs	-	-	-
Recoveries	-	-	-
Provision	-	250,000	250,000
Ending Balance	<u><u>\$ 235,100</u></u>	<u><u>\$ 250,000</u></u>	<u><u>\$ 485,100</u></u>
 Ending Balance:			
Individually Evaluated for Impairment	<u><u>\$ 235,100</u></u>	<u><u>\$ 250,000</u></u>	<u><u>\$ 485,100</u></u>
 Loans Receivable:			
Ending Balance:			
Individually Evaluated for Impairment	<u><u>\$ 3,289,180</u></u>	<u><u>\$ 250,000</u></u>	<u><u>\$ 3,539,180</u></u>

GREAT FALLS DEVELOPMENT AUTHORITY, INC.

NOTES TO THE FINANCIAL STATEMENTS

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Loans receivable of \$250,000 were impaired and placed on "non-accrual" status at June 30, 2012. The impaired loans have an associated allowance for doubtful loans of \$250,000 at June 30, 2012. All loans were current at June 30, 2012, except the impaired loans which were 60 days past due. There were no loans receivable more than ninety (90) days past due and still accruing interest at June 30, 2012.

NOTE 8: 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, 2012 of \$151,743 and total accumulated depreciation at June 30, 2012 of \$128,298. Depreciation expense was \$14,523 for the year ended June 30, 2012.

NOTE 9: NOTE PAYABLE – OPERATING LINE OF CREDIT:

The Authority has a line-of-credit with First Interstate Bank in the amount of \$100,000, all of which was outstanding at June 30, 2012. 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, 2012 was 4.25%. The line-of-credit is secured by furniture, equipment and accounts and pledges receivable. The line-of-credit matures on November 30, 2012.

During this fiscal year, the Authority also had a line-of-credit associated with the Downtown Revolving Loan Fund in the amount of \$300,000. These loan funds were to be used to provide financial assistance in the form of real estate secured projects within the Tax Increment Financing (TIF) Development District of Great Falls. The interest rate on the line-of-credit was a floating rate based upon the Prime + 0.00% adjusting as Prime changes with a floor of 5.00%. The line-of-credit matures on January 5, 2016, and is reviewed annually to determine if future advances will be made available. There was no outstanding balance on this line of credit at year end.

During 2012, the Authority entered into two line-of-credit agreements with Wells Fargo Bank in the amounts of \$200,000 and \$125,000.

The \$200,000 line-of-credit is being used in conjunction with the 2012 "Forward Great Falls" fundraising campaign. The interest rate on the line-of-credit is fixed at 5.05%. Subsequent to year-end the line-of-credit was completely used and was converted to a term note that matures on February 1, 2016. The balance outstanding on the line-of-credit at June 30, 2012 was \$122,035.

The \$125,000 line-of-credit is being used in conjunction with the Montana State Department of Commerce MicroBusiness Finance Program. The interest rate on the line-of-credit is a floating rate based upon the Prime + 1.05% adjusting as Prime changes with a floor of 5.00%. The interest rate was 5.05% and the balance outstanding on the line-of-credit was \$50,500 at June 30, 2012. The line-of-credit matures on February 1, 2013.

GREAT FALLS DEVELOPMENT AUTHORITY, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE 10: ACCRUED LIABILITIES:

Accrued liabilities consist of the following at June 30, 2012:

Compensation	\$ 65,712
Interest	2,207
Payroll Taxes and Liabilities	1,543
Total	<u>\$ 69,462</u>

NOTE 11: NOTE PAYABLE:

The Authority entered into a \$500,000 note payable during 2012 with the Montana State Department of Commerce. The proceeds of the note payable are to be used for activities under the Montana State MicroBusiness Development Act. The Authority received proceeds of \$250,000 during 2012. The note carries interest at the initial rate of 2% subject to annual adjustments, but the maximum rate is 3.25% during the term of the loan. Quarterly interest-only payments are due beginning April 5, 2012 and the maturity date of the note is December 31, 2015. The note may be extended prior to the maturity date subject to the terms in the note agreement. The note is secured by any assets or income derived from the Authority's MicroBusiness loans receivable program.

NOTE 12: RESTRICTIONS ON NET ASSETS:

Temporarily restricted net assets at June 30, 2012 consisted primarily of grants restricted for particular purposes and amounts restricted for use in making loans to third parties pursuant to the provisions of programs administered through the Montana Department of Commerce Small Business Credit Initiative Loan Participation Program.

Permanently restricted net assets at June 30, 2012 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 Environmental Protection Agency.

NOTE 13: 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 \$33,273 to the plan during the year ended June 30, 2012.

NOTE 14: OPERATING LEASE:

The Authority leases office space under an operating lease. Office rent paid during the year ended June 30, 2012 was \$37,716. The lease was amended and extends through September 30, 2014. Future minimum rental payments on non-cancelable operating leases as of June 30, 2011 are as follows:

GREAT FALLS DEVELOPMENT AUTHORITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

June 30, 2013	\$ 39,571
June 30, 2014	40,759
June 30, 2015	10,264
	<u>\$ 90,594</u>

NOTE 15: SUBSEQUENT EVENTS:

Accounting Standards Codification (ASC) No. 855: Subsequent Events establishes general standards of accounting for and disclosures of events that occur after the statement of financial position date but before the financial statements are issued or are available to be issued. Specifically, it sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the statement of financial position date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the statement of financial position date.

In accordance with ASC No. 855, the Authority, Inc. evaluated subsequent events through November 7, 2012, the date these financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

NOTE 16: RESTATEMENT:

The 2011 financial statements were restated to correct an error in recording a short-term disability liability. Accrued liabilities were reduced and unrestricted net assets were increased by \$66,150 to correct the error in previous years.

NOTE 17: BUSINESS ENHANCEMENT PLAN:

The Authority experienced a decrease in unrestricted net assets of \$411,548 during 2012 such that its unrestricted liabilities exceed its unrestricted assets by \$243,591 at June 30, 2012. During 2012, the Authority expended significant unrestricted assets in development of the Great Falls AgriTech Park, a heavy industrial park in Great Falls. Management expects these funds to be fully recovered in 2013 and 2014 through sale of lots in the Park. In addition, during 2012, the Authority expended significant unrestricted assets in creating three new loan funds. Management expects the new loan capital to result in future year increased lending activity and lending earnings. Also during 2012, the Authority initiated a new operating fund-raising campaign to increase operating donations for 2013 through 2017. Subsequent to year end, management has taken steps to decrease expenses. Management believes that these actions will be successful in the Authority's ability to remain viable into the future. However, the outcome of these efforts is yet to be determined.

Great Falls Development Authority, Inc.
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

<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	\$ 2,670,074
Cash Balance Available	11.307	2,066,989
Administrative Costs	11.307	248,964
		<u>4,986,027</u>
 U. S. Department of Defense Defense Logistics Agency/State of Montana/ Procurement Technical Assistance Program		
	12.002	21,927
		<u>21,927</u>
 U. S. Environmental Protection Agency Brownfield Assessment and Cleanup Brownfield Revolving Loan Fund Brownfield Revolving Loan Fund - Cash Balance Available Brownfield Revolving Loan Grant - Administrative Costs		
	66.818	42,409
	66.818	160,060
	66.818	6,069
		<u>208,538</u>
 U. S. Small Business Administration Montana Department of Commerce/Small Business Development Center Montana Department of Commerce/Small Business Jobs Act Congressional Grants Branch		
	59.037	50,890
	59.060	37,837
	59.059	64,114
		<u>152,841</u>
 U.S. Department of Housing and Urban Development Great Falls Industrial Park (AgriTech Park - Water Project) Black Eagle Road		
	14.251	28,328
	14.251	683,155
		<u>711,483</u>
 Total Expenditures of Federal Awards		<u><u>\$ 6,080,816</u></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.
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

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 \$51,429 and under the Defense Logistics Agency/State of Montana/Procurement Technical Assistance Program in the amount of \$22,424.

NOTE 3: REVOLVING LOANS:

The Authority made loans on one business project during the fiscal year ended June 30, 2012 with a ten year term and an interest rate of 7.75%. The following is a summary of loan activity for the year ended June 30, 2012.

Outstanding Loans, July 1, 2011	\$ 3,356,855
Advances Made on New Loans During the Year	959,500
Principal Payments Received on Loans During the Year	<u>(1,646,281)</u>
Outstanding Loans, June 30, 2012	<u><u>\$ 2,670,074</u></u>

Costs of Administration	
Salaries and Wages	\$ 88,616
Payroll Taxes and Benefits	23,071
Other Costs of Administration	137,277
	<u><u>\$ 248,964</u></u>

NOTE 4: EPA BROWNFIELD REVOLVING LOAN FUND:

The Authority has the ability to make loans and grants to third parties pursuant to a Brownfield Assessment and Cleanup Cooperative Agreement with the United States Environmental Protection Agency (EPA). No advances were made in the current period.

Administration costs are as follows:

Administrative Costs	1,824
Total	<u><u>\$ 1,824</u></u>



Douglas WILSON
and Company, PC

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

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

Douglas N. Wilson, CPA
Bruce H. Gaare, CPA
Dixie L. Swanson, CPA

**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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, 2012, and have issued our report thereon dated November 7, 2012. 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

Management of Great Falls Development Authority, Inc. is responsible for establishing and maintaining effective 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Great Falls Development Authority, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 and Other Matters

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*.

We noted certain matters that we reported to management of Great Falls Development Authority, Inc. in a separate letter dated November 7, 2012.

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.

A handwritten signature in black ink that reads "Douglas Nelson + Company, P.C." The signature is written in a cursive, flowing style.

Great Falls, Montana
November 7, 2012



Douglas WILSON
and Company, PC

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

Randal J. Boysun, CPA
Gerard K. Schmitz, CPA
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**INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE WITH REQUIREMENTS THAT COULD
HAVE A DIRECT AND MATERIAL EFFECT ON EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Compliance

We have audited Great Falls Development Authority, Inc.'s compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of Great Falls Development Authority, Inc.'s major federal programs for the year ended June 30, 2012. 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

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 the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Great Falls Development Authority, Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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.



Great Falls, Montana
November 7, 2012

GREAT FALLS DEVELOPMENT AUTHORITY, INC.

GREAT FALLS, MONTANA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

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

Significant deficiencies 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

Significant deficiencies 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
FOR THE YEAR ENDED JUNE 30, 2012**

None.