

**BIG SKY ECONOMIC
DEVELOPMENT CORPORATION**

FINANCIAL REPORT

June 30, 2019 and 2018

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Big Sky Economic Development Corporation, Inc. (a non-profit organization), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Big Sky Economic Development Corporation, Inc. as of June 30, 2019 and 2018, and the changes in its net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

As discussed in Note 1 to the financial statements, Big Sky Economic Development Corporation, Inc. adopted the Financial Accounting Standards Board's Accounting Standard Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements for Not-for-Profit Entities. The requirements of the ASU have been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

Anderson Zurmuehlen + Co, P.C.

Billings, Montana
October 30, 2019

FINANCIAL STATEMENTS

BIG SKY ECONOMIC DEVELOPMENT CORPORATION
 STATEMENTS OF FINANCIAL POSITION
 June 30, 2019 and 2018

<u>ASSETS</u>	<u>2019</u>	<u>2018</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,285,504	\$ 2,087,424
Accounts receivable	34,158	11,864
Contributions receivable	44,500	30,000
Prepaid expenses	4,867	-
Current portion notes receivable, net	<u>173,100</u>	<u>233,038</u>
Total current assets	2,542,129	2,362,326
NON-CURRENT ASSETS		
Contributions receivable	-	42,500
Notes receivable, net of current portion	<u>928,770</u>	<u>1,198,995</u>
Total assets	<u>\$ 3,470,899</u>	<u>\$ 3,603,821</u>
 <u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 83,112	\$ 59,797
Due to related party	163,958	83,211
Deferred revenue	<u>3,936</u>	<u>-</u>
Total current liabilities	<u>251,006</u>	<u>143,008</u>
NET ASSETS		
Without Donor Restrictions		
Designated	692,920	790,174
Undesignated	<u>2,478,710</u>	<u>2,408,526</u>
Total Without Donor Restrictions	3,171,630	3,198,700
With Donor Restrictions	<u>48,263</u>	<u>262,113</u>
Total net assets	<u>3,219,893</u>	<u>3,460,813</u>
Total liabilities and net assets	<u>\$ 3,470,899</u>	<u>\$ 3,603,821</u>

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

BIG SKY ECONOMIC DEVELOPMENT CORPORATION
STATEMENT OF ACTIVITIES
Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Private donor funding	\$ -	\$ 180,750	\$ 180,750
Member-Investor support	281,558	49,750	331,308
In-kind support from related party	338,819	-	338,819
Loan fees	746,329	-	746,329
Interest income	40,576	-	40,576
Recovery of bad debt	3,850	-	3,850
Net Assets released from restrictions	444,350	(444,350)	-
Other income	<u>26,031</u>	<u>-</u>	<u>26,031</u>
Total support and revenue	<u>1,881,513</u>	<u>(213,850)</u>	<u>1,667,663</u>
 EXPENSES			
Program expenses			
Business recruitment and retention	557,081	-	557,081
Workforce Development	128,517	-	128,517
Rock31	76,100	-	76,100
Member-investor relations	241,257	-	241,257
Business financing	<u>796,638</u>	<u>-</u>	<u>796,638</u>
Total program expenses	1,799,593	-	1,799,593
General and administrative	<u>108,990</u>	<u>-</u>	<u>108,990</u>
Total operating expenses	<u>1,908,583</u>	<u>-</u>	<u>1,908,583</u>
Change in Net Assets	(27,070)	(213,850)	(240,920)
Net assets, beginning of year	<u>3,198,700</u>	<u>262,113</u>	<u>3,460,813</u>
Net assets, end of year	<u>\$ 3,171,630</u>	<u>\$ 48,263</u>	<u>\$ 3,219,893</u>

The Notes to Financial Statements are an integral part of this statement.

BIG SKY ECONOMIC DEVELOPMENT CORPORATION
STATEMENT OF ACTIVITIES
Year Ended June 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Private donor funding	\$ -	\$ 287,850	\$ 287,850
Member-Investor support	235,176	-	235,176
In-kind support from related party	305,753	-	305,753
Loan fees	635,059	-	635,059
Interest income	46,303	-	46,303
Recovery of bad debt	10,565	-	10,565
Net Assets released from restrictions	72,187	(72,187)	-
Other income	<u>31,673</u>	<u>-</u>	<u>31,673</u>
Total support and revenue	<u>1,336,716</u>	<u>215,663</u>	<u>1,552,379</u>
 EXPENSES			
Program expenses			
Business recruitment and retention	279,217	-	279,217
Workforce Development	26,860	-	-
Member-investor relations	173,469	-	200,329
Business financing	<u>668,503</u>	<u>-</u>	<u>668,503</u>
Total program expenses	1,148,049	-	1,148,049
General and administrative	<u>84,764</u>	<u>-</u>	<u>84,764</u>
Total operating expenses	<u>1,232,813</u>	<u>-</u>	<u>1,232,813</u>
Change in Net Assets	103,903	215,663	319,566
Net assets, beginning of year	<u>3,094,797</u>	<u>46,450</u>	<u>3,141,247</u>
Net assets, end of year	<u>\$ 3,198,700</u>	<u>\$ 262,113</u>	<u>\$ 3,460,813</u>

The Notes to Financial Statements are an integral part of this statement.

BIG SKY ECONOMIC DEVELOPMENT CORPORATION
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2019

	Business Recruiting	Workforce Development	Rock31	Member- Investor	Business Finance	G&A	Total
EXPENSES							
Bad debt expense	\$ -	\$ -	\$ -	\$ 1,000	\$ -	\$ -	\$ 1,000
BEAR program	-	5,107	-	-	-	-	5,107
Dues and subscriptions	5,025	165	1,195	6,129	26,803	2,500	41,817
Salaries and benefits	94,511	-	-	133,714	436,639	80,408	745,272
Insurance	685	-	-	969	3,213	10,097	14,964
Loan losses	-	-	-	-	117,304	-	117,304
Marketing	8,276	690	6,500	17,717	8,067	-	41,250
Membership development	-	-	-	5,997	-	-	5,997
Miscellaneous	21,405	2,162	4,918	982	66,916	1,985	98,368
Program events	-	24,721	7,494	31,422	-	-	63,637
Supplies	714	-	-	3,131	7,575	-	11,420
Professional fees	390,466	72,650	44,587	4,823	35,346	13,000	560,872
Rent	6,846	-	-	10,917	62,999	-	80,762
Sponsorships	-	13,000	-	3,519	-	1,000	17,519
Telephone	3,548	480	-	5,104	15,536	-	24,668
Travel and training	25,605	9,542	11,406	15,833	16,240	-	78,626
Total expenses	<u>\$ 557,081</u>	<u>\$ 128,517</u>	<u>\$ 76,100</u>	<u>\$ 241,257</u>	<u>\$ 796,638</u>	<u>\$ 108,990</u>	<u>\$ 1,908,583</u>

The Notes to Financial Statements are an integral part of this statement.

BIG SKY ECONOMIC DEVELOPMENT CORPORATION
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2018

	Business Recruiting	Workforce Development	Member- Investor	Business Finance	G&A	Total
EXPENSES						
Dues and subscriptions	\$ 3,107	\$ -	\$ 5,507	\$ 15,029	\$ -	\$ 23,643
Salaries and benefits	90,074	-	63,515	458,675	59,308	671,572
Insurance	620	-	438	6,272	10,910	18,240
Loan losses	-	-	-	3,786	-	3,786
Marketing	12,734	-	28,115	5,944	-	46,793
Membership development	-	-	3,955	-	-	3,955
Miscellaneous	9,266	2,917	2,732	40,081	(580)	54,416
Program events	-	9,738	48,418	-	-	58,156
Supplies	1,104	-	821	12,245	81	14,251
Professional fees	135,068	1,341	1,954	42,744	15,045	196,152
Rent	6,765	-	5,544	61,033	-	73,342
Sponsorships	282	10,500	2,534	-	-	13,316
Telephone	2,594	-	1,816	11,798	-	16,208
Travel and training	17,603	2,364	8,120	10,896	-	38,983
Total expenses	<u>\$ 279,217</u>	<u>\$ 26,860</u>	<u>\$ 173,469</u>	<u>\$ 668,503</u>	<u>\$ 84,764</u>	<u>\$ 1,232,813</u>

The Notes to Financial Statements are an integral part of this statement.

BIG SKY ECONOMIC DEVELOPMENT CORPORATION
 STATEMENTS OF CASH FLOWS
 Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (240,920)	\$ 319,566
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Change in accounts receivable	(22,294)	5,027
Change in contributions receivable	28,000	(72,500)
Change in prepaid expenses	(4,867)	-
Change in accounts payable	23,315	30,799
Change in deferred revenue	3,936	-
Change in amounts due to related parties	<u>80,747</u>	<u>48,863</u>
Net cash flows from operating activities	<u>(132,083)</u>	<u>331,755</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Financing of new notes receivable	-	(200,000)
Maturity of certificates of deposit	-	75,114
Payments from notes receivable	<u>330,163</u>	<u>286,029</u>
Net cash flows from investing activities	<u>330,163</u>	<u>161,143</u>
Net change in cash and cash equivalents	198,080	492,898
Cash and cash equivalents, beginning of year	<u>2,087,424</u>	<u>1,594,526</u>
Cash and cash equivalents, end of year	<u>\$ 2,285,504</u>	<u>\$ 2,087,424</u>

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

BIG SKY ECONOMIC DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 1. ORGANIZATION AND PURPOSE

Big Sky Economic Development Corporation (the Organization), a Montana non-profit corporation, was incorporated in 2002. The purpose of the Organization is to work closely with Big Sky Economic Development Authority (the Authority) to promote, stimulate, develop, and advance the general welfare, commerce, economic development, and prosperity of the Yellowstone County market region, the State of Montana, and its citizens. The Organization emphasizes its efforts on business recruitment, business retention, entrepreneurship, and small business finance.

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

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

Basis of Accounting

The Organization reports information regarding its financial position and activities according to two classes: net assets without donor restrictions and net assets with donor restrictions.

- *Net Assets Without Donor Restrictions* – Net assets that are not subject to donor-imposed stipulations. The Board of Directors has designated certain net assets without restrictions primarily for the following uses:

Designated as cash reserves – Funds available to meet cash needs as necessary. As of June 30, 2019, and 2018, the Organization had \$250,000 of Board-designated cash reserves.

Designated as loan funds – Funds designated for loans via its revolving loan program. As of June 30 2019, and 2018, the Organization had \$442,920 and \$540,174, respectively, of funds designated for its revolving loan fund program.

- *Net Assets With Donor Restrictions* – Net assets subject to donor-imposed stipulations that will be met, either by actions of the Organization and/or the passage of time. See Note 7 for additional discussion.

BIG SKY ECONOMIC DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2019 and 2018

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (Continued)

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations. Expirations of restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time has elapsed) are reported as reclassifications between the applicable classes of net assets in the period in which the restrictions are satisfied.

Contributions

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

Support that is restricted by the donor is reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported on the statements of activities as net assets released from restrictions.

Use of Estimates

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

Tax Exempt Status

The Organization is exempt from federal and state income taxes under Internal Revenue Code §501(c)(3).

Allocation of Functional Expenses

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and benefits, which are allocated on the basis of estimates of time and effort. General operating expenses and occupancy expenses are allocated based on full-time equivalents.

BIG SKY ECONOMIC DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2019 and 2018

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Organization considers highly liquid investments with an original maturity of three months or less to be cash equivalents. The Organization maintains its cash deposits at various financial institutions whose deposits are insured by the Federal Deposit Insurance Corporation (FDIC) for deposits up to \$250,000. From time to time, certain bank accounts that are subject to limited FDIC coverage may exceed their insured limits. As of June 30, 2019, and 2018, the Organization's deposits exceeded the insured limits by \$1,938,863 and \$1,792,268, respectively.

Accounts Receivable

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

Contributions Receivable

Contributions receivable are recorded and revenue is recognized at the time unconditional promises to give are made. These balances are stated at their present value, and are due according to the terms of the related pledge agreement. Management considers all pledges to be fully collectible, therefore, no allowance for doubtful accounts is presented. Contributions receivable was \$44,500 and \$30,000 at June 30, 2019 and 2018, respectively.

Notes Receivable

Notes receivable consist of amounts due from businesses participating in the Organization's revolving loan program and the State Small Business Credit Initiative loan program. The terms of each note, including payment schedules and interest rates, are detailed in the corresponding agreement. Each note is in good standing if the obligor is remitting payments based on the contractual payment schedule. Otherwise, they are in default. Notes receivable are stated at unpaid balances, less an allowance for doubtful accounts. The Organization provides for losses on accounts receivable using the allowance method. The allowance is based on experience, third-party contracts, and other circumstances, which may affect the ability of businesses to meet their obligations for repayment.

Notes receivables are considered impaired if full principal payments are not received in accordance with the contractual terms. It is the Organization's policy to charge off uncollectible notes receivable when management determines the receivable will not be collected. Customers with payments outstanding 30 days past their scheduled date are

BIG SKY ECONOMIC DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2019 and 2018

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

considered delinquent. Management believes all loans outstanding at June 30, 2019 and 2018, are fully collectible, therefore, no allowance has been recorded. Interest on notes receivable is recognized over the term of the note and is calculated using the simple- interest method on principal amounts outstanding. Notes receivable in default status do not accrue interest.

In-kind Support from Related Party

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

Reclassifications

Certain amounts presented in the prior year have been reclassified to conform to current year financial statement presentation. The reclassifications have no impact on previously reported net assets or changes in net assets.

Recently Adopted Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2016-14, “*Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.*” The Organization adopted this standard retrospectively to include fiscal year 2018. The ASU amends the current reporting model of nonprofit organizations by consolidating temporarily and permanently restricted net assets into a single “with donor restrictions” category for each year presented. Additionally, the ASU requires additional disclosures on the liquidity and availability of financial resources.

Subsequent Events

Management has evaluated subsequent events through October 30, 2019 the date which the financial statements were available for issue.

NOTE 3. NOTES RECEIVABLE

Notes receivable consist of the following as of June 30, 2019 and 2018:

	Current Portion	Non-Current Portion	Total
<u>2019:</u>			
Revolving loan program	\$ 46,652	\$ 127,982	\$ 174,634
SSBCI loan program	126,448	800,788	927,236
	<u>\$ 173,100</u>	<u>\$ 928,770</u>	<u>\$ 1,101,870</u>
<u>2018:</u>			
Revolving loan program	\$ 78,487	\$ 256,185	\$ 334,672
SSBCI loan program	154,551	942,810	1,097,361
	<u>\$ 233,038</u>	<u>\$ 1,198,995</u>	<u>\$ 1,432,033</u>

BIG SKY ECONOMIC DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2019 and 2018

NOTE 3. NOTES RECEIVABLE (CONTINUED)

Revolving Loan Program

The Organization has established a revolving loan fund to provide low-interest loans to small businesses for start-up or expansion. The following is a summary of notes receivable as of June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
<u>Loan #1</u>		
Matures 8/1/2023, Interest Rate 6.50%	\$ 93,866	\$ 100,000
<u>Loan #2</u>		
Matures 06/01/21, Interest Rate 6.50%	-	78,577
<u>Loan #4</u>		
Matures 08/01/2018, Interest Rate 6.00%	716	8,080
<u>Loan #6</u>		
Matures 12/01/2020, Interest Rate 6.50%	39,614	54,355
<u>Loan #7</u>		
Matures 07/01/2021, Interest Rate 6.50%	40,438	54,172
<u>Loan #8</u>		
Matures 06/01/2021, Interest Rate 6.50%	-	39,488
Total notes receivable	174,634	334,672
Less current portion	(46,652)	(78,487)
Non-current portion	\$ 127,982	\$ 256,185

The annual note receivable requirements to maturity, as of June 30, 2019, for the revolving loan fund are as follows:

<u>Year Ending</u>	<u>Loan #1</u>	<u>Loan #4</u>	<u>Loan #6</u>	<u>Loan #7</u>	<u>Total</u>
2020	\$ 7,752	\$ 716	\$ 21,539	\$ 16,645	\$ 46,652
2021	8,272	-	18,075	17,760	44,107
2022	8,826	-	-	6,033	14,859
2023	9,417	-	-	-	9,417
2024	10,048	-	-	-	10,048
Thereafter	49,551	-	-	-	49,551
Total principal	93,866	716	39,614	40,438	174,634
Less current portion	(7,752)	(716)	(21,539)	(16,645)	(46,652)
Long-term portion	\$ 86,114	\$ -	\$ 18,075	\$ 23,793	\$ 127,982

BIG SKY ECONOMIC DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2019 and 2018

NOTE 3. NOTES RECEIVABLE (CONTINUED)

State Small Business Credit Initiative Loan Program

During 2012, the Organization partnered with local banks to lend funds to local businesses from funds obtained by the Organization through the State Small Business Credit Initiative. The following is a summary of notes receivable as of June 30, 2019 and 2018, related to the State Small Business Credit Initiative funds:

	<u>2019</u>	<u>2018</u>
<u>Loan #1</u>		
Matures 12/23/2022, Interest Rate 2.47%	\$ 106,739	\$ 134,705
<u>Loan #3</u>		
Matures 08/01/2018, Interest Rate 1.53%	-	15,785
<u>Loan #4</u>		
Matures 09/22/2021, Interest Rate 1.54%	125,825	178,079
<u>Loan #5</u>		
Matures 11/07/2022, Interest Rate 1.31%	29,938	37,949
<u>Loan #6</u>		
Matures 12/03/2027, Interest Rate 1.89%	163,186	177,963
<u>Loan #7</u>		
Matures 4/1/2035, Interest Rate 3.62%	409,440	432,452
<u>Loan #8</u>		
Matures 5/26/2020, Interest Rate 1.67%	-	23,570
<u>Loan #9</u>		
Matures 10/17/2027, Interest Rate 2.38%	<u>92,108</u>	<u>96,858</u>
Total notes receivable	927,236	1,097,361
Less current portion	<u>(126,448)</u>	<u>(154,551)</u>
Non-current portion	<u>\$ 800,788</u>	<u>\$ 942,810</u>

The annual note receivable requirements to maturity as of June 30, 2019, for the State Small Business Credit Initiative funds are as follows:

<u>Year Ending</u>	<u>Loan #1</u>	<u>Loan #4</u>	<u>Loan #5</u>	<u>Loan #6</u>	<u>Loan #7</u>	<u>Loan #9</u>	<u>Total</u>
2020	\$ 28,049	\$ 51,239	\$ 7,880	\$ 15,572	\$ 18,865	\$ 4,843	\$ 126,448
2021	28,749	52,034	7,984	15,869	19,559	4,959	129,154
2022	29,468	22,552	8,089	16,172	20,279	5,079	101,639
2023	20,473	-	5,985	16,480	21,025	5,201	69,164
2024	-	-	-	16,794	21,799	5,326	43,919
Thereafter	-	-	-	<u>82,299</u>	<u>307,913</u>	<u>66,700</u>	<u>456,912</u>
Total principal	106,739	125,825	29,938	163,186	409,440	92,108	927,236
Less current portion	<u>(28,049)</u>	<u>(51,239)</u>	<u>(7,880)</u>	<u>(15,572)</u>	<u>(18,865)</u>	<u>(4,843)</u>	<u>(126,448)</u>
Long-term portion	<u>\$ 78,690</u>	<u>\$ 74,586</u>	<u>\$ 22,058</u>	<u>\$ 147,614</u>	<u>\$ 390,575</u>	<u>\$ 87,265</u>	<u>\$ 800,788</u>

BIG SKY ECONOMIC DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2019 and 2018

NOTE 3. NOTES RECEIVABLE (CONTINUED)

Interest income for the RLF and SSBCI programs for the years ended June 30, 2019 and 2018, amounted to \$40,576 and \$46,303, respectively.

Credit Quality Indicators

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

Loan Loss Reserve

The Organization does have an established a loan loss reserve. No reserve is deemed necessary by management, as all accounts are in good standing and are considered minimal risk. Management, however, monitors each loan account on an ongoing basis for potential upcoming risks related to declining credit conditions.

NOTE 4. SMALL BUSINESS ADMINISTRATION LOAN PROGRAM

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

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

During 2012, the Organization received a State Small Business Credit Initiative Grant (SSBCI). Under this program, the Organization received grant funds from the State of Montana from which to provide loans to small businesses, with participation from local financial institutions. All SSBCI funds were required to be segregated into a separate restricted account, including all funds received from loan repayments received from small businesses. The grant was restricted specifically for this program and the related net assets were restricted until March 31, 2017. In April 2017, the State of Montana SSBCI Loan Committee determined that the

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NOTE 5. STATE SMALL BUSINESS CREDIT INITIATIVE LOAN PROGRAM AND GRANT (CONTINUED)

Organization had satisfied all the program requirements and released restrictions on 98% of the funds granted. The Organization remitted the remaining 2% to the State Tribal Economic Development Commission.

NOTE 6. LIQUIDITY AND AVAILABILITY OF RESOURCES

The Organization financial assets within one year of the balance sheet dates for general expenditures are as follows:

	<u>2019</u>	<u>2018</u>
Total assets at June 30,		\$3,603,821
Less:	\$3,470,899	
Prepaid expenses and non-current assets		
Financial assets available for expenditures	<u>933,637</u>	<u>1,241,495</u>
	2,537,262	2,362,326
Less:		
Donor-imposed restrictions	48,263	262,113
Board Designations:		
Liquidity reserves	250,000	250,000
Revolving loan funds	<u>442,920</u>	<u>540,174</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$1,796,079</u>	<u>\$1,310,039</u>

The Organization has a liquidity management policy to insure the availability of funds to meet its obligations as they become due. In addition to continual monitoring of budgeted revenues and expenses, the Organization has \$2,262,248 and \$2,237,871 in assets from its SSBCI loan program (see Note 5) held as cash or loans at June 30, 2019 and 2018, respectively, that are not restricted by donor stipulation or designated by Board resolution.

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NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2019 and 2018

NOTE 7. NET ASSETS

Net assets with donor purpose restrictions consisted of the following at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Private Donor Funding		
Billings Public Schools	\$ 17,000	\$ 80,000
BillingsNow (community visioning)	9,063	9,063
One Big Sky District (long-term development plan)	-	150,850
Opportunity Fund	<u>22,200</u>	<u>22,200</u>
	<u>\$ 48,263</u>	<u>\$ 262,113</u>

Net assets without donor restrictions consisted of the following at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Undesignated	\$ 2,478,710	\$ 2,408,526
Board-designated for cash reserves	250,000	250,000
Board-designated as loan funds	<u>442,920</u>	<u>540,174</u>
	<u>\$ 3,171,630</u>	<u>\$ 3,198,700</u>

Net assets of \$444,350 and \$72,187 were released from restrictions in 2019 and 2018, respectively by incurring expenses satisfying the restricted purposes specified by donors.

NOTE 8. RELATED PARTY TRANSACTIONS

In-Kind Donations

The Organization's employees are paid by the Authority, a related organization. A portion of these wages are considered an in-kind contribution from the Authority. The remainder is reimbursed by the Organization. For the years ended June 30, 2019 and 2018, the Organization paid \$491,677 and \$371,964, respectively, to the Authority for salaries and wages, insurance, and rent, of which \$163,958 and \$83,211 was reported as due to a related party in the accompanying statements of financial position of June 30, 2019 and 2018, respectively.

BIG SKY ECONOMIC DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2019 and 2018

NOTE 8. RELATED PARTY TRANSACTIONS (Continued)

The Organization was the recipient of donated in-kind wages, facilities, and services from the Authority for the years ended June 30, 2019 and 2018. In-kind support for each fiscal year was comprised of the following:

	<u>2019</u>	<u>2018</u>
Salaries and wages	\$209,198	\$ 170,088
Employer contributions	66,040	52,154
Insurance	1,042	4,120
Professional fees	23,981	18,463
Dues and subscriptions	11,244	-
Miscellaneous	-	1,120
Airline guarantee	-	18,113
Travel	-	9,339
Sponsorships	2,000	-
Telephone	6,364	-
Rent	13,833	9,248
Office expense	5,022	-
Other	<u>95</u>	<u>23,108</u>
	<u>\$ 338,819</u>	<u>\$ 305,753</u>

NOTE 9. OPERATING LEASE

The Organization occupies office space in Helena, Montana. Rent expense under this lease for the year ended June 30, 2019 amounted to \$28,312. Future minimum lease payments for the rent under this lease are \$28,404 and \$14,202 for fiscal years 2020 and 2021, respectively. Additionally, the Organization sub-leases space in Billings, Montana in the same building as Big Sky EDA. This sub-lease is on a month-to-month basis.

NOTE 10. DEVELOPMENT PLAN AGREEMENT

In July 2018, Big Sky EDC and Landmark Development Services, LLC (Landmark), entered into a Development Plan Agreement whereby Landmark agreed to develop a comprehensive economic and strategy master plan related to the development of properties located in an area of downtown Billings known as the One Big Sky District. Landmark identified catalyst projects and compiled financial pro forma data. During fiscal 2017 and 2018, Big Sky EDC and other civic organizations provided funding as follows:

BIG SKY ECONOMIC DEVELOPMENT CORPORATION
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(CONTINUED)
June 30, 2019 and 2018

NOTE 10. DEVELOPMENT PLAN AGREEMENT (CONTINUED)

City of Billings	\$100,000
Big Sky Economic Development Authority	50,000
Billings Clinic	25,000
Billings Chamber of Commerce	15,000
Billings Tourism Business Improvement District	15,000
Stockman Bank	9,000
First Interstate Bank	7,500
Other	<u>47,350</u>
	<u>\$268,850</u>

During fiscal 2019, Landmark and the Organization initiated a supplementary effort to initiate a state-wide legislative effort to create state-sponsored economic development incentives related to the afore-mentioned development plan. This effort was known as 406 Impact Districts. Big Sky EDC received donor restricted funds from the following organizations:

St. Vincent Healthcare	\$ 20,000
Billings Chamber of Commerce	20,000
Billings Tourism Business Improvement District	20,000
First Interstate Bank	1,250
Other	<u>1,500</u>
	<u>\$ 62,750</u>

The 406 Impact Districts effort did not have positive results as the Montana legislature did not pass any economic development legislation that would have provided economic incentives to One Big Sky District or other similar development efforts in Montana.

NOTE 11. SUBSEQUENT EVENT

In June, 2019, Big Sky EDC’s Board of Directors voted to provide up to \$500,000 of funding in support of Big Sky EDA’s purchase of a building in downtown Billings to host its future operations. This commitment is contingent upon Big Sky EDA receiving approximately \$2 million of additional funding via a US Economic Development Agency (US EDA) grant. As of October 2019, Big Sky EDA has not received final disposition regarding their US EDA request.