

**CITY OF COLUMBIA FALLS
FLATHEAD COUNTY, MONTANA**

FINANCIAL & COMPLIANCE REPORTS

FOR THE YEAR ENDED JUNE 30, 2016
(With Independent Auditor's Reports Thereon)

CITY OF COLUMBIA FALLS
Flathead County, Montana
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CITY OF COLUMBIA FALLS

Flathead County, Montana

Organization

Fiscal Year Ended June 30, 2016

Mayor.....	Donald W. Barnhart
City Council.....	Mike Shepard Darin Fisher Jenny Lovering John Piper Doug Karper Dave Petersen
City Manager.....	Susan Nicosia, CPA, MPA
Attorney.....	Justin Breck
Chief of Police.....	David Perry
City Treasurer.....	Todd Watkins
City Clerk.....	Barb Staaland
City Judge.....	Susan Gordon
Fire Chief/Marshall.....	Rick Hagen
Public Works Director.....	Grady Jenkins

CITY OF COLUMBIA FALLS, FLATHEAD COUNTY, MONTANA MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the report provides readers with a narrative overview and analysis of the financial activities of the City of Columbia Falls for the fiscal year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with the basic financial statements to enhance their understanding of the City's financial performance.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at June 30 by \$25,012,849 (net position). Of this amount, \$1,058,691, or approximately 4.2%, may be used to meet the City's ongoing obligations to citizens and creditors. The remainder includes \$19,142,302 in capital assets, net of related debt and \$4,811,856 restricted for future debt payments and future use.
- Total net position increased by \$202,110 from routine operations. Net position in governmental activities was restated by (\$4,953) to account for the change in account for the Flex Trust Fund and net position in business-type activities was restated by \$4,753 to correct Disposal Fee revenue in the prior year. The notes to the financial statements further describe the effect of recording these adjustments.
- As of June 30 the City's governmental funds reported combined ending fund balance as restated of \$3,286,983, an increase of \$166,653 over the prior year. Approximately 15% of this amount, \$494,415 is available for spending at the government's discretion (unassigned fund balance).
- The City completed the Safe Routes to Schools project with the installation of flashing school zone beacons in the amount of \$7,518.
- The City invested \$31,108 in park improvements. Irrigation was added to Welcome Park for \$7,348 and playground equipment was updated at Horine, Pinewood, and Marantette Parks for \$23,760.
- The City also completed the 2nd Ave W project between 9th Street and 11th Street. This included repaving and widening, added parallel parking and a sidewalk, and curb improvements for commercial development in the amount of \$168,443. Reconstruction also included a new water main, connections, and fire water service in the amount of \$70,841.
- The City continued the police patrol vehicle replacement program, purchasing two 2016 Police Interceptors for a combined total of \$70,061; \$35,827 and \$34,234 was expended to replace a 2013 Interceptor damaged in an accident at no fault of the officer.
- The City resurfaced 3rd Avenue, 7th Street, and 8th Street in the amount of \$79,678.
- The Water Fund purchased a 2016 Ford F-350 for \$28,038 and was equipped with a bumper and fold-away crane for \$17,855. The Water Fund also purchased a new Touchreader for \$8,760. The City completed upgrading the SCADA system, expending \$42,532 in the 2015-16 FY.

Management's Discussion and Analysis (continued)

- The Sewer Fund began construction of a new steel UV building, adding \$71,134 to Construction in Progress for the 15-16 FY. Streets began engineering for the repaving project on 8th Street E and 1st Ave E, adding \$8,372 to Construction in Progress for the 2015-16 FY.
- During the 2014-15 FY, the Public Works Department started two sewer main extensions on 3rd Ave. West and Van's Avenue and multiple water main upgrades, replacing all of the 2" galvanized steel mains throughout the City. During the 2014-15 FY, the City expended \$473,285 toward Construction in Progress. All of the projects were completed in the 2015-16 FY for an additional \$186,075 for sewer projects and \$608,766 for water projects.
- The Water Fund Operating income (loss) for the water enterprise was \$80,388 compared to \$46,503 for the prior year. Water debt was reduced by \$25,000. The water fund's net position increased by \$181,714 for the 2016 fiscal year.
- Operating income (loss) for the sewer enterprise was (\$122,409) compared to operating income (loss) of (\$67,615) for the prior year. Sewer debt was reduced by \$216,080. The sewer fund's net position decreased by \$79,071 for the 2016 fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The financial statements contain four components: 1) government-wide financial statements, 2) fund financial statements, 3) notes to the financial statements, and 4) budgetary comparisons.

1. Government-wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances in a manner similar to a private sector business.

The *statement of net position* (page 14) presents information on all of the City's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in the net position may serve as a useful indicator of whether the City's financial position is improving or deteriorating.

The *statement of activities* (page 15) presents information showing how the City's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of the related cash flows*. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in the future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*). Governmental activities include general government, public safety, public works, public health, culture and recreation, housing and community development, and debt service. The City has two business type activities – operation of a water utility and wastewater utility. The City charges a fee to customers to recover the cost of operating the utilities.

Management's Discussion and Analysis (continued)

The government-wide financial statements include not only the City's (known as the *primary government*), but also a legally separate component unit, the Fire Department Relief Association, for which the City is financially accountable. Financial information for the Fire Department Relief Association is reported separately from the financial information presented for the primary government.

2. Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Columbia Falls, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of The City of Columbia Falls can be divided into three categories: (a.) *governmental funds*, (b.) *proprietary funds* and (c.) *fiduciary funds*.

a. Governmental Funds. Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on the *near-term inflows and outflows of spendable resources, as well as on balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation between *governmental funds* and *governmental activities* view of financial position. These statements are found on pages 16 – 19.

The City of Columbia Falls maintains 17 individual governmental funds. Information is presented separately for the General Fund, Street Maintenance Fund, and Cedar Creek Trust Fund as they are major funds. Data from the other 14 funds are combined into a single aggregated presentation.

The City of Columbia Falls adopts annual appropriated budget for its governmental and proprietary funds. Schedules providing budgetary comparison for the General Fund and Major Funds are included as required supplementary information to demonstrate compliance with both the original and final budgets.

b. Proprietary Funds. The City of Columbia Falls operates two utilities, water and sewer, which are proprietary enterprise funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The proprietary fund statements provide detail information for the Water and Sewer Funds, which are classified as major enterprise funds. Data from the other two funds, Water Capital Expansion and Sewer Capital Expansion, are combined into a single aggregated presentation.

The basic proprietary fund financial statements can be found on pages 20 through 22 of this report.

Management’s Discussion and Analysis (continued)

c. **Fiduciary Funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not included in the government-wide financial statements because the resources of these funds are not available to support the City of Columbia Falls’ own operations.

The City of Columbia Falls has three administrative clearing funds for payroll, claims and flex funds that are included as agency funds in the basic fiduciary fund financial statement. The basic fiduciary fund financial statement can be found on page 23 of this report.

3. Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 24 through 57 of this report.

4. Other Information. “Required Supplementary Information,” pages 58 through 69, includes Other Post Employment Benefits Plan Schedule of Funding Progress, Pension funding schedules, and the General and major Special Revenue Fund budgetary comparison schedules.

CITY-WIDE FINANCIAL ANALYSIS

Net Position. As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. In this case, the City’s assets exceeded liabilities by \$25,012,849 at June 30.

The following table provides a summary comparison of the City’s governmental and business-type net assets for fiscal years 2015 and 2016.

**City of Columbia Falls
Net Position**

	Governmental Activities		Business-type Activities		Total	
	2014-2015	2015-2016	2014-2015	2015-2016	2014-2015	2015-2016
Assets						
Current and other assets	\$ 3,341,730	\$3,559,869	\$ 4,218,167	\$ 4,206,559	\$ 7,559,897	\$ 7,766,428
Capital assets	\$10,148,343	\$9,781,047	\$11,737,057	\$11,630,577	\$21,885,400	\$21,411,624
Total Assets	\$13,490,073	\$13,340,916	\$15,955,224	\$15,837,136	\$29,445,297	\$29,178,052
Deferred outflows of resources	\$ 97,203	\$ 114,225	\$ 37,083	\$ 40,993	\$ 134,286	\$ 155,218
Liabilities						
Current and other liabilities	\$ 325,977	\$ 393,304	\$ 465,736	\$ 381,585	\$ 791,713	\$ 774,889
Long-term liabilities	\$ 1,832,874	\$ 1,743,779	\$ 1,873,050	\$ 1,692,415	\$ 3,705,924	\$ 3,436,194
Total Liabilities	\$ 2,158,851	\$ 2,137,083	\$ 2,338,786	\$ 2,074,000	\$4,497,637	\$ 4,211,083
Deferred inflows of resources	\$ 196,169	\$ 90,550	\$ 74,838	\$ 18,787	\$ 271,007	\$ 109,337
Net Position						
Invested in capital assets net of related debt	\$ 9,155,681	\$ 9,005,757	\$10,001,946	\$10,136,545	\$19,157,627	\$19,142,302
Restricted	\$ 1,264,701	\$ 1,178,509	\$ 3,624,281	\$ 3,723,542	\$ 4,888,982	\$ 4,902,051
Unrestricted	\$ 811,873	\$ 1,043,242	\$ (47,544)	\$ (74,746)	\$ 764,329	\$ 968,496
Total Net Position	\$11,232,255	\$11,227,508	\$13,578,683	\$13,785,342	\$24,810,938	\$25,012,849

Management’s Discussion and Analysis (continued)

A significant portion of the City’s net position (76%) reflects its investment in capital assets, less any related debt used to acquire those assets that is still outstanding. These assets include land, buildings, machinery, and equipment, as well as infrastructure. Infrastructure assets include streets, sidewalks, water and sewer mains constructed by the city or constructed and donated by subdivision developers. Capital assets are used to provide services to citizens; consequently, they are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt would need to be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

An additional \$4,902,051 of the City’s net assets (20%) represents resources that are subject to external restrictions on how they may be used. Included in this category is a reserve for \$65,246 in the G. O. bond and SID debt service funds, \$479,912 for a long-term receivable in the Cedar Creek Trust Special Revenue Fund and other restrictions due to grant, donor or statutory provisions. Reserves have been established in the Water and Sewer funds for one year’s annual payment in the amount of \$127,255 and \$184,860, respectively. Additional Water and Sewer reserves are for Replacement and Depreciation and System Improvements, as required by bond indenture requirements. These reserves total \$212,041 in Water and \$373,245 in Sewer. The City also sets aside funds for future capital projects in Water and Sewer. As of June 30, 2016, these amounts were \$454,347 and \$812,349, respectively. The Water and Sewer Capital Expansion Fund Net Assets are restricted to fund expansion of the applicable systems. Those restricted net assets total \$1,559,445. The remaining balance of unrestricted assets, \$968,496 (4%) may be used to meet the City’s ongoing obligations to citizens and creditors.

At June 30, the City is able to report positive balances in all three categories of net position, both for the City as a whole, as well as for its separate governmental and business-type activities except for the business-type unrestricted net position. GASB 68 requires the City to report pension liabilities and related deferred inflows and outflows beginning with the 2015 fiscal year. Had these not been reported, unrestricted net position in the business-type activities would also be positive as in prior years.

Changes in Net Position. Governmental and Business-type activities increased the City’s net position by \$202,110 in 2016. The table below indicates the changes in net assets for governmental and business-type activities in 2016 and compares to prior year.

**City of Columbia Falls
Changes in Net Position**

	Governmental Activities		Business-type Activities		Total	
	2014-2015	2015-2016	2014-2015	2015-2016	2014-2015	2015-2016
Revenues						
Program revenues						
Charges for services	\$ 642,136	\$ 790,746	\$1,919,901	\$1,906,791	\$2,562,037	\$2,697,537
Operating grants and contributions	572,312	\$ 269,130			572,312	\$ 269,130
Capital grants and contributions	-	-	-		-	-
General revenues						
Property taxes	1,189,933	1,255,225			1,189,933	1,255,225
Intergovernmental revenue	678,782	695,117			678,782	695,117
Other revenues	378,334	302,068	41,650	45,916	419,984	347,984
Total revenues	\$ 3,461,497	\$3,312,286	\$1,961,551	\$1,952,707	\$5,423,048	\$5,264,994

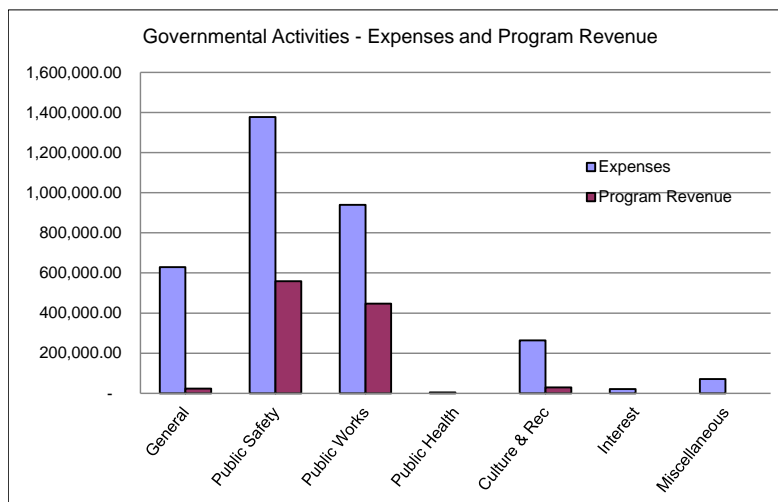
Management’s Discussion and Analysis (continued)

Expenses						
General government	\$ 568,165	\$ 629,718			\$ 568,165	\$ 629,718
Public safety	1,405,486	1,377,129			1,405,486	1,377,129
Public works	1,031,600	939,637			1,031,600	939,636
Public health	4,250	4,250			4,250	4,250
Culture and recreation	256,025	268,484			256,025	268,484
Housing and community Development	279,330				279,330	
Conservation of Natural Resources						
Interest on long term debt	23,302	21,460			23,302	21,460
Miscellaneous	65,793	71,403			65,793	71,403
Unallocated. costs	(3,288)	-			(3,288)	-
Water			667,517	631,167	667,517	631,167
Sewer			1,084,494	1,119,635	1,084,494	1,119,634
Total expenses	\$3,630,663	\$3,312,081	\$1,752,011	1,750,802	\$5,382,674	\$5,062,881
Change in Net Position	(169,166)	205	209,540	201,905	40,374	202,112
Net Position-Beginning	\$12,468,254	\$11,232,256	\$13,776,140	13,578,683	\$26,244,394	24,810,939
Restatement	(1,066,832)	(4,953)	(406,997)	4,753	(1,473,829)	(200)
Net Position-Ending	\$11,232,256	\$11,227,508	\$13,578,683	13,785,341	\$24,810,939	25,012,849

Governmental Activities. Governmental activities in fiscal year 2016 increased the City’s net position by \$205 with revenues totaling \$3.3 million and expenditures totaling \$3.3 million. The key elements of the variance between the years are:

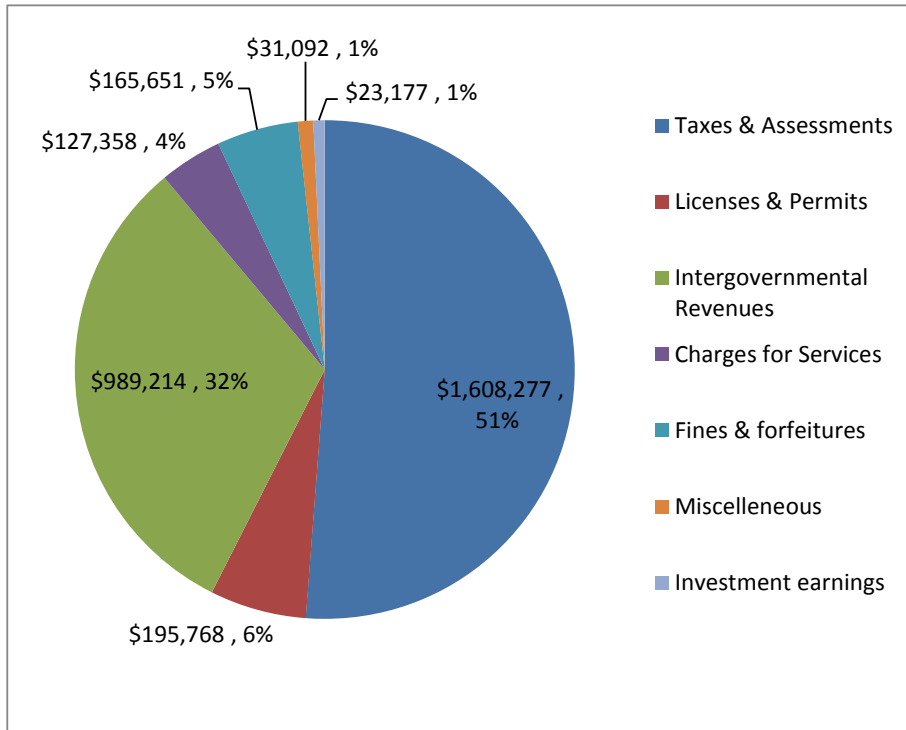
- The City did not have any significant state or federal grants during the 2016 FY.
- The City did not record any contributed capital or capital grants in the 2016 FY. The City did invest \$402,652 in capital assets from City resources as outlined in the beginning of this report.
- The remaining portion represents normal variances in revenues and expenditures.

This chart shows the extent to which the City relies on the general revenues, such as Property Tax Revenues and Unrestricted State Revenues, to fund the governmental activities:



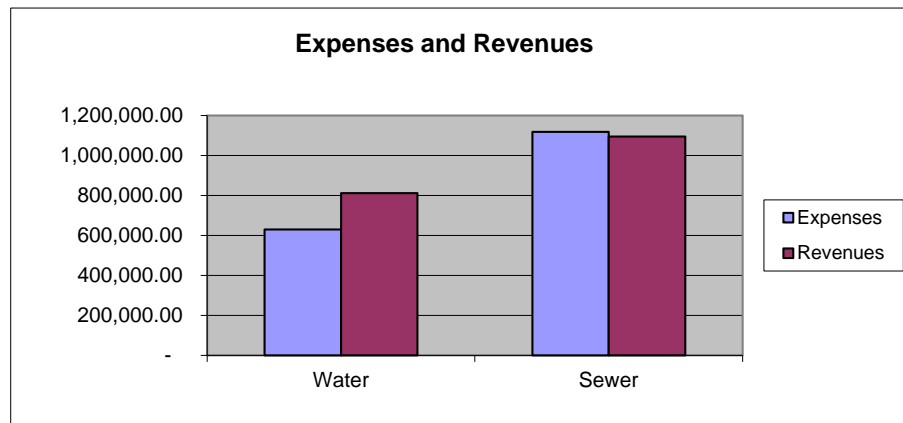
This chart shows the Revenues by Source for the Governmental Activities:

Management’s Discussion and Analysis (continued)



Taxes & Assessments revenues experienced a 2.49% decrease over the prior year of \$41,152, the most significant decrease was in the Intergovernmental Revenues with a total decrease of \$245,586 or 19.89%. The City’s revenue fluctuations are significantly impacted by one time grants. Other revenues that decreased were Charges for Services of \$10,756 (7.79%) and Miscellaneous Revenues decreased by 75% for a total of \$93,846. Revenues increased in License and Permits by \$11,225 (6.08%), Fines and Forfeitures increased by \$11,994 or 7.81% and Investment Earnings increased by \$9,101 or 64.66% due to better interest rates.

Business-type Activities. The City’s business-type activities, Water and Sewer, increased the City’s net position in 2016 by \$201,905. Key elements of the increase is largely due to the increase in residential and commercial building activity resulting in an increase in the sale of meters and the collection of plant investment fees for both Water and Sewer.



FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City of Columbia Falls uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds Overview

The focus of City governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the City's net resources available for discretionary use as it represents the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party or the City itself.

As of the end of 2016, the combined ending fund balances of City governmental funds was \$3,286,983, an increase of \$171,606 over the prior year. Of this amount, \$479,912, or 15% is not in spendable form because it represents a long-term receivable in the Cedar Creek Trust Fund. \$1,088,315, 33%, is restricted to indicate that constraints placed on the use of resources is externally imposed or imposed by law because assets are limited by specific grant agreements, assets are limited by state law or specific voter approved debt covenants. \$578,557, 18%, represents a cash reserve in the General fund to provide liquidity until tax revenue is received in December. Additionally, \$601,812, 18%, represents funds committed to future capital projects. The Cedar Creek Trust has an assigned balance of \$43,972. The unassigned fund balance is \$494,415, 15% total ending fund balance, all of which is within the General Fund.

The General Fund is the chief operating fund of the City. At June 30, the unassigned fund balance was \$494,415, committed fund balance was \$578,557 and restricted by donors was \$233 for a total fund balance of \$1,073,205. As a measure of the General Fund's liquidity, it is useful to compare both unassigned fund balance and total fund balance to total General Fund expenditures/other financing uses. Unassigned fund balance represents approximately 21% of the total General Fund expenditures and other financing uses while total fund balance represents approximately 46% of that same amount.

The City of Columbia Falls has three major governmental funds: the General Fund, Street Maintenance Fund and Cedar Creek Trust Fund.

1. **General Fund.** This is the primary operating fund of the City of Columbia Falls government. It accounts for many of the City's general and administrative services, such as legislative, financial, legal, police, fire and parks.
2. **Street Maintenance Fund.** This special revenue fund accounts for the special maintenance assessment charged for the direct street, alley and sidewalk operational and maintenance costs including, but not limited to, snow removal, street sweeping, and minor and major repairs. The street maintenance assessment is set each year by the City Council pursuant to state statute.
3. **Cedar Creek Trust Fund.** This special revenue fund was created by Resolution adopted by the City of Columbia Falls Council. Per the trust document, funds can be used for land or building purchases benefiting the citizens of Columbia Falls, as well as loans of the principal or interest where a benefit would be realized by the citizens. Principal can only be spent or loaned by the Council by consent of a minimum of five of the seven members.

Management’s Discussion and Analysis (continued)

Proprietary Funds Overview

The City’s proprietary fund statements provide the same type of information found in the government-wide statements, but in more detail.

The City has two major enterprise-type proprietary funds, the Water Fund and Sewer Fund.

The Water Fund unrestricted net position was (\$62,774) as of June 30, 2016. Investment in capital, net of related debt is \$3,905,520 or 84% of total net position. These assets are acquired through the purchase of equipment, city construction and the donation of constructed infrastructure by subdivision developers. The Water Fund received \$727,116 from customers. Total operations resulted in a cash increase of \$166,175. Restricted net position accounts are maintained for future system expansion, replacement of capital assets, and one year’s debt payment.

The Sewer Fund unrestricted net position was (\$11,972) as of June 30, 2016. Investment in capital, net of related debt is \$6,231,025 or 82% of total net position. These assets are typically acquired through the purchase of equipment, city construction and the donation of constructed infrastructure by subdivision developers. The Sewer Fund received \$981,436 from its customers. Total operations resulted in a cash increase for the year of \$424,773. Restricted net position accounts are maintained for future system expansion, replacement of capital assets, and one year’s debt payment.

GENERAL FUND BUDGETARY HIGHLIGHTS

The City’s budget is prepared according to Montana Code 7-6-4020. The most significant budgeted fund is the General Fund.

In September of 2015, the City Council appropriated \$ 2,868,541 for General Fund expenditures. The budget anticipated using \$514,875 of fund balance.

2015-2016 General Fund Budget

	Final Budget	Actual
Fund Balance Carryover for appropriation	\$ 514,875	
Revenue and other financing sources	2,353,666	2,337,952
Expenditures and other financing uses	(2,868,541)	(2,351,642)
Available for fiscal year 2016-2017	0	(13,690)

Actual revenues and other financing sources came in less than 1% of anticipated with a difference of only \$15,714; and actual expenditures were \$516,899 (18%) less than anticipated, mainly due to savings on contracted services for special planning, litigation services, facility repairs, and termination pay savings. Additionally, Facilities did not purchase the planned \$15,000 fire alarm system and the sidewalk on Railroad Street was also delayed, resulting in budget savings. The operating increase in cash was \$27,516.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. The City of Columbia Falls’ investment in capital assets for its governmental and business type activities as of June 30, 2016 totals \$21,411,624 (net of accumulated depreciation). The

Management's Discussion and Analysis (continued)

City's capital investment includes all land, buildings, machinery and equipment, and infrastructure. The City's asset capitalization is \$5,000 for machinery and equipment and other capital improvements. The depreciation of capital assets is reflected in the various governmental and business-type expense activities. The City of Columbia Falls depreciates its infrastructure, and the expense of depreciation is reflected in public works activities and in business activities for infrastructure associated with water and sewer lines.

Major capital asset events during the current fiscal year included the following:

- Completed the 2nd Ave W Street reconstruction project expending a total of \$239,283.61. The City also resurfaced 3rd Ave, 7th, and 8th Streets for \$79,678.
- The Water and Sewer Funds completed the SCADA project for an additional \$42,532.23, and completed the sewer and water main extension projects for a total of \$318,503.07.
- The Police Department purchased two 2016 Interceptors for \$35,827.09 and \$34,233.94. The Water Fund purchased a 2016 Ford with a bumper and foldaway crane for total of \$45,893.34. A Touchreader was also purchased by the Water Fund in the amount of \$8,760.42.
- The Sewer Fund paid \$71,134.30 in Construction in Progress for beginning construction of a new steel UV building.
- The City expended \$23,760 for updated playground equipment and \$7,348 for park irrigation.
- Completed the Safe Routes to Schools project by adding a crosswalk and flashing beacons for \$7,518.46.

Long-term debt. The City's general obligation long term debt was incurred for the construction of the municipal pool in 1999 and street improvements in 2007. Voters approved the \$1.1 million Street Construction Project to be repaid with a 20-year debt service levy. The City used all but \$33,339 of this authority through the completion of the project in 2011. The City borrowed \$364,449 from the Intercap Program to pay for the remaining Street Construction project in 2012. The City borrowed \$115,365 in 2013 to pay for the City's share of the Fire Apparatus. Revenue bond long term debt issues as of the end of the fiscal year are reflected in the Water and Sewer Fund. The Sewer Fund borrowed \$124,625 from Intercap to pay for the new Camel Jet Rodder in 2012. The Water and Sewer revenue bonds were refunded in November 2012 primarily to reduce the interest rate on the outstanding issues. The City retired \$384,081 of governmental and business-type debt and issued no new debt during the 2016 FY. Additional information on The City of Columbia Falls' long-term debt can be found in the Notes to the Financial Statement.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of The City of Columbia Falls' finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Susan M. Nicosia, City Manager, 130 6th Street West, Room A, Columbia Falls, MT 59912.

Doyle & Associates, P.C.

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INDEPENDENT AUDITOR'S REPORT

Mayor and City Council
City of Columbia Falls
Flathead County
Columbia Falls, Montana

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Columbia Falls, Flathead County, Montana (the "City") as of and for the year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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 opinions on these financial statements based on our audit. 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 from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to on the previous page present fairly, in all material respects, the respective financial position of the governmental activities, the business activities, each major fund, and aggregate remaining fund information of the City of Columbia Falls as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 2 through 11, Schedule of Other Post Employment Benefits Plan Funding Progress on page 58, budgetary comparison information on pages 59 through 61, and Schedule of City's Proportionate Share of Net Pension Liability and Contributions on pages 62 through 69 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 31, 2017 on our consideration of the City of Columbia Falls' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Columbia Falls' internal control over financial reporting and compliance.

Dafe & Associates, P.C.

Lolo, Montana
July 31, 2017

CITY OF COLUMBIA FALLS, FLATHEAD COUNTY, MONTANA

STATEMENT OF NET POSITION
JUNE 30, 2016

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	2016 Total	Fire Department Relief Association
<u>Assets</u>				
Current assets				
Cash and Cash Equivalents	\$ 1,089,729	\$ 349,436	\$ 1,439,165	\$ 454,525
Taxes and Assessments Receivable	126,780	-	126,780	-
Accounts/Other Receivables	39,032	146,493	185,525	-
Loan Receivable	39,941	-	39,941	-
Internal Balances	(68,388)	68,388	-	-
Due from Other Governments	165,158	-	165,158	-
Total Current Assets	<u>1,392,252</u>	<u>564,317</u>	<u>1,956,569</u>	<u>454,525</u>
Non-current Assets				
Restricted Cash	1,727,646	3,642,242	5,369,888	-
Loan Receivable	439,971	-	439,971	-
Capital Assets - Net	9,781,048	11,630,576	21,411,624	-
Total Non-current Assets	<u>11,948,665</u>	<u>15,272,818</u>	<u>27,221,483</u>	<u>-</u>
Total Assets	<u>13,340,917</u>	<u>15,837,135</u>	<u>29,178,052</u>	<u>454,525</u>
<u>Deferred Outflows of Resources</u>				
Contributions to Pension Plans	114,225	40,993	155,218	-
Total Assets and Deferred Outflows	<u>13,455,142</u>	<u>15,878,128</u>	<u>29,333,270</u>	<u>454,525</u>
<u>Liabilities</u>				
Current liabilities				
Accounts Payable and Accrued Expenses	169,553	94,976	264,529	-
Compensated Absences due within one year	76,384	42,215	118,599	-
Current Portion of Long-Term Debt	138,367	244,394	382,761	-
Total Current Liabilities	<u>384,304</u>	<u>381,585</u>	<u>765,889</u>	<u>-</u>
Non-current Liabilities				
Deposits Payable	-	11,151	11,151	-
Compensated Absences	81,185	22,582	103,767	-
Long-Term Debt	636,924	1,249,638	1,886,562	-
Net Pension Liability	1,034,671	409,044	1,443,715	-
Total Non-current Liabilities	<u>1,752,780</u>	<u>1,692,415</u>	<u>3,445,195</u>	<u>-</u>
Total Liabilities	<u>2,137,084</u>	<u>2,074,000</u>	<u>4,211,084</u>	<u>-</u>
<u>Deferred Inflows of Resources</u>				
Pension Deferrals	90,550	18,787	109,337	-
Total Liabilities and Deferred Inflows	<u>2,227,634</u>	<u>2,092,787</u>	<u>4,320,421</u>	<u>-</u>
<u>Net Position</u>				
Net Investment in Capital Assets	9,005,757	10,136,545	19,142,302	-
Restricted	1,178,509	3,723,542	4,902,051	-
Unrestricted	1,043,242	(74,746)	968,496	454,525
Total Net Position	<u>\$ 11,227,508</u>	<u>\$ 13,785,341</u>	<u>\$ 25,012,849</u>	<u>\$ 454,525</u>

The accompanying notes are an integral part of these financial statements.

CITY OF COLUMBIA FALLS, FLATHEAD COUNTY, MONTANA

STATEMENT OF ACTIVITIES
FISCAL YEAR ENDING JUNE 30, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Unit Fire Department Relief Association
		Charges for Services	Operating Grants and Contributions	Capital Grants & Contributions	Governmental Activities	Primary Government Business-Type Activities	2016 Total	
Primary government:								
Governmental activities:								
General government	\$ 629,718	\$ 15,559	\$ 8,236	\$ -	\$ (605,923)		\$ (605,923)	
Public safety	1,377,129	394,479	164,504	-	(818,146)		(818,146)	
Public works	939,637	352,304	94,985	-	(492,348)		(492,348)	
Public health	4,250	-	-	-	(4,250)		(4,250)	
Culture and recreation	268,484	28,404	1,406	-	(238,674)		(238,674)	
Interest expense	21,460	-	-	-	(21,460)		(21,460)	
Miscellaneous expense	71,403	-	-	-	(71,403)		(71,403)	
Total governmental activities	<u>3,312,081</u>	<u>790,746</u>	<u>269,131</u>	<u>-</u>	<u>(2,252,204)</u>	<u>-</u>	<u>(2,252,204)</u>	<u>-</u>
Business-type activities:								
Water	631,167	812,281				181,114	181,114	
Sewer	1,119,635	1,094,510				(25,125)	(25,125)	
Total business-type activities	<u>1,750,802</u>	<u>1,906,791</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>155,989</u>	<u>155,989</u>	<u>-</u>
Total primary government	<u>\$ 5,062,883</u>	<u>\$ 2,697,537</u>	<u>\$ 269,131</u>	<u>\$ -</u>	<u>(2,252,204)</u>	<u>155,989</u>	<u>(2,096,215)</u>	<u>-</u>
Component Unit:								
Fire Department Relief Association	<u>\$ 57,536</u>							<u>(57,536)</u>
General Revenues:								
Property taxes					1,255,225	-	1,255,225	74,389
Licenses and permits					69,144	-	69,144	-
Unrestricted Federal/State shared revenues					695,117	-	695,117	16,175
Unrestricted grants and contributions					-	15,523	15,523	-
Unrestricted investment earnings					23,146	26,860	50,006	1,363
Miscellaneous					6,064	3,533	9,597	-
Gain (Loss) on sale of capital assets					203,713	-	203,713	-
Total general revenues					<u>2,252,409</u>	<u>45,916</u>	<u>2,298,325</u>	<u>91,927</u>
Change in net position					205	201,905	202,110	34,391
Total net position - July 1, 2015 as previously reported					11,232,256	13,578,683	24,810,939	420,134
Prior period adjustment					(4,953)	4,753	(200)	-
Total net position - June 30, 2016					<u>\$ 11,227,508</u>	<u>\$ 13,785,341</u>	<u>\$ 25,012,849</u>	<u>\$ 454,525</u>

The accompanying notes are an integral part of these financial statements.

CITY OF COLUMBIA FALLS, FLATHEAD COUNTY, MONTANA

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General	Street Maintenance	Cedar Creek Trust		
<u>Assets</u>					
Current assets:					
Cash and Cash Equivalents	\$ 525,901	\$ 87,040	\$ 43,972	\$ 432,816	\$ 1,089,729
Property Taxes Receivable	36,587	6,549	-	83,645	126,781
Accounts/Other Receivables	39,032	-	-	-	39,032
Loan Receivable	-	-	39,941	-	39,941
Due from Other Governments	115,402	21,784	-	27,973	165,159
Total Current Assets	<u>716,922</u>	<u>115,373</u>	<u>83,913</u>	<u>544,434</u>	<u>1,460,642</u>
Non-current assets:					
Restricted Assets:					
Cash and Cash Equivalents	578,790	133,427	483,918	531,511	1,727,646
Loan Receivable	-	-	439,971	-	439,971
Total Non-current assets	<u>578,790</u>	<u>133,427</u>	<u>923,889</u>	<u>531,511</u>	<u>2,167,617</u>
Total Assets	<u>\$ 1,295,712</u>	<u>\$ 248,800</u>	<u>\$ 1,007,802</u>	<u>\$ 1,075,945</u>	<u>\$ 3,628,259</u>
<u>Liabilities:</u>					
Current liabilities					
Accounts Payable	\$ 37,027	\$ 4,173	\$ -	\$ 15,386	\$ 56,586
Other Accrued Payables	103,951	8,413	-	603	112,967
Total Liabilities	<u>140,978</u>	<u>12,586</u>	<u>-</u>	<u>15,989</u>	<u>169,553</u>
Deferred Inflows of Resources:					
Deferred Inflows of Resources	44,942	-	-	-	44,942
Deferred Inflows of Tax Revenues	36,587	6,549	-	83,645	126,781
Total Deferred Inflows of Resources	<u>81,529</u>	<u>6,549</u>	<u>-</u>	<u>83,645</u>	<u>171,723</u>
<u>Fund Balance:</u>					
Non-Spendable	-	-	479,912	-	479,912
Restricted	233	229,665	483,918	374,499	1,088,315
Assigned	-	-	43,972	-	43,972
Committed	578,557	-	-	601,812	1,180,369
Un-Assigned	494,415	-	-	-	494,415
Total Fund Balance	<u>1,073,205</u>	<u>229,665</u>	<u>1,007,802</u>	<u>976,311</u>	<u>3,286,983</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 1,295,712</u>	<u>\$ 248,800</u>	<u>\$ 1,007,802</u>	<u>\$ 1,075,945</u>	<u>\$ 3,628,259</u>

The accompanying notes are an integral part of these financial statements.

CITY OF COLUMBIA FALLS, FLATHEAD COUNTY, MONTANA

RECONCILIATION OF BALANCE SHEET GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION

JUNE 30, 2016

Fund balance as reported in the governmental fund statement		\$	3,286,983
Add assets not reported in the governmental funds statements:			
Capital assets	17,603,427		
Less accumulated depreciation	<u>(7,822,380)</u>		9,781,047
Less liabilities not reported in the governmental fund statements:			
Bond and notes payable	(775,290)		
Advance from other Fund	(68,388)		
Compensated absences	(157,569)		
Net Pension Liability	<u>(1,034,671)</u>		(2,035,918)
Deferred inflows for City Court contracts receivable recognized as revenue in the government-wide statements			39,032
Deferred inflows for property taxes and special assessments recognized as revenue in the government-wide statements			126,780
Deferred inflows for City licenses and fees recognized as as revenue in the government-wide statements.			5,909
Deferred outflows and inflows related to pension liabilities which are not receivable or payable in the current period, therefore not reported in the fund financial statements.			
Deferred Outflows			114,225
Deferred Inflows			<u>(90,550)</u>
Net position as reported in the government-wide statement of net position		\$	<u>11,227,508</u>

The accompanying notes are an integral part of these financial statements.

CITY OF COLUMBIA FALLS, FLATHEAD COUNTY, MONTANA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FISCAL YEAR ENDING JUNE 30, 2016

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General	Street Maintenance	Cedar Creek Trust		
<u>Revenues:</u>					
Property Taxes/Assessments	\$ 989,553	\$ 300,364	\$ -	\$ 318,360	\$ 1,608,277
Licenses and Permits	69,144	-	-	126,624	195,768
Intergovernmental	896,773	-	-	92,441	989,214
Charges for Services	126,158	1,200	-	-	127,358
Fines and Forfeitures	161,217	-	-	4,434	165,651
Miscellaneous	3,571	33	-	27,488	31,092
Investment Earnings	5,828	1,011	9,522	6,817	23,178
Total Revenues	\$ 2,252,244	\$ 302,608	\$ 9,522	\$ 576,164	\$ 3,140,538
<u>Expenditures:</u>					
General Government	567,925	-	14,159	4,434	586,518
Public Safety	1,282,703	-	-	106,033	1,388,736
Public Works	9,462	268,370	-	103,719	381,551
Public Health	4,250	-	-	-	4,250
Culture and Recreation	186,379	-	-	-	186,379
Debt Service					-
Principal	11,246	-	-	137,736	148,982
Interest	1,062	-	-	20,397	21,459
Capital Outlay	14,866	8,372	-	379,413	402,651
Miscellaneous	70,546	-	-	860	71,406
Total Expenditures	2,148,439	276,742	14,159	752,592	3,191,932
Excess of (Deficiency of) Revenues over Expenditures	103,805	25,866	(4,637)	(176,428)	(51,394)
<u>Other Sources (Uses) of Funds:</u>					
Proceeds from sale of capital assets	-	-	223,000	-	223,000
Transfers	(117,496)	27,681	-	89,815	-
Total Other Financing Sources (Uses)	(117,496)	27,681	223,000	89,815	223,000
Change in Fund Balance	(13,691)	53,547	218,363	(86,613)	171,606
<u>Fund Balance</u>					
Beginning of the Year	1,091,849	176,118	789,439	1,062,924	3,120,330
Prior Period Adjustment	(4,953)	-	-	-	(4,953)
End of the Year	\$ 1,073,205	\$ 229,665	\$ 1,007,802	\$ 976,311	\$ 3,286,983

The accompanying notes are an integral part of these financial statements.

CITY OF COLUMBIA FALLS, FLATHEAD COUNTY, MONTANA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FISCAL YEAR ENDING JUNE 30, 2016

Changes in fund balances as reported in the governmental funds statement	\$	171,606
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:		
Capital assets purchased		402,651
Depreciation Expense		(750,660)
Gain or loss on the sale or disposal of capital assets is recognized in the Statement of Activities. The fund financial statements only recognize the proceeds from the sale of capital assets:		
Gain (loss) on the disposal of capital assets		203,713
Proceeds from the sale of capital assets		(223,000)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the fund financial statements:		
Pension contributions from State of Montana		(22,308)
Taxes and assessments receivable		(5,677)
Governmental funds report notes and loans receivable disbursements as expenditures and/or principal loan payments as revenue but these are not reported as revenues and expenses on the Statement of Activities.		
Notes and loans receivable - principal payments		(3,979)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term debt in the Statement of Net Position:		
Long-term debt principal payments		148,983
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental fund financial statements:		
Accrued compensated absences		30,729
Pension accruals		48,147
Changes in net position on the statement of activities	\$	205

The accompanying notes are an integral part of these financial statements.

CITY OF COLUMBIA FALLS, FLATHEAD COUNTY OF MONTANA

STATEMENT OF NET POSITION
 PROPRIETARY FUNDS
 JUNE 30, 2016

	Major Enterprise Funds		Nonmajor Enterprise Funds	Totals
	Water	Sewer		
<u>Assets</u>				
Current assets:				
Cash and Cash Equivalents	\$ 280,765	\$ 68,672	\$ -	\$ 349,437
Accounts Receivable	54,109	81,934	10,449	146,492
Total Current Assets	<u>334,874</u>	<u>150,606</u>	<u>10,449</u>	<u>495,929</u>
Non-current Assets:				
Restricted Assets:				
Cash and Cash Equivalents	593,355	1,499,890	1,548,996	3,642,241
Advances to Other Funds	43,033	25,355	-	68,388
Capital Assets (net of accumulated depreciation)	4,158,520	7,472,057	-	11,630,577
Total Non-current Assets	<u>4,794,908</u>	<u>8,997,302</u>	<u>1,548,996</u>	<u>15,341,206</u>
Total Assets	<u>5,129,782</u>	<u>9,147,908</u>	<u>1,559,445</u>	<u>15,837,135</u>
<u>Deferred Outflows of Resources</u>				
Pension Plan Deferrals	17,398	23,595	-	40,993
Total Assets and Deferred Outflows	<u>5,147,180</u>	<u>9,171,503</u>	<u>1,559,445</u>	<u>15,878,128</u>
<u>Liabilities:</u>				
Current liabilities				
Accounts Payable and Accrued Expenses	39,438	55,538	-	94,976
Current Portion of Compensated Absences	17,568	24,647	-	42,215
Current Portion of Long-term Debt	26,000	218,394	-	244,394
Total Current Liabilities	<u>83,006</u>	<u>298,579</u>	<u>-</u>	<u>381,585</u>
Non-current Liabilities				
Deposits Payable	11,150	-	-	11,150
Compensated Absences	8,258	14,324	-	22,582
Long-Term Debt	227,000	1,022,638	-	1,249,638
Net Pension Liability	173,612	235,433	-	409,045
Total Non-current Liabilities	<u>420,020</u>	<u>1,272,395</u>	<u>-</u>	<u>1,692,415</u>
Total Liabilities	<u>503,026</u>	<u>1,570,974</u>	<u>-</u>	<u>2,074,000</u>
<u>Deferred Inflows of Resources</u>				
Deferred Inflows of Resources	7,765	11,022	-	18,787
Total Liabilities and Deferred Inflows	<u>510,791</u>	<u>1,581,996</u>	<u>-</u>	<u>2,092,787</u>
<u>Net Position</u>				
Net Investment in Capital Assets	3,905,520	6,231,025	-	10,136,545
Restricted for:				
Debt Service	127,255	184,860	-	312,115
Replacement/Depreciation	212,041	373,245	-	585,286
System Improvements and Expansion	454,347	812,349	1,559,445	2,826,141
Unrestricted	(62,774)	(11,972)	-	(74,746)
Total Net Position	<u>\$ 4,636,389</u>	<u>\$ 7,589,507</u>	<u>\$ 1,559,445</u>	<u>\$ 13,785,341</u>

The accompanying notes are an integral part of these financial statements.

CITY OF COLUMBIA FALLS, FLATHEAD COUNTY, MONTANA
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FISCAL YEAR ENDING JUNE 30, 2016

	Major Enterprise Funds		Nonmajor Enterprise Funds	Totals
	Water	Sewer		
<u>Operating revenues</u>				
Charges for Services	\$ 700,804	\$ 965,292	\$ 240,695	\$ 1,906,791
Special Assessments	2,217	1,316	-	3,533
Miscellaneous Revenues	2,413	2,839	-	5,252
Total Operating Revenues	<u>705,434</u>	<u>969,447</u>	<u>240,695</u>	<u>1,915,576</u>
<u>Operating expenses:</u>				
Personal Services	240,963	320,423	-	561,386
Supplies	87,964	95,033	-	182,997
Purchased Services	118,061	147,857	-	265,918
Fixed Charges	8,372	24,229	-	32,601
Bad Debt	601	951	-	1,552
Depreciation	169,085	503,363	-	672,448
Total Operating Expenses	<u>625,046</u>	<u>1,091,856</u>	<u>-</u>	<u>1,716,902</u>
Operating Income (Loss)	<u>80,388</u>	<u>(122,409)</u>	<u>240,695</u>	<u>198,674</u>
<u>Nonoperating Revenues (Expenses):</u>				
Interest Revenue	5,636	10,238	10,986	26,860
Contributions and Donations	4,391	5,879	-	10,270
Debt Service Interest Expense	(6,120)	(27,779)	-	(33,899)
Total Nonoperating Revenues (Expenses)	<u>3,907</u>	<u>(11,662)</u>	<u>10,986</u>	<u>3,231</u>
Change in Net Position before Transfers	84,295	(134,071)	251,681	201,905
<u>Transfers:</u>				
Transfers In (Out)	<u>97,420</u>	<u>55,000</u>	<u>(152,420)</u>	<u>-</u>
Change in Net Position	181,715	(79,071)	99,261	201,905
Total Net Position - July 1, 2015	4,454,674	7,663,825	1,460,184	13,578,683
Prior Period Adjustment	-	4,753	-	4,753
Total Net Position - June 30, 2016	<u>\$ 4,636,389</u>	<u>\$ 7,589,507</u>	<u>\$ 1,559,445</u>	<u>\$ 13,785,341</u>

The accompanying notes are an integral part of these financial statements.

CITY OF COLUMBIA FALLS, FLATHEAD COUNTY, MONTANA

COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES
FISCAL YEAR ENDING JUNE 30, 2016

	Business-Type Activities		Nonmajor Enterprise Funds	Totals
	Water	Sewer		
<u>Cash flows from operating activities:</u>				
Cash received from customers	\$ 727,116	\$ 981,436	\$ 246,672	\$ 1,955,224
Cash payments to suppliers for goods and services	(315,365)	(231,866)	-	(547,231)
Cash payments to employees and professionals	(245,576)	(324,797)	-	(570,373)
Net cash provided by operating activities	<u>166,175</u>	<u>424,773</u>	<u>246,672</u>	<u>837,620</u>
<u>Cash flows from noncapital financing activities:</u>				
Advances from (to) other funds	3,754	2,228	-	5,982
Transfers from (to) other funds	98,092	55,000	(153,092)	-
Net cash (used for) provided by noncapital financing activities	<u>101,846</u>	<u>57,228</u>	<u>(153,092)</u>	<u>5,982</u>
<u>Cash flows from capital and related financing activities:</u>				
Purchases/construction of capital assets	(392,340)	(173,627)	-	(565,967)
Principal paid on capital debt	(25,000)	(216,080)	-	(241,080)
Interest paid on capital debt	(6,120)	(27,779)	-	(33,899)
Net cash used for capital and related financing activities	<u>(423,460)</u>	<u>(417,486)</u>	<u>-</u>	<u>(840,946)</u>
<u>Cash flows from investing activities</u>				
Interest on investments	6,083	10,848	11,658	28,589
Net cash provided by investing activities	<u>6,083</u>	<u>10,848</u>	<u>11,658</u>	<u>28,589</u>
Net (decrease) increase in cash and cash equivalents	(149,356)	75,363	105,238	31,245
Cash and cash equivalents at July 1, 2015	1,023,476	1,493,199	1,443,758	3,960,433
Cash and cash equivalents at June 30, 2016	<u>\$ 874,120</u>	<u>\$ 1,568,562</u>	<u>\$ 1,548,996</u>	<u>\$ 3,991,678</u>
<u>Reconciliation of operating income to net cash provided by operating activities:</u>				
Operating income (loss)	\$ 80,388	\$ (122,409)	\$ 240,695	\$ 198,674
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation	169,085	503,363	-	672,448
(Increase) decrease in accounts receivable	22,034	8,188	5,977	36,199
(Increase) decrease in due from other funds	214	287	-	501
Decrease in customer deposits	250	-	-	250
Increase (decrease) in accounts payable and accrued expenses	(109,877)	24,093	-	(85,784)
Increase (decrease) in intergovernmental payable	-	-	-	-
Increase (decrease) in compensated absences payable	4,081	6,498	-	10,579
Prior Period Adjustment	-	4,753	-	4,753
Net cash provided by operating activities	<u>\$ 166,175</u>	<u>\$ 424,773</u>	<u>\$ 246,672</u>	<u>\$ 837,620</u>

The accompanying notes are an integral part of these financial statements.

CITY OF COLUMBIA FALLS, FLATHEAD COUNTY, MONTANA
 FIDUCIARY FUNDS
 STATEMENT OF FIDUCIARY NET POSITION
 JUNE 30, 2016

		Agency Funds
Assets		
	Cash and Investments	\$ 52,848
	Total Assets	\$ 52,848
Liabilities		
	Warrants Payable	\$ 31,751
	Accounts Payable	14,626
	Deposits Payable	6,471
	Total Liabilities	\$ 52,848

The accompanying notes are an integral part of these financial statements.

CITY OF COLUMBIA FALLS, FLATHEAD COUNTY, MONTANA

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Introduction

The financial statements of the City of Columbia Falls, Montana (the City) have been prepared in conformity with generally accepted accounting principles as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles in the United States of America (US GAAP). The accounting and reporting framework and the significant accounting principles and practices of the City are discussed in the sections of this Note. The remaining Notes are organized to provide explanations, including required disclosures, of the City's financial activities for the fiscal year ended June 30, 2016.

2. Reporting Entity

The City is a political subdivision of the State of Montana, incorporated in 1909. On March 5, 1992, by lawful authority, the City established a Commission/Manager form of government. The City is governed by a city commission, composed of six commissioners and a mayor, elected at large by voters of the City.

The City is considered a primary government because it is a general-purpose local government. Further, it meets the following criteria: (a) it has a separately elected governing body (b) it is legally separate and (c) it is fiscally independent from the State and other local governments.

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth by GASB. These financial statements present the City and its component unit. The discretely presented component unit is reported in separate columns in the basic financial statements to emphasize that it is legally separate from the City.

The Fire Relief Association Disability and Pension Fund is a discretely presented component unit of the City. The City is financially accountable, by law, to ensure that the Fire Relief Association and Pension Fund is properly funded based upon actuarial valuation of the liability to pay the retirement and disability benefits of the City's volunteer firefighters. The City is also responsible for the collection of taxes and intergovernmental revenues for the Fire Relief Association Disability and Pension Fund. The Fire Relief Association Disability and Pension Fund has a June 30 year end. This component unit is presented discretely in the Statement of Net Position and Statement of Activities.

3. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

CITY OF COLUMBIA FALLS, FLATHEAD COUNTY, MONTANA

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

The government-wide financial statements include the Statement of Net Position and the Statement of Activities. These statements report financial information for the primary government (the City) and its component unit. These statements include the financial activities of the overall government, except for fiduciary activities.

These statements distinguish between the *governmental* and *business-type activities* of the City. Governmental activities generally are financed primarily through taxes, assessments, intergovernmental revenues and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for services provided.

The Statement of Activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees, fines, assessments and charges paid by the recipients of good or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Certain eliminations have been made as prescribed by GASB 34 in regard to inter-fund activities, payables and receivables. All internal balances in the Statement of Net Position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column.

Fund Financial Statements

The fund financial statements provide information about the City's funds, including its fiduciary funds. Separate statements for each fund category - *governmental, proprietary, and fiduciary* - are presented. Each fund is accounted for by providing a separate set of self-balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise funds are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or
- c. If an individual fund has met the minimum criteria for mandatory major fund reporting in some years but not in others, the City may elect to always report it as a major fund to enhance consistency from year to year.

CITY OF COLUMBIA FALLS, FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

The City reports the following major governmental funds:

General Fund. This is the City's primary operating fund, which accounts for all financial resources of the City except those required to be accounted for in other funds. It accounts for many of the City's general and administrative services, such as legislative, financial, legal, police, fire and parks.

Street Maintenance Fund. This special revenue fund accounts for the special maintenance assessment charged for the direct street, alley and sidewalk operational and maintenance costs including, but not limited to, snow removal, street sweeping, and minor and major repairs. The street maintenance assessment is set each year by the City Council pursuant to state statute.

Cedar Creek Trust Fund. This special revenue fund was created by Resolution adopted by the City of Columbia Falls Council. Per the trust document, funds can be used for land or building purchases benefiting the citizens of Columbia Falls, as well as loans of the principal or interest where a benefit would be realized by the citizens. Principal can only be spent or loaned by the Council by consent of a minimum of five of the seven members.

The City reports the following major enterprise funds:

Water Fund. This fund accounts for the operating revenues and expenses of the public water utility system. This fund is maintained on the full accrual basis of accounting.

Sewer Fund. This fund accounts for the operating revenues and expenses of the public sewer system. This fund is maintained on the full accrual basis of accounting.

Additionally, the City reports the following fund type:

Agency. The City has three agency funds: Payroll, Claims and Flex Funds. Agency funds have no measurement focus.

4. Measurement Focus, Basis of Presentation and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

Government-wide and Proprietary Statements. The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Non-exchange transactions, are transactions in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

CITY OF COLUMBIA FALLS, FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Property taxes, licenses, and interest on investments are considered to be susceptible to accrual. Property taxes not meeting the revenue recognition criteria at year-end have been reported as unavailable revenue.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

Under the terms of grant agreements and State law, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net positions available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then general revenues.

In accordance with provisions of Montana statutes, the City finances both capital improvements and certain services deemed to benefit specific properties by levying special assessments against the benefited properties. Special assessments are levied against property in a manner similar to ad valorem property taxes.

Proprietary funds distinguish between operating revenues and expenses and non-operating items. Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

5. Cash and Investments

Cash and investments may include cash and cash items; demand, time, savings, and fiscal agent deposits; investments in the State Short-Term Investment Pool (STIP); repurchase agreements, U.S. government treasury bills, notes, bonds, and other treasury obligations such as state and local government series; general obligations of certain agencies of the United States such as Federal Home Loan Bank; and U.S. government security money market funds if the fund meets certain conditions. Cash resources of the individual funds are combined to form a pool of cash and investments that is managed by the City Treasurer and City Manager in accordance with the City's Investment Policy. Investments of the pooled cash consist primarily of demand deposits, government backed securities and investments with STIP. Interest income earned as a result of pooling is distributed monthly to the appropriate funds based on the month-end balance of cash in each fund.

CITY OF COLUMBIA FALLS, FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

The City issues checks in payment of its obligations drawn on either the Claims Fund or Payroll Fund, both agency funds. No outstanding checks are reported in the governmental or proprietary funds.

The City adopted the provisions of GASB Statement No. 72 *Fair Value Measurement and Application* during fiscal year 2016. Investments are reported at fair value in accordance with the provisions of GASB Statement No. 72 (see Note C).

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the City considers all funds, including restricted assets, held in the City's cash management pool to be cash equivalents.

6. Receivables and Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. Outstanding receivables and payables are classified as "due to/from other funds" (current portion) or "advances to/from other funds" (non-current portion) on the fund balance sheets. All amounts are eliminated in the Statement of Net Position other than any outstanding balances between governmental-type and business-type that are classified as "internal balances."

Long-term advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in the applicable governmental funds to indicate that they are not expendable, available financial resources.

All trade, taxes and assessment receivables are shown net of an allowance for uncollectibles. Receivables are reviewed prior to year-end and written off if older than 360 days and not secured by real property. Water and wastewater receivables constitute a lien on the property per City Ordinance. The lien must be paid before property is transferred to a new property owner. The only uncollectible accounts incurred in these funds are immaterial and relate to bankruptcy proceedings that are written off immediately after court proceedings are finalized. As such, the balance of the allowance as of June 30 was \$ - 0 -.

Real Property taxes are levied and collected by Flathead County and are payable in two installments due November 30 and May 31. The county assesses penalty and interest after these dates and pursues collection through the statutory tax deed process when necessary. Uncollectible taxes result from protested taxes. Decisions by the tax appeal board on protested taxes are generally made prior to fiscal year-end for that year's taxes. All remaining receivables constitute a lien on the property and are eventually collected. As of June 30, there were no taxes receivable considered a material uncollectible.

7. Inventories and Prepaid Items

Inventories of supplies and other expendable items are expensed at the time of purchase in the governmental fund types. The City does not maintain any material inventories within the enterprise funds and therefore expenses any items at the time of purchase. Prepaid expenses, if any, represent payments to vendors that benefit future reporting periods and are reported on the consumption basis.

CITY OF COLUMBIA FALLS, FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

8. Restricted Assets

Certain proceeds of the City's enterprise fund revenue bonds and loans, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. Restricted assets also reflect amounts set aside by the City Council as cash reserves to fund future needs. The Cedar Creek Trust document restricts the principal portion to purchase other land or buildings with at least five (5) members approving such a purchase.

The City's policy for using restricted or unrestricted cash reflects the bond covenant restrictions, grant requirements or City Policy. Other long-term reserves are invested as allowed and are not used for any type of expenditure except as allowed by the bond covenants, Trust Document or City Policy.

9. Deferred Inflows of Resources

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Additionally, on the governmental funds balance sheet, these include the net uncollected property tax and special assessment receivables and court fine receivables.

10. Deferred Outflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

11. Capital Assets, Depreciation, and Amortization

The accounting and reporting treatment applied to the capital assets associated with a fund is determined by its measurement focus. Capital assets used in governmental fund types are recorded as expenditures in the governmental funds and capitalized in the Statement of Net Position. Capital assets of propriety funds are capitalized in the fund in which they are used.

All purchased capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair market value on the date received. City policy has set the capitalization threshold for reporting capital assets at \$5,000 with a useful life of at least five years. Streets, alleys and sidewalks are capitalized by specified criteria and not by a dollar threshold. The costs of normal maintenance and repairs that do not add to the value of the asset, or materially extend the assets' useful life, are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Depreciation of all governmental fund capital assets, except land and construction in progress, is charged as an expense to the proper function in the Statement of Activity, but not in the governmental fund statements in accordance with generally accepted accounting principles.

CITY OF COLUMBIA FALLS, FLATHEAD COUNTY, MONTANA
 NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2016

Depreciation of all capital assets, except land, easements and construction in progress, used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on the proprietary funds' Statement of Net Position. However, it is shown net of asset's installed cost on the Statement of Net Position for all fund types presented.

Depreciation on assets is provided over their estimated useful lives on the straight-line method. The useful lives of these assets have been estimated as follows:

Buildings	50-75 years
Building Improvements	50-75 years
Equipment other than Vehicles	20-30 years
Public Domain Infrastructure	20 years
System Infrastructure	40 years
Vehicles	6-10 years
Heavy Equipment.....	10-20 years
Office/computer Equipment	5 years

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 which required governments to make retroactive reporting of infrastructure at its historical cost for all assets or just those acquired after June 30, 2008. The City of Columbia Falls recorded the estimated historical value of infrastructure as of June 30, 2007. GASB Statement 51 required governments to record the value of easements it owns for fiscal year 2010. Based on Montana statute, the City concluded that the estimated historical value of easements which the City would own, are not material and accordingly, did not record the value of easements. In most instances, the easements are recorded on the property without transfer of ownership.

12. Compensated Absences

It is the City's policy and state law to permit employees to accumulate a limited amount of earned but unused vacation benefits, which will be paid to employees upon separation from City service. Employees are allowed to accumulate and carryover a maximum of two times their annual accumulation of vacation. Any excess over the maximum must be used by 90 days into the new calendar year. State law and City policy allows excess vacation hours to be carried until the end of the calendar year under certain circumstances. There is no restriction of the amount of sick leave that may be accumulated. Upon separation, employees are paid 100 percent of accumulated vacation and 25 percent of accumulated sick leave. The liability for compensated absences is reported in the government-wide and proprietary Statements of Net Position.

Compensated absences liability and expense are reported in the governmental funds only if they have matured. This would occur if an employee had terminated their employment with the City and there was unused reimbursable leave that was unpaid at June 30.

CITY OF COLUMBIA FALLS, FLATHEAD COUNTY, MONTANA

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

13. Long-term Obligations

In the Statement of Net Position and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

14. Pensions

The City participates in three cost-sharing defined benefit pension plans administered by the Public Employees Retirement Board (PERB). For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Public Employees Retirement System (PERS), Municipal Police Officers Retirement System (MPORS), Firefighters Unified Retirement System (FURS) and additions to/deductions from PERB's fiduciary net position have been determined on the same basis as they are reported by PERB. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

The City also participates in a defined contribution plan offered by PERB. There is no liability associated with this type of pension plan unless the City fails to pay the required contributions. The City has paid all required contributions.

Management adopted the provisions of the Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and Governmental Accounting Standards Board Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*. These Statements establish new requirements for the City to report a “net pension liability” (asset) for the unfunded (overfunded) portion of its pension plans and deferred outflows of resources and deferred inflows of resources related to pension plans.

15. Postemployment Benefits

The City accounts for postemployment benefit obligations in accordance with Governmental Accounting Standards Board (GASB) Statement No. 45, “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.” The City allows retirees, their dependents and spouses to pay similar rates for insurance as current employees. Statement 45 states this provides an “implied rate subsidy” since retirees generally have higher health costs and should pay higher premiums. Even though the City has consistently collected more premiums than it has paid in expenses for retiree insurance, the actuary is not allowed to take this into account since our insurance pool is not large enough for their statistical calculations. The City feels this is not a legal liability since nothing in State law or other contracts requires us to provide the same rate and we can change it at any time. Rates are actuarially established for the entire group and therefore the costs

CITY OF COLUMBIA FALLS, FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

are covered. The City will continue to fund this imposed liability on a pay-as-you-go basis as City staff feel it would be irresponsible to set aside taxpayer funds in an irrevocable trust fund that will never be used and probably continue to increase.

16. Net Position/Fund Balance

Net position in government-wide and propriety fund financial statements show the amount of the capital assets less any outstanding debt issued to fund them as “Net Investment in Capital Assets.” Restricted net position are those that have constraints placed on them either by external parties or imposed by law or enabling legislation.

GASB Statement 54 requires governmental fund balances to be allocated to categories as follows:

- Nonspendable – funds that are not in spendable form (i.e. inventory);
- Restricted – externally enforceable legal restrictions exist, such as state law or bond covenants;
- Committed – constraint formally imposed by the City Commission by the end of the reporting period;
- Assigned – constrained imposed by the City Administration by the reporting date;
- Unassigned – remaining balance.

The Governmental Accounting Standards Board adopted Statement 54, Fund Balance Reporting and Governmental Type Fund Type Definitions effective for fiscal years beginning after June 15, 2010. As required by GASB 54, the City adopted Resolution 1614 setting the fund balance policy including the order of spending and designating authority.

17. Grant Revenue

The City recognizes grant income on governmental-mandated and voluntary non-exchange transactions when all eligibility requirements have been met. Cash or other assets provided in advance are reported as unearned grant revenue until all eligibility requirements have been met.

18. Interfund Transactions

Interfund services provided and used are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions, except interfund services provided and used are reported as transfers.

NOTE B – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

1. Budgetary Data

The State of Montana’s budget law stipulates that money, other than payments from agency funds, may not be drawn from the treasury of a municipality except pursuant to an appropriation. Therefore, a legally adopted budget is required for all funds, with the exception of agency funds. The City legally adopts a budget for the required funds.

CITY OF COLUMBIA FALLS, FLATHEAD COUNTY, MONTANA
 NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2016

2. Budget Process

The City Manager is responsible for preparation of the preliminary annual budget. The City Commission approves and/or modifies the budget. The City Commission must meet prior to the budget adoption for the purpose of holding a public hearing on the final budget. This hearing can be continued until the budget is finally approved and adopted on or before the first Thursday after the first Tuesday in September or within 30 calendar days after receiving certified taxable values from the State Department of Revenue. The total value of property within the City as determined by the County Assessor is the assessed valuation.

The City Commission modified the 2016 budget for the receipt of unanticipated building permit revenues and additional contracted services expenditures. There were no additional appropriations made during the year that required a public hearing.

The City's assessed valuation and mill value as certified by the MT Department of Revenue in August 2015 were \$369,877,360 and \$6,051,712 respectively. The City's mill levy totaled 221.517 mills including a 163.094 all-purpose levy, 12.310 mills for the Fire Relief Pension Fund, 22.509 for the Permissive Medical Levy and 23.604 mills for the two voted levies for general obligation bonds: 1999 Swimming Pool Bond and 2007 Street Improvements Bond.

The City Clerk forwards a copy of the final budget to the State Department of Administration no later than October 1st of each year. A copy of the final budget is available for review in the City Clerk's office located at 130 6th Street West, Columbia Falls, Montana and at the City's website at cityofcolumbiafalls.org. The tax levies and special assessments are forwarded to the County Treasurer for collection.

All appropriations lapse at the end of the year.

3. Negative Fund and Net Position Balances

The City had no major funds with negative fund or net position balances. Additionally, the City had no non-major funds with negative fund or net position balances.

NOTE C - CASH AND INVESTMENTS

A summary of cash and investments at June 30, 2016 was as follows:

		<u>Total</u>
Cash on Hand	\$	525
Flex Advance		6,471
Demand Deposits		2,257,991
Government Backed Securities		2,095,000
State Short-term Investment Pool (STIP)		2,501,914
Total		\$ 6,861,901

CITY OF COLUMBIA FALLS, FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

Cash and Investment Policies

Deposits

Custodial Credit Risk for deposits is the risk that in the event of bank failure, the City's deposits may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. The City's policy requires all deposits be insured by an agency of the United States Government and deposits in excess of insurance require pledged securities in compliance with section 7-6-207 of the Montana Code Annotated (MCA), which requires the City obtain securities for the uninsured portion of the deposits equal to 50% of such deposits if the institution in which the deposits are made has a net worth to total asset ratio of 6% or more or securities equal to 100% of uninsured deposits if the institution in which the deposits are made has a net worth to total asset ratio of less than 6%. State statute does not specify in whose custody or name the collateral is to be held. Third party safekeeping of collateral is mandatory and pledged securities are valued at market rather than face value. The amount of collateral held for the City's pooled deposits as of June 30, 2016 was \$7,155,000 which exceeds the amount required by statute. At June 30, 2016, 100% of the City's deposits were insured or collateralized.

Investments

Credit Risk is the risk that an issuer or other counterpart to an investment will not fulfill its obligations. Investing is performed in accordance with investment policies adopted by City Council complying with State Statutes and any applicable Attorney General, County Attorney and the City's retained counsel's opinions. The City's policy to minimize credit risk is to:

- Limit investing to the safest types of securities;
- Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the City will do business;
- Diversify the investment portfolio so that potential losses on individual securities will be minimized.

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City's policy to minimize interest rate risk is to:

- Structure the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity;
- Investing operating funds primarily in short-term securities, money market mutual funds, or similar investment pools.

Concentration of Credit Risk is the risk of loss attributed to the magnitude of the City's investments in a single issuer. The City's investment policy requires that investments be diversified in instruments, institutions and maturity dates.

External Investment Pool

The City invests in the Short-Term Investment Pool (STIP) managed by the State of Montana Board of Investments. The Board was created by the Legislature to invest and manage Montana's Unified Investment Program. Local Governments may voluntarily participate in STIP. The City elected to participate in STIP effective July 1, 1994.

The pool invests in short-term, highly liquid investments, and as such, the City has reported these investments as cash equivalents. Amounts invested by the City in STIP may be redeemed at any

CITY OF COLUMBIA FALLS, FLATHEAD COUNTY, MONTANA
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 June 30, 2016

date at the carrying value on that date. Audited financial statements for the State of Montana’s Board of Investments are available at 2401 Colonial Drive, 3rd Floor, Helena, MT 59620.

Investments in the pool are reported at fair value. The fair value of pooled investments is determined annually and is based on year-end market prices. The unit value of the pool is fixed at \$1 for both participant redemptions and purchases. Investments in STIP are carried at amortized cost or “book” value. STIP is managed to closely align fair value with amortized cost. STIP income is automatically reinvested in additional units. STIP is not rated by a national rating agency.

The City’s investment in STIP amounts to 0.089% of total STIP assets. The investments managed by the City were 36% invested in STIP. For the year ended June 30, 2016, STIP’s average rate of return was 0.39862%.

The investments managed by the City were 33% invested in an interest bearing account secured as noted above with Glacier Bank. For the year ended June 30, 2016, the average investment return on this account was 0.25%. The remaining 31% of the investment portfolio, \$2,095,000, is invested through Multi-Bank Securities, Inc. in government backed Certificates of Deposit and US Government Bonds with interest rates ranging from 1.2% - 1.80%.

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The City has the following recurring fair value measurements as of June 30, 2016:

- U.S. Government Bonds of \$1,601,203 are valued using a matrix pricing model (Level 2 inputs).

NOTE D - CAPITAL ASSETS

Changes in general capital assets were as follows:

	Balance July 1, 2015	Debits, including adjustments	Credits, including adjustments	Balance June 30, 2016
Cost:				
<u>Capital assets not depreciated:</u>				
Land	\$ 1,802,337	\$	\$	\$ 1,802,337
Construction in progress	5,874	8,372		14,246
<u>Capital assets depreciated:</u>				
Buildings	2,643,573			2,643,573
Improvements	965,088	7,348		972,436
Machinery and equipment	2,387,250	102,552	33,591	2,456,211
Infrastructure	9,430,245	284,380		9,714,625
Total	17,234,367	402,652	33,591	17,602,428
Less: Accumulated Depreciation:	(7,086,024)	14,304	750,660	(7,822,380)
Net Capital Assets	\$10,148,343	\$ 416,956	\$ 784,251	\$ 9,781,048

CITY OF COLUMBIA FALLS, FLATHEAD COUNTY, MONTANA
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Changes in proprietary fund capital assets were as follows:

	Balance July 1, 2015	Debits	Credits	Balance June 30, 2016
Cost:				
<u>Capital assets not depreciated:</u>				
Land	\$ 17,402	\$ -	\$ -	\$ 17,402
Construction Work in Progress	532,799	71,134	532,799	71,134
<u>Capital assets depreciated:</u>				
Source of Supply	1,758,428		-	1,758,428
Pumping Plant	486,331	73,558	-	559,889
Treatment Plant	8,198,341		-	8,198,341
Transmission and Distribution	10,954,504	881,998	-	11,836,502
General Plant	2,480,042	72,076	11,500	2,540,618
Total	24,427,847	1,098,766	544,299	24,982,314
Less: Accumulated Depreciation	(12,690,790)	11,500	672,448	(13,351,738)
Net Capital Assets	\$ 11,737,057	\$ 1,110,266	\$ 1,216,747	\$ 11,630,576

Governmental activities depreciation expense was charged to functions as follows:

Governmental Activities:	
General Government	\$ 41,993
Public Safety	68,727
Public Works	557,904
Culture and Recreation	82,036
Total governmental activities depreciation	<u>\$ 750,660</u>

NOTE E - LONG-TERM DEBT

Long-term Debt Supporting Government Activities

General obligation bonds in the amount of \$857,000 were issued by the City in 1999 to provide funds for the construction of the municipal pool, as approved by the voters and repaid with property taxes recorded in the Debt Service Fund. These bonds are required to be paid within twenty years from the date of issue and are backed by the full faith and credit of the City. The City redeemed \$55,000 in bonds during the 2016 fiscal year, leaving an outstanding balance of \$180,000.

General obligation debt, in the form of a loan from Cedar Creek Trust, was issued by the City to provide funds for the improvement of City streets, as approved by the voters in June 2007 and repaid with property taxes recorded in the Debt Service Funds. The loan is required to be paid within twenty years from the date of issue and is backed by the full faith and credit of the City. As of June 30, 2016, the City had drawn down a total of \$703,287 from the Trust, and repaid \$41,060 during the 2016 fiscal year, leaving an outstanding balance of \$309,783. As of August 2011, the City closed on a State of MT Intercap Loan in the amount of \$364,449 to cover the final Street Improvement expenditures, repaying \$35,695 during 2016, leaving an outstanding balance of \$208,958 as of June 30, 2016. The City will use the Debt Service authorization to repay the Cedar Creek Trust and the Intercap Loan.

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The loan from the Cedar Creek Trust is treated as an external debt borrowing pursuant to generally accepted accounting principles. The loan by the Trust was approved by at least five (5) members of the City Council and then submitted to the electorate for approval. Pursuant to the Trust Document, loans of the principal must be secured and the loan agreement and security approved by the City Attorney and an independent financial consultant. The City Council approved loaning the City up to \$1.1 million for specific street improvements from the Cedar Creek Trust to save interest, closing and bond costs. To provide the required security, the City Council called for an election approving the debt for up to \$1.1 million. The electorate approved the debt obligation in June 2007. The City Council approved setting the annual interest rate based on the current rates earned by the City's investment pool.

After beginning the Street Improvement Project, the City Council had the opportunity to purchase approximately 28 acres of parkland, including 900 ft of river frontage for \$951,072. Upon the vote of at least five (5) City Council members, the purchase of the land was approved in the fall of 2007. Unfortunately shortly after the purchase, sales of lots halted due to the declining economy and the Trust did not have the available cash to fund the entire \$1.1 million street improvement project along with the land purchase. City Council approved an Intercap Loan with the State of MT to fund any potential shortfall after all of the street projects were completed. In June 2011, the City applied for an Intercap Loan in the amount of \$ 364,449 to cover the final street construction costs and in August 2011 closed on the loan. The City has drawn down funds as available in the Cedar Creek Trust. Due to the favorable Intercap Loan terms, the Council will review annually paying the loan early or paying the Intercap Loan in accordance with the loan agreement. As of June 30, 2016, the Cedar Creek Trust had a total cash balance of \$527,890, consisting of \$43,972 unrestricted and \$483,918 restricted funds.

The City purchased a new fire apparatus in July 2012 for a total cost of \$322,762. This purchase was made cooperatively with the Columbia Falls Rural Fire District pursuant to an interlocal agreement with the Rural District contributing \$205,763 or 64%. The City borrowed \$115,365 from the State of MT Intercap Loan program to pay for the City's share of the truck purchase. The City received the \$115,365 in proceeds in August 2012 and repaid \$11,246 during the 2016 Fiscal year, leaving a balance of \$76,549 as of June 30, 2016.

General obligation bonds and debt outstanding as of June 30, 2016, were as follows:

Purpose:	Issue Date	Interest Rate	Bond Term	Maturity Date	Annual Payment	Bonds/ Debt Issued	Balance June 30, 2016
Swimming Pool Street Improvements	6/27/1999	4-6.5%	20 yrs	7/1/2019	Varies	\$857,000	\$180,000
Street Improvements – Intercap	6/26/2007	Var	20 yrs	7/1/2027	Varies	\$703,287	\$309,783
Fire Apparatus- Intercap	8/26/2011	1.0- 1.25%	10 yrs	8/15/2021	Varies	\$364,449	\$208,958
	8/31/2012	1.0- 1.25%	10 yrs	8/15/2022	Varies	\$115,365	\$ 76,549

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Changes in long-term debt were as follows:

	Balance June 30, 2015	Change	Balance June 30, 2016	Amount due in 2017
General Obligation Bonds	\$ 235,000	\$(55,000)	\$180,000	\$55,000
General Obligation Debt	683,291	(88,000)	595,291	83,367
Compensated Absences	188,298	(30,729)	157,569	76,384
Total	<u>\$1,106,589</u>	<u>\$ (173,729)</u>	<u>\$932,860</u>	<u>\$214,751</u>

Annual requirement to amortize general obligation debt:

<u>For Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2017	\$138,367	\$16,851
2018	144,652	13,117
2019	150,957	8,930
2020	87,284	4,474
2021	88,631	3,249
2022 and beyond	165,400	3,913
Total	<u>\$775,291</u>	<u>\$50,534</u>

Legal Debt Margin:

At June 30 the general obligation debt issued by the City did not exceed its legal debt margin as demonstrated by the following computation:

Total Assessed value of taxable property (market value)	\$369,877,360
General limitation percentage	<u>2.50%</u>
General limit of indebtedness	\$ 9,246,934
Outstanding general obligation bonds at June 30	180,000
Outstanding loans subject to limitation	<u>595,291</u>
Total Debt subject to limit	<u>775,291</u>
Remaining Legal Debt Margin	<u>\$ 8,471,643</u>

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Long-term Debt Supporting Business-type Activities

Changes in long-term debt were as follows:

	Balance June 30, 2015	Change	Balance June 30, 2016	Amount due in 2017
Revenue Bonds	\$1,672,000	\$(216,000)	\$1,456,000	\$219,000
Intercap Loan	63,112	(25,080)	38,032	25,394
Compensated Absences	54,218	10,579	64,797	42,215
Total	<u>\$1,789,330</u>	<u>\$(230,501)</u>	<u>\$1,558,829</u>	<u>\$286,609</u>

Revenue Bonds

The City issues bonds where the City pledges income derived from the acquired or constructed assets to pay debt service.

Revenue bonds outstanding at year-end were as follows:

Purpose	Origination Date	Interest Rate	Bond Term	Maturity Date	Bonds Amount	Annual Payment	Balance June 30, 2016
Water System Revenue Refunding Bond	2005	2.25%	12 yrs	7/1/2025	\$ 350,000	Varies	\$ 253,000
Sewer System Revenue Refunding Bond	2001	2.25%	7 yrs	7/1/2020	1,248,000	Varies	648,000
Sewer System Revenue Bond	2009B	0.75%	20 yrs	7/1/2029	359,300	Varies	239,000
Sewer System Revenue Refunding Bond	2009C	3.00%	18 yrs	7/1/2030	385,000	Varies	316,000
Total					<u>\$2,342,300</u>		<u>\$1,456,000</u>

In November 2012, the City issued Water System Revenue Refunding and Sewer System Revenue Refunding Bonds through the State of Montana, Department of Natural Resources, Drinking Water Revolving Fund Loan Program and the Wastewater Revolving Fund Loan Program to take advantage of current interest rates. The City's Series 2005 Water system bonds with an outstanding amount of \$350,000 were refunded and the interest rate reduced from 4.0% to 2.25%, resulting in a savings of \$43,907. The City's Series 2001 Sewer system bonds with an outstanding balance of \$1,248,000 were refunded and the interest rate reduced from 4.0% to 2.25%. Additionally, the Series 2009C Sewer system bonds with an outstanding amount of \$385,000 were refunded and the

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interest rate reduced from 3.75% to 3.0%. The Sewer system bond refundings resulted in a savings of \$156,285.

Revenue bond resolutions include various restrictive covenants. The more significant covenants 1) require that cash be restricted and reserved for operations, construction, debt service, and replacement and depreciation; 2) specify minimum required operating revenue; and 3) specific and timely reporting of financial information to bond holders and the registrar. The City was in compliance with applicable covenants as of June 30, 2016, as indicated below:

Debt Service Coverage:	<u>Water</u>	<u>Sewer</u>
Operating Revenues	\$816,911	\$1,098,665
Operating Expenses	<u>433,148</u>	<u>584,409</u>
Net Revenue	<u>\$ 383,763</u>	<u>\$ 514,256</u>
Max Debt Service	\$ 35,994	\$234,056
Percent Coverage	1066.2%	219.7%

The Sewer Fund borrowed \$124,625 from the MT Board of Investments Program on June 15, 2012. The Sewer Fund used these funds to pay for the new Camel Hydro excavator/Jet Rodder. The loan is for a five-year term, expiring on August 15, 2017. The current interest rate is 1.55%. The Board sets the rate each February. The City repaid \$25,080 leaving an amount outstanding at June 30, 2016 of \$38,032.

Annual requirement to amortize revenue bond and loan debt:

<u>For Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2017	\$244,394	\$29,321
2018	236,638	24,507
2019	227,000	19,875
2020	233,000	15,264
2021	66,000	11,389
Thereafter	487,000	43,549
Total	<u>\$1,494,032</u>	<u>\$143,905</u>

NOTE F - EMPLOYEE BENEFIT PLANS

Pension Plans

General Information:

All full-time, qualifying part-time and elective City employees are covered by one of the following retirement plans: Montana Public Employees Retirement System (PERS), Municipal Police Officers' Retirement System (MPORS), and Firefighter Unified Retirement System (FURS). The plans are established by State law and administered by the State of Montana Public Employees' Retirement Board (PERB). The authority to establish or amend contribution requirements for all plans, and provide cost of living adjustments for defined benefit plans is assigned to the State legislature. PERB issues a publicly available comprehensive annual financial report that includes

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financial statements and required supplementary information for these plans. It is available from the Montana Public Employees' Retirement Administration (MPERA) at 100 North Park Avenue, Suite 200, P.O. Box 200131, Helena, MT, 59620-0131 or at their website, <http://mpera.mt.gov>. The Plans are cost-sharing multiple-employer defined benefit plans that provide retirement, disability and death benefits to plan members and beneficiaries with amounts determined by the State. PERS also has a defined contribution option.

The Montana Public Employees Retirement Administration (MPERA) prepares its financial statements using the accrual basis of accounting. For the purposes of measuring the net pension liability, deferred inflows of resources and deferred outflows of resources related to pension, pension expense, information about the fiduciary net position and additions to, and deductions from, fiduciary net position have been determined on the same accrual basis as they are reported by MPERA. For this purpose, member contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Revenues are recognized in the accounting period they are earned and become measureable. Benefits payments and refunds are recognized in the accounting period when due and payable in accordance with the benefit terms. Expenses are recognized the period incurred. Investments are reported at fair value. MPERA adheres to all applicable Governmental Accounting Standards Board (GASB) statements.

Contributions to pension plans are as required by state statute. Information about each plan follows:

Public Employee Retirement Systems (PERS):

Plan Description:

The PERS-Defined Benefit Retirement Plan (DBRP), administered by the Montana Public Employee Retirement Administration (MPERA), is a multiple-employer, cost-sharing plan established July 1, 1945 and governed by Title 19, chapters 2 & 3 Montana Code Annotated (MCA).

All new members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-Defined Contribution Retirement Plan (DCRP) by filing an irrevocable election. Members may not be members of both the defined contribution and defined benefit retirement plans. For members that choose to join the PERS-DCRP, a percentage of the employer contributions will be used to pay down the liability of the PERS-DBRP.

The PERS-DBRP provides retirement, disability benefits, annual cost-of-living adjustments and death benefits to plan members and their beneficiaries. Benefits are established by state law and can only be amended by the Legislature. Benefits are based on eligibility, years of service, and highest average compensation. Employees with 5 years of service are eligible to retire at ages show below. Vested (5 years of service) employees are eligible for disability benefits. Disability benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Death benefits generally equal the balance in the member's vested account or continuing payments under an annuity contract.

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Summary of Benefits:

Member's highest average compensation (HAC)

- Hired prior to July 1, 2011 – highest average compensation during any consecutive 36 months.
- Hired on or after July 1, 2011 – highest average compensation during any consecutive 60 months.
- Hired on or after July 1, 2013 – 110% annual cap on compensation considered as part of a member's highest average compensation.

Eligibility for benefit:

Service retirement:

- Hired prior to July 1, 2011:
 - Age 60, 5 years of membership service;
 - Age 65, regardless of membership service; or
 - Any age, 30 years of membership service
- Hired on or after July 1, 2011:
 - Age 65, 5 years of membership service;
 - Age 70, regardless of membership service

Early retirement, actuarially reduced:

- Hired prior to July 1, 2011:
 - Age 50, 5 years of membership service; or
 - Any age, 25 years of membership service
- Hired on or after July 1, 2011:
 - Age 55, 5 years of membership service

Vesting:

5 years of membership service.

Monthly benefit formula:

Members hired prior to July 1, 2011;

- Less than 25 years of membership service: 1.7857% of HAC per year of service credit.
- 25 years of membership service or more: 2% of HAC per year of service credit.

Members hired on or after July 1, 2011:

- Less than 10 years of membership service: 1.5% HAC per year of service credit.
- 10 years or more, but less than 30 years of membership service: 1.7857% of HAC per year of service credit.
- 30 years or more of membership service: 2% of HAC per year of service credit.

Service Credit

A full month of service credit is earned when 160 hours or more is reported to PERB by the City during any given month. Proportional service credit is awarded unless at least 2080 hours is worked in a year.

Guaranteed Annual Benefit Adjustment (GABA)

- 3% for members hired prior to July 1, 2007
- 1.5% for members hired on or after July 1, 2007

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- After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, inclusive of other adjustments to the member's benefit.
- Members hired on or after July 1, 2013:
 - (a) 1.5% for each year PERS is funded at or above 90%;
 - (b) 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and
 - (c) 0% whenever the amortization period for PERS is 40 years or more.

PERS-DCRP is a multiple-employer plan established July 1, 2002. A percentage of employer contributions are used to fund various PERS member education programs and a long-term disability plan fund. PERS-DCRP provides for retirement, disability, and death benefits to plan members and their beneficiaries based on the balance in the member's account.

Municipal Police Officers' Retirement System (MPORS):

Plan Description:

The Municipal Police Officers' Retirement System (MPORS), administered by the Montana Public Employee Retirement Administration (MPERA), is a multiple-employer, cost-sharing benefit plan that was established in 1974 and is governed by Title 19, chapters 2 & 9 Montana Code Annotated (MCA). This plan covers all municipal police officers employed by first-and second-class cities and other cities that adopt the plan, such as the City of Columbia Falls. Benefits are established by state law and can only be amended by the Legislature. The MPORS provides retirement, disability and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service, and final average compensation. Member rights for death and disability are vested immediately. All other rights are vested after five years of service.

Summary of Benefits:

Member's final average compensation (FAC)

- Hired prior to July 1, 1977 – average monthly compensation of final year of service.
- Hired on or after July 1, 1977 – final average compensation (FAC) for last consecutive 36 months.
- Hired on or after July 1, 2013 – 110% annual cap on compensation considered as part of a member's final average compensation.

Eligibility for benefit:

20 years of membership service, regardless of age.

Early retirement:

Age 50, 5 years of membership service.

Vesting:

5 years of membership service.

Monthly benefit formula:

2.5% of FAC per year of service credit.

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Service Credit

A full month of service credit is earned when at least 160 hours is worked. Proportional service credit is awarded for less than 160 hours.

Guaranteed Annual Benefit Adjustment (GABA):

Hired on or after July 1, 1997, or those electing GABA – after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other adjustments to the member's benefit.

Minimum benefit adjustment (non-GABA):

If hired before July 1, 1997 and member did not elect GABA – the monthly retirement, disability or survivor's benefit may not be less than ½ the compensation of a newly confirmed officer in the city that the member was last employed.

Deferred Retirement Option Plan (DROP):

Beginning July 2002, eligible members of MPORS can participate in the DROP by filing a one-time irrevocable election with the Board. The DROP is governed by Title 19, Chapter 9, Part 12, MCA. A member must have completed at least twenty years of membership service to be eligible. They may elect to participate in the DROP for a minimum of one month and a maximum of 60 months and may participate in the DROP only once. A participant remains a member of the MPORS but will not receive membership service or credit in the system for the duration of the member's DROP period. During participation in the DROP, all mandatory contributions continue to the retirement system. A monthly benefit calculated based on salary and years of service to the date of the beginning of the DROP period. The monthly benefit is paid into the member's DROP account until the end of the DROP period. At the end of the DROP period, the participant may receive the balance of the DROP account in a lump-sum payment or in a direct rollover to another eligible plan, as allowed by the IRS. If the participant continues employment after the DROP period ends, they will again accrue membership service and service credit. The DROP account cannot be distributed until employment is formally terminated.

Firefighters' Unified Retirement System (FURS):

Plan Description:

The Firefighters' Unified Retirement System (FURS), administered by the Montana Public Employee Retirement Administration (MPERA), is a multiple-employer, cost-sharing defined benefit plan established in 1981, and governed by Title 19, chapters 2 & 13, MCA. This system provides retirement benefits to firefighters employed by first- and second-class cities, other cities and rural fire district departments that adopt the plan, and to firefighters hired by the Montana Air National Guard on or after October 1, 2001. Benefits are established by state law and can only be amended by the Legislature. The FURS provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service, and either final monthly compensation or final average compensation. Effective July 1, 2005, the benefits are based on highest average compensation and highest average compensation. Member rights for death and disability are vested immediately. All other member rights are vested after five years of service.

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Summary of Benefits:

Member's highest monthly compensation (HMC)

- Hired prior to July 1, 1981 and not electing GABA - highest monthly compensation (HMC).
- Hired after June 30, 1981 and those electing GABA – highest average compensation (HAC) during any consecutive 36 months.
- Hired on or after July 1, 2013 – 110% annual cap on compensation considered as a part of a member's highest average compensation.

Eligibility for benefit:

20 years of membership service, regardless of age.

Early Retirement:

Age 50, 5 years of membership service

Vesting:

5 years of membership service.

Monthly benefit formula:

- 1) Members hired prior to July 1, 1981 and not electing GABA are entitled to the greater of:
2.5% of HMC per year of service, OR
 - i). if less than 20 years of service – 2% of HMC for each year of service;
 - ii). if more than 20 years of service – 50% of the member's HMC plus 2% of the member's HMC for each year of service over 20 years
- 2) Members hired on or after July 1, 1981 and those electing GABA:
2.5% of HAC per year of service

Service Credit

A full month of service credit is earned when at least 160 hours is worked. Proportional service credit awarded for less than 160 hours.

Guaranteed Annual Benefit Adjustment (GABA):

Hired on or after July 1, 1997, or those electing GABA – after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other adjustments to the member's benefit.

Minimum benefit adjustment (non-GABA):

If hired before July 1, 1997 and member did not elect GABA – the monthly retirement, disability or survivor's benefit of a newly confirmed firefighter employed by the city that last employed the member (provided the member has at least 10 years of membership service). If a benefit falls below that minimum, the benefit is increased and paid to the benefit recipient.

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Contribution Rates and Amounts

	Employee	Employer	State	
PERS	7.90%	8.27%	0.1% 1	
MPORS	9.00%	14.41%	29.37%	
FURS	10.70%	14.36%	32.61%	

	City			State
	2016	2015	2014	2016
PERS	\$ 65,481	\$ 66,853	\$ 62,427	\$ 792
MPORS	\$ 61,851	\$ 58,979	\$ 56,036	\$ 126,063
FURS	\$ 8,991	\$ 8,724	\$ 8,442	\$ 20,417

1 The State also contributes from the Coal Tax Severance fund.

One hundred percent of contributions were paid.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the City reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the City. The amount recognized by the City as its proportionate share of the net pension liability, the related State support, and the total portion of net pension liability that was associated with the City were as follows:

	PERS	MPORS	FURS	Total
City's proportionate share of the net pension liability	\$ 908,284	\$ 489,193	\$ 46,238	\$ 1,443,715
State's proportionate share of the net pension liability associated with the City	\$ 11,157	\$ 991,153	\$ 102,984	\$ 1,105,294
Total	\$ 919,441	\$ 1,480,346	\$ 149,222	\$ 2,549,009

The net pension liability was determined by an actuarial valuation as of June 30, 2014, with update procedures to roll forward to the measurement date of June 30, 2015. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating governments, including the State, actuarially determined.

	PERS	MPORS	FURS
Proportionate share of plan's net pension liability	0.064976%	0.295727%	0.045208%

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For the year ended June 30, 2016, the City recognized pension expenses of \$233,110 and revenue of \$112,646 for support provided by the State. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>			
	PERS	MPORS	FURS	Total
Changes in proportion and differences between City contributions and proportionate share of contributions	\$ 12,778	\$ 7,812	\$ -	\$ 20,590
City contributions subsequent to the measurement date	\$ 62,724	\$ 62,952	\$ 8,952	\$ 134,628
Total	<u>\$ 75,502</u>	<u>\$ 70,764</u>	<u>\$ 8,952</u>	<u>\$ 155,218</u>

	<u>Deferred inflows of Resources</u>			
	PERS	MPORS	FURS	Total
Differences between expected and actual experience	\$ 5,495	\$ 4,468	\$ 60	\$ 10,023
Net difference between projected and actual earnings on pension plan investments	\$ 76,896	\$ 18,378	\$ 2,795	\$ 98,069
Changes in proportion and differences between City contributions and proportionate share of contributions	\$ 1,197	\$ -	\$ 48	\$ 1,245
Total	<u>\$ 83,588</u>	<u>\$ 22,846</u>	<u>\$ 2,903</u>	<u>\$ 109,337</u>

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

\$134,628 reported as deferred outflows of resources related to pensions from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2107. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending June 30	PERS	MPORS	FURS	Total
2017	\$ (30,337)	\$ (7,045)	\$ (1,268)	\$ (38,650)
2018	\$ (30,337)	\$ (7,045)	\$ (1,268)	\$ (38,650)
2019	\$ (30,136)	\$ (7,045)	\$ (1,268)	\$ (38,450)
2020	\$ 19,999	\$ 6,103	\$ 923	\$ 27,025
2021	\$ -	\$ -	\$ (22)	\$ (22)
Total	<u>\$ (70,810)</u>	<u>\$ (15,033)</u>	<u>\$ (2,903)</u>	<u>\$ (88,747)</u>

Actuarial Assumptions

The total pension liabilities (TPL) used to calculate the net pension liabilities was determined by an actuarial valuation as of June 30, 2014, with update procedures to roll forward the TPL to June 30, 2015. The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study, dated June 30, 2010 for the six year period July 1, 2003 to June 30, 2009.

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Among these assumptions were the following:

Inflation	3% percent
Salary Increases	4% percent, average, including inflation
Investment rate of return	7.75% percent, net of pension plan investment expense, including inflation

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash equivalents	2.00%	(0.25%)
Domestic equity	36.00%	4.55%
Foreign equity	18.00%	6.10%
Fixed income	24.00%	1.25%
Private equity	12.00%	8.00%
Real estate	8.00%	4.25%
Total	100.00%	

Discount Rate

The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the current statutorily required rates. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City’s proportionate share of the net pension liability to changes in the discount rate - The following present the City’s proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.75 percent) or 1 percentage point higher (8.75) than the current rate:

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City's proportionate share of the net pension liability	1% Decrease (6.75%)	Discount Rate (7.75%)	1% Increase (8.75%)
PERS	\$ 1,400,377	\$ 908,284	\$ 492,723
MPORS	\$ 690,667	\$ 489,194	\$ 310,336
FURS	\$ 74,593	\$ 46,238	\$ 23,131
	<u>\$ 2,165,637</u>	<u>\$ 1,443,716</u>	<u>\$ 826,190</u>

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued PERB financial report.

Local Retirement Plans

The City offers its employees an optional deferred compensation plan created in accordance with Internal Revenue Code Section 457(b). The plan, available to all full-time and part-time City employees, permits them to defer a portion of their salary until future years. Additionally, for qualifying employees not participating in the City's Health Insurance Benefit program due to having other health insurance coverage, the City contributes up to \$416 per month into the deferred compensation plan. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency pursuant to Internal Revenue Service requirements.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the employee (without being restricted to the provisions of benefits under the plan).

Investments are managed by the plan's trustee, Nationwide Retirement Solutions, based on the participant's selected investment options. For the 2016 fiscal year, 7 active employees had elected deferred compensation benefits in lieu of health insurance benefits and 11 active employees elected to defer a portion of their compensation under the provisions of the 457(b) plan. The City contributed \$23,158.49 on the employees' behalf during the 2016 FY to the 457(b) plan. The City does not manage or control the plan assets.

City volunteer firefighters are covered by the Fire Department Relief Association Disability and Pension Fund, which is established by State Law. The Association is managed by a Board of Trustees made up of members of the fire department, and is accounted for as a component unit of the City.

A member of a volunteer fire department who has served 20 years or more is entitled to benefits regardless of age. Volunteers serving less than 20 years but more than 10 years may receive reduced benefits. The amount of the pension benefits are set by the Association's Board of Trustees.

Effective during fiscal year 2005, State law required the City to ensure that the Fire Department Relief Association Disability and Pension Fund is soundly funded. The City opted to ensure funding is maintained at a level determined by an actuarial valuation rather than on the total assessed value of taxable property pursuant to 19-18-503 (2) MCA. This funding requirement places financial accountability on the City for the Pension Fund.

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Beginning in fiscal year 2006 the Fire Department Relief Association and Disability Pension Fund became a component unit of the City upon further review by City and State officials.

Post Employment Benefits Other than Pensions

The City accounts for postemployment benefit obligations in accordance with Governmental Accounting Standards Board (GASB) Statement No. 45 "Accounting and Financial Reporting by Employer for Postemployment Benefits Other Than Pensions." Accordingly, the City reported the "implied rate subsidy" liability as required by GASB Statement No. 45 for the first time in fiscal year 2010. As required by state law, the City provides employees who retire and their spouses and dependents the option to continue to participate in the City's group health insurance plan. The City also allows terminated employees to continue their health care coverage for 18 months past the date of termination as required by the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA). To continue coverage, retirees are required to pay the full cost of the benefits. State law requires the City to offer insurance to retirees but it does not require the City to offer it at the same rate as all participants. Furthermore, there are no legal or contractual agreements requiring the City to pay any portion of a retiree's insurance or to offer the insurance at a specified rate. Rates are charged according to the annual actuarial valuation provided by the City's insurer, Montana Municipal Interlocal Authority.

Plan Description: In 2016, the City of Columbia Falls provided employee medical insurance through a cost-sharing, multiple-employer plan administered by the Montana Municipal Interlocal Authority.

Funding Policy: The City of Columbia Falls provides no direct subsidy to the health insurance premiums for retirees. Retirees pay the entire cost of the actuarially determined health insurance premium. Eligible retirees must be enrolled in the City's medical insurance prior to retiring and must elect to continue coverage within 30 days of retirement. As of June 30, 2016, the City had three retired employees or their spouses electing to participate in the City's medical insurance plan entirely at their own cost. There were no former employees under COBRA insurance coverage. In 2016, retirees paid \$19,272 in actuarially determined medical premiums.

Annual OPEB Cost Obligation: The City's other postemployment benefit (OPEB) cost (expense) is calculated based on the projected unit credit cost method. The objective under this method is to fund each participant's benefits under the plan as they accrue. Thus, the total benefit to which each participant is expected to become entitled at retirement is broken down into units, each associated with a year of past or future credited service. Typically, when this method is introduced, there will be an initial liability for benefits credited for service prior to that date, and to the extent that the liability is not covered by assets of the plan, there is an unfunded liability to be funded over a stipulated period in accordance with an amortization schedule. It is important to note that the accrued liability and the annual required contribution (ARC) are highly sensitive to the participation rate assumption. For the City of Columbia Falls, based on historical data, the City used a 10% participation rate, which matches the thirty-year trend for the City's retirees' participation. Additionally, the calculation is also sensitive to the age of the City's employees.

Funded Status and Funding Progress: As calculated using the alternative method for smaller governments effective June 30, 2016, the actuarial accrued liability (AAL) for benefits was \$ 0. The City will continue to fund benefit costs on a pay-as-you-go basis. Based on the City's thirty-

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year participation rate, this liability will not be material with respect to the City’s financial statements.

Methods and Assumptions: The Montana Municipal Interlocal Authority (MMIA) contracted with Leif Associates, Inc. to calculate the actual cost of retiree medical coverage and subsequently calculated the pre-age 65 (not Medicare eligible) and age 65 and older (Medicare eligible) per individual premium subsidy as of June 30, 2016. Leif Associates used the following assumptions in calculating the subsidy rate:

- Health Care Trend – 8%
- Out-of-network claims percentage – 10%
- Member to employee ratio: 2.04
- Blended (menu) rates based on enrollment distribution as of 6/30/2016
- HDHP plan enrollment included in Menu blended rates (Rx no copay)
- Retiree costs are 35% greater than an active’s cost of the same age
- Medicare assumed to cover 55% of retiree medical costs (65+)

City Implementation of GASB 45: As a phase III government, the City was required to implement the GASB 45 provisions in FY 2010. Accordingly, GASB 45 was implemented prospectively; the City began the 2010 fiscal year with a Net OPEB obligation of – 0 – and is amortizing the Actuarial Accrued Liability (AAL) over a period of 30 years. The City calculated the AAL and ARC using the Leif Associates, Inc. report and the subsidy calculation and Alternative Method Worksheets provided by MMIA for the express purpose of complying with GASB 45 requirements. Pursuant to the Alternative Method, the calculation and assumptions are recalculated every three years. As of June 30, 2016, in accordance with GASB 45 requirements, the City calculated the AAL and ARC using the updated Leif Associates, Inc. report and the subsidy calculation and Alternative Method Worksheets provided by MMIA for the 2016 FY recalculation. Due to a reduction in the employees receiving benefits, the City’s actuarial accrued liability (AAL) as of June 30, 2016 was \$-0-. The City recognizes this AAL for the next two fiscal years, 2017 and 2018 until the City is required to recalculate the AAL.

NOTE G - INTER-FUND TRANSFERS

The following is an analysis of governmental operating transfers in and out during fiscal year 2016:

<u>Purpose</u>	<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>
Street construction	General Fund (Major)	Capital Projects Street Construction Fund (Non-Major)	\$203,203
Permissive Medical Levy Transfer	Permissive Medical Levy Fund (Non-Major)	General Fund (Major) Street Maintenance (Major)	\$85,707 \$27,681

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The following is an analysis of enterprise fund transfers in and out during fiscal year 2016:

<u>Purpose</u>	<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>
Infrastructure expansion	Sewer Capital Expansion (Non-Major)	Sewer Fund (Major)	\$55,000
Infrastructure expansion	Water Capital Expansion (Non-Major)	Water Fund (Major)	\$97,420

NOTE H - INTERFUND LOANS

Special Improvement Districts 34 and 36 - During fiscal year 2006 the City's Water and Sewer Enterprise Funds loaned funds for construction costs for the upgrade and expansion of water and sewer lines and appurtenances for 4th Avenue and 5th Avenue within the City. The City Council approved the formation of Special Improvement Districts 34 and 36 and the homeowners are assessed annually on the tax bill to pay back the City for construction costs for a period of twenty (20) years. The payments are due in equal installments on November 30 and May 30.

Long-term interfund loans receivable have been recorded in the Water and Sewer Enterprise Funds and at June 30, 2016, the combined balance of the interfund loans was \$68,388.07, which is the same amount owed to the City by homeowners within the special improvement districts. The City's special improvement funds 34 and 36 are debt service funds and these funds record the special assessments receivable and receipts and pay back the interfund loans to the Water and Sewer Enterprise Funds. The interfund loan payable is reported as long-term debt in the general long-term debt account group in the fund financial statements and is eliminated in the government-wide financial statements as interfund activity.

Annual maturity of the long-term special assessment receivable for the 2016 FY is \$6,268, subject to interest at 4.75%.

Cedar Creek Trust Fund – During fiscal year 2008, general obligation debt, in the form of a loan from Cedar Creek Trust was issued by the City to provide funds for the improvement of city streets, as approved by the voters and repaid with property taxes levied and recorded in a Debt Service Fund. This loan is accurately reported as an external debt borrowing pursuant to generally accepted accounting principles. Accordingly, the debt is not reported as an Advance to/from other fund, long-term portion, or as a Due to/from other fund, short-term portion. The loan is recorded and reported in the general long-term debt account group within the fund financial statements and as general obligation debt within the government-wide financial statements. See Note 4 for further disclosure and debt maturity schedule.

NOTE I - RESTRICTED CASH AND INVESTMENTS

In compliance with the City's policies, debt covenants and Cedar Creek Trust, the governmental and enterprise funds restricted cash and investments at June 30, 2016 are as follows:

Fund	Description	Amount
General (Major)	Reserved by Council/cash flow	\$ 578,557
	Reserved by donor restrictions	233
Street Maintenance	Reserved by Council/cash flow	133,427

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(Major)		
Capital Projects General Equipment	Reserved by Council for future equipment purchases	79,411
Capital Projects Parks	Reserved by Council for future equipment/cash In lieu	298,916
Cedar Creek Trust(Major)	Reserved by Trust Document	483,918
Street Lighting	Reserved by Council/cash flow	20,000
Permissive Medical Levy	Reserved by Council/Cash flow	11,175
Bldg Code Enforcement	Reserved by Council/Cash flow	46,657
GO Pool Debt Service	Reserved by Council for debt payments	17,356
GO Street Debt Service	Reserved by Council for debt payments	34,482
Capital Projects Bldg Imp	Reserved by Council/bldg improvements	23,514
Water (Major)	Reserved for Future Debt Service	35,308
Water (Major)	Surplus Cash – System Improvements	311,293
Water (Major)	Replacement/Depreciation	246,754
Sewer (Major)	Reserved for Future Debt Service	256,051
Sewer (Major)	Surplus Cash – System Improvements	313,867
Sewer (Major)	WWTP Project/Debt	729,972
Sewer (Major)	Replacement/Depreciation	200,000
Water Capital Expansion	System Expansion	992,519
Sewer Capital Expansion	System Expansion	556,477
	Total	<u><u>\$5,369,888</u></u>

NOTE J - GOVERNMENT FUND BALANCE REPORTING

The City implemented Government Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Government Fund Type Definitions during 2011, and therefore required to classify fund balances into specifically defined classifications (see Note 1). The City spends restricted amounts first. When expenditure is incurred for purposes for which committed, assigned or unassigned funds are available, the City spends first committed, then assigned and finally unassigned funds.

Fund Balances:	Major			Other Gov't	Total
	General	Special Revenue Street Maintenance	Special Revenue Cedar Creek Tr		
Non-Spendable:					
Long-term receivable			\$479,912		\$479,912
Restricted:					
Trust Agreement			483,918		483,918
Grantor or contributors	\$233			\$7,627	7,860
State statute		\$229,665		366.872	596,537
Assigned:					
Designated by Admin/Council			43,972		43,972
Committed:					
Restricted by definitions of Funds in state law/grantor				601,812	601,812
Reserved by Council in Budget process	578,557				578,557
Un-assigned:					
Total Fund Balances	<u>\$1,073,205</u>	<u>\$229,665</u>	<u>\$1,007,802</u>	<u>\$976,311</u>	<u>\$3,286,983</u>

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The mayor and commission are the City's highest level of decision-making authority, and they adopted a resolution authorizing the City Administration to define and utilize the fund types in accordance with GASB 54 pursuant to actions authorized by the commission, such as budget adoption and letting of contracts. Assigned fund balances include funds committed by the commission to spend interest earnings of the Cedar Creek Trust Fund.

By resolution, the City will apply restricted and unrestricted resources within the City's Governmental fund-types in the following order: restricted, committed, assigned and unassigned.

The City maintains two major special revenue funds, the Street Maintenance Fund and the Cedar Creek Trust Fund. The purpose of the Street Maintenance Fund is to finance street repair, maintenance, snow removal and street signage. The purpose of the Cedar Creek Trust Fund is to account for the sale of City-owned land. GASB 54 requires disclosure of revenues for each major special revenue fund. Revenues are as follows:

Street Maintenance:	
Special assessments	\$300,364
Charges for service	1,200
Interest earnings	1,011
Miscellaneous	<u>33</u>
	<u>\$302,608</u>
Cedar Creek Trust:	
Gain on Sale of Land	\$223,000
Interest earnings	<u>9,521</u>
	<u>\$232,521</u>

NOTE K - RISK MANAGEMENT

The City faces a number of risks of loss including damage to and loss of property and contents, employee torts, professional liability, (i.e. errors and omission), environmental damage, worker's compensation, and medical insurance costs of employees. Commercial policies, transferring all risk of loss except for relatively small deductible amounts, are purchased for commercial property and boiler insurance. The City participates in a statewide public risk pool operated by the Montana Municipal Interlocal Authority (MMIA) for property and contents, business auto, contractors' equipment, bonding of public officials, workers' compensation and for tort liability coverage. In addition, the City contracts with the Montana Municipal Insurance Authority for the City employee medical, dental and vision benefit plans. MMIA provides an environmental damages fund of \$5 million each year for all participants on a first come, first served basis. The City has no coverage for potential losses from environmental damages once the \$ 5 million is expended.

Coverage limits and the deductibles in the commercial policies have stayed relatively constant for the last several years. The premiums for the policies are allocated between the governmental General Fund and the business-type Water and Sewer Funds based upon the insurance needs of the funds. Settled claims resulting from these risks did not exceed commercial insurance coverage for the past three years.

In 1986, the City joined with other Montana cities to form the Montana Municipal Interlocal Authority which established a workers' compensation plan and a tort liability plan. Both public

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entity risk pools currently operate as common risk management and insurance programs for the member governments. The liability limits for damages in tort actions are \$750,000 per individual and \$1.5 million per occurrence with an \$11,250 deductible per incident. State tort law limits the City's liability to \$1.5 million. The City pays an annual premium for its employee injury insurance coverage, which is allocated to the employer funds based on total salaries and wages. The agreements for formation of the pools provide that they will be self-sustaining through member contributions.

The City offers employees health benefits for medical, vision, and dental through the MMIA's multiple-employer health insurance plan. MMIA provides four medical plans with varying rates, benefits and deductibles from which City employees can select. The purpose of these plans is to pay medical claims of the City employees, retirees, participating elected officials and other enrolled family members. Rates are actuarially determined and approved by MMIA's Board each spring for the next fiscal year. The City pays a monthly premium.

NOTE L - LEASING ARRANGEMENTS

The City of Columbia Falls leases property to Plum Creek Manufacturing under two lease agreements:

1. There is a 99-year lease for Tract 7E in 8-30-20 (Land) with a minimum annual payment of \$10 plus street maintenance assessments.
2. There is a 15-year lease for Tract 13 in 8-30-20 (Land) with no minimum annual payment outstanding commencing March 1994. The lease automatically renews for a period of one year until the landfill is complete and closure is approved by the State.

NOTE M - COMMITMENTS

City Park Commitment - The City is committed to construct a City park on land leased from the City to Plum Creek Manufacturing using Plum Creek Manufacturing lease funds. Currently Plum Creek Manufacturing is using the land as a Class III landfill for wood chips and related products. The land is scheduled for reclamation upon completion of the Class III landfill and closure of the landfill has been approved by the Montana Solid Waste Bureau. The landfill is not expected to be completed in the upcoming fiscal year.

Pursuant to the terms of the lease agreement, Plum Creek Manufacturing paid \$100,000 in prior fiscal years to be used for the park. During fiscal year 2003, Plum Creek Manufacturing approved the use of the funds for general recreation purpose and the City elected to use \$69,100 of the funds to construct a bike path. The balance of \$30,900 was transferred to the Park Improvement Fund for future development of the park. The City is obligated to provide the funding for the development of the park.

NOTE N - INTERLOCAL AGREEMENTS

Building Code Enforcement Program

The City of Columbia Falls and the City of Whitefish signed an interlocal agreement to provide for plan review, site review, and site inspection relating to the enforcement of State and City of Columbia Falls technical, building, and plumbing codes within the extended jurisdictional limits of Columbia Falls. Plan review, site review, and site inspection is provided by Whitefish through its

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Building Department. In consideration of the services provided, the City of Columbia Falls has agreed to pay the City of Whitefish a sum equal to 65% of the permitting fees paid by the permit applicant, or a minimum of \$2,000 per month, on the project inspected payable on a monthly basis according to Columbia Falls' standard procedure.

911 Dispatch Services

Effective July 1, 2010, the City of Columbia Falls began receiving emergency dispatch services through an Interlocal agreement between the City and Flathead County, City of Kalispell, and the City of Whitefish. Pursuant to an April 2009 Interlocal Agreement, the entities established the Flathead Emergency Communications Center Governing Board. The Board adopts an annual budget that is presented for approval to the four parties. The costs of operating the center are prorated amongst the parties based on the latest US census population. The City's proportionate share of the 2016 FY operating budget is \$115,183 and for 2017 FY the share is \$115,183.

NOTE O - SERVICES PROVIDED FROM OTHER GOVERNMENTS

Flathead County provides various financial services to the City. The County serves as cashier and treasurer for the City for tax and assessment collections and other revenues received by the County. The collections made by the County on behalf of the City are accounted for in an agency fund in the City's name and are periodically remitted to the City by the County Treasurer. No service charges have been recorded by either the City or the County.

Flathead County and the City of Columbia Falls have also signed interlocal agreements whereby the County provides Animal Control, Recreation Programs, and Transit Service to the City. Columbia Falls has agreed to pay \$4,250 for Animal Control, \$6,000 for Recreation Programs and \$5,500 for Transit Services.

NOTE P – PRIOR PERIOD ADJUSTMENTS

The City recorded a prior period adjustment in the General Fund (Major) in the amount of (\$4,953) to reflect the reclassification of the Flex Funds to an Agency Fund. Additionally, the Sewer Fund (Major) also posted a prior period adjustment in the amount of \$4,753 to correct the posting of disposal contract revenue from 2015 FY.

NOTE Q – SUBSEQUENT EVENTS

The City is a defendant in one civil litigation matter filed after June 30, 2016. Although the outcome of the civil matter is not presently determinable, in the opinion of the City's counsel, the resolution of these matters will not have a materially adverse effect on the financial condition of the City.

NOTE R – RECENT ACCOUNTING PRONOUNCEMENTS

The Government Accounting Standards Board (GASB) has issued Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB), and Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, which are effective for the City beginning in FY 2018. The objective of these statements is to improve the

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usefulness of information about OPEB included in the financial reports of state and local governments for making decisions and assessing accountability.

GASB has issued Statement No. 77, Tax Abatement Disclosures, which is effective for the City beginning in FY 2017. The objective of this statement is to improve the transparency and consistency in reporting tax abatements.

GASB has issued Statement No. 78, Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans, which is effective for the City beginning in FY 2017. The objective of this statement is to address a practice issue regarding the scope and applicability of Statement No 68, Accounting and Financial Reporting for Pensions.

GASB has issued Statement No 79, Certain External Investment Pools and Pool Participants, and addresses accounting and financial reporting for certain external investment pool participants. Portions of this statement are effective for the City this fiscal year, while others are effective beginning in FY 2017. Those that are effective this year have been implemented.

GASB has issued Statement No. 80, Blending Requirements for Certain Component Units, an amendment of GASB Statement No. 14, which is effective for the City beginning in fiscal year 2017. The objective of this statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units.

GASB has issued Statement No. 81, Irrevocable Split-Interest Agreements, which is effective for the City beginning in fiscal year 2018. The objective of this statement is to improve accounting and financial reporting by providing recognition and measurement guidance for situations in which a government is a beneficiary of an irrevocable split-interest agreement.

GASB has issued Statement No. 82, Pension Issues, an amendment of GASB Statements No. 67, 68 and 73, which is effective for the City beginning in FY 2018. However, the City implemented this statement for fiscal year 2016. The objective of this statement is to address issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from guidance in an Actuarial Standard of Practice for reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

The City has not fully assessed the impact of Statements No. 74, 75, 77, 78, 79, 80 and 81 on its financial position and results of operations, but does not believe the adoption of these statements will have a material effect on its basic financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF COLUMBIA FALLS, FLATHEAD COUNTY, MONTANA

OTHER POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS
SCHEDULE OF FUNDING PROGRESS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	FY 2013	FY2014	FY2015	FY2016
Acturial Valuation Date	6/30/2013	6/30/2013	6/30/2013	6/30/2016
Actuarial Valuation of Assets	-	-	-	-
Actuarial Accrued Liability	-	-	-	-
Unfunded Actuarial Accrued Liability (UAAL)	-	-	-	-
Funded Ratio	N/A	N/A	N/A	N/A
Annual Covered Payroll	\$ 1,196,978	\$ 1,217,443	\$ 1,356,071	\$ 1,370,440
Ratio of UAAL to Annual Covered Payroll	N/A	N/A	N/A	N/A

NOTE:

An actuarial valuation was completed effective 6/30/16.

The City of Columbia Falls' actuarial accrued liability is zero as calculated pursuant to the Alternative Measurement Method.

Note F to the financial statements provides detailed information on this calculation.

The City is required to have a triennial actuarial valuation.

CITY OF COLUMBIA FALLS, FLATHEAD COUNTY, MONTANA

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDING JUNE 30, 2016

	-----General Fund-----			-----Street Maintenance-----		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
Revenues:						
Property Taxes/Assessments	\$ 989,496	\$ 989,496	\$ 989,553	\$ 301,700	\$ 301,700	\$ 300,364
Licenses and Permits	64,500	64,500	69,144	-	-	-
Intergovernmental	907,662	907,662	896,773	-	-	-
Charges for Services	124,230	124,230	126,158	500	500	1,200
Fines and Forfeitures	152,400	152,400	161,217	-	-	-
Miscellaneous	1,206	1,206	3,571	-	-	33
Investment Earnings	3,800	3,800	5,828	600	600	1,011
Total Revenues	<u>2,243,294</u>	<u>2,243,294</u>	<u>2,252,244</u>	<u>302,800</u>	<u>302,800</u>	<u>302,608</u>
Expenditures:						
General Government	737,440	737,440	567,925	-	-	-
Public Safety	1,329,742	1,329,742	1,282,703	-	-	-
Public Works	144,360	144,360	9,462	357,849	357,849	268,370
Public Health	4,250	4,250	4,250	-	-	-
Culture and Recreation	303,737	303,737	186,379	-	-	-
Miscellaneous	133,500	133,500	70,545	-	-	-
Debt Service	12,309	12,309	12,309	-	-	-
Capital Outlay	10,822	10,822	14,866	19,600	19,600	8,372
Total Expenditures	<u>2,676,160</u>	<u>2,676,160</u>	<u>2,148,439</u>	<u>377,449</u>	<u>377,449</u>	<u>276,742</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(432,866)</u>	<u>(432,866)</u>	<u>103,805</u>	<u>(74,649)</u>	<u>(74,649)</u>	<u>25,866</u>
Other Sources (Uses) of Funds:						
Transfers In	110,372	110,372	85,707	31,958	31,958	27,681
Transfers Out	<u>(203,203)</u>	<u>(203,203)</u>	<u>(203,203)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Sources (Uses) of Funds	<u>(92,831)</u>	<u>(92,831)</u>	<u>(117,496)</u>	<u>31,958</u>	<u>31,958</u>	<u>27,681</u>
Excess (Deficiency) of Revenues over Expenditures and Other sources (Uses)	<u>(525,697)</u>	<u>(525,697)</u>	<u>(13,691)</u>	<u>(42,691)</u>	<u>(42,691)</u>	<u>53,547</u>
Fund Balance						
Beginning of the Year	1,091,849	1,091,849	1,091,849	176,118	176,118	176,118
Prior Period Adjustment	-	-	(4,953)	-	-	-
End of the Year	<u>\$ 566,152</u>	<u>\$ 566,152</u>	<u>\$ 1,073,205</u>	<u>\$ 133,427</u>	<u>\$ 133,427</u>	<u>\$ 229,665</u>

The accompanying notes are an integral part of this schedule.

CITY OF COLUMBIA FALLS, FLATHEAD COUNTY, MONTANA

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDING JUNE 30, 2016

	-----Cedar Creek Trust-----		
	Original Budget	Final Budget	Actual
Revenues:			
Property Taxes/Assessments	\$ -	\$ -	\$ -
Licenses and Permits	-	-	-
Intergovernmental	-	-	-
Charges for Services	-	-	-
Fines and Forfeitures	-	-	-
Miscellaneous	-	-	-
Investment Earnings	47,935	47,935	9,522
Total Revenues	<u>47,935</u>	<u>47,935</u>	<u>9,522</u>
Expenditures:			
General Government	1,000	1,000	14,159
Public Safety	-	-	-
Public Works	-	-	-
Public Health	-	-	-
Culture and Recreation	-	-	-
Miscellaneous	-	-	-
Debt Service	-	-	-
Capital Outlay	40,325	40,325	-
Total Expenditures	<u>41,325</u>	<u>41,325</u>	<u>14,159</u>
Excess (Deficiency) of Revenues over Expenditures	<u>6,610</u>	<u>6,610</u>	<u>(4,637)</u>
Other Sources (Uses) of Funds:			
Transfers	-	-	-
Proceeds from Sale of Capital Assets	13,427	13,427	223,000
Total Other Sources (Uses) of Funds	<u>13,427</u>	<u>13,427</u>	<u>223,000</u>
Excess (Deficiency) of Revenues over Expenditures and Other sources (Uses)	20,037	20,037	218,363
Fund Balance			
Beginning of the Year	789,439	789,439	789,439
End of the Year	<u>\$ 809,476</u>	<u>\$ 809,476</u>	<u>\$ 1,007,802</u>

The accompanying notes are an integral part of this schedule.

CITY OF COLUMBIA FALLS, FLATHEAD COUNTY, MONTANA

NOTES TO THE BUDGET AND ACTUAL SCHEDULES JUNE 30, 2016

Budget Process – The State of Montana’s budget law stipulates that money, other than payments from agency funds, may not be drawn from the treasury of a municipality except pursuant to an appropriation. Therefore, a legally adopted budget is required for all funds, with the exception of agency funds. The City legally adopts a budget for the required funds.

Budgets are prepared on the modified accrual basis of accounting. Budgeted fund expenditures are limited by State law to the total budgeted amount which may be amended as defined by State law. Amendments to the budget can be made for unanticipated revenue with the approval of the City Council.

The City Council must meet prior to the budget adoption for the purpose of holding a public hearing on the final budget. This hearing can be continued until the budget is finally approved and adopted, and tax levies set, on or before the first Thursday after the first Tuesday in September or within 30 calendar days after receiving certified taxable values from the State Department of Revenue. The total value of the property within the City as determined by the County Assessor is the assessed valuation.

The City budgets may also include encumbrances, which represent commitments to expend funds under current budget appropriations. All appropriations lapse at the end of the fiscal year except for accounts payable and encumbrances. There were no encumbrances in 2016.

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CITY OF COLUMBIA FALLS, FLATHEAD COUNTY, MONTANA

MONTANA PUBLIC EMPLOYEES RETIREMENT SYSTEM

**SCHEDULE OF PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY**

	2016	2015
City's proportion of the net pension liability	0.06498%	0.06389%
City's proportionate share of the net pension liability associated with the City	\$ 908,284	\$ 796,071
State of Montana's proportionate share of the net pension liability associated with the City	11,157	9,721
Total	<u>\$ 919,441</u>	<u>\$ 805,792</u>
City's covered-employee payroll	\$ 758,285	\$ 723,229
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	119.781%	110.072%
Plan fiduciary net position as a percentage of the total pension liability	78.40%	79.90%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

SCHEDULE OF THE CITY'S PENSION PLAN CONTRIBUTION

	2016	2015
Contractually required contributions	\$ 62,724	\$ 64,626
Contributions in relation to the contractually required contributions	\$ 62,724	\$ 64,626
Contribution deficiency (excess)	\$ -	\$ -
City's covered-employee payroll	\$ 733,308	\$ 758,285
Contributions as a percentage of pensionable employee payroll	8.554%	8.523%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

CITY OF COLUMBIA FALLS, FLATHEAD COUNTY, MONTANA

Notes to Required Supplementary Information – Pension Information Public Employees Retirement System
For the Year Ended June 30, 2016

Changes of Benefit Terms

The following changes to the plan provision were made as identified:

2013 Legislative Changes:

Working Retirees - House Bill 95 - PERS, SRS, and FURS, effective July 1, 2013

- The law requires employer contributions on working retiree compensation.
- Member contributions are not required.
- Working retiree limitations are not impacted. PERS working retirees may still work up to 960 hours a year, without impacting benefits.

Highest Average Compensation (HAC) Cap - House Bill 97, effective July 1, 2013

All PERS members hired on or after July 1, 2013 are subject to a 110% annual cap on compensation considered as part of a member's highest or final average compensation.

All bonuses paid to PERS members on or after July 1, 2013 will not be treated as compensation for retirement purposes.

House Bill 454 - Permanent Injunction Limits Application of the GABA Reduction passed under HB 454

Guaranteed Annual Benefit Adjustment (GABA) - for PERS

After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of all other adjustments to the member's benefit.

- 3% for members hired prior to July 1, 2007
- 1.5% for members hired on or after July 1, 2007 and before July 1, 2013
- Members hired on or after July 1, 2013
 - a. 1.5% each year PERS is funded at or above 90%;
 - b. 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and,
 - c. 0% whenever the amortization period for PERS is 40 years or more.

2015 Legislative Changes:

General Revisions - House Bill 101, effective January 1, 2016

Second Retirement Benefit - for PERS

- 1) Applies to PERS members who return to active service on or after January 1, 2016. Members who retire before January 1, 2016, return to PERS-covered employment, and accumulate less than 2 years of service credit before retiring again:
 - refund of member's contributions from second employment plus regular interest (currently 0.25%);

CITY OF COLUMBIA FALLS, FLATHEAD COUNTY, MONTANA

Notes to Required Supplementary Information – Pension Information Public Employees Retirement System For the Year Ended June 30, 2016

- no service credit for second employment;
 - start same benefit amount the month following termination; and
 - GABA starts again in the January immediately following second retirement.
- 2) For members who retire before January 1, 2016, return to PERS-covered employment and accumulate two or more years of service credit before retiring again:
- member receives a recalculated retirement benefit based on laws in effect at second retirement; and,
 - GABA starts in the January after receiving recalculated benefit for 12 months.
- 3) For members who retire on or after January 1, 2016, return to PERS-covered employment and accumulate less than 5 years of service credit before retiring again:
- refund of member's contributions from second employment plus regular interest (currently 0.25%);
 - no service credit for second employment;
 - start same benefit amount the month following termination; and,
 - GABA starts again in the January immediately following second retirement.
- 4) For members who retire on or after January 1, 2016, return to PERS-covered employment and accumulate five or more years of service credit before retiring again:
- member receives same retirement benefit as prior to return to service;
 - member receives second retirement benefit for second period of service based on laws in effect at second retirement; and
 - GABA starts on both benefits in January after member receives original and new benefit for 12 months.

Revise DC Funding Laws - House Bill 107, effective July 1, 2015

Employer Contributions and the Defined Contribution Plan – for PERS and MUS-RP

The PCR was paid off effective March 2016 and the contributions of 2.37%, .47%, and the 1.0% increase previously directed to the PCR are now directed to the Defined Contribution or MUS-RP member's account.

Changes in Actuarial Assumptions and Methods

Method and assumptions used in calculations of actuarially determined contributions

The following addition to the actuarial assumptions was adopted in 2014 based upon implementation of GASB Statement 68:

Admin Expense as % of Payroll	0.27%
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CITY OF COLUMBIA FALLS, FLATHEAD COUNTY, MONTANA

Notes to Required Supplementary Information – Pension Information Public Employees Retirement System
For the Year Ended June 30, 2016

The following changes were adopted in 2013 based on the 2013 Economic Experience Study:

General Wage Growth*	4.00%
*Includes inflation at	3.00%
Investment rate of return	7.75 percent, net of pension plan investment expense, and including inflation

The following Actuarial Assumptions are from the June 2010 Experience Study:

General Wage Growth*	4.25%
*Includes inflation at	3.00%
Merit increase	0% to 7.3%
Investment rate of return	8.00 percent, net of pension plan investment expense, and including inflation
Asset valuation method	4-year smoothed market
Actuarial cost method	Entry age
Amortization method	Level percentage of pay, open

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CITY OF COLUMBIA FALLS, FLATHEAD COUNTY, MONTANA

MONTANA POLICE OFFICERS' RETIREMENT SYSTEM

**SCHEDULE OF PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY**

	2016	2015
City's proportion of the net pension liability	0.295727%	0.289823%
City's proportionate share of the net pension liability associated with the City	\$ 489,194	\$ 455,416
State of Montana's proportionate share of the net pension liability associated with the City	991,153	919,994
Total	\$ 1,480,347	\$ 1,375,410
City's covered-employee payroll	\$ 409,292	\$ 388,866
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	119.522%	117.114%
Plan fiduciary net position as a percentage of the total pension liability	66.90%	67.00%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

SCHEDULE OF THE CITY'S PENSION PLAN CONTRIBUTION

	2016	2015
Contractually required contributions	\$ 62,952	\$ 59,331
Contributions in relation to the contractually required contributions	\$ 62,952	\$ 59,331
Contribution deficiency (excess)	\$ -	\$ -
City's covered-employee payroll	\$ 429,223	\$ 409,282
Contributions as a percentage of pensionable employee payroll	14.667%	14.496%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

CITY OF COLUMBIA FALLS, FLATHEAD COUNTY, MONTANA

Notes to Required Supplementary Information – Pension Information Montana Police Officers’ Retirement System
For the Year Ended June 30, 2016

Changes of Benefit Terms

The following changes to the plan provision were made as identified:

2013 Legislative Changes:

Highest Average Compensation (HAC) Cap - House Bill 97, effective July 1, 2013

All MPORS members hired on or after July 1, 2013 are subject to a 110% annual cap on compensation considered as part of a member’s highest or final average compensation.

All bonuses paid to MPORS members on or after July 1, 2013 will not be treated as compensation for retirement purposes.

2015 Legislative Changes:

General Revisions - House Bill 101, effective January 1, 2016

MPORS DROP Survivor Benefits – for MPORS

Allow statutory beneficiary (spouse or dependent child) of a deceased DROP participant to receive a DROP benefit and a survivorship benefit rather than accumulated contributions or a lump sum payment. 19-9-1206(1), MCA.

Changes in Actuarial Assumptions and Methods

Method and assumptions used in calculations of actuarially determined contributions

The following addition to the actuarial assumptions was adopted in 2014 based upon implementation of GASB Statement 68:

Admin Expense as % of Payroll	0.20%
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The following changes were adopted in 2013 based on the 2013 Economic Experience Study:

General Wage Growth*	4.00%
*Includes inflation at	3.00%
Investment rate of return	7.75 percent, net of pension plan investment expense, and including inflation

The following Actuarial Assumptions are from the June 2010 Experience Study:

General Wage Growth*	4.25%
*Includes inflation at	3.00%
Merit increase	0% to 7.3%
Investment rate of return	8.00 percent, net of pension plan investment expense, and including inflation
Asset valuation method	4-year smoothed market
Actuarial cost method	Entry age
Amortization method	Level percentage of pay, open

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CITY OF COLUMBIA FALLS, FLATHEAD COUNTY, MONTANA
MONTANA FIREFIGHTERS' UNIFIED RETIREMENT SYSTEM

**SCHEDULE OF PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY**

	2016	2015
City's proportion of the net pension liability	0.045208%	0.045208%
City's proportionate share of the net pension liability associated with the City	\$ 46,238	\$ 44,179
State of Montana's proportionate share of the net pension liability associated with the City	102,984	99,666
Total	\$ 149,222	\$ 143,845
City's covered-employee payroll	\$ 60,753	\$ 58,789
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	76.108%	75.148%
Plan fiduciary net position as a percentage of the total pension liability	76.90%	76.70%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

SCHEDULE OF THE CITY'S PENSION PLAN CONTRIBUTION

	2016	2015
Contractually required contributions	\$ 8,952	\$ 8,894
Contributions in relation to the contractually required contributions	\$ 8,952	\$ 8,894
Contribution deficiency (excess)	\$ -	\$ -
City's covered-employee payroll	\$ 62,611	\$ 60,753
Contributions as a percentage of pensionable employee payroll	14.298%	14.640%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

CITY OF COLUMBIA FALLS, FLATHEAD COUNTY, MONTANA

Notes to Required Supplementary Information – Pension Information Montana Firefighters’ Unified Retirement System
For the Year Ended June 30, 2016

Changes of Benefit Terms

The following changes to the plan provision were made as identified:

2013 Legislative Changes:

Working Retirees – House Bill 95 – PERS, SRS, and FURS, effective July 1, 2013

- Require employer contributions on working retiree compensation.
- Member contributions are not required.
- Working retiree limitations are not impacted. FURS retirees may still work up to 480 hours a year, without returning to active service.

Highest Average Compensation (HAC) Cap - House Bill 97, effective July 1, 2013

All FURS members hired on or after July 1, 2013 are subject to a 110% annual cap on compensation considered as part of a member’s highest or final average compensation.

All bonuses paid to FURS members on or after July 1, 2013 will not be treated as compensation for retirement purposes.

2015 Legislative Changes: NONE

Changes in Actuarial Assumptions and Methods

Method and assumptions used in calculations of actuarially determined contributions

The following addition to the actuarial assumptions was adopted in 2014 based upon implementation of GASB Statement 68:

Admin Expense as % of Payroll	0.19%
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The following changes were adopted in 2013 based on the 2013 Economic Experience Study:

General Wage Growth*	4.00%
*Includes inflation at	3.00%
Investment rate of return	7.75 percent, net of pension plan investment expense, and including inflation

The following Actuarial Assumptions are from the June 2010 Experience Study:

General Wage Growth*	4.25%
*Includes inflation at	3.00%
Merit increase	0% to 7.3%
Investment rate of return	8.00 percent, net of pension plan investment expense, and including inflation
Asset valuation method	4-year smoothed market
Actuarial cost method	Entry age
Amortization method	Level percentage of pay, open

* * * * *

Doyle & Associates, P.C.

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INDEPENDENT AUDITOR'S 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*

Mayor and City Council
City of Columbia Falls
Flathead County
Columbia Falls, Montana

We have audited, 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, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Columbia Falls, Flathead County, Montana (the "City"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated July 31, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dafe & Associates, P.C.

Lolo, Montana
July 31, 2017