

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

FINANCIAL & COMPLIANCE REPORTS

FOR THE YEAR ENDED JUNE 30, 2015
(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, 2015

Mayor.....	Donald W. Barnhart
City Council.....	Mike Shepard Darin Fisher Jenny Lovering Julie Plevel 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, 2015. 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 \$24,810,939 (net position). Of this amount, \$764,329, or approximately 3%, may be used to meet the City's ongoing obligations to citizens and creditors. The remainder includes \$19,157,627 in capital assets, net of related debt and \$4,888,983 restricted for future debt payments and future use.
- Total net position increased by \$40,374 from routine operations. Net position in governmental activities was restated by (\$1,066,833) and net position in business-type activities was restated by (\$406,997) to record the pension liability as of June 30, 2015 as required by GASB Statement 68. The notes to the financial statements fully describe the effect of recording the pension liability.
- As of June 30 the City's governmental funds reported combined ending fund balances of \$3,120,330, an increase of \$189,305 over the prior year. Approximately 17% of this amount, \$537,270 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 four intersections serving Ruder Elementary, Junior High and High School in the amount of \$23,344.
- The City also completed the 13th Street Storm Drainage project in the amount of \$143,799 serving the Hill Top neighborhood.
- The City invested \$8,850 in pool insulating tarps, replacing the tarps used for over 20 years and replaced the ten-year old pool boiler for \$16,575.
- The City also invested \$13,615 in sidewalk, drywells and curb improvements. Additionally in Public Works, the City purchased a snow deflector and sander for a total of \$ 24,545.
- The City continued the police patrol vehicle replacement program, purchasing a 2015 Police Interceptor for \$37,870.
- The City also updated the Fire Department Command vehicle for \$47,040, purchased cooperatively by the City and the Columbia Falls Rural Fire District and a \$4,000 contribution from Plum Creek.
- The Sewer Fund purchased a utility vehicle for \$23,653 and the Water Fund purchased a new tapping tool for \$4,235. The City continued upgrading the SCADA system, expending \$59,514 in the 2014-15 FY. The project was completed in the 2015-16 FY.

Management's Discussion and Analysis (Continued)

- 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.
- The Water Fund Operating income (loss) for the water enterprise was \$51,452 compared to \$30,737 for the prior year. Water debt was reduced by \$24,000. The water fund's net position increased by \$51,452 for the 2015 fiscal year.
- Operating income (loss) for the sewer enterprise was (\$85,003) compared to operating income (loss) of (\$129,573) for the prior year. Sewer debt was reduced by \$211,769. The sewer fund's net position increased by \$35,026 for the 2015 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 basic 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 assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in 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*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type 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.

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 *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 financing 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 18 individual governmental funds. Information is presented separately for the General Fund and Street Maintenance Fund as they are major funds. Data from the other 16 funds are combined into a single aggregated presentation. Individual fund data for each of these non-major funds is provided in the form of combining statements contained in this report.

The City of Columbia Falls adopts annual appropriated budgets for its governmental and proprietary funds. Schedules providing budgetary comparison have been provided 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 2 funds, Water Capital Expansion and Sewer Capital Expansion, are combined into a single aggregated presentation. Individual fund data for each of these non-major funds is provided in the form of combining statements contained in this report.

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

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.

Management’s Discussion and Analysis (Continued)

The City of Columbia Falls has two administrative clearing funds for payroll and claims 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 68 of this report.

4. Other Information. “Required Supplementary Information,” pages 69 through 73, includes GASB Statements 68, 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 \$24,810,939 at June 30.

The following table provides a summary comparison of the City’s governmental and business-type net assets for fiscal years 2014 and 2015.

**City of Columbia Falls
Net Position**

	Governmental Activities		Business-type Activities		Total	
	2013-2014	2014-2015	2013-2014	2014-2015	2013-2014	2014-2015
Assets						
Current and other assets	\$ 3,330,282	\$ 3,416,100	\$3,988,591	\$ 4,218,167	\$ 7,318,873	\$ 7,634,267
Capital assets	\$10,577,762	\$10,148,343	\$11,902,719	\$11,737,057	\$22,480,481	\$21,885,400
Total Assets	\$13,908,044	\$13,564,443	\$15,891,310	\$15,955,224	\$29,799,354	\$29,519,667
Deferred outflows of resources		\$ 97,203		\$ 37,083		\$ 134,286
Liabilities						
Current and other liabilities	\$296,462	\$ 331,959	\$ 339,231	\$ 465,736	\$ 635,693	\$ 797,695
Long-term liabilities	\$1,143,328	\$ 1,901,262	\$1,775,939	\$ 1,873,050	\$ 2,919,267	\$ 3,774,312
Total Liabilities	\$1,439,790	\$ 2,233,221	\$2,115,170	\$ 2,338,786	\$ 3,554,960	\$4,572,007
Deferred inflows of resources		\$ 196,169		\$ 74,838		\$ 271,007
Net Position						
Invested in capital assets net of related debt	\$ 9,437,369	\$ 9,155,681	\$9,931,839	\$10,001,946	\$19,369,208	\$19,157,627
Restricted	\$ 1,238,570	\$ 1,264,702	\$2,926,861	\$ 3,624,281	\$ 4,165,431	\$ 4,888,983
Unrestricted	\$ 1,792,315	\$ 811,873	\$ 917,440	\$ (47,544)	\$ 2,709,755	\$ 764,329
Total Net Position	\$12,468,254	\$11,232,256	\$13,776,140	\$13,578,683	\$26,244,394	\$24,810,939

A significant portion of the City’s net assets (77%) 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

Management’s Discussion and Analysis (Continued)

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 \$4,888,983 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 \$74,090 in the G. O. bond and SID debt service funds, \$350,843 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 \$666,388 in Water and \$1,185,594 in Sewer. The Water and Sewer Capital Expansion Fund Net Assets are restricted to fund expansion of the applicable systems. Those restricted net assets total \$1,460,184. The remaining balance of unrestricted assets, \$764,329 (3%) 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. GASB 68 requires the City to report pension liabilities and related deferred inflows and outflows beginning this 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 \$40,375 in 2015. The table below indicates the changes in net assets for governmental and business-type activities in 2015 and compares to prior year.

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

	Governmental Activities		Business-type Activities		Total	
	2013-2014	2014-2015	2013-2014	2014-2015	2013-2014	2014-2015
Revenues						
Program revenues						
Charges for services	\$ 666,217	\$ 642,136	\$1,697,441	\$1,919,901	\$2,363,658	\$2,562,037
Operating grants and contributions	611,538	572,312			611,538	572,312
Capital grants and contributions	102,386	-	-	-	102,386	-
General revenues						
Property taxes	1,214,122	1,189,933			1,214,122	1,189,933
Intergovernmental revenue	705,123	678,782			705,123	678,782
Other revenues	448,234	378,335	24,219	41,650	472,453	419,985
Total revenues	\$3,747,620	\$ 3,461,498	\$1,721,660	\$1,961,551	\$5,469,280	\$5,423,049
Expenses						
General government	\$ 617,872	\$ 568,165			\$617,872	\$ 568,165
Public safety	1,304,982	1,405,486			1,304,982	1,405,486
Public works	996,710	1,031,600			996,710	1,031,600
Public health	4,250	4,250			4,250	4,250
Culture and recreation	256,614	256,025			256,614	256,025
Housing and community Development	480,670	279,330			480,670	279,330
Conservation of Natural Resources						

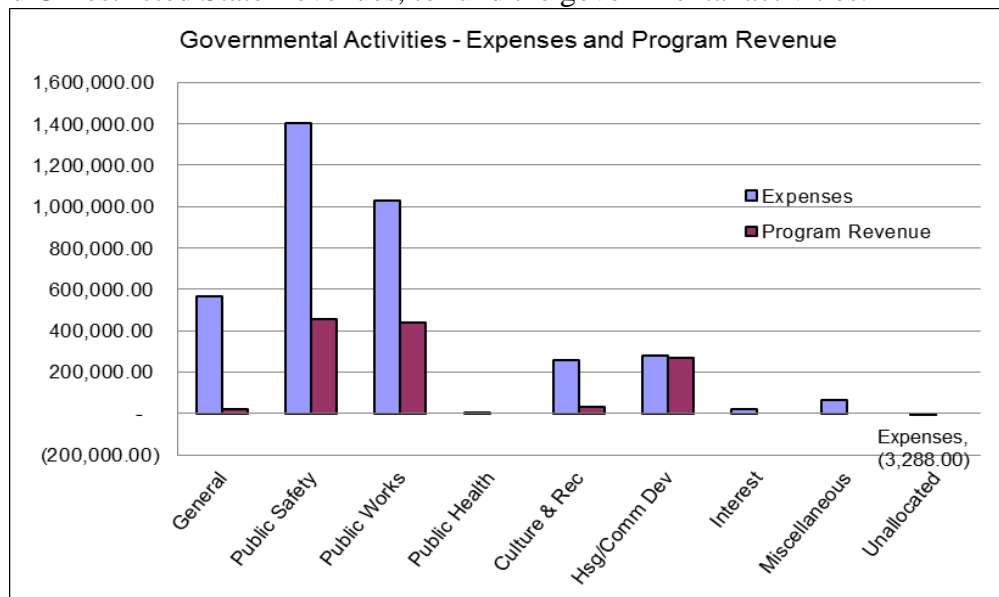
Management’s Discussion and Analysis (Continued)

Interest on long term debt	26,549	23,302			26,549	23,302
Miscellaneous	63,615	65,793			63,615	65,793
Unallocated. costs	(2,225)	(3,288)			(2,225)	(3,288)
Water			593,763	667,517	593,763	667,517
Sewer			1,110,371	1,084,494	1,110,371	1,084,494
Total expenses	\$3,749,037	\$3,630,663	\$1,704,134	\$1,752,011	\$5,453,171	\$5,382,674
Change in Net Position	(\$1,417)	(169,165)	\$17,526	209,540	\$16,109	40,375
Net Position-Beginning	\$12,404,771	\$12,468,254	\$13,758,614	\$13,776,140	\$26,163,385	\$26,244,394
Restatement	64,900	(1,066,832)	-	(406,997)	64,900	(1,473,829)
Net Position-Ending	\$12,468,254	\$11,232,256	\$13,776,140	\$13,578,683	\$26,244,394	\$24,810,939

Governmental Activities. Governmental activities in fiscal year 2015 decreased the City’s net position by \$169,165 with revenues totaling \$3.4 million and expenditures totaling \$3.6 million. The key elements of the decrease and the variance between the years are:

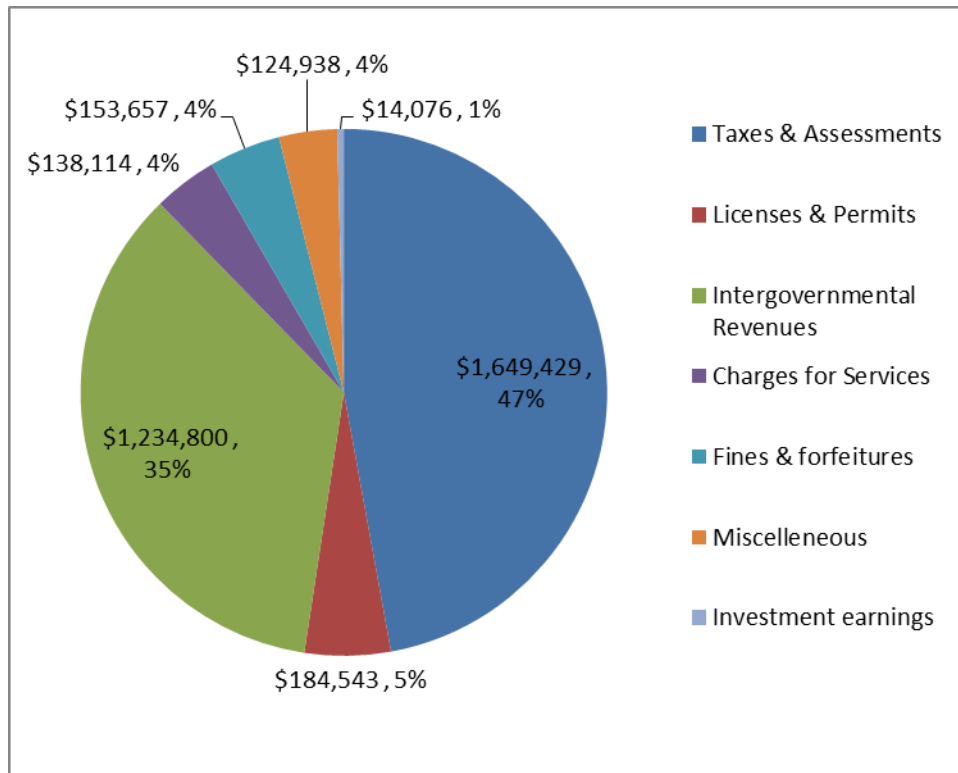
- City was awarded a CDBG Economic Development Grant for \$400,000, receiving \$387,830 of those funds in the 2014 FY and the remainder of \$13,170 during the 2015 FY.
- The City completed the HOME Grant funds during the 2015 FY, receiving \$258,533, for the Habitat Fifth Street Homes Project as compared to \$43,745 in the 2014 FY.
- The City did not record any contributed capital or capital grants in the 2015 FY. The City did invest \$315,637 in capital assets from City resources as outlined on page 3 and 4 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:



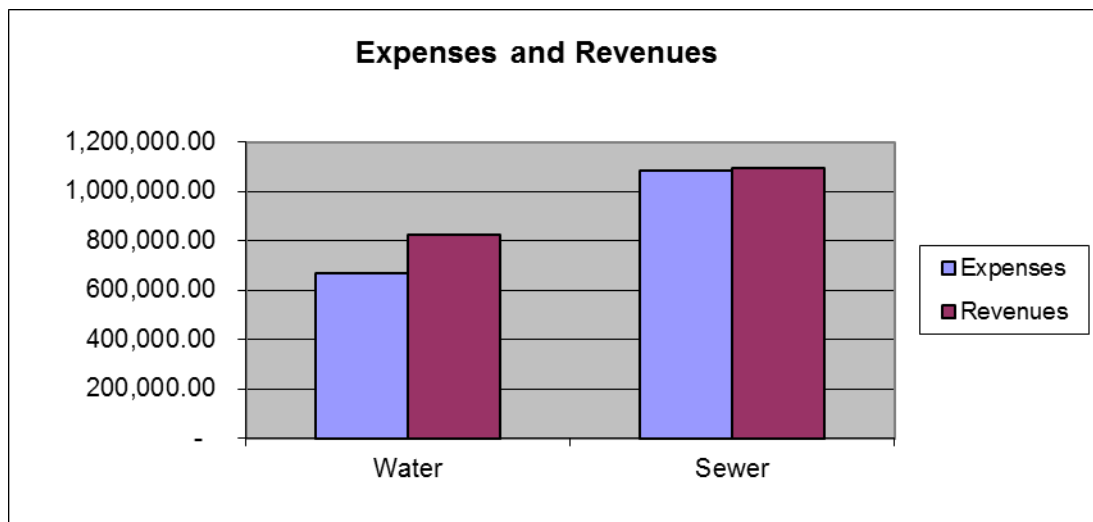
Management’s Discussion and Analysis (Continued)

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



Taxes & Assessment revenues experienced the greatest increase over the prior year at \$108,749 (7%) as well as increase of \$98,239 in Misc.Revenues (300%) due to the sale of land. Both Intergovernmental Revenues and Fines and Forfeiture revenues decreased by 13% from the prior year in the amounts of \$184,246 and \$24,830 respectively.

Business-type Activities. The City’s business-type activities, Water and Sewer, increased the City’s net position in 2015 by \$209,540. 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 2015, the combined ending fund balances of City governmental funds was \$3,120,330, an increase of \$189,305 over the prior year. Of this amount, \$350,843, or 11% is not in spendable form because it represents a long-term receivable in the Cedar Creek Trust Fund. \$913,658, 29%, 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. \$554,313, 18%, represents a cash reserve in the General fund to provide liquidity until tax revenue is received in December. Additionally, \$729,595, 23%, represents funds committed to future capital projects. The Cedar Creek Trust has an assigned balance of \$34,450. The unassigned fund balance is \$537,270, 17% 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 \$537,270, committed fund balance was \$554,313 and restricted by donors was \$266 for a total fund balance of \$1,091,849. 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 23% of the total General Fund expenditures and other financing uses while total fund balance represents approximately 47% of that same amount.

The City of Columbia Falls has two major governmental funds: the General Fund and Street Maintenance 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.

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.

Management's Discussion and Analysis (Continued)

The Water Fund unrestricted net position was \$3,767 as of June 30, 2015. Investment in capital, net of related debt is \$3,657,264 or 82% 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 \$678,683 from customers. Total operations resulted in a cash increase of \$3,574. 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 (\$51,311) as of June 30, 2015. Investment in capital, net of related debt is \$6,344,682 or 83% 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 \$965,699 from its customers. Total operations resulted in a cash increase for the year of \$61,255. 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 2014, the City Council appropriated \$ 2,764,477 for General Fund expenditures. The budget anticipated using \$466,337 of fund balance.

2014-2015 General Fund Budget

	Final Budget	Actual
Fund Balance Carryover for appropriation	\$ 466,337	
Revenue and other financing sources	2,301,078	2,382,924
Expenditures and other financing uses	(2,764,477)	(2,312,280)
Available for fiscal year 2015-2016	2,938	70,644

Actual revenues and other financing sources came within 3.5% of anticipated with a difference of only \$81,846; and actual expenditures were \$452,197 (16%) 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 \$80,202.

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, 2015 totals \$21,885,401 (net of accumulated depreciation). The 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.

Management's Discussion and Analysis (Continued)

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

- Completed the 13th Street Storm Drainage project for \$143,799 and drywells, curbs and sidewalk for an additional \$ 13,615 in infrastructure improvements.
- Completed the Safe Routes to Schools project by adding flashing beacons at four additional intersections for \$23,344. Within the Public Works Department, sanding and snow equipment were also purchased for a total of \$24,545.
- The Police Department purchased a 2015 Interceptor for \$37,871 and the Fire Department purchased a command vehicle \$47,040.
- The Water and Sewer Funds paid a combined \$473,285 in Construction in Progress on water and sewer main extensions and upgrades. The projects were completed in the 2016 FY.
- The Sewer Fund also purchased a 2015 utility vehicle for \$23,653 and started the final SCADA installation for \$59,514. The SCADA project was completed in the 2016 FY.
- Sold a lot in the Cedar Creek subdivision for a gain of \$54,220.

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 \$383,501 of governmental and business-type debt and issued no new debt during the 2015 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.

CERTIFIED PUBLIC ACCOUNTANTS

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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, 2015 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, 2015, 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.

Change in Accounting Principle

In 2015 the City adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment to GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. *Our opinions are not modified with respect to this matter.*

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, budgetary comparison information on page 69, and Schedule of City's Proportionate Share of Net Pension Liability and Contributions on pages 71 through 73 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 September 21, 2016 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.

Doyle & Associates, P.C.

Lolo, Montana
September 21, 2016

CITY OF COLUMBIA FALLS, FLATHEAD COUNTY, MONTANA

STATEMENT OF NET POSITION
JUNE 30, 2015

	Primary Government		2015 Total	Component Unit
	Governmental Activities	Business-type Activities		Fire Department Relief Association
<u>Assets</u>				
Current assets				
Cash and Cash Equivalents	\$ 971,144	\$ 744,087	\$ 1,715,231	\$ 420,134
Property Taxes Receivable	52,437	-	52,437	-
Special Assessments Receivable	11,000	-	11,000	-
Accounts/Other Receivables	45,854	182,691	228,545	-
Loan Receivable	36,000	-	36,000	-
Internal Balances	(75,042)	75,042	-	-
Due from Other Governments	170,006	-	170,006	-
Total Current Assets	1,211,399	1,001,820	2,213,219	420,134
Non-current Assets				
Restricted Cash	1,746,468	3,216,346	4,962,814	-
Special Assessment Receivable	69,020	-	69,020	-
Loan Receivable	314,843	-	314,843	-
Capital Assets - Net	10,148,343	11,737,058	21,885,401	-
Total Non-current Assets	12,278,674	14,953,404	27,232,078	-
Total Assets	13,490,073	15,955,224	29,445,297	420,134
<u>Deferred Outflows of Resources</u>				
Contributions to Pension Plans	97,203	37,083	134,286	-
Total Assets and Deferred Outflows	13,587,276	15,992,307	29,579,583	420,134
<u>Liabilities</u>				
Current liabilities				
Accounts Payable and Accrued Expenses	114,393	180,758	295,151	-
Deposits Payable	-	10,900	10,900	-
Compensated Absences due within one year	74,583	32,997	107,580	-
Current Portion of Long-Term Debt	137,001	241,080	378,081	-
Total Current Liabilities	325,977	465,735	791,712	-
Non-current Liabilities				
Compensated Absences	113,715	21,221	134,936	-
Long-Term Debt	781,290	1,494,032	2,275,322	-
Net Pension Liability	937,869	357,797	1,295,666	-
Total Non-current Liabilities	1,832,874	1,873,050	3,705,924	-
Total Liabilities	2,158,851	2,338,785	4,497,636	-
<u>Deferred Inflows of Resources</u>				
Deferred Inflows of Resources	196,169	74,839	271,008	-
Total Liabilities and Deferred Inflows	2,355,020	2,413,624	4,768,644	-
<u>Net Position</u>				
Net Investment in Capital Assets	9,155,681	10,001,946	19,157,627	-
Restricted	1,264,702	3,624,281	4,888,983	-
Unrestricted	811,873	(47,544)	764,329	420,134
Total Net Position	\$ 11,232,256	\$ 13,578,683	\$ 24,810,939	\$ 420,134

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, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
		Charges for Services	Operating Grants and Contributions	Capital Grants & Contributions	Primary Government			Component Unit Fire Department Relief Association
					Governmental Activities	Business-Type Activities	2015 Total	
Primary government:								
Governmental activities:								
General government	\$ 568,165	\$ 16,662	\$ 1,882	\$ -	\$ (549,621)		\$ (549,621)	
Public safety	1,405,486	247,870	206,024	-	(951,592)		(951,592)	
Public works	1,031,600	347,019	90,484	-	(594,097)		(594,097)	
Public health	4,250	-	-	-	(4,250)		(4,250)	
Culture and recreation	256,025	30,586	2,219	-	(223,220)		(223,220)	
Housing/Community Development	279,330	-	271,703	-	(7,627)		(7,627)	
Interest expense	23,302	-	-	-	(23,302)		(23,302)	
Miscellaneous expense	62,505	-	-	-	(62,505)		(62,505)	
Total governmental activities	<u>3,630,663</u>	<u>642,137</u>	<u>572,312</u>	<u>-</u>	<u>(2,416,214)</u>	<u>-</u>	<u>(2,416,214)</u>	<u>-</u>
Business-type activities:								
Water	667,517	825,939				158,422	158,422	
Sewer	1,084,494	1,093,962				9,468	9,468	
Total business-type activities	<u>1,752,011</u>	<u>1,919,901</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>167,890</u>	<u>167,890</u>	<u>-</u>
Total primary government	<u>\$ 5,382,674</u>	<u>\$ 2,562,038</u>	<u>\$ 572,312</u>	<u>\$ -</u>	<u>(2,416,214)</u>	<u>167,890</u>	<u>(2,248,324)</u>	<u>-</u>
Component Unit:								
Fire Department Relief Association	<u>\$ 58,249</u>							<u>(58,249)</u>
General Revenues:								
Property taxes					1,189,933	-	1,189,933	81,220
Licenses and permits					183,605	-	183,605	-
Unrestricted Federal/State shared revenues					678,782	6,216	684,998	17,066
Unrestricted grants and contributions					-	-	-	-
Unrestricted investment earnings					14,076	21,481	35,557	838
Miscellaneous					124,938	12,981	137,919	-
Gain (Loss) on sale of capital assets					55,715	972	56,687	-
Total general revenues					<u>2,247,049</u>	<u>41,650</u>	<u>2,288,699</u>	<u>99,124</u>
Change in net position					(169,165)	209,540	40,375	40,875
Total net position - July 1, 2014 as previously reported					12,468,254	13,776,140	26,244,394	379,259
Prior period adjustment					(1,066,833)	(406,997)	(1,473,830)	-
Total net position - June 30, 2015					<u>\$ 11,232,256</u>	<u>\$ 13,578,683</u>	<u>\$ 24,810,939</u>	<u>\$ 420,134</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, 2015

	Major Funds		Other Governmental Funds	Total Governmental Funds
	General	Street Maintenance		
<u>Assets</u>				
Current assets:				
Cash and Cash Equivalents	\$ 517,522	\$ 24,697	\$ 428,925	\$ 971,144
Property Taxes Receivable	41,203	-	11,234	52,437
Accounts/Other Receivables	45,854	-	-	45,854
Loan Receivable	-	-	36,000	36,000
Special Assessments Receivable	-	5,088	5,912	11,000
Due from Other Governments	108,743	26,441	34,823	170,007
Total Current Assets	<u>713,322</u>	<u>56,226</u>	<u>516,894</u>	<u>1,286,442</u>
Non-current assets:				
Restricted Assets:				
Cash and Cash Equivalents	559,653	133,807	1,053,008	1,746,468
Loan Receivable	-	-	314,843	314,843
Special Assessments Receivable	-	-	69,020	69,020
Total Non-current assets	<u>559,653</u>	<u>133,807</u>	<u>1,436,871</u>	<u>2,130,331</u>
Total Assets	<u>\$ 1,272,975</u>	<u>\$ 190,033</u>	<u>\$ 1,953,765</u>	<u>\$ 3,416,773</u>
<u>Liabilities:</u>				
Current liabilities				
Accounts Payable	\$ 31,491	\$ 1,620	\$ 14,052	\$ 47,163
Other Accrued Payables	59,511	7,207	512	67,230
Due to Other Funds	-	-	672	672
Total Liabilities	<u>91,002</u>	<u>8,827</u>	<u>15,236</u>	<u>115,065</u>
<u>Deferred Inflows of Resources:</u>				
Deferred Inflows of Resources	48,921	-	-	48,921
Deferred Inflows of Tax Revenues	41,203	5,088	86,166	132,457
Total Deferred Inflows of Resources	<u>90,124</u>	<u>5,088</u>	<u>86,166</u>	<u>181,378</u>
<u>Fund Balance:</u>				
Restricted	266	176,118	737,475	913,859
Non-Spendable	-	-	350,843	350,843
Assigned	-	-	34,450	34,450
Committed	554,313	-	729,595	1,283,908
Un-Assigned	537,270	-	-	537,270
Total Fund Balance	<u>1,091,849</u>	<u>176,118</u>	<u>1,852,363</u>	<u>3,120,330</u>
Total Liabilities and Fund Balance	<u>\$ 1,272,975</u>	<u>\$ 190,033</u>	<u>\$ 1,953,765</u>	<u>\$ 3,416,773</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, 2015

Fund balance as reported in the governmental fund statement	\$	3,120,330
Add assets not reported in the governmental funds statements:		
Capital assets		17,234,367
Less accumulated depreciation		(7,086,024)
		10,148,343
Less liabilities not reported in the governmental fund statements:		
Bond and notes payable		(918,291)
Advance from other Fund		(74,370)
Compensated absences		(188,298)
Net Pension Liability		(937,869)
		(2,118,828)
Special assessments & other receivables recognized as revenue in the government-wide statements		80,020
Deferred inflows for City Court contracts receivable recognized as revenue in the government-wide statements		45,854
Deferred inflows for property taxes recognized as revenue in the government-wide statements		52,437
Deferred inflows for City licenses and fees recognized as revenue in the government-wide statements.		3,066
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		97,203
Deferred Inflows		(196,169)
		(98,966)
Net position as reported in the government-wide statement of net position	\$	11,232,256

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, 2015

	Major Funds			Total Governmental Funds
	General	Street Maintenance	Other Governmental Funds	
<u>Revenues:</u>				
Property Taxes/Assessments	\$ 1,052,800	\$ 304,978	\$ 291,651	\$ 1,649,429
Licenses and Permits	67,611	-	116,931	184,542
Intergovernmental	871,481	-	363,319	1,234,800
Charges for Services	137,164	950	-	138,114
Fines and Forfeitures	149,541	-	4,116	153,657
Miscellaneous	2,165	31	122,742	124,938
Investment Earnings	4,650	669	8,759	14,078
Total Revenues	<u>\$ 2,285,412</u>	<u>\$ 306,628</u>	<u>\$ 907,518</u>	<u>\$ 3,499,558</u>
<u>Expenditures:</u>				
General Government	523,007	-	6,389	529,396
Public Safety	1,251,396	-	94,920	1,346,316
Public Works	5,525	312,078	162,354	479,957
Public Health	4,250	-	-	4,250
Culture and Recreation	174,253	-	-	174,253
Housing and Community Development	-	-	279,330	279,330
Debt Service				
Principal	11,107	-	136,625	147,732
Interest	961	-	22,341	23,302
Capital Outlay	153,986	34,251	127,402	315,639
Miscellaneous	64,981	-	812	65,793
Total Expenditures	<u>2,189,466</u>	<u>346,329</u>	<u>830,173</u>	<u>3,365,968</u>
Excess of (Deficiency of) Revenues over Expenditures	95,946	(39,701)	77,345	133,590
<u>Other Sources (Uses) of Funds:</u>				
Proceeds from sale of capital assets	-	-	55,715	55,715
Transfers	(25,301)	28,155	(2,854)	-
Total Other Financing Sources (Uses)	<u>(25,301)</u>	<u>28,155</u>	<u>52,861</u>	<u>55,715</u>
Change in Fund Balance	70,645	(11,546)	130,206	189,305
<u>Fund Balance</u>				
Beginning of the Year	<u>1,021,204</u>	<u>187,664</u>	<u>1,722,157</u>	<u>2,931,025</u>
End of the Year	<u>\$ 1,091,849</u>	<u>\$ 176,118</u>	<u>\$ 1,852,363</u>	<u>\$ 3,120,330</u>

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, 2015

Changes in fund balances as reported in the governmental funds statement	\$	189,305
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		315,639
Depreciation Expense		(745,058)
Gain or loss on the sale or disposal of capital asstes 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		55,715
Proceeds from the sale of capital assets		(55,715)
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		16,293
Long-term receivables (deferred revenue)		(110,068)
Repayment of debt principal is an expenditure in the governmenatl funds, but the repayment reduces long-term debt in the Statement of Net Position:		
Long-term debt principal payments		147,732
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		3,288
Pension accruals		13,704
		17,992
Changes in net position on the statement of activities	\$	(169,165)

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, 2015

	Major Enterprise Funds		Nonmajor Enterprise Funds	Totals
	Water	Sewer		
<u>Assets</u>				
Current assets:				
Cash and Cash Equivalents	\$ 630,121	\$ 113,966	\$ -	\$ 744,087
Accounts Receivable	76,142	90,123	16,426	182,691
Due From Other Funds	672	-	-	672
Total Current Assets	<u>706,935</u>	<u>204,089</u>	<u>16,426</u>	<u>927,450</u>
Non-current Assets:				
Restricted Assets:				
Cash and Cash Equivalents	393,355	1,379,233	1,443,758	3,216,346
Advances to Other Funds	46,787	27,583	-	74,370
Capital Assets (net of accumulated depreciation)	3,935,264	7,801,794	-	11,737,058
Total Non-current Assets	<u>4,375,406</u>	<u>9,208,610</u>	<u>1,443,758</u>	<u>15,027,774</u>
Total Assets	<u>5,082,341</u>	<u>9,412,699</u>	<u>1,460,184</u>	<u>15,955,224</u>
<u>Deferred Outflows of Resources</u>				
Pension Plan Contributions	15,723	21,360	-	37,083
Total Assets and Deferred Outflows	<u>5,098,064</u>	<u>9,434,059</u>	<u>1,460,184</u>	<u>15,992,307</u>
<u>Liabilities:</u>				
Current liabilities				
Accounts Payable and Accrued Expenses	149,315	31,443	-	180,758
Deposits Payable	10,900	-	-	10,900
Current Portion of Compensated Absences	13,911	19,086	-	32,997
Current Portion of Long-term Debt	25,000	216,080	-	241,080
Total Current Liabilities	<u>199,126</u>	<u>266,609</u>	<u>-</u>	<u>465,735</u>
Non-current Liabilities				
Compensated Absences	7,834	13,387	-	21,221
Long-Term Debt	253,000	1,241,032	-	1,494,032
Net Pension Liability	151,700	206,097	-	357,797
Total Non-current Liabilities	<u>412,534</u>	<u>1,460,516</u>	<u>-</u>	<u>1,873,050</u>
Total Liabilities	<u>611,660</u>	<u>1,727,125</u>	<u>-</u>	<u>2,338,785</u>
<u>Deferred Inflows of Resources</u>				
Deferred Inflows of Resources	31,730	43,109	-	74,839
Total Liabilitied and Deferred Inflows	<u>643,390</u>	<u>1,770,234</u>	<u>-</u>	<u>2,413,624</u>
<u>Net Position</u>				
Net Investment in Capital Assets	3,657,264	6,344,682	-	10,001,946
Restricted for:				
Debt Service	127,255	184,860	-	312,115
Replacement/Depreciation	212,041	373,245	-	585,286
System Improvements	454,347	812,349	1,460,184	2,726,880
System Expansion	-	-	-	-
Unrestricted	3,767	(51,311)	-	(47,544)
Total Net Position	<u>\$ 4,454,674</u>	<u>\$ 7,663,825</u>	<u>\$ 1,460,184</u>	<u>\$ 13,578,683</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, 2015

	Major Enterprise Funds		Nonmajor Enterprise Funds	Totals
	Water	Sewer		
<u>Operating revenues</u>				
Charges for Services	\$ 703,728	\$ 981,158	\$ 235,015	\$ 1,919,901
Special Assessments	2,387	1,417	-	3,804
Miscellaneous Revenues	1,244	2,704	-	3,948
Total Operating Revenues	<u>707,359</u>	<u>985,279</u>	<u>235,015</u>	<u>1,927,653</u>
<u>Operating expenses:</u>				
Personal Services	237,723	302,349	-	540,072
Supplies	79,913	73,092	-	153,005
Purchased Services	106,580	153,922	-	260,502
Building Materials	-	107	-	107
Fixed Charges	7,759	23,595	-	31,354
Bad Debt	686	1,675	-	2,361
Depreciation	228,195	498,154	-	726,349
Total Operating Expenses	<u>660,856</u>	<u>1,052,894</u>	<u>-</u>	<u>1,713,750</u>
Operating Income (Loss)	<u>46,503</u>	<u>(67,615)</u>	<u>235,015</u>	<u>213,903</u>
<u>Nonoperating Revenues (Expenses):</u>				
Intergovernmental Revenue	2,635	3,581	-	6,216
Interest Revenue	5,786	7,620	8,075	21,481
Gain (Loss) on Sale of Capital Assets	972	-	-	972
Other Revenue	2,216	3,012	-	5,228
Debt Service Interest Expense	(6,660)	(31,600)	-	(38,260)
Total Nonoperating Revenues (Expenses)	<u>4,949</u>	<u>(17,387)</u>	<u>8,075</u>	<u>(4,363)</u>
Change in Net Position before Transfers	51,452	(85,002)	243,090	209,540
<u>Transfers:</u>				
Transfers In (Out)	-	120,029	(120,029)	-
Change in Net Position	51,452	35,027	123,061	209,540
Total Net Position - July 1, 2014	4,575,782	7,863,235	1,337,123	13,776,140
Prior Period Adjustment	(172,560)	(234,437)	-	(406,997)
Total Net Position - June 30, 2015	<u>\$ 4,454,674</u>	<u>\$ 7,663,825</u>	<u>\$ 1,460,184</u>	<u>\$ 13,578,683</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, 2015

	Business-Type Activities		Nonmajor Enterprise Funds	Totals
	Water	Sewer		
<u>Cash flows from operating activities:</u>				
Cash received from customers	\$ 678,683	\$ 965,699	\$ 236,848	\$ 1,881,230
Cash payments to suppliers for goods and services	(66,093)	(273,740)	-	(339,833)
Cash payments to employees and professionals	(231,206)	(313,915)	-	(545,121)
Net cash provided by operating activities	<u>381,384</u>	<u>378,044</u>	<u>236,848</u>	<u>996,276</u>
<u>Cash flows from noncapital financing activities:</u>				
Advances from (to) other funds	3,584	2,127	-	5,711
Transfers from (to) other funds	-	120,029	(120,029)	-
Net cash (used for) provided by noncapital financing activities	<u>3,584</u>	<u>122,156</u>	<u>(120,029)</u>	<u>5,711</u>
<u>Cash flows from capital and related financing activities:</u>				
Purchases/construction of capital assets	(357,492)	(203,196)	-	(560,688)
Principal paid on capital debt	(24,000)	(211,769)	-	(235,769)
Interest paid on capital debt	(6,660)	(31,600)	-	(38,260)
Proceeds from sale of capital assets	972	-	-	972
Net cash used for capital and related financing activities	<u>(387,180)</u>	<u>(446,565)</u>	<u>-</u>	<u>(834,717)</u>
<u>Cash flows from investing activities</u>				
Interest on investments	5,786	7,620	8,075	21,481
Net cash provided by investing activities	<u>5,786</u>	<u>7,620</u>	<u>8,075</u>	<u>21,481</u>
Net (decrease) increase in cash and cash equivalents	3,574	61,255	124,894	189,723
Cash and cash equivalents at July 1, 2014	1,019,902	1,431,944	1,318,864	3,770,710
Cash and cash equivalents at June 30, 2015	<u>\$ 1,023,476</u>	<u>\$ 1,493,199</u>	<u>\$ 1,443,758</u>	<u>\$ 3,960,433</u>
<u>Reconciliation of operating income to net cash provided by operating activities:</u>				
Operating income (loss)	\$ 46,503	\$ (67,615)	\$ 235,015	\$ 213,903
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation	228,195	498,154	-	726,349
(Increase) decrease in accounts receivable	(29,285)	(17,906)	1,833	(45,358)
(Increase) decrease in due from other funds	(205)	-	-	(205)
Decrease in customer deposits	1,500	-	-	1,500
Increase (decrease) in accounts payable	128,159	(23,024)	-	105,135
Increase (decrease) in intergovernmental payable	479	(2,682)	-	(2,203)
Increase (decrease) in compensated absences payable	6,038	(8,883)	-	(2,845)
Net cash provided by operating activities	<u>\$ 381,384</u>	<u>\$ 378,044</u>	<u>\$ 236,848</u>	<u>\$ 996,276</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, 2015

		Agency Funds
Assets		
	Cash and Investments	\$ 144,744
	Total Assets	\$ 144,744
Liabilities		
	Warrants Payable	\$ 129,917
	Accounts Payable	14,827
	Total Liabilities	\$ 144,744

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, 2015

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, 2015.

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

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.

City of Columbia Falls, Flathead County, Montana
Notes to the Financial Statements (Continued)
June 30, 2015

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.

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

City of Columbia Falls, Flathead County, Montana
Notes to the Financial Statements (Continued)
June 30, 2015

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.

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 two agency funds: Payroll and Claim 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, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. With the 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.

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.

City of Columbia Falls, Flathead County, Montana
Notes to the Financial Statements (Continued)
June 30, 2015

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.

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.

Investments are recorded at fair value in accordance with GASB Statement 31 with all investment income, including changes in the fair value of investments, reported as revenue in the financial statements.

City of Columbia Falls, Flathead County, Montana
Notes to the Financial Statements (Continued)
June 30, 2015

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 material uncollectible taxes receivable.

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.

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

City of Columbia Falls, Flathead County, Montana
Notes to the Financial Statements (Continued)
June 30, 2015

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 proprietary 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. 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.

City of Columbia Falls, Flathead County, Montana
Notes to the Financial Statements (Continued)
June 30, 2015

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.

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 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 assets are those that have constraints placed on them either by external parties or imposed by law or enabling legislation.

City of Columbia Falls, Flathead County, Montana
Notes to the Financial Statements (Continued)
June 30, 2015

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 required the adoption of 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.

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 the later of 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.

City of Columbia Falls, Flathead County, Montana
Notes to the Financial Statements (Continued)
June 30, 2015

The City Commission modified the 2015 budget for the receipt of unanticipated building permit revenues and additional contracted services expenditure and to close the Local Government Study Commission fund. 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 2014 were 243,945,917 and 6,669,524 respectively. The City’s mill levy totaled 191.875 mills including a 146.997 all-purpose levy, 11.315 mills for the Fire Relief Pension Fund, 12.082 for the Permissive Medical Levy and 21.481 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, 2015 was as follows:

	<u>Total</u>	
Cash on Hand	\$	525
Flex Advance		5,074
Demand Deposits		4,722,150
Government Backed Securities		2,095,000
State Short-term Investment Pool (STIP)		40
Total		\$ 6,822,789

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

City of Columbia Falls, Flathead County, Montana
Notes to the Financial Statements (Continued)
June 30, 2015

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, 2015 was \$7,150,000 which exceeds the amount required by statute. At June 30, 2015, 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 previously invested in the Short-Term Investment Pool (STIP) managed by the State of Montana Board of Investments but elected in the 2015 FY to invest the funds in other investments in order to increase interest earnings. 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 City has elected to leave the STIP accounts open to allow the City to take advantage of the pool at such time the investment return is comparable to other investment opportunities.

The investments managed by the City were 69% invested in an interest bearing account secured as noted above with Glacier Bank. For the year ended June 30, 2015, the average investment return on this account was 0.25%, almost twice the STIP rate of return of 0.12936%. 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 1.0% - 1.94%.

City of Columbia Falls, Flathead County, Montana
Notes to the Financial Statements (Continued)
June 30, 2015

NOTE D - CAPITAL ASSETS

Changes in general capital assets were as follows:

	Balance July 1, 2014	Debits, including adjustments	Credits, including adjustments	Balance June 30, 2015
Cost:				
Land	\$ 1,802,337	\$	\$	\$ 1,802,337
Construction in progress	5,874			5,874
Buildings	2,643,573			2,643,573
Improvements	807,674	157,414		965,088
Machinery and equipment	2,259,172	158,225	30,147	2,387,250
Infrastructure	9,430,245			9,430,245
Total	16,948,875	315,639	30,147	17,234,367
Less: Accumulated Depreciation:	(6,371,113)	30,147	745,058	(7,086,024)
Net Capital Assets	<u>\$ 10,577,762</u>	<u>\$ 345,786</u>	<u>\$ 775,205</u>	<u>\$ 10,148,343</u>

Changes in proprietary fund capital assets were as follows:

	Balance July 1, 2014	Debits	Credits	Balance June 30, 2015
Cost:				
Land	\$ 17,402	\$ -	\$	\$ 17,402
Construction Work in Progress		532,799		532,799
Source of Supply	1,758,428		-	1,758,428
Pumping Plant	486,331		-	486,331
Treatment Plant	8,198,341		-	8,198,341
Transmission and Distribution	10,954,504		-	10,954,504
General Plant	2,452,154	27,888		2,480,042
Total	23,867,160	560,687		24,427,847
Less: Accumulated Depreciation	(11,964,441)		726,349	(12,690,790)
Net Capital Assets	<u>\$ 11,902,719</u>	<u>\$ 560,687</u>	<u>\$ 726,349</u>	<u>\$ 11,737,057</u>

Governmental activities depreciation expense was charged to functions as follows:

Governmental Activities:

General Government	\$ 41,993
Public Safety	66,757
Public Works	553,824
Culture and Recreation	<u>82,484</u>
Total governmental activities depreciation	<u>\$ 745,058</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 2015 fiscal year, leaving an outstanding balance of \$235,000.

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, 2015, the City had drawn down a total of \$703,287 from the Trust, and repaid \$40,905 during the 2015 fiscal year, leaving an outstanding balance of \$350,843. 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 \$35,009 during 2015, leaving an outstanding balance of \$244,652 as of June 30, 2015. The City will use the Debt Service authorization to repay the Cedar Creek Trust and the Intercap Loan.

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, 2015, the Cedar Creek Trust had a total cash balance of \$438,597, consisting of \$34,450 unrestricted and \$404,146 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

City of Columbia Falls, Flathead County, Montana
Notes to the Financial Statements (Continued)
June 30, 2015

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 \$11,107 during the 2015 Fiscal year, leaving a balance of \$87,796 as of June 30, 2015.

General obligation bonds and debt outstanding as of June 30, 2015, were as follows:

Purpose:	Issue Date	Interest Rate	Bond Term	Maturity Date	Annual Payment	Bonds/ Debt Issued	Balance June 30, 2015
Swimming Pool Street Improvements	6/27/1999	4-6.5%	20 yrs	7/1/2019	Varies	\$857,000	\$235,000
Street Improvements – Intercap	6/26/2007	Var	20 yrs	7/1/2027	Varies	\$703,287	\$350,843
Fire Apparatus- Intercap	8/26/2011	1.0- 1.25%	10 yrs	8/15/2021	Varies	\$364,449	\$244,652
	8/31/2012	1.0- 1.25%	10 yrs	8/15/2022	Varies	\$115,365	\$ 87,796

Changes in long-term debt were as follows:

	Balance June 30, 2014	Change	Balance June 30, 2015	Amount due in 2016
General Obligation Bonds	\$ 290,000	\$ (55,000)	\$ 235,000	\$55,000
General Obligation Debt	770,312	(87,021)	683,291	\$82,001
Net Pension Liability	1,066,833	(128,964)	937,869	-
Compensated Absences	191,586	(3,288)	188,298	\$74,583
Total	\$2,318,731	\$(274,273)	\$2,044,458	\$211,584

Annual requirement to amortize general obligation debt:

For Fiscal Year Ended	Principal	Interest
2016	137,001	17,927
2017	138,069	14,424
2018	144,155	10,835
2019	150,258	6,993
2020	86,378	2,888
2021 and beyond	262,430	4,422
Total	\$918,291	\$57,489

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:

City of Columbia Falls, Flathead County, Montana
Notes to the Financial Statements (Continued)
June 30, 2015

Total Assessed value of taxable property (market value)	\$243,945,917
General limitation percentage	<u>2.50%</u>
General limit of indebtedness	\$ 6,098,648
Outstanding general obligation bonds at June 30	235,000
Outstanding loans subject to limitation	<u>683,291</u>
Total Debt subject to limit	<u>918,291</u>
Remaining Legal Debt Margin	<u>\$ 5,180,357</u>

Long-term Debt Supporting Business-type Activities

Changes in long-term debt were as follows:

	Balance June 30, 2014	Change	Balance June 30, 2015	Amount due in 2016
Revenue Bonds	\$1,883,000	\$(211,000)	\$1,672,000	\$216,000
Intercap Loan	87,881	(24,769)	63,112	25,080
Net Pension Liability	406,997	(49,200)	357,797	-
Compensated Absences	57,063	(2,845)	54,218	32,997
Total	<u>\$2,434,941</u>	<u>\$(287,814)</u>	<u>\$2,147,127</u>	<u>\$274,077</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, 2015
Water System Revenue Refunding Bond	2005	2.25%	12 yrs	7/1/2025	\$ 350,000	Varies	\$ 278,000
Sewer System Revenue Refunding Bond	2001	2.25%	7 yrs	7/1/2020	\$1,248,000	Varies	803,000
Sewer System Revenue Bond	2009B	0.75%	20 yrs	7/1/2029	\$359,300	Varies	257,000
Sewer System Revenue Refunding Bond	2009C	3.00%	18 yrs	7/1/2030	\$385,000	Varies	334,000
Total					<u>\$2,342,300</u>		<u>\$1,672,000</u>

City of Columbia Falls, Flathead County, Montana
Notes to the Financial Statements (Continued)
June 30, 2015

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 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 all applicable debt covenants as of June 30, 2015. The debt service coverage ratio is indicated below:

Debt Service Coverage:	<u>Water</u>	<u>Sewer</u>
Operating Revenues	\$830,542	\$1,098,082
Operating Expenses	<u>426,978</u>	<u>552,047</u>
Net Revenue	<u>\$ 403,564</u>	<u>\$ 546,035</u>
Max Debt Service	\$ 35,994	\$234,056
Percent Coverage	1121.1%	233.2%

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 1.25%. The Board sets the rate each February. The City repaid \$24,769 leaving an amount outstanding at June 30, 2015 of \$63,112.

Annual requirement to amortize revenue bond and loan debt:

<u>For Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2016	\$241,080	\$33,757
2017	244,394	29,147
2018	236,638	24,473
2019	227,000	19,875
2020	233,000	15,264
Thereafter	553,000	54,938
Total	<u>\$1,735,112</u>	<u>\$177,454</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. 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.

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 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. Member rights are vested after five years of service.

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:

City of Columbia Falls, Flathead County, Montana
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June 30, 2015

- 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.

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

- 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.

*At this time, as a result of permanent injunction issued by the AMPRE vs State litigation, the GABA rate in effect is being used in the calculation. Clarification of the GABA rate for members hired on or after July 1, 2013 is pending.

Total number of members (employees) covered by benefit terms as of June 30, 2015:

- Active plan members: 28,237
- Inactive members entitled to but not yet receiving benefits or a refund:
 - Vested: 2,925
 - Non-vested: 8,839
- Inactive members and beneficiaries currently receiving benefits:
 - Service Retirements: 20,080
 - Disability Retirements: 176
 - Survivor Benefits: 425

Overview of Contributions

1. Rates are specified by state law for periodic employer and employee contributions. The State legislature has the authority to establish and amend contribution rates to the plan.
2. Member contributions to the system:
 - a. Plan members are required to contribute 7.90% of member's compensation. Contributions are deducted from each member's salary and remitted by participating employers.
 - b. The 7.90% member contributions is temporary and will be decreased to 6.90% on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and additional member contribution rates.
3. Employer contributions to the system:
 - a. Local government entities are required to contribute 8.17% of members' compensation.
 - b. Following the 2013 Legislative Session, PERS-employer contributions were temporarily increased. Effective July 1, 2013, employer contributions increased 1.0%. Beginning July 1, 2014, employer contributions increased an additional 0.1% a year over 10 years through 2024. The employer additional contributions including the 0.27% added in 2007 and 2009, terminates on January 1 following actuary valuation results that show the amortization period of the PERS-DBRP has dropped below 25 years and would remain below 25 years following the reductions of both the additional employer and member contribution rates.
 - c. Effective July 1, 2013, the additional employer contributions for DCRP and MUS-RP is allocated to the defined benefit plan's Plan Choice Rate unfunded liability.
4. Non-Employer Contributions
 - a. Special Funding
The state contributes 0.1% of members' compensation on behalf of local government entities.
 - b. Not Special Funding
The state contributes from the Coal Tax Severance fund.

Stand-Alone Statements

The PERS financial information is reported in the Public Employees' Retirement Board's Comprehensive Annual Financial Report for the fiscal year ended. It is available from the PERB at 100 North Park, PO Box 200131, Helena MT 59620-0131, (406) 444-3154

CAFR information including stand-alone financial statements can be found on the website at <http://mpera.mt.gov/annualReports.shtml>

The latest actuarial valuation and experience study can be found on the website at <http://mpera.mt.gov/actuarialValuations.asp>

Actuarial Assumptions

The Total Pension Liability as of June 30, 2014, is based on the results of an actuarial valuation date of June 30, 2014. There were several significant assumptions and other inputs used to measure the Total Pension Liability. The actuarial assumptions used in the June 30, 2014, valuation were based on the results of the last actuarial experience study, dated May 2010, for the six-year period July 1, 2003 to June 30, 2009. Among those assumptions were the following:

- General Wage Growth* 4.00%
 *includes Inflation at 3.00%
- Merit Increases 0% to 6%
- Investment Return 7.75%
- Postretirement Benefit Increases:
 - 3% for members hired prior to July 1, 2007
 - 1.5% for members hired on or after July 1, 2007After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of other adjustments to the member's benefit.

*At this time as a result of permanent injunction issued in the AMRPE vs State litigation, the GABA rate in effect is being used in the calculation. Clarification of the GABA rate for members hired on or after July 1, 2013 is pending.

- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

Discount Rate

The discount rate used to measure the Total Pension Liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities will be made based on the Board's funding policy, which establishes the contractually required rates under Montana Code Annotated. The State contributes 0.1% of salaries for local governments. In addition, the State contributes coal severance tax and interest money from the general fund. The interest is contributed monthly and the severance tax is contributed quarterly. Based on those assumptions, the System's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2122. 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. No municipal bond rate was incorporated in the discount rate.

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June 30, 2015

Target Allocations

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash Equivalents	2.00%	-0.25%
Domestic Equity	36.00%	4.80%
Foreign Equity	18.00%	6.05%
Fixed Income	24.00%	1.68%
Private Equity	12.00%	8.50%
Real Estate	8.00%	4.50%

The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the System. The most recent analysis, performed for the period covering fiscal years 2003 through 2009, is outlined in a report dated May 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption including rates of return adopted by similar public sector systems, and by using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates are presented as the arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2014, is summarized in the following table.

Sensitivity Analysis

	<u>1.0% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1.0% Increase (8.75%)</u>
PERS' Net Pension Liability	\$1,982,274,732	\$1,246,010,898	\$625,044,646
Employer's proportionate share of net pension liability	\$27,251,671	\$171,297,543	\$8,592,911

In accordance with GASB 68 regarding the disclosure of the sensitivity of the Net Pension Liability to changes in the discount rate, the above table presents the Net Pension Liability calculated using the discount rate of 7.75%, as well as what the Net Pension Liability would be if it were calculated using a discount rate that is 1.00% lower (6.75%) or 1.00% higher (8.75%) than the current rate.

Summary of Significant Accounting Policies

The Montana Public Employee 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 pensions, Pension Expense, information about the fiduciary net position and additions to/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 in the period in which contributions are due. Employer 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 measurable. Benefit payments and refunds are recognized in the accounting period when due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred. Investments are reported at fair value. MPERA adheres to all applicable Governmental Accounting Standards Board (GASB) statements.

Net Pension Liability

In accordance with GASB Statement 68, Accounting and Financial Reporting for Pensions, employers are required to recognize and report certain amounts associated with their participation in the Public Employees' Retirement System (PERS). Statement 68 became effective June 30, 2015, and includes requirements to record and report their proportionate share of the collective Net Pension Liability, Pension Expense, Deferred Inflows, and Deferred Outflows of resources associated with pensions.

In accordance with Statement 68, PERS has a special funding situation in which the State of Montana is legally responsible for making contributions directly to PERS on behalf of the employers. Due to the existence of this special funding situation, local governments are required to report the portion of the State of Montana's proportionate share of the collective Net Pension Liability that is associated with the employer.

The State of Montana also has a funding situation that is not Special Funding whereby the State General Fund provides contributions from the Coal Severance Tax and interest. All employers are required to report the portion of Coal Tax Severance Tax and interest attributable to the employer.

	<u>Net Pension Liability as of June 30, 2013</u>	<u>Net Pension Liability as of June 30, 2014</u>	<u>Percent of Collective NPL</u>
City's Proportionate Share	\$1,024,421	\$796,071	0.063890%
State of Montana Proportionate Share associated with City	12,510	9,721	0.081161%
Total	\$1,036,931	\$805,792	0.145051%

At June 30, 2015, the City recorded a liability of \$796,071 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2014, and the Total Pension Liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of July 1, 2014. The City's proportion of the Net Pension Liability was based on the city's contributions received by PERS during the measurement period July 1, 2013, through June 30, 2014, relative to the total city contributions received from all of PERS' participating employers. At June 30, 2014, the City's proportion was 0.063890 percent.

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Changes in actuarial assumptions and methods: There were no changes in assumptions or other inputs that affected the measurement of the Total Pension Liability.

Changes in benefit terms: There have been no changes in benefit terms since the previous measurement date.

Changes in proportionate share: There were no changes between the measurement date of the collective Net Pension Liability and the City's reporting date that are expected to have a significant effect on the City's proportionate share of the collective NPL.

At June 30, 2015, the City recognized a Pension Expense of \$61,173 for its proportionate share of the PERS' Pension Expense. The City also recognized grant revenue of \$22,509 for the support provided by the State of Montana for its proportionate share of the Pension Expense that is associated with the City.

	<u>Pension expense as of June 30, 2014</u>
City's Proportionate Share	\$ 38,664
State of Montana Proportionate Share associated with the City	22,509
Total	\$ 61,173

Recognition of Beginning Deferred Outflow - GASB 71

At June 30, 2015, the City recognized a beginning deferred outflow of resources for the City's FY2014 contributions of \$60,984.

Deferred Inflows and Outflows

At June 30, 2015, the City reported its proportionate share of PERS' deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between actual and expected experience	\$ -	\$ -
Changes in assumptions	-	-
Difference between projected and actual earnings on pension plan investments	-	205,692
Changes in proportion differences between employer contributions and proportionate share of contributions	-	628
Difference between actual and expected contributions	-	-
Contributions paid to PERS subsequent to the measurement date – FY 2015 Contributions	\$ 66,583	\$ -
Total	\$ 66,583	\$206,320

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June 30, 2015

Amounts reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in Pension Expense as follows:

<u>Year ended June 30:</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Amounts recognized in Pension Expense as an increase or (decrease) to Pension Expense</u>
2016	\$ -	\$ 51,632	\$ (51,632)
2017	-	51,632	(51,632)
2018	-	51,632	(51,632)
2019	-	51,423	(51,423)
2020	-	-	-
Thereafter	-	-	-

The governmental funds utilized to liquidate these obligations are the General Fund and the Special Revenue Funds.

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.

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.

Total number of members (employees) covered by benefit terms as of June 30, 2015:

- Active plan members: 743
- Inactive members entitled to but not yet receiving benefits or a refund:
 - Vested: 60
 - Non-vested: 103
- Inactive members and beneficiaries currently receiving benefits:
 - Service Retirements: 694
 - Disability Retirements: 21
 - Survivor Benefits: 29

Overview of Contributions

1. Rates are specified by state law for periodic employer and employee contributions. The State legislature has the authority to establish and amend contribution rates to the plan.
2. Member contributions to the system:
 - a. Member contribution rates are dependent upon date of hire as a police officer. For fiscal year 2015:

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June 30, 2015

- i. If employed on or before June 30, 1975, member contributions as a percentage of salary are 5.8%;
- ii. If employed after June 30, 1975 and prior to July 1, 1979, member contributions as a percentage of salary are 7.0%;
- iii. If employed after June 30, 1979 and prior to July 1, 1997, member contributions as a percentage of salary are 8.5%; and,
- iv. If employed on or after July 1, 1997 and for members electing GABA, member contributions as a percentage of salary are 9.0%.

3. Employer contributions to the system:

- a. Local government entities are required to contribute 14.41% of member's compensation.
- b. The State contributes 29.37% of member's compensation from the general fund.

Stand-Alone Statements

The MPORS financial information is reported in the Public Employees' Retirement Board's Comprehensive Annual Financial Report for the fiscal year ended. It is available from the PERB at 100 North Park, PO Box 200131, Helena MT 59620-0131, (406) 444-3154

CAFR information including stand-alone financial statements can be found on the website at <http://mpera.mt.gov/annualReports.shtml>

The latest actuarial valuation and experience study can be found on the website at <http://mpera.mt.gov/actuarialValuations.asp>

Actuarial Assumptions

The Total Pension Liability as of June 30, 2014, is based on the results of an actuarial valuation date of June 30, 2014. There were several significant assumptions and other inputs used to measure the Total Pension Liability. The actuarial assumptions used in the June 30, 2014, valuation were based on the results of the last actuarial experience study, dated May 2010, for the six-year period July 1, 2003 to June 30, 2009. Among those assumptions were the following:

- General Wage Growth* 4.00%
 *includes Inflation at 3.00%
- Merit Increases 0% to 7.3%
- Investment Return 7.75%
- Postretirement Benefit Increases:
 - 3% for members electing GABA or hired or of after July 1, 1997
 - 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.
 - Minimum Benefit Adjustment – 50% of a newly confirmed officer
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and

City of Columbia Falls, Flathead County, Montana
Notes to the Financial Statements (Continued)
June 30, 2015

Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

Discount Rate

The discount rate used to measure the Total Pension Liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities will be made based on the Board’s funding policy, which establishes the contractually required rates under Montana Code Annotated. The State contributes 29.37% of pensionable payroll paid by local governments. Based on those assumptions, the System’s fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2122. 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. No municipal bond rate was incorporated in the discount rate.

Target Allocations

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash Equivalents	2.00%	-0.25%
Domestic Equity	36.00%	4.80%
Foreign Equity	18.00%	6.05%
Fixed Income	24.00%	1.68%
Private Equity	12.00%	8.50%
Real Estate	8.00%	4.50%

The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the System. The most recent analysis, performed for the period covering fiscal years 2003 through 2009, is outlined in a report dated May 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption including rates of return adopted by similar public sector systems, and by using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates are presented as the arithmetic real rates of return for each major asset class included in the System’s target asset allocation as of June 30, 2014, is summarized in the following table.

Sensitivity Analysis

	<u>1.0% Decrease</u> <u>(6.75%)</u>	<u>Current</u> <u>Discount Rate</u> <u>(7.75%)</u>	<u>1.0%</u> <u>Increase</u> <u>(8.75%)</u>
MPORS' Net Pension Liability	\$226,560,623	\$157,135,903	\$102,022,702
Employer's proportionate share of net pension liability	\$656,525	\$455,416	\$295,685

In accordance with GASB 68 regarding the disclosure of the sensitivity of the Net Pension Liability to changes in the discount rate, the above table presents the Net Pension Liability calculated using the discount rate of 7.75%, as well as what the Net Pension Liability would be if it were calculated using a discount rate that is 1.00% lower (6.75%) or 1.00% higher (8.75%) than the current rate.

Summary of Significant Accounting Policies

The Montana Public Employee 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 pensions, Pension Expense, information about the fiduciary net position and additions to/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 in the period in which contributions are due. Employer 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 measurable. Benefit payments and refunds are recognized in the accounting period when due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred. Investments are reported at fair value. MPERA adheres to all applicable Governmental Accounting Standards Board (GASB) statements.

Net Pension Liability

In accordance with GASB Statement 68, Accounting and Financial Reporting for Pensions, employers are required to recognize and report certain amounts associated with their participation in the Municipal Police Officers' Retirement System (MPORS). Statement 68 became effective June 30, 2015, and includes requirements to record and report their proportionate share of the collective Net Pension Liability, Pension Expense, Deferred Inflows, and Deferred Outflows of resources associated with pensions.

In accordance with Statement 68, MPORS has a special funding situation in which the State of Montana is legally responsible for making contributions directly to MPORS on behalf of the employers. Due to the existence of this special funding situation, local governments are required to report the portion of the State of Montana's proportionate share of the collective Net Pension Liability that is associated with the employer.

City of Columbia Falls, Flathead County, Montana
Notes to the Financial Statements (Continued)
June 30, 2015

	<u>Net Pension Liability as of June 30, 2013</u>	<u>Net Pension Liability as of June 30, 2014</u>	<u>Percent of Collective NPL</u>
City's Proportionate Share	\$518,882	\$455,416	0.289823%
State of Montana Proportionate Share associated with City	1,048,204	919,994	0.585611%
Total	\$1,567,086	\$1,375,410	0.875434%

At June 30, 2015, the City recorded a liability of \$455,416 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2014, and the Total Pension Liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of July 1, 2014. The City's proportion of the Net Pension Liability was based on the city's contributions received by MPORS during the measurement period July 1, 2013, through June 30, 2014, relative to the total city contributions received from all of MPORS' participating employers. At June 30, 2014, the City's proportion was 0.289823 percent.

Changes in actuarial assumptions and methods: There were no changes in assumptions or other inputs that affected the measurement of the Total Pension Liability.

Changes in benefit terms: There have been no changes in benefit terms since the previous measurement date.

Changes in proportionate share: There were no changes between the measurement date of the collective Net Pension Liability and the City's reporting date that are expected to have a significant effect on the City's proportionate share of the collective NPL.

At June 30, 2015, the City recognized a Pension Expense of \$147,946 for its proportionate share of the MPORS' Pension Expense. The City also recognized grant revenue of \$98,959 for the support provided by the State of Montana for its proportionate share of the Pension Expense that is associated with the City.

	<u>Pension expense as of June 30, 2014</u>
City's Proportionate Share	\$ 48,987
State of Montana Proportionate Share associated with the City	98,959
Total	\$ 147,946

Recognition of Beginning Deferred Outflow - GASB 71

At June 30, 2015, the City recognized a beginning deferred outflow of resources for the City's FY2014 contributions of \$56,540.

Deferred Inflows and Outflows

At June 30, 2015, the City reported its proportionate share of MPORS' deferred outflows of resources and deferred inflows of resources related to MPORS from the following sources:

City of Columbia Falls, Flathead County, Montana
Notes to the Financial Statements (Continued)
June 30, 2015

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between actual and expected experience	\$ -	\$ -
Changes in assumptions	-	-
Difference between projected and actual earnings on pension plan investments	-	55,913
Changes in proportion differences between employer contributions and proportionate share of contributions	-	-
Difference between actual and expected contributions	-	-
Contributions paid to MPORS subsequent to the measurement date – FY 2015 Contributions	58,979	-
Total	\$ 58,979	\$ 55,913

Amounts reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in Pension Expense as follows:

<u>Year ended June 30:</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Amounts recognized in Pension Expense as an increase or (decrease) to Pension Expense</u>
2016	\$ -	\$ 13,978	\$ (13,978)
2017	-	13,978	(13,978)
2018	-	13,978	(13,978)
2019	-	13,978	(13,978)
2020	-	-	-
Thereafter	-	-	-

The governmental fund used to liquidate these obligations is the General Fund.

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.

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

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.

Total number of members (employees) covered by benefit terms as of June 30, 2015:

- Active plan members: 627
- Inactive members entitled to but not yet receiving benefits or a refund:

City of Columbia Falls, Flathead County, Montana
Notes to the Financial Statements (Continued)
June 30, 2015

- Vested: 21
- Non-vested: 71
- Inactive members and beneficiaries currently receiving benefits:
 - Service Retirements: 580
 - Disability Retirements: 9
 - Survivor Benefits: 20

Overview of Contributions

1. Rates are specified by state law for periodic employer and employee contributions. The State legislature has the authority to establish and amend contribution rates to the plan.
2. Member contributions to the system:
 - a. Member contribution rates are dependent upon date of hire as a firefighter. For fiscal year 2015:
 - i. For members hired prior to July 1, 1997 and not electing GABA, member contributions as a percentage of salary are 9.5%; and
 - ii. For members hired on or after July 1, 1997 and for members electing GABA, member contributions as a percentage of salary are 10.7%.
3. Employer contributions to the system:
 - a. Local government entities are required to contribute 14.36% of member's compensation.
 - b. The State contributes 32.61% of member's compensation from the general fund.
 - c. Effective July 1, 2013, employer and state contributions are required to be paid on working retiree compensation. Member contributions are not required for working retirees.

Stand-Alone Statements

The FURS financial information is reported in the Public Employees' Retirement Board's Comprehensive Annual Financial Report for the fiscal year ended. It is available from the PERB at 100 North Park, PO Box 200131, Helena MT 59620-0131, (406) 444-3154

CAFR information including stand-alone financial statements can be found on the website at <http://mpera.mt.gov/annualReports.shtml>

The latest actuarial valuation and experience study can be found on the website at <http://mpera.mt.gov/actuarialValuations.asp>

Actuarial Assumptions

The Total Pension Liability as of June 30, 2014, is based on the results of an actuarial valuation date of June 30, 2014. There were several significant assumptions and other inputs used to measure the Total Pension Liability. The actuarial assumptions used in the June 30, 2014, valuation were based on the results of the last actuarial experience study, dated May 2010, for the six-year period July 1, 2003 to June 30, 2009. Among those assumptions were the following:

- General Wage Growth* 4.00%
 *includes Inflation at 3.00%
- Merit Increases 0% to 7.3%

City of Columbia Falls, Flathead County, Montana
Notes to the Financial Statements (Continued)
June 30, 2015

- Investment Return 7.75%
- Postretirement Benefit Increases:
 - 3% for members electing GABA or hired or of after July 1, 1997
 - 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.
 - Minimum Benefit Adjustment – 50% of a newly confirmed firefighter.
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

Discount Rate

The discount rate used to measure the Total Pension Liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities will be made based on the Board’s funding policy, which establishes the contractually required rates under Montana Code Annotated. The State contributes 32.61% of pensionable payroll paid by local governments. Based on those assumptions, the System’s fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2122. 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. No municipal bond rate was incorporated in the discount rate.

Target Allocations

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash Equivalents	2.00%	-0.25%
Domestic Equity	36.00%	4.80%
Foreign Equity	18.00%	6.05%
Fixed Income	24.00%	1.68%
Private Equity	12.00%	8.50%
Real Estate	8.00%	4.50%

The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the System. The most recent analysis, performed for the period covering fiscal years 2003 through 2009, is outlined in a report dated May 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption including rates of return adopted by similar public sector systems, and by using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption and is

City of Columbia Falls, Flathead County, Montana
Notes to the Financial Statements (Continued)
June 30, 2015

not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates are presented as the arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2014, is summarized in the following table.

Sensitivity Analysis

	<u>1.0% Decrease</u> <u>(6.75%)</u>	<u>Current</u> <u>Discount Rate</u> <u>(7.75%)</u>	<u>1.0%</u> <u>Increase</u> <u>(8.75%)</u>
FURS' Net Pension Liability	\$156,823,891	\$97,616,579	\$49,290,705
Employer's proportionate share of net pension liability	\$70,975	\$44,179	\$22,308

In accordance with GASB 68 regarding the disclosure of the sensitivity of the Net Pension Liability to changes in the discount rate, the above table presents the Net Pension Liability calculated using the discount rate of 7.75%, as well as what the Net Pension Liability would be if it were calculated using a discount rate that is 1.00% lower (6.75%) or 1.00% higher (8.75%) than the current rate.

Summary of Significant Accounting Policies

The Montana Public Employee 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 pensions, Pension Expense, information about the fiduciary net position and additions to/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 in the period in which contributions are due. Employer 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 measurable. Benefit payments and refunds are recognized in the accounting period when due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred. Investments are reported at fair value. MPERA adheres to all applicable Governmental Accounting Standards Board (GASB) statements.

Net Pension Liability

In accordance with GASB Statement 68, Accounting and Financial Reporting for Pensions, employers are required to recognize and report certain amounts associated with their participation in the Firefighters' Unified Retirement System (FURS). Statement 68 became effective June 30, 2015, and includes requirements to record and report their proportionate share of the collective Net Pension Liability, Pension Expense, Deferred Inflows, and Deferred Outflows of resources associated with pensions.

In accordance with Statement 68, FURS has a special funding situation in which the State of Montana is legally responsible for making contributions directly to FURS on behalf of the employers. Due to the existence of this special funding situation, local governments are required to

City of Columbia Falls, Flathead County, Montana
Notes to the Financial Statements (Continued)
June 30, 2015

report the portion of the State of Montana's proportionate share of the collective Net Pension Liability that is associated with the employer.

	<u>Net Pension Liability as of June 30, 2013</u>	<u>Net Pension Liability as of June 30, 2014</u>	<u>Percent of Collective NPL</u>
City's Proportionate Share	\$56,547	\$44,179	0.045258%
State of Montana Proportionate Share associated with City	127,567	99,666	0.102117%
Total	\$183,114	\$143,845	0.147375%

At June 30, 2015, the City recorded a liability of \$44,179 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2014, and the Total Pension Liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of July 1, 2014. The City's proportion of the Net Pension Liability was based on the city's contributions received by FURS during the measurement period July 1, 2013, through June 30, 2014, relative to the total city contributions received from all of FURS' participating employers. At June 30, 2014, the City's proportion was 0.045258 percent.

Changes in actuarial assumptions and methods: There were no changes in assumptions or other inputs that affected the measurement of the Total Pension Liability.

Changes in benefit terms: There have been no changes in benefit terms since the previous measurement date.

Changes in proportionate share: There were no changes between the measurement date of the collective Net Pension Liability and the City's reporting date that are expected to have a significant effect on the City's proportionate share of the collective NPL.

At June 30, 2015, the City recognized a Pension Expense of \$15,968 for its proportionate share of the FURS' Pension Expense. The City also recognized grant revenue of \$11,064 for the support provided by the State of Montana for its proportionate share of the Pension Expense that is associated with the City.

	<u>Pension expense as of June 30, 2014</u>
City's Proportionate Share	\$ 4,904
State of Montana Proportionate Share associated with the City	11,064
Total	\$ 15,968

Recognition of Beginning Deferred Outflow - GASB 71

At June 30, 2015, the City recognized a beginning deferred outflow of resources for the City's FY2014 contributions of \$8,497.

City of Columbia Falls, Flathead County, Montana
Notes to the Financial Statements (Continued)
June 30, 2015

Deferred Inflows and Outflows

At June 30, 2015, the City reported its proportionate share of FURS' deferred outflows of resources and deferred inflows of resources related to FURS from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between actual and expected experience	\$ -	\$ -
Changes in assumptions	-	-
Difference between projected and actual earnings on pension plan investments	-	
Changes in proportion differences between employer contributions and proportionate share of contributions	-	8,775
Difference between actual and expected contributions	-	-
Contributions paid to FURS subsequent to the measurement date – FY 2015 Contributions	\$ 8,724	-
Total	\$ 8,724	\$ 8,775

Amounts reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in Pension Expense as follows:

<u>Year ended June 30:</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Amounts recognized in Pension Expense as an increase or (decrease) to Pension Expense</u>
2016	\$ -	\$ 2,194	\$ (2,194)
2017	-	2,194	(2,194)
2018	-	2,194	(2,194)
2019	-	2,194	(2,194)
2020	-	-	-
Thereafter	-	-	-

The governmental fund used to liquidate these obligations is the General Fund.

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 2015 fiscal year, 8 active employees had elected deferred compensation benefits in lieu of health insurance benefits and 12 active employees elected to defer a portion of their compensation under the provisions of the 457(b) plan. The City contributed \$24,506 on the employees' behalf during the 2015 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.

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

City of Columbia Falls, Flathead County, Montana
Notes to the Financial Statements (Continued)
June 30, 2015

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 2015, 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, 2015, 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 2015, retirees paid \$18,624 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, 2015, 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-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 Associations, 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, 2013. Leif Associates used the following assumptions in calculating the subsidy rate:

- Medical Trend – 8%
- Out-of-network claims percentage – 10%

City of Columbia Falls, Flathead County, Montana
Notes to the Financial Statements (Continued)
June 30, 2015

Member to employee ratio: 2.01
Blended (menu) rates based on enrollment distribution as of 6/30/2013
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 65% 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, 2013, in accordance with GASB 45 requirements, the City calculated the AAL and ARC using the updated Leif Associations, Inc. report and the subsidy calculation and Alternative Method Worksheets provided by MMIA for the 2013 FY recalculation. Due to a reduction in the employees receiving benefits, the City's actuarial accrued liability (AAL) as of June 30, 2013 was \$-0-. The City recognizes this AAL for the next two fiscal years, 2014 and 2015 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 2015:

<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)	\$122,814
Permissive Medical Levy Transfer	Permissive Medical Levy Fund (Non-Major)	General Fund (Major) Street Maintenance (Major)	\$94,575 \$28,155
Close Fund – inactive	Local Government Review (non-major)	General Fund(Major)	\$ 2,938

The following is an analysis of enterprise fund transfers in and out during fiscal year 2015:

<u>Purpose</u>	<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>
Infrastructure expansion	Sewer Capital Expansion (Non-Major)	Sewer Fund (Major)	\$120,029

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, 2015, the combined balance of the interfund loans was \$74,370, 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 2015 FY is \$5,711, 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, 2015 are as follows:

Fund	Description	Amount
General (Major)	Reserved by Council/cash flow	\$ 554,313
	Reserved by donor restrictions/flex plan advance	5,340
Street Maintenance (Major)	Reserved by Council/cash flow	133,807
Capital Projects General Equipment	Reserved by Council for future equipment purchases	139,067
Capital Projects Parks	Reserved by Council for future equipment/cash In lieu	385,387
Cedar Creek Trust	Reserved by Trust Document	404,146
Street Lighting	Reserved by Council/cash flow	14,936
Permissive Medical Levy	Reserved by Council/Cash flow	4,163
Bldg Code Enforcement	Reserved by Council/Cash flow	29,873

City of Columbia Falls, Flathead County, Montana
Notes to the Financial Statements (Continued)
June 30, 2015

GO Pool Debt Service	Reserved by Council for debt payments	19,527
GO Street Debt Service	Reserved by Council for debt payments	37,545
Capital Projects Bldg Imp	Reserved by Council/bldg improvements	18,364
Water (Major)	Reserved for Future Debt Service	35,308
Water (Major)	Surplus Cash – System Improvements	111,293
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	609,315
Sewer (Major)	Replacement/Depreciation	200,000
Water Capital Expansion	System Expansion	968,435
Sewer Capital Expansion	System Expansion	475,323
	Total	\$4,962,814

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		
Non-Spendable:				
Long-term receivable			350,843	350,843
Restricted:				
Trust Agreement			404,146	404,146
Grantor or contributors	266		7,627	7,893
State statute		176,118	325,702	501,820
Assigned:				
Designated by Admin/Council			34,450	34,450
Committed:				
Restricted by definitions of				
Funds in state law/grantor			729,595	729,595
Reserved by Council in				
Budget process	554,313			554,313
Un-assigned:	537,270			537,270
Total Fund Balances	\$1,091,849	\$176,118	\$1,852,363	\$3,120,330

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

City of Columbia Falls, Flathead County, Montana
Notes to the Financial Statements (Continued)
June 30, 2015

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 one major special revenue fund, the Street Maintenance Fund. The purpose of this fund is to finance street repair, maintenance, snow removal and street signage. GASB 54 requires disclosure of revenues for each major special revenue fund. Revenues are as follows:

Special assessments	\$304,978
Charges for service	950
Interest earnings	669
Miscellaneous	<u>31</u>
	<u>\$306,628</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 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 AND CONTINGENCIES

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.

Contingencies

The City is a defendant in one civil litigation matters as of June 30, 2015. 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 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 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 2015 FY operating budget is \$113,369 and for 2016 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 implemented GASB Statement 68, *Accounting and Financial Reporting for Pensions (an Amendment of GASB Statement No. 27)* and Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date (an Amendment of GASB Statement No. 68)*, for the year ending June 30, 2015. The implementation of these statements required the City to recognize pension liabilities, and the related deferred inflows and outflows for its proportionate share of actuarially determined unfunded liabilities of cost sharing defined benefit retirement plans the City participates in as more fully described in Note F above. Amounts that would have been reported as pension expense in prior periods are reported as a restatement as required. As a result, net position for the governmental and business-type activities decreased by \$1,066,833 and \$406,997, respectively.

NOTE Q – RECENT ACCOUNTING PRONOUNCEMENTS

The Government Accounting Standards Board (GASB) has issued Statement No. 72, *Fair Value Measurement and Applications*, which is effective for the City beginning in FY 2016. This statement addresses accounting and financial reporting issues related to fair value measurements, and provides guidance for determining a fair value measurement for financial reporting purposes, and for applying fair value to certain investments and disclosures related to all fair value measurements.

City of Columbia Falls, Flathead County, Montana
Notes to the Financial Statements (Continued)
June 30, 2015

GASB has issued Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and 68, which is effective for the City beginning in FY 2016. The objective of this Statement is to improve the usefulness of information about pensions included in the City's financial reports for making decisions and assessing accountability.

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 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. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, which is effective for the City beginning FY 2016. The objective of this statement is to identify the hierarchy of generally accepted accounting principles.

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

The City does not believe the adoption of Statement No. 72 will have any effect on its basic financial statements. The City has not fully assessed the impact of Statements No. 73 – 77 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

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDING JUNE 30, 2015

	-----General Fund-----			-----Street Maintenance-----		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
Revenues:						
Property Taxes/Assessments	\$ 982,256	\$ 982,256	\$ 1,052,800	\$ 301,700	\$ 301,700	\$ 304,978
Licenses and Permits	61,500	61,500	67,611	-	-	-
Intergovernmental	865,339	865,339	871,481	-	-	-
Charges for Services	118,840	118,840	137,164	300	300	950
Fines and Forfeitures	174,100	174,100	149,541	-	-	-
Miscellaneous	1,203	1,203	2,165	-	-	31
Investment Earnings	3,200	3,200	4,650	500	500	669
Total Revenues	<u>2,206,438</u>	<u>2,206,438</u>	<u>2,285,412</u>	<u>302,500</u>	<u>302,500</u>	<u>306,628</u>
Expenditures:						
General Government	697,974	697,974	523,007	-	-	-
Public Safety	1,273,944	1,273,944	1,251,396	-	-	-
Public Works	6,500	6,500	5,525	359,508	359,508	312,078
Public Health	4,250	4,250	4,250	-	-	-
Culture and Recreation	237,333	237,333	174,253	-	-	-
Miscellaneous	125,842	125,842	64,981	-	-	-
Debt Service	12,070	12,070	12,068	-	-	-
Capital Outlay	283,750	283,750	153,986	27,900	27,900	34,251
Total Expenditures	<u>2,641,663</u>	<u>2,641,663</u>	<u>2,189,466</u>	<u>387,408</u>	<u>387,408</u>	<u>346,329</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(435,225)</u>	<u>(435,225)</u>	<u>95,946</u>	<u>(84,908)</u>	<u>(84,908)</u>	<u>(39,701)</u>
Other Sources (Uses) of Funds:						
Transfers In	91,702	94,640	97,513	31,028	31,028	28,155
Transfers Out	(122,814)	(122,814)	(122,814)	-	-	-
Total Other Sources (Uses) of Funds	<u>(31,112)</u>	<u>(28,174)</u>	<u>(25,301)</u>	<u>31,028</u>	<u>31,028</u>	<u>28,155</u>
Excess (Deficiency) of Revenues over Expenditures and Other sources (Uses)	<u>(466,337)</u>	<u>(463,399)</u>	<u>70,645</u>	<u>(53,880)</u>	<u>(53,880)</u>	<u>(11,546)</u>
Fund Balance						
Beginning of the Year	1,021,204	1,021,204	1,021,204	187,664	187,664	187,664
End of the Year	<u>\$ 554,867</u>	<u>\$ 557,805</u>	<u>\$ 1,091,849</u>	<u>\$ 133,784</u>	<u>\$ 133,784</u>	<u>\$ 176,118</u>

The accompanying notes are an integral part of this schedule.

CITY OF COLUMBIA FALLS, FLATHEAD COUNTY, MONTANA

NOTES TO THE BUDGET AND ACTUAL SCHEDULE JUNE 30, 2015

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 2015.

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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**

	<u>2015</u>
City's proportion of the net pension liability	0.06389%
City's proportionate share of the net pension liability associated with the City	\$ 796,071
State of Montana's proportionate share of the net pension liability associated with the City	<u>9,721</u>
Total	<u>\$ 805,792</u>
City's covered-employee payroll	\$ 814,988
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	97.68%
Plan fiduciary net position as a percentage of the total pension liability	79.87%

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

	<u>2015</u>
Contractually required contributions	\$ 66,583
Contributions in relation to the contractually required contributions	\$ 66,583
Contribution deficiency (excess)	\$ -
City's covered-employee payroll	\$ 814,988
Contributions as a percentage of pensionable employee payroll	8.17%

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

Notes to PERS Schedules

Changes in actuarial assumptions and methods – There were no changes in assumptions or other inputs that affected the measurement of the Total Pension Liability.

CITY OF COLUMBIA FALLS, FLATHEAD COUNTY, MONTANA

MONTANA POLICE OFFICERS' RETIREMENT SYSTEM

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

	<u>2015</u>
City's proportion of the net pension liability	0.289823%
City's proportionate share of the net pension liability associated with the City	\$ 455,416
State of Montana's proportionate share of the net pension liability associated with the City	<u>919,994</u>
Total	<u>\$ 1,375,410</u>
City's covered-employee payroll	\$ 409,292
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	111.27%
Plan fiduciary net position as a percentage of the total pension liability	67.01%

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

	<u>2015</u>
Contractually required contributions	\$ 58,979
Contributions in relation to the contractually required contributions	\$ 58,979
Contribution deficiency (excess)	\$ -
City's covered-employee payroll	\$ 409,292
Contributions as a percentage of pensionable employee payroll	14.41%

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

Notes to MPORS Schedules

Changes in actuarial assumptions and methods – There were no changes in assumptions or other inputs that affected the measurement of the Total Pension Liability.

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

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

	2015
City's proportion of the net pension liability	0.045258%
City's proportionate share of the net pension liability associated with the City	\$ 4,904
State of Montana's proportionate share of the net pension liability associated with the City	11,064
Total	\$ 15,968
City's covered-employee payroll	\$ 60,753
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	8.07%
Plan fiduciary net position as a percentage of the total pension liability	76.71%

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

	2015
Contractually required contributions	\$ 8,724
Contributions in relation to the contractually required contributions	\$ 8,724
Contribution deficiency (excess)	\$ -
City's covered-employee payroll	\$ 60,753
Contributions as a percentage of pensionable employee payroll	14.36%

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

Notes to FURS Schedules

Changes in actuarial assumptions and methods – There were no changes in assumptions or other inputs that affected the measurement of the Total Pension Liability.

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, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 21, 2016.

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.

Doyle & Associates, P.C.

Lolo, Montana
September 21, 2016