

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Great Falls, we offer readers of the City of Great Falls' financial statements this narrative overview and analysis of the financial activities of the City of Great Falls for the fiscal year ended June 30, 2003. We encourage readers to consider the information presented here in combination with additional information that we have furnished in the accompanying letter of transmittal found on pages 1-4.

OVERVIEW OF THE FINANCIAL STATEMENTS

This is the first Management's Discussion and Analysis report prepared by the City. Consequently, comparative information is not available from the previous year. A comparison of the current and previous year will be made in the next Management's Discussion and Analysis report the City prepares.

This discussion and analysis is intended to serve as an introduction to the City of Great Falls' basic financial statements which are comprised of four components: 1) government-wide financial statements, 2) fund financial statements, 3) notes to the financial statements, and 4) other required supplementary information in addition to the basic financial statements themselves.

GOVERNMENT-WIDE FINANCIAL STATEMENTS. The government-wide financial statements, presented on pages 20-23, are designed to provide readers with a broad overview of the City' finances, in a manner similar to a private-sector business.

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

The statement of activities presents information showing how the government's net assets changed during the most recent 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 this statement for some items that will only result in cash flows in future fiscal periods (e.g., delinquent taxes and earned but unused compensated absences).

The government-wide financial statements distinguish functions of the City of Great Falls 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). The governmental activities of the City of Great Falls include general government, public safety, public works administration, culture and recreation, housing and development, and interest and fees. The business-type activities of the City of Great Falls include activities such as water, sanitary sewer, storm drain, sanitation, and golf courses operations.

The government-wide financial statements include not only the primary government of the City of Great Falls but also a component unit, the Great Falls Business Improvement District. The exclusion of the component unit would cause the City of Great Falls' financial statements to be misleading or incomplete and should, therefore, be included in the City of Great Falls' financial reports.

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 Great 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 Great Falls can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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 government'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 to facilitate this comparison between governmental funds and governmental activities.

The City of Great Falls maintains thirty-five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General fund, the Street District fund, and the Community Development Block Grant fund, all of which are considered to be major funds. Data for the basic governmental fund financial statements is presented on pages 25-29. Data from the other thirty-two governmental funds are combined into a single, aggregated presentation, on pages 80-105.

The City of Great Falls adopts an annual appropriated budget for its governmental funds. A budgetary comparison statement has been provided for the General Fund and the major special revenue funds to demonstrate compliance with this budget. In addition, the City has provided budgetary comparison statements for non-major governmental funds.

Proprietary Funds. The City of Great Falls maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Great Falls uses enterprise funds to account for its water, sewer, storm drain, sanitation, safety services, parking, golf courses, swim pools, recreation, fairgrounds, and civic center events operations. Internal service funds are an accounting device to accumulate and allocate costs internally among the City of Great Falls' various functions. The City of Great Falls uses internal service funds to account for administrative services, central communications, health and benefits, insurance and safety, fiscal services, information technology, central garage, craft services, engineering, public works administration, park and recreation administration, and facility services. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements, with the exception of fiscal services, craft services, engineering and public works administration, which are included within the business-type activities.

Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water, Sewer, Storm Drain, Sanitation, and Golf Courses operations funds, all of which are considered to be major funds of the City of Great Falls. Data for these major funds is presented on pages 30-37. The other six proprietary funds are combined into a single, aggregated presentation, presented on pages 107-115. Conversely, the internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements, presented on pages 117-125.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City of Great Falls' own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. Data for the fiduciary funds is presented on pages 38-39.

NOTES TO THE FINANCIAL STATEMENTS. The notes, presented on pages 41-72, provide additional narrative and tabular information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

OTHER INFORMATION. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of Great Falls' budgetary control, on pages 73-78.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government’s financial position. At the end of the most recent fiscal year, the assets of the City of Great Falls exceeded its liabilities by \$141,575,988.

City of Great Falls' Net Assets

	Governmental Activities	Business-type Activities	Total
	2003	2003	2003
Current and other assets	\$ 28,849,411	\$ 20,441,118	\$ 49,290,529
Capital assets	40,923,877	99,359,275	140,283,152
Total assets	<u>\$ 69,773,288</u>	<u>\$ 119,800,393</u>	<u>\$ 189,573,681</u>
Long-term liabilities			
outstanding	\$ 10,794,074	\$ 32,997,664	\$ 43,791,738
Other liabilities	2,851,069	1,354,886	4,205,955
Total liabilities	<u>\$ 13,645,143</u>	<u>\$ 34,352,550</u>	<u>\$ 47,997,693</u>
Net assets:			
Invested in capital assets, net			
of related debt	\$ 39,469,877	\$ 64,253,674	\$ 103,723,551
Restricted	9,052,524	9,050,791	18,103,315
Unrestricted	7,605,744	12,143,378	19,749,122
Total net assets	<u>\$ 56,128,145</u>	<u>\$ 85,447,843</u>	<u>\$ 141,575,988</u>

By far the largest portion of the City of Great Falls’ net assets, \$140,283,152, reflects its investment in capital assets (land, buildings, machinery and equipment, etc.) less any related debt used to acquire those assets that is still outstanding. The City of Great Falls uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Great Falls’ investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City of Great Falls’ net assets, \$18,103,315, represents resources that are subject to external restrictions on how they may be used. Restricted assets reported for the business-type activities were \$9,050,791. The majority of these assets are related to the debt service reserve required for the issuance of revenue related debt. The remaining balance of unrestricted net assets, \$19,749,122, may be used to meet the government’s ongoing obligations to citizens and creditors.

At the end of the most recent fiscal year, the City of Great Falls is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

City of Great Falls' Changes in Net Assets

	Governmental Activities	Business-type Activities	Total
	2003	2003	2003
Revenues:			
Program revenues:			
Charges for services	\$ 8,401,089	\$ 20,094,251	\$ 28,495,340
Operating grants and contributions	583,207	-	583,207
Capital grants and contributions	2,336,484	-	2,336,484
General revenues:			
Property taxes, levied for general purposes	10,889,623	-	10,889,623
Grants and contributions, unrestricted	7,218,956	-	7,218,956
Other	377,578	78,163	455,741
Miscellaneous	2,328,926	311,177	2,640,103
Total revenues	<u>\$ 32,135,863</u>	<u>\$ 20,483,591</u>	<u>\$ 52,619,454</u>
Expenses:			
General government	\$ 7,572,738	\$ -	\$ 7,572,738
Public safety	11,769,875	-	11,769,875
Public works	4,225,922	-	4,225,922
Culture and recreation	3,129,879	-	3,129,879
Housing and development	2,416,995	-	2,416,995
Interest and fees	750,348	-	750,348
Water	-	4,833,493	4,833,493
Sewer	-	4,629,286	4,629,286
Storm Drain	-	694,124	694,124
Sanitation	-	2,641,732	2,641,732
Golf Courses	-	1,453,833	1,453,833
Other	-	4,695,909	4,695,909
Total expenses	<u>\$ 29,865,757</u>	<u>\$ 18,948,377</u>	<u>\$ 48,814,134</u>
Increase in net assets before transfers	\$ 2,270,106	\$ 1,535,214	\$ 3,805,320
Transfers	(1,560,421)	1,560,421	-
Increase in net assets	\$ 709,685	\$ 3,095,635	\$ 3,805,320
Net assets - beginning	55,418,460	82,352,208	137,770,668
Net assets - ending	<u>\$ 56,128,145</u>	<u>\$ 85,447,843</u>	<u>\$ 141,575,988</u>

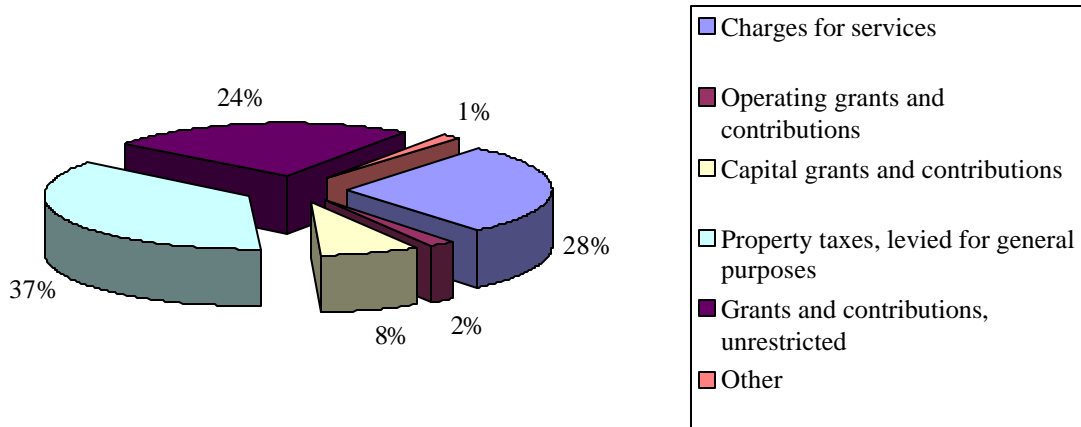
The City of Great Falls' total revenues totaled \$52,619,454. The total cost of all programs and services was \$48,814,134. The government was able to cover this year's costs in both governmental activities and business-type activities. Our analysis below separately considers the operations of governmental and business-type activities.

Governmental activities. Revenues for the most recent year from governmental activities were \$32,135,863 while expenses were \$29,865,757. Net assets thus increased by \$2,270,106 before transfers. Taxes increased by \$790,964 primarily due to an increase in newly taxable property, an addition of a separate mill statutorily allowed covering increases in health insurance premiums for employees, and an increase in delinquent taxes collected. Intergovernmental revenues increased by \$609,442 primarily due to new grants being awarded for public safety, public works, and culture and recreation functions of the City of Great Falls. Miscellaneous revenues increased by \$1,228,898 primarily due to contributions received from the baseball foundation to help defray the costs of renovations to the city owned/baseball foundation managed minor league baseball stadium.

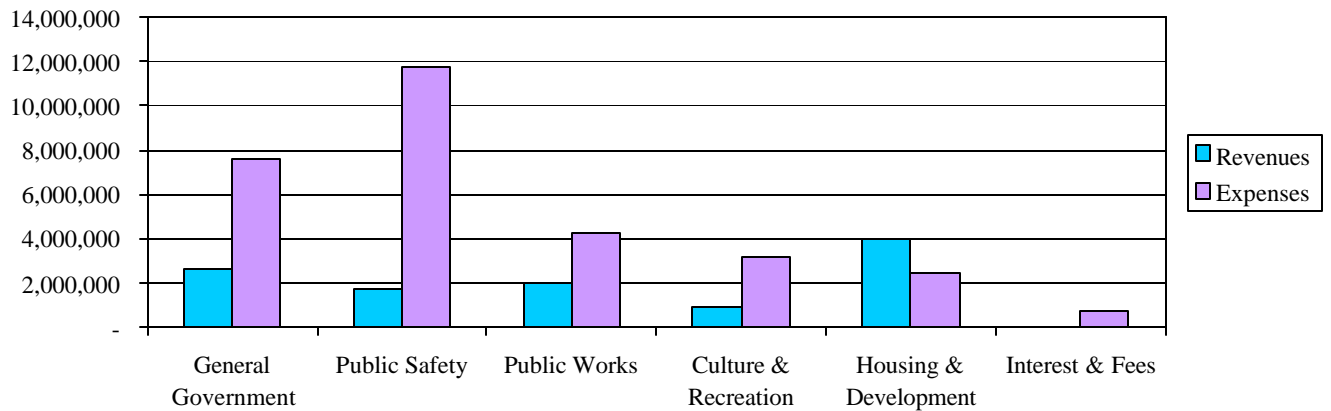
General Government related expenses increased by \$1,626,203 primarily due to increased utility bills for the lighting districts, increased activity for the Community Transportation Enhancement Program projects, increased activity in the Economic Development fund, and increased charges in the Tax Increment Bond Debt Service fund related to the reissuing

of tax increment bonds to take advantage of the favorable interest rates. Public Works related expenses increased by \$777,243 primarily due to work performed for the reconstruction of a roadway not belonging to the City but in conjunction with work performed on a City owned property. Long-term debt service principal payments increased due to the reissuing of tax increment bonds to take advantage of the favorable interest rates. Capital outlay increased by \$1,443,487 primarily due to the renovations to the city owned/baseball foundation managed minor league baseball stadium.

Revenues by Source - Governmental Activities

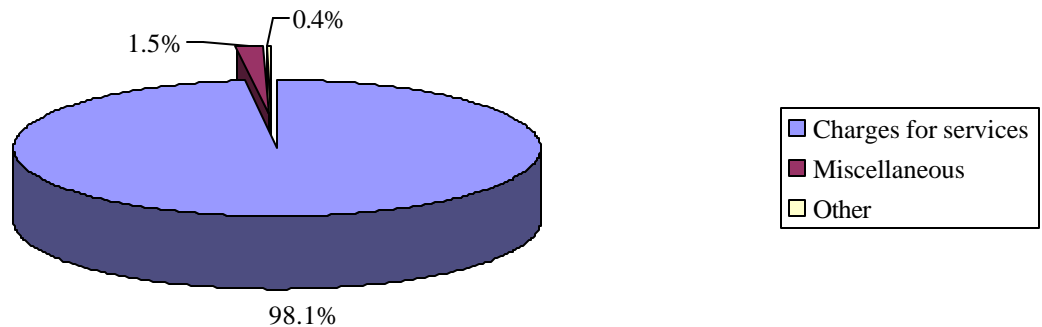


Program Revenues and Expenses - Governmental Activities

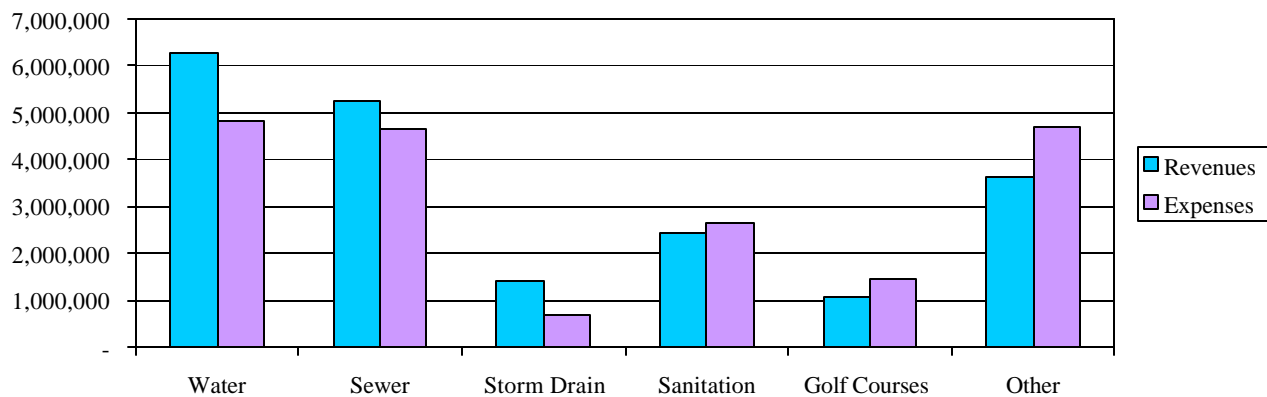


Business-type activities. Revenues for the most recent year from business-type activities were \$20,483,591 while expenses were \$18,948,377. Net assets thus increased by \$1,535,214 before transfers. Overall charges for services decreased \$507,502 primarily due to Cascade County Commissioners voting to hire a private company to take on the management of the fairgrounds. The City and the County agreed to sever the City’s involvement by December 31, 2002. The Water fund’s refunds and reimbursements collected increased by \$102,304 from the previous year due to a one time reimbursement for environmental cleanup costs and special improvements on a street reconstruction project. Expenses for the business-type activities decreased by \$221,411 again due to the switch in management of the fairgrounds.

Revenues by Source - Business Activities



Program Revenues and Expenses - Business-type Activities



CITY OF GREAT FALLS' FUND FINANCIAL ANALYSIS

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

Governmental funds. The focus of the City of Great Falls' governmental fund reporting is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Great Falls' financing requirements. In particular, unrestricted fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the most recent fiscal year, the City of Great Falls' governmental funds reported combined ending fund balances of \$16,722,576, a decrease of \$1,102,924 in comparison with the previous year. Approximately three-fourths of this total amount, \$11,928,001, constitutes unrestricted fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) to long-term portion of loans receivable, \$859,648, 2) to provide required security for long-term debt obligations, \$3,809,165, or 3) to finance miscellaneous future capital projects \$125,762.

The General fund is the chief operating fund of the City of Great Falls. At the end of the most recent fiscal year, unrestricted fund balance in the General fund was \$4,232,030. As a measure of the General fund's liquidity, it may be

useful to compare fund balance to total fund expenditures. Fund balance represents 31 percent of total General fund expenditures, in compliance with statutory requirements and the City’s internal policy.

During the most recent fiscal year, the fund balance of the City of Great Falls’ General fund decreased by \$648,609. Elements of this decrease include an increase in transfers out to write off a long-term loan from the General fund to the Fairgrounds fund, to assist in renovations to the city owned/baseball foundation managed, minor league baseball stadium, and to provide General fund support to the Golf Course fund.

Proprietary funds. The City of Great Falls’ proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the business-type activities totaled \$2,143,378. The total increase in net assets for the proprietary funds is \$3,095,635.

GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget netted an increased budget of \$1,259,383. The major elements of this difference were revenue increases of \$51,270 for the receipt of a federal grant and the corresponding match, and increases in transfers out of \$1,344,633 due to the write off of long-term loan from the General fund to the Fairgrounds fund, renovation to the city owned/baseball foundation managed, minor league baseball stadium, and a General fund transfer to the Golf Course fund. During the year, revenues exceeded budgetary estimates and expenditures were less than budgetary estimates.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. The City of Great Falls’ investment in capital assets for its governmental and business-type activities as of June 30, 2003, is \$140,283,152, net of accumulated depreciation. This investment in capital assets includes land, buildings and structures, improvements, machinery and equipment, infrastructure and construction in progress. The total increase in the City of Great Falls’ investments in capital assets for the most recent fiscal year was 9 percent (a 4 percent increase for governmental activities and an 11 percent increase for business-type activities).

City of Great Falls' Capital Assets
(net of depreciation)

	Governmental Activities	Business-type activities	Total
	2003	2003	2003
Land	\$ 9,561,296	\$ 3,732,695	\$ 13,293,991
Buildings and structures	5,483,273	13,057,251	18,540,524
Improvements	19,337,665	41,200,408	60,538,073
Machinery & equipment	4,009,981	3,177,207	7,187,188
Infrastructure	-	29,997,992	29,997,992
Construction in progress	2,531,662	8,163,722	10,695,384
Total net assets	<u>\$ 40,923,877</u>	<u>\$ 99,329,275</u>	<u>\$ 140,253,152</u>

Major capital asset events during the most recent fiscal year included the construction of a waste water treatment plant and the addition of some of the governmental fund capital assets due to GASB 34. The City of Great Falls is implementing the option allowed in GASB 34 to phase in the addition of the governmental infrastructure. The governmental infrastructure will be added within the next four fiscal years. Further detail on capital assets is presented in Note 6 on pages 53-54.

Long-term debt. At the end of the most recent fiscal year, the City of Great Falls had total bonded debt of \$39,048,461. Of this amount, \$1,184,000 is special assessment debt for which the City is obligated to pay even if the assessments on the property owners are in default up to the amount available in the Special Improvement District Revolving fund; \$7,044,499 is tax increment urban renewal bonds to be repaid from the tax increments received by the City from its downtown urban

renewal area; and \$30,819,962 are bonds secured solely by specified revenue sources. Further information on long-term debt is presented in Note 8 on pages 56-64.

City of Great Falls' Outstanding Debt
General Obligation and Revenue Bonds

	Governmental Activities <u>2003</u>	Business-type Activities <u>2003</u>	Total <u>2003</u>
Revenue bonds	\$ -	\$ 30,819,962	\$ 30,819,962
Special Assessment bonds	1,184,000	-	1,184,000
Urban Renewal Tax Increment bonds	7,044,499	-	7,044,499
Total	<u>\$ 8,228,499</u>	<u>\$ 30,819,962</u>	<u>\$ 39,048,461</u>

During the most recent fiscal year, the City of Great Falls' total debt increased by \$6,719,406 (18 percent). The key factor in this increase was the issuance of Sanitary Sewer Revenue Related Debt in the amount of \$9,037,125. This debt was authorized in fiscal year 2002 but not drawn down at one time.

During the most recent fiscal year, the City of Great Falls refinanced some of its existing debt to take advantage of favorable interest rates. On November 27, 2002, the City issued \$5,685,000 in Urban Renewal Tax Increment Revenue Refunding Bonds. These bonds constitute a current refunding of bonds outstanding in the amount of \$5,780,000. The transaction resulted in an economic gain of \$269,185 and a net savings of \$339,051 in future debt service payments.

The City of Great Falls maintains insured ratings of "Aaa" rating from Moody's and an "AAA" rating from Fitch.

State statutes limit the amount of general obligation debt a governmental entity may issue to 1.51% of its total assessed valuation. The current legal debt capacity for the City of Great Falls is \$28,766,654, all of which is unused by the City.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The unemployment rate for Cascade County, Montana, of which the City of Great Falls is the county seat, is currently 4.3 percent, which is an increase of 0.3 percent from a year ago. This compares favorably with the national unemployment rate of 6.0 percent and about even with the Montana unemployment rate of 4.2 percent. Increased operating costs, the priority of protecting the City of Great Falls' investment in personnel, and slow revenue growth were considered in preparing the City of Great Falls' budget for the 2004 fiscal year.

After reviewing all the financial indicators of the City of Great Falls, the City as a whole is better as a result of the year's activities. Investments in the City's capital assets were made that as a whole made the financial situation better.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of Great Falls' finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Coleen Balzarini, Director of Fiscal Services, PO Box 5021, Great Falls, MT 59403.