

Notes to Financial Statements

City of Great Falls, Montana
Notes to Financial Statements
June 30, 2005

1. Summary of Significant Accounting Policies

The financial statements of the City of Great Falls, Montana, have been prepared in conformity with generally accepted accounting principles (GAAP) 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. The GASB's *Codification of Governmental Accounting and Financial Reporting Standards* documents these principles. The City's significant accounting policies are described below.

a. Background

The City of Great Falls is the county seat of Cascade County and is the third largest city in Montana. The City was incorporated in 1888 and is currently organized under the provisions of the commission-manager form of government. The commission consists of five commissioners including the Mayor. The position of Mayor is elected separately from the commissioners. The City Manager is appointed by the Commission and is the administrative head of the City.

b. Reporting Entity

The reporting entity presented in these financial statements consists of the City of Great Falls (the primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of its operations or financial relationship with the City. The exclusion of the component units would cause the reporting entity's financial statements to be misleading or incomplete and should; therefore, be included in a government's financial reporting entity.

Great Falls Port Authority (the Authority)

On September 21, 2004, the City Commission passed Resolution 9425 authorizing the City Commission to Exercise Powers of a Port Authority and reaffirmed Resolution 8841 except repealing any reference to Port Authority Commissioners contained therein. Since the Port Authority governing body is the City Commission and the services provided by the Port Authority benefit the City, the Authority is a blended component unit of the City of Great Falls. This component unit is blended as a proprietary fund presented in these financial statements.

The columns labeled "Component Units" contain the financial data of the City's two component units. These separate, discrete columns emphasize the organizations' separateness from the City's primary government.

Great Falls Business Improvement District (the District)

The objective of the District is to oversee and manage the appearance, security, and cleanliness of a designated area within Great Falls to make that area appealing to shoppers, office workers, area residents, and tourists as a viable shopping and tourist destination. The District's board of trustees is appointed by the City Commission. The District is required to submit an annual budget to the City Commission who may approve or modify the District's budget. Additionally, the City Commission is responsible for levying the District's assessments on the properties within the District. Separate financial statements of the District may be obtained by contacting the District at 417 Central Avenue, Suite 320, Great Falls, Montana, 59401.

Great Falls Public Library Foundation (the Foundation)

The Foundation is a legally separate, tax-exempt component unit of the City. It provides the Great Falls Public Library with a supplemental source of funding in addition to the public funding the Library receives. Although the City does not control the timing or amount of receipts from the Foundation, the majority of resources, or incomes thereon, which the Foundation holds and invests, are restricted by the donors to the activities of the Library. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the City, the Foundation is considered a component unit of the City and is discretely presented in the City's financial statements.

The Foundation is a private non-profit organization that reports under FASB standards, including FASB Statement No. 117, Financial Reporting for Not-For-Profit Organizations. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the City's financial reporting entity for these differences.

1. **Summary of Significant Accounting Policies – continued**

b, **Reporting Entity - continued**

During the year ended June 30, 2005, the Foundation distributed \$93,500 to the City for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained by writing the Foundation at P.O. Box 742, Great Falls, Montana, 59403.

c. **Investment in Joint Venture**

During Fiscal Year 2004, the City entered into a joint venture with Southern Montana Electric Generation and Transmission Cooperative, Inc. The joint venture was organized by five other electric cooperatives and the City of Great Falls to provide electric services to its members. The City has a 17.58 percent equity interest in the joint venture. A joint venture is an organization that results from a contractual arrangement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain an ongoing financial interest or an ongoing financial responsibility. Joint control means that no single participant has the ability to unilaterally control the financial or operating policies of the joint venture. This joint venture does not meet the criteria for inclusion in the City's financial report as a component unit since the City does not exercise administrative control. The City does report its equity interest in the joint venture using the equity method. An equity interest in a joint venture is manifest in the government having an explicit, measurable right to the net present or future resources of the joint venture. Financial statements for the joint venture may be obtained at the following address: 3521 Gable Road, Suite 5, Billings, Montana 59102.

d. **Basis of Presentation**

The government-wide financial statements (statement of net assets and statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of the Interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from its legally separate component unit for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or activity are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or activity and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

e. **Fund Accounting**

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a set of self-balancing accounts. There are three categories of funds: governmental, proprietary, and fiduciary.

Governmental Funds

Governmental funds are used to account for the City's expendable financial resources and related liabilities (except for those accounted for in proprietary funds). The following are the City's major governmental funds:

General Fund

The General Fund accounts for all financial resources of the City except those required legally or by sound financial management to be accounted for in another fund.

1. Summary of Significant Accounting Policies - continued

e. Fund Accounting - continued

Street District Fund

The Street District Fund reports operations of the Street Division, pavement rehabilitation and restoration, street sweeping, snow and ice control, dust abatement and paving markings. This fund also reports activities related to the signs and signals function of the Support Services Division.

Community Development Block Grant

The Community Development Block Grant Fund accounts for federal funds received by the City of Great Falls used to assist in the development of viable urban communities.

Proprietary Funds

Proprietary funds are used to account for activities that are similar to those often found in the private sector. The measurement focus is upon determination of net income and capital maintenance. Following are the City's major proprietary funds:

Water Fund

The Water Fund accounts for all aspects of the City water system operations: including related debt service, administrative expenses, operation and maintenance of the water treatment plant, laboratory, and water distribution.

Sewer Fund

The Sewer Fund accounts for all aspects of the City sewer system operations: including related debt service, administrative expenses, operation and maintenance of the wastewater treatment plant and sewer collection system.

Storm Drain Fund

The Storm Drain Fund accounts for all aspects of safeguarding community health, providing pollution protection for the Missouri River and reducing flooding and damage to property and life.

Sanitation Fund

The Sanitation Fund accounts for all aspects of providing refuse collection and disposal services to the City of Great Falls.

Golf Courses Fund

The Golf Courses Fund accounts for the operation of two eighteen-hole golf courses: Eagle Falls and Anaconda Hills.

Internal Service Funds

Internal service funds account for the financing of goods or services provided by one department or agency to other departments or agencies of the City on a cost reimbursement basis.

Private-Purpose Trust Funds

Private-purpose trust funds are used to report all trust arrangements, other than those reported trust funds or investment trust funds, under which principal and income benefit individuals, private organizations, or other governments.

Agency Funds

Agency funds are used to report resources held by the reporting government in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organization, or other governments.

f. Measurement Focus/Basis of Accounting

Measurement Focus

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the statement of net assets.

1. Summary of Significant Accounting Policies - continued

f. Measurement Focus/Basis of Accounting - continued

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reports on the sources (i.e. revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared; therefore, governmental activities of the government-wide financial statements include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the statement of fund net assets. The statement of changes in revenues, expenses, and changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities. Operating revenues include charges for services, which are generated directly from the primary activity of the proprietary funds. Operating expenses are necessary costs that have been incurred in order to provide these services. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting; proprietary and fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenues, and in the presentation of expenses versus expenditures.

Under the accrual method, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred, aside from the parking meter revenues mentioned below.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers property taxes as available if they are collected within 60 days after June 30. Those revenues susceptible to accrual are property taxes, special assessments, grants, licenses, interest revenue and charges for services. Fines, permits, and parking meter revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditure-based grants are recorded as revenue when the conditions of the grants are satisfied. Expenditures, if measurable, are recorded when they have used or are expected to use current expendable financial resources, except unmatured interest on long-term debt is recorded when due.

Deferred revenues arise when potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Deferred revenues also arise when resources are received by the City before it has legal claim to them, as when grant monies are received prior to the occurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the deferred revenue is removed from the balance sheet and revenue is recognized.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

1. **Summary of Significant Accounting Policies - continued**

f. **Measurement Focus/Basis of Accounting – continued**

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are other charges between the government's water and sewer function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

g. **Encumbrances**

The City does not utilize a formal encumbrance accounting system.

h. **Cash, Cash Equivalents and Investments**

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Generally, cash resources of the individual funds are combined to form a pool of cash and investments which is managed by the City's Controller. Investments consist primarily of certificates of deposit, repurchase agreements, State of Montana short-term investment pool, and U.S. government securities. Investments are carried at fair value in all funds. Investment income earned as a result of pooling is distributed to the appropriate funds utilizing a formula based on the average balance of cash and investments of each fund.

The City has a comprehensive investment policy addressing safety, liquidity and yield priorities. This investment policy is more restricted than State Law. The City has a policy of holding its investments to maturity. This is often referred to as 'passive investing'. The City follows this policy for a number of reasons. First, the two main priorities when investing City funds are safety and liquidity. Investing in government securities and agencies (bonds) meet these priorities. A more active approach to investing requires additional staff time and more intensive continuing education and training. Also, 'active investing' exposes the City to risks related to timing the buying and selling of investments in the market.

All depositories must be either Federal Deposit Insurance Corporation (FDIC) or Federal Savings and Loan Deposit Insurance Corporation (FSLIC) insured. All deposits exceeding \$100,000, for the City as a whole, require 100% collateralization. City criteria for collateral are a limited list of instruments with readily verifiable market value and established marketability. Collateral must be held by an approved third party financial institution in the name of the City.

i. **Receivables**

Real property taxes and special assessments are attached as an enforceable lien on the underlying property. After a period of three years, Cascade County, acting as the City's collection agent, may begin foreclosure proceedings and sell the property at auction. The City receives its proportionate share of the sale proceeds from the County. An allowance for uncollectible accounts is not maintained.

j. **Interfund Receivables/Payables**

Interfund receivables/payables between or within fund types have not been eliminated.

Due To/From Other Funds

Represent short-term amounts owed to a particular fund by another fund within the City for goods or services rendered.

Interfund Loans Receivable/Payable

Represent short-term loans between funds within the City for working cash purposes and the current portion of advances.

Advances to/From Other Funds

Represent the noncurrent portion of long-term loans between funds within the City.

k. **Inventories**

Inventories in enterprise funds are stated at the lower of FIFO cost (first-in, first-out) or market. Inventories in internal service funds are stated at the lower of cost (average cost method) or market. Supplies purchased by governmental funds are recorded as expenditures at the time of purchase. The amounts on hand in governmental funds are not significant.

1. Summary of Significant Accounting Policies - continued

i. Capital Assets

Capital assets, which include property, plant, and equipment, are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost where historical cost records are available and at estimated historical cost where no historical records exist. Donated capital assets are recorded at estimated fair market value as of the date received. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Capital assets purchased by governmental funds (general capital assets such as roads, bridges, curbs and gutters, streets and sidewalks, lighting systems, and similar assets) are recorded as expenditures in those funds when purchased. No depreciation is recorded on these general capital assets. In the government-wide statement of net assets, these assets are capitalized at cost and in the government-wide statement of activities, depreciation is reported. Retroactive reporting of infrastructure assets will be fully implemented by Fiscal Year 2007, as required by GASB Statement No. 34.

Capital assets purchased by proprietary funds are capitalized at cost and shown as assets of those funds. Depreciation of capital assets of proprietary funds is computed over the estimated useful lives of the assets using the straight-line method and is charged as an operating expense of those funds.

The estimated useful lives are as follows:

Buildings	40 – 50 years
Improvements	15 – 20 years
Equipment	5 – 25 years
Utility Plant	15 – 50 years
Residential streets	40 – 50 years
High traffic streets	20 – 25 years
Gravel or dirt alleys	10 – 15 years
Parking lots	20 – 25 years
Sidewalks, curbs and gutters	40 – 50 years

m. Equipment Replacement Reserves

The Information Technology and Central Garage internal service funds equipment replacement reserves are funded by a depreciation charge on a replacement cost basis for vehicles and equipment owned by these funds and used by other City funds. An equipment revolving schedule (ERS) has been established by vehicle or equipment item which includes department operation identification, estimated useful life, projected replacement date, reserve goal (estimated replacement cost), annual reserve increment (lease charge), and accumulated reserve balance. The ERS is reviewed and adjusted on an annual basis to assure that realistic replacement reserves are established. Whenever operational changes reduce vehicle or equipment needs, excess accumulated reserves are returned to the fund of origin through an equipment replacement reserve (transfer) when multiple fiscal years are involved, or credited against current year charges when only the current fiscal year is involved.

During the year ended June 30, 2005, excess Central Garage equipment replacement reserves of \$12,780 accumulated for all governmental funds were returned to the fund of origin and will be accounted for within those funds.

n. Compensated Absences

All full-time City employees accumulate vacation and sick leave hours for later use or for payment upon termination, death or retirement. In proprietary funds, vested vacation and sick leave benefits are recognized as expenses when earned by the employee and unpaid benefits are liabilities of those funds. Governmental fund types recognize the expenditure when benefits are paid. The remaining balance of vested governmental fund type employees' vacation and sick leave is reflected as a liability in the government-wide statements. The governmental funds typically used in prior years to liquidate the liability for compensated absences are any of the funds with payroll, which include: General Fund, Street District, Community Development Block Grants, Planning, Library, Natural Resources, Housing Authority, Community Development, Permits, Licenses, Portage Meadows, and all governmental internal service funds.

1. Summary of Significant Accounting Policies - continued

o. Contributions

The City records contribution to enterprise funds from federal, state and other outside sources, for property acquisitions, as other income.

p. Statement of Cash Flows

For purposes of the statement of cash flows, the City considers all highly liquid investments and investments with an original maturity of three months or less when purchased to be cash equivalents.

q. Estimates

The preparation of general purpose financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

r. Reclassifications

Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

2. Cash, Cash Equivalents and Investments

The composition of the City's cash, cash equivalents and investments, including restricted cash and investments, on June 30, 2005 was as follows:

	Primary Government	Component Units	
		Business Improvement District	Public Library Foundation
Cash on hand	\$ 74,600	\$ 116	\$ -
Deposits in banks	(381,970)	75,207	7,844
Savings deposits	-	2,434	233,397
Certificates of deposit	-	72,074	-
Repurchase agreements	1,640,354	-	-
U.S. government securities	21,137,419	-	479,312
Short term investment pool (STIP)	12,974,100	-	-
Mutual funds	-	-	276,963
Equity securities	-	-	740,899
	<u>\$ 35,444,503</u>	<u>\$ 149,831</u>	<u>\$ 1,738,415</u>

The City's cash, cash equivalents and investments for the primary government at June 30, 2005, are reported as:

	Governmental	Business-Type	Fiduciary Funds	Total
	Activities	Activities		
Cash and cash equivalents	\$ 8,013,976	\$ 10,893,876	\$ 480,970	\$ 19,388,822
Restricted cash and investments	3,788,710	12,266,971	-	16,055,681
	<u>\$ 11,802,686</u>	<u>\$ 23,160,847</u>	<u>\$ 480,970</u>	<u>\$ 35,444,503</u>

At June 30, 2005, the carrying amount of the City's bank deposits was \$(377,694) and the bank balance was \$1,150,360. Of the bank balance, \$171,786 was covered by federal depository insurance and \$978,574 was covered by collateral held by the pledging bank's trustee in the City's name.

At June 30, 2005, the carrying amount of deposits for the Great Falls Business Improvement District, a discretely presented component unit, was \$149,718 and the bank balance was \$160,482. Of the bank balance, \$160,482 was covered by federal depository insurance.

2. Cash, Cash Equivalents and Investments – continued

At June 30, 2005, the carrying amount of deposits for the Great Falls Public Library Foundation, a discretely presented component unit, was \$241,241 and the bank balance was \$56,446. Of the bank balance, \$7,844 was covered by federal depository insurance and \$233,397 was covered by Securities Investors Protection Corporation.

Montana statutes recommend that the City have pledged securities equal to 50% of its total deposits that are not insured or guaranteed, held in the City’s name by the pledging bank’s trustee. The City was in compliance with this statute at June 30, 2005.

Montana statutes authorize the City to invest indirect obligations of the United States government in savings or time deposits in a state or national bank, building or loan association, or credit union located in Montana; in investments of the Montana short-term investment pool (STIP) managed by the Montana Board of Investments; or in repurchase agreements.

At June 30, 2005, the City had the following investments. All investments are in an internal investment pool.

	Fair Value	Investment Maturities (In Years)	
		Less Than 1	1-5
Cash on hand, deposits in banks, savings deposits	\$ (307,370)	\$ (307,370)	\$ -
Repurchase agreements	1,640,354	1,640,354	-
U.S. certificate of deposit	500,000	-	500,000
U.S. treasuries	1,296,131	506,895	789,236
U.S. agencies	19,341,288	993,014	18,348,274
Investment in STIP	12,974,100	12,974,100	-
	<u>\$ 35,444,503</u>	<u>\$ 15,806,993</u>	<u>\$ 19,637,510</u>

The City received \$526,230 on invested cash during Fiscal Year 2005. The annualized rate of return for the year is 2.61% prior to adjustments which ‘mark investments to market’ and 2.04% after the adjustment. Even though the City’s investment policy is to hold investments to maturity, the City must reflect a bookkeeping valuation adjustment that decreased interest income for all City funds in the amount of \$92,360 for the year ended June 30, 2005. This adjustment decreased the cash and cash equivalents by \$92,360.

Custodial credit risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized. The City’s investment policy limits its custodial risk by requiring all deposits under \$100,000 to be insured by the FDIC or FSLIC and all deposits over \$100,000 are required to be secured with collateral. Investments made by the City at June 30, 2005, are summarized below. The investments are classified as to custodial credit risk by the three categories described below.

Category 1 – Insured or registered, with securities held by the City or its agent in the City’s name.

Category 2 – Uninsured and unregistered, with securities held by the pledging financial institution’s trust department or agent, in the City’s name.

Category 3 – Uninsured and unregistered, with securities held by pledging financial institution’s trust department or agent, but not in the City’s name.

	Category			Carrying Amount	Fair Value
	1	2	3		
Repurchase Agreements	\$ -	\$ 1,640,354	\$ -	\$ 1,640,354	\$ 1,640,354
U.S. Government Securities	-	21,137,419	-	21,137,419	21,137,419
	<u>\$ -</u>	<u>\$22,777,773</u>	<u>\$ -</u>	<u>22,777,773</u>	<u>22,777,773</u>
Investment in STIP				12,974,100	12,974,100
				<u>\$ 35,751,873</u>	<u>\$ 35,751,873</u>

2. Cash, Cash Equivalents and Investments – continued

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City's investment policy minimizes the risk by structuring the investment portfolio so that the securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity, and investing operating funds primarily in short-term securities or similar investment pools.

Credit risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The City's investment policy minimizes credit risk by limiting investments to the safest types of securities, pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which the City does business, and diversifying the investment portfolio so that potential losses on individual securities will be minimized. The credit quality rating of the STIP investments is A1+. The U.S. Government Securities are not considered to have credit risk and do not require disclosure of credit quality.

Concentration of credit risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Investments issued or explicitly guaranteed by the U.S. government and investments in external investment pools are excluded from this requirement.

Repurchase agreements

Repurchase agreements consist of "one-day" repurchase agreements, which can readily be transformed into cash should all outstanding demand deposit checks be immediately presented for payment.

Short-Term Investment Pool

The Short-Term Investment Pool (STIP) is managed by the State of Montana Board of Investments (the Board). The Board was created by the State of Montana legislature to invest and manage the State of Montana's investment funds on a centralized basis. The STIP was created by the Board to allow qualifying funds to participate in a diversified pool. Although state agencies are legally required to invest in STIP, local governments, such as the City of Great Falls, may voluntarily participate in STIP.

The Board has a policy that STIP will, and does, operate in a manner consistent with the SEC's rule 2a7 of the Investment Company Act of 1940. In meeting certain conditions, STIP, as a 2a7-like pool, is allowed to use amortized cost rather than fair value to report net assets to compute unit values. The fair value of the position in the pool equals the value of pool units. The City reports its investment in the STIP based on the pool's value, which is fixed at one dollar (\$1).

The STIP portfolio includes asset-backed and variable interest rate securities to provide diversification and a competitive rate of return. Asset-backed securities represent debt securities collateralized by a pool of mortgage and non-mortgage assets such as trade and loan receivables, equipment leases, credit cards, etc., pledged by the issuer. Asset-backed securities have less credit risk than do securities not backed by pledged assets, while market risk for asset-backed securities is the same as market risk for similar non-asset-backed securities. Variable rate securities pay a variable rate of interest until maturity. While variable-rate interest securities have credit risk identical to similar fixed-rate securities, their market risk (income) is non-sensitive to interest rate changes. However, their marked risk (value/price) may be less volatile than fixed-rate securities because their value will usually remain at or near par as a result of their interest rates being periodically reset to maintain a current market yield. There are no legal risks that the Board of Investments is aware of regarding any STIP investments.

2. Cash, Cash Equivalents and Investments – continued

Restricted Cash and Investments

Cash and investments of \$16,055,681 are restricted by bond covenants, state statute, or for specific purposes as follows:

Major governmental	
Improvements	\$ 10,017
Nonmajor governmental	
Operating reserves	560,508
Improvements	115,580
Current debt service	910,649
Bond reserves	771,000
Security reserves	179,687
Construction	305,529
Water	
Current debt service	744,577
Bond reserves	1,748,457
Operating reserves	424,713
Vehicle and equipment replacement	795,233
Sewer	
Current debt service	1,247,340
Bond reserves	1,929,835
Operating reserves	396,481
Bonded Construction	2,746,437
Vehicle and equipment replacement	768,028
Storm Drain	
Current debt service	200,839
Bond reserves	635,000
Operating reserves	42,756
Repair and replacement reserves	150,000
Sanitation	
Vehicle and equipment replacement	194,307
Golf Courses	
Bond reserves	237,717
Nonmajor proprietary	
Improvements	5,251
Internal Service	
Vehicle and equipment replacement	463,427
Information systems	375,197
Improvements	97,116
	<u>\$16,055,681</u>

3. Receivables

Taxes and Special Assessments

The City's real estate property tax is levied as of November 1 on the assessed value listed as of January 1 of the same year, for all property located in the City. Assessed values are established by the State Department of Revenue based on a market value. A revaluation of all property is required to be completed on a periodic basis. Taxable value is defined by State statute as a fixed percentage of assessed value.

The City is permitted, by State statutes, to levy taxes up to certain fixed limits for various purposes. The taxes levied by the City for the year ended June 30, 2005, were within legal limits.

Taxes are due in semi-annual installments on November 30 and May 31 of each fiscal year. Property tax lien dates are December 1 and June 1.

3. Receivables – continued

Taxes and Special Assessments – continued

The City levies assessments for lighting districts, street maintenance, boulevard maintenance, and various special improvement districts (SID). The assessments are due in semi-annual installments of November 30 and May 31. All assessments are considered delinquent if not paid by May 31.

Loans Receivable

Loans receivable at June 30, 2005, consists of the following:

Federal Block Grant Fund:

CDBG loan program (a)	\$ 160
Deferred payment loan program (b)	2,547,277

Nonmajor governmental:

CDBG loan program	800
Deferred payment loan program	73,054
Economic revolving loan program (c)	365,915

Nonmajor enterprise

Great Falls Development Authority, Inc. - Revolving Loan Fund	2,490
	<u>\$ 2,989,696</u>

- (a) The primary objective of the Community Development Block Grant (CDBG) program is the development of viable urban communities by providing decent housing and a suitable living environment and by expanding economic opportunities, principally for persons of low and moderate income. The two following programs have been developed by the City to accomplish these objectives.

The CDBG loan program is used to promote and support opportunities for economic development within the community, specifically those opportunities that create employment for low and moderate income people. The interest rates on these loans range from zero percent to thirteen and a half percent and terms range from ten to eighteen years. The loans are secured by the property and/or equipment.

- (b) The deferred payment loan program was established to provide opportunities for lower income homeowners to rehabilitate, weatherize, maintain, or improve the quality of existing housing. No interest is charged on these loans. Repayment of the loan is required only if the property is sold, or upon satisfaction of the original mortgage, at which time the property owner begins making monthly payments equal to the principal and interest payment on the original mortgage. The loans are secured by a mortgage on the property. Deferred revenue equal to the balance of the deferred payment loans receivable has been recorded.

- (c) The City adopted the Urban Renewal Plan in 1977 for the purpose of encouraging development, redevelopment, and rehabilitation of property within the urban renewal area. The urban renewal area encompasses approximately 164 square blocks which comprise the City's central business district and contain residential areas. A revolving loan fund was created to assist projects in the urban renewal area which comply with the objectives of the Urban Renewal Plan. The interest rates on these loans range from zero percent to six percent and terms range from five to twenty years. The loans are secured by the property and/or equipment.

4. Interfund Receivables, Payables, and Transfers

Due to/from other City funds at June 30, 2005, consists of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 342,354
	Golf Courses	906,296
	Nonmajor enterprise funds	433,315
	Internal service funds	1,101,831
Community Development Block Grant	Nonmajor governmental funds	127,515
	General	24,183
	Nonmajor enterprise funds	5,000
	Internal service funds	665,398
Internal service funds	Nonmajor governmental funds	6,127
		<u>\$ 3,612,019</u>

Interfund loans receivable/payable at June 30, 2005, consists of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Internal Service	General	\$ 60,995
	Nonmajor enterprise funds	66,222
		<u>\$ 127,217</u>

Advances to/from other funds at June 30, 2005, consists of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Internal Service	General	\$ 492,629
	Nonmajor enterprise funds	1,729,192
		<u>\$ 2,221,821</u>
Less current portion		<u>(127,217)</u>
		<u>\$ 2,094,604</u>

The due to other funds City balances reported in the fund financial statements represent credit cash balances in the individual funds at year-end with an offsetting due from other City funds in the general fund and nonmajor governmental and internal service funds. The advances from other funds reported in the general fund resulted from a loan made for Legion Park improvements and Demolay building/improvements. The advances from other funds reported in the nonmajor enterprise funds resulted from a loan made for construction of a parking ramp. Advances to all funds are being repaid to the nonmajor governmental funds and internal service funds in annual installments including interest.

Transfers to/from other funds for the year ended June 30, 2005, consists of the following:

<u>Recipient Fund</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	\$ 466,387	Transfer from debt service fund to general fund for distribution of tax increment surplus (\$213,376). Transfer from debt service fund to general fund for release of special improvement district revolving fund cash surplus (\$200,000) and residual equity transfers from closed funds (\$53,011).
Street District Fund	14,946	Transfer from internal service fund to street district fund for sale of vehicles (\$6,168). Transfer from internal service fund for ERS transfer (\$8,778).
Sanitation Fund	2,267	Other transfer from internal service funds to sanitation fund.
Golf Course Fund	322,889	Transfer from nonmajor special revenue funds for loan forgiveness (\$248,289). Transfer from nonmajor enterprise funds for recurring transfer (\$4,600). Transfer from internal service fund for loan forgiveness (\$70,000).

4. Interfund Receivables, Payables, and Transfers - continued

<u>Recipient Fund</u>	<u>Amount</u>	<u>Purpose</u>
Nonmajor Governmental Funds	2,790,304	Transfers from general fund to nonmajor special revenue funds for recurring transfer (\$707,422), Great Falls Arts Council (\$4,382), Visitors' Center (\$15,000), cash transfer (\$696,072), distribution of tax increment surplus (\$19,775), Riverfest (\$19,654), funding natural resources (\$20,000), and Explore! The Big Sky (\$250,000). Transfers from nonmajor governmental funds to nonmajor special revenue funds for Railtrail CTEP project (\$15,000), Neighborhood Council #1 (\$1,119) and other transfers (\$1,188). Transfer from internal service funds to nonmajor special revenue funds for ERS transfer (\$4,002), and Explore! The Big Sky (\$430). Transfers from debt service funds to debt service funds for issuance of debt proceeds (\$32,440), and residual equity from closed fund (\$35,020). Transfers from general fund to nonmajor capital projects funds for medical technology park (\$200,000). Transfer from nonmajor special revenue funds to nonmajor capital projects funds for Natatorium (\$94,000), recreation center (\$60,000), Legion Park (\$214,800) and medical technology park (\$400,000).
Nonmajor Enterprise Funds	1,482,005	Transfers from general fund to nonmajor enterprise funds for capital contribution (\$395,717), and recurring transfer (\$680,172). Transfer from capital projects fund to nonmajor enterprise funds for capital contribution (\$179,687). Transfer from nonmajor governmental funds for recurring transfer (\$226,429).
Internal Service Funds	680,370	Transfers from general fund to internal service funds for health insurance recovery (\$173,475), equipment sale (\$10,002), and recurring transfer (\$147,980). Transfer from street district fund for health insurance recovery (\$18,789). Transfer from community development fund for health insurance recovery (\$2,192). Transfers from nonmajor governmental funds for health insurance recovery (\$46,648), equity transfer (\$83,464) and other transfers (\$16,448). Transfer from major enterprise funds for health insurance recovery includes: water fund (\$22,960), sewer fund (\$9,017), storm drain fund (\$144), sanitation fund (\$13,490) and golf course fund (\$9,786). Transfers from nonmajor enterprise funds for health insurance recovery (\$21,421). Transfers from internal service funds for health insurance recovery (\$51,166), equipment purchase (\$14,320), and equity transfer (\$39,068).
Total	<u><u>\$5,759,168</u></u>	

5. Due From Other Governments

Due From Other Governments

Amounts due from other governments at June 30, 2005, were as follows:

	<u>Federal</u>	<u>State</u>	<u>County</u>	<u>Other</u>	<u>Total</u>
General Fund	\$ 13,631	\$ -	\$ -	\$ 6,629	\$ 20,260
Nonmajor governmental funds	693,086	84,415	7,101	82,631	867,233
Nonmajor enterprise funds	-	-	-	75,000	75,000
	<u><u>\$ 706,717</u></u>	<u><u>\$ 84,415</u></u>	<u><u>\$ 7,101</u></u>	<u><u>\$ 164,260</u></u>	<u><u>\$ 962,493</u></u>

6. Capital Assets

Capital asset activity for the year ended June 20, 2005 was as follows:

Primary Government

	Balance June 30, 2004	Increases	Decreases	Balance June 30, 2005
<u>Governmental activities</u>				
Capital assets, not being depreciated:				
Land	\$ 9,928,798	\$ 325,354	\$ (77,844)	\$ 10,176,308
Construction in Progress	3,493,904	4,031,161	(564,983)	6,960,082
	<u>13,422,702</u>	<u>4,356,515</u>	<u>(642,827)</u>	<u>17,136,390</u>
Capital assets, being depreciated:				
Buildings	12,945,139	67,524	-	13,012,663
Improvements	33,102,632	1,736,500	(437,926)	34,401,206
Machinery and equipment	19,352,902	1,052,682	(1,209,328)	19,196,256
	<u>65,400,673</u>	<u>2,856,706</u>	<u>(1,647,254)</u>	<u>66,610,125</u>
Less accumulated depreciation for:				
Buildings	(4,601,306)	(286,735)	-	(4,888,041)
Improvements	(13,928,145)	(1,153,307)	349,798	(14,731,654)
Machinery and equipment	(14,392,108)	(938,732)	1,157,123	(14,173,717)
	<u>(32,921,559)</u>	<u>(2,378,774)</u>	<u>1,506,921</u>	<u>(33,793,412)</u>
Total capital assets, being depreciated, net	<u>32,479,114</u>	<u>477,932</u>	<u>(140,333)</u>	<u>32,816,713</u>
Governmental activities capital assets, net	<u>\$ 45,901,816</u>	<u>\$ 4,834,447</u>	<u>\$ (783,160)</u>	<u>\$ 49,953,103</u>
<u>Business-type activities</u>				
Capital assets, not being depreciated:				
Land	\$ 3,911,678	\$ 193,842	\$ (15,500)	\$ 4,090,020
Construction in Progress	12,585,804	10,325,758	(2,439,114)	20,472,448
	<u>16,497,482</u>	<u>10,519,600</u>	<u>(2,454,614)</u>	<u>24,562,468</u>
Capital assets, being depreciated:				
Buildings	26,509,769	-	(131,487)	26,378,282
Improvements	51,261,939	2,873,957	(51,323)	54,084,573
Machinery and equipment	11,776,118	412,875	(410,664)	11,778,329
Infrastructure	60,979,497	511,259	(288,806)	61,201,950
	<u>150,527,323</u>	<u>3,798,091</u>	<u>(882,280)</u>	<u>153,443,134</u>
Less accumulated depreciation for:				
Buildings	(13,589,722)	(530,949)	113,566	(14,007,105)
Improvements	(8,902,384)	(2,121,771)	12,667	(11,011,488)
Machinery and equipment	(8,511,541)	(605,809)	250,672	(8,866,678)
Infrastructure	(32,076,381)	(1,206,954)	240,391	(33,042,944)
	<u>(63,080,027)</u>	<u>(4,465,484)</u>	<u>617,296</u>	<u>(66,928,215)</u>
Total capital assets, being depreciated, net	<u>87,447,296</u>	<u>(667,393)</u>	<u>(264,986)</u>	<u>86,514,917</u>
Business-type activities capital assets, net	<u>\$ 103,944,778</u>	<u>\$ 9,852,207</u>	<u>\$ (2,719,600)</u>	<u>\$ 111,077,385</u>

6. Capital Assets - continued

Depreciation was charged to functions/programs of the primary government as follows:

Governmental activities

General government	\$	619,868
Public safety		103,490
Public works		846,054
Culture and recreation		258,781
Housing and development		550,581
	<u>\$</u>	<u>2,378,774</u>

Business-type activities

Water	\$	1,625,040
Sewer		1,477,084
Storm drain		317,776
Sanitation		345,611
Golf courses		313,777
Other		386,196
	<u>\$</u>	<u>4,465,484</u>

Discretely Presented Component Unit

Capital assets activity for the Business Improvement District for the year ended June 30, 2005, was as follows:

	Balance June 30, 2004	Increases	Decreases	Balance June 30, 2005
Capital assets, being depreciated:				
Buildings and improvements	\$ 556,744	\$ -	\$ -	\$ 556,744
Equipment	32,471	593	-	33,064
	<u>589,215</u>	<u>593</u>	<u>-</u>	<u>589,808</u>
Less accumulated depreciation for:				
Buildings and improvements	(24,193)	(13,918)	-	(38,111)
Equipment	(7,087)	(4,234)	-	(11,321)
	<u>(31,280)</u>	<u>(18,152)</u>	<u>-</u>	<u>(49,432)</u>
Total capital assets, being depreciated, net Business Improvement District capital assets, net	<u>\$ 557,935</u>	<u>\$ (17,559)</u>	<u>\$ -</u>	<u>\$ 540,376</u>

7. Capital Lease Obligations

Nonmajor Enterprise

In April 2000, the City entered into a capital lease with Wells Fargo Brokerage Services, LLC, to finance the purchase of a computerized ticketing system. The lease term is for ten years and calls for annual payments of \$13,858 beginning on April 1, 2000. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of its future minimum lease payments as of the inception date. The cost and related capital lease obligation had originally been recorded in the Fairgrounds enterprise fund but had been sold to the Civic Center Events enterprise fund during the year ended June 30, 2004.

In September 2000, the City entered into a capital lease with Wells Fargo Brokerage Services, LLC, to finance the construction of the Electric City Water Park and Lazy River. The lease term is for fifteen years and calls for annual payments of \$167,935 beginning on September 15, 2001. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of its future minimum lease payments as of the inception date. The cost and related capital lease obligation have been recorded in the Swim Pool enterprise fund.

7. Capital Lease Obligations – continued

Nonmajor Enterprise – continued

The following is an analysis of the property under capital lease as of June 30, 2005:

	<u>Nonmajor Enterprise</u>
Property and equipment	\$ 71,878
Improvements	1,512,193
Less accumulated depreciation	<u>(250,894)</u>
Net leased property	<u>\$ 1,333,177</u>

The following is a schedule, by year, of future minimum lease payments under capital leases, together with the present value of net minimum lease payments at June 30, 2005:

<u>Year Ending June 30</u>	<u>Nonmajor Enterprise</u>
2006	\$ 181,794
2007	181,793
2008	181,794
2009	181,793
2010	181,794
2011-2015	839,675
2016-2020	<u>167,936</u>
Total lease payments	1,916,579
Less amount representing interest	<u>(577,322)</u>
Present value of future minimum lease payments	<u>\$ 1,339,257</u>

8. Long-Term Debt

Compensated Absences Payable

Compensated absences payable, representing vested vacation and sick leave benefits earned by employees and payable upon termination, as well as additional salary-related charges payable by the City as the employer, as of June 30, 2005, were as follows:

Governmental activities	\$ 2,660,705
Business-type activities	502,234
	<u>\$ 3,162,939</u>

Loan and Contracts Payable

The City Commission adopted Resolution No. 9347 on October 21, 2003 authorizing the borrowing of \$30,256 in Intercap funds by the Library for the purpose of purchasing land adjacent to the Library to be used for additional parking. The term of the loan in three (3) years with an initial interest rate of 2.85%. This rate is adjusted annually on February 16th of each year. The interest rate varies based on the underlying bond rate of the Montana Board of Investments Municipal Finance Consolidation Act Bonds. The loan will be repaid from operating funds of the Library.

8. Long-Term Debt – continued

Loan and Contracts Payable – continued

Annual debt service requirements to maturity for the InterCap loan are as follows:

Year Ending June 30	Governmental Activities		
	Principal Payment	Interest	Total
2006	\$ 10,083	\$ 681	\$ 10,764
2007	10,370	222	10,592
Totals	<u>\$ 20,453</u>	<u>\$ 903</u>	<u>\$ 21,356</u>

Notes Payable

In the fiscal year 2005 the Great Falls Port Authority issued two notes payable as part of an economic development project regarding the Centene, Corporation.

	Start Date	Interest Rate	Term (Years)	Maturity Date	Loan Issued	Balance June 30, 2005
Mountain West Bank, NA Great Falls Development Authority, Revolving Loan Fund	05-25-2005	6.00%	1	09-30-2005	\$ 3,131,196	\$ 1,238,366
	03-02-2005	4.00%	20	10-01-2025	1,075,000	<u>1,075,000</u>
						<u>\$ 2,313,366</u>

Annual debt service are as follows:

Year Ending June 30	Business-Type Activities		
	Principal	Interest	Total
2006	\$ 1,262,089	\$ 40,040	\$ 1,302,129
2007	36,790	41,382	78,172
2008	38,289	39,883	78,172
2009	39,848	38,324	78,172
2010	41,472	36,700	78,172
2011-2015	234,126	156,734	390,860
2016-2020	285,867	104,993	390,860
2021-2025	<u>374,885</u>	<u>42,032</u>	<u>416,917</u>
Totals	<u>\$ 2,313,366</u>	<u>\$ 500,088</u>	<u>\$ 2,813,454</u>

General Obligation Bonds

In November 2003, a general obligation bond of \$2.5 million was approved by the taxpayers for the acquisition of land and construction of a soccer park. General obligation bonds were issued June 15, 2004 and are payable over a 20 year period. The Great Falls Soccer Foundation has partnered with the City to finance and construct the Seibel Soccer Park beginning in the Spring of 2004. General Obligation bonds outstanding at June 30, 2005 are as follows:

	Issue Date	Interest Rate	Term (Years)	Maturity Date	Bonds Issued	Balance June 30, 2005
Series 2004	06-15-2004	3.75 - 4.65%	20	07-01-2024	\$ 2,500,000	\$ 2,420,000

8. Long-Term Debt – continued

General Obligation Bonds – continued

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending June 30	Governmental Activities		
	Principal	Interest	Total
2006	\$ 90,000	\$ 99,450	\$ 189,450
2007	90,000	96,075	186,075
2008	95,000	92,700	187,700
2009	100,000	89,138	189,138
2010	100,000	85,388	185,388
2011-2015	575,000	366,938	941,938
2016-2020	700,000	244,038	944,038
2021-2025	670,000	78,688	748,688
Totals	<u>\$ 2,420,000</u>	<u>\$ 1,152,413</u>	<u>\$ 3,572,413</u>

Additional Covenant Requirements: Annual information to be provided while the Series 2004 G/O Bonds are outstanding include audited financial statements, accompanied by the audit report and opinion of the accountant as required by the laws of the State of Montana. Additional information is provided in the statistical section of the annual report regarding property values, city indebtedness and city tax rates, levies, and collections.

Economic Development Loan

On August 17, 2004, the City Commission approved an amendment to the Scope of Work of the Operation and Maintenance contract with Veolia Water North America Operating Services. This amendment served several purposes, one of which was to renew the Community Investment provision of the original contract resulting in a \$200,000 loan and a \$200,000 grant package for a combined \$400,000 Community Investment package. The \$200,000 loan was used for the purchase of economic development property. The first payment on the loan was April 1, 2005, and the final payment is due no later than April 1, 2015 at an interest rate of 4.15%.

Annual debt service requirements to maturity for the Economic Development loan are as follows:

Year Ending June 30	Governmental Activities		
	Principal	Interest	Total
2006	\$ 16,350	\$ 9,533	\$ 25,883
2007	17,186	8,696	25,882
2008	18,066	7,817	25,883
2009	18,990	6,893	25,883
2010	19,961	5,921	25,882
2011-2015	107,530	13,255	120,785
Totals	<u>\$ 198,083</u>	<u>\$ 52,115</u>	<u>\$ 250,198</u>

Urban Renewal Tax Increment Bonds Payable

The City has issued tax increment urban renewal bonds to provide funds for various projects within the urban renewal area. The bonds are being repaid from the tax increments received by the City from its downtown urban renewal area.

8. Long-Term Debt – continued

Urban Renewal Tax Increment Bond Covenants – continued

Tax increment bonds outstanding at June 30, 2005, are as follows:

	<u>Issue Date</u>	<u>Interest Rate</u>	<u>Term (Years)</u>	<u>Maturity Date</u>	<u>Bonds Issued</u>	<u>Balance June 30, 2005</u>
Series 1998A	03-15-1998	3.90 - 4.70%	11	08-15-2009	\$ 1,150,000	\$ 590,000
Series 1998B	03-15-1998	4.20 - 5.05%	11	08-15-2009	875,000	450,000
Series 2002	11-15-2002	2.50 - 3.25%	7	08-15-2009	5,685,000	4,113,978
						<u>\$ 5,153,978</u>

Annual debt service requirements to maturity for tax increment bonds are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 970,000	\$ 151,016	\$ 1,121,016
2007	1,000,000	122,570	1,122,570
2008	1,035,000	91,841	1,126,841
2009	1,065,000	57,554	1,122,554
2010	1,083,978	19,799	1,103,777
Totals	<u>\$ 5,153,978</u>	<u>\$ 442,780</u>	<u>\$ 5,596,758</u>

Urban Renewal Tax Increment Bond Covenants

The City issued the Urban Renewal Tax Increment refunding bonds pursuant to Resolution No. 9268 which includes various restrictive provisions and covenants. The more significant provisions and covenants require that reserves be maintained for operating/development and debt service. The resolution also requires that the tax increment tax collected and available for debt service is at least 1.25 times coverage on total tax increment parity debt above the amount of tax increment taxes received. At June 30, 2005, the City was in compliance with all significant provisions and covenants.

Shown below are the parity and subordinate bond reserves of the Urban Renewal Tax Increment Fund and the calculation of the coverage covenant.

	<u>Parity</u>	<u>Subordinate</u>
<u>Bond reserves</u>		
Operating/development account	\$ 560,508	N/A
Debt service account	832,332	\$ 78,317
Reserve account	683,500	87,500
	<u>\$ 2,076,340</u>	<u>\$ 165,817</u>

Coverage covenant calculation

Tax increment tax collected and available	\$ 2,176,564	inc
Maximum annual debt service	\$ 1,063,595	\$ 104,037
Debt service coverage	2.05x	-
Debt service coverage required	1.25x	-

Additional Covenant Requirements: Resolution No. 9268 requires information in addition to the operating results already provided within the Financial Section to be presented annually. The resolution does not require that information to be audited. As a result, the required information is provided in the Statistical Section of the City's Comprehensive Annual Financial Report. Required information includes figures for the appraised value, total taxable value, and the incremental taxable value of property within the Urban Renewal Area. Historical tax levy figures and tax increment collection figures through the most recently completed fiscal year are also presented.

8. Long-Term Debt – continued

Special Assessment Debt

The City has a secondary responsibility on the special assessment bonds issued for the various special improvement districts (SID). The City is obligated to pay the debt service on these bonds even if the assessments on the property owners are in default. State law provides for and the City utilizes a “Special Improvement District Revolving Fund” to accumulate resources for such debt service payment. If this fund is not adequate to pay the special assessment debt service in any year, it is legally unclear what additional responsibility the City has to pay the debt service in the year it is due. The bonded debt of these improvement districts is reflected in the government-wide statements as “Special assessment debt with governmental commitment.” The Special Improvement District Revolving Fund is included as a debt service fund.

During the year ended June 30, 2005, the City issued \$630,000 of special assessment bonds to provide improvements for Special Improvement District 1301.

Special assessment bonds outstanding at June 30, 2005, are as follows:

<u>Sid No.</u>	<u>Issue Date</u>	<u>Interest Rate</u>	<u>Term (Years)</u>	<u>Maturity Date</u>	<u>Bonds Issued</u>	<u>Balance June 30, 2005</u>
1248	04-15-1991	5.60 - 7.50%	15	07-01-2006	\$ 888,900	\$ 55,000
1210	12-15-1993	4.50 - 7.00%	15	07-01-2009	409,000	35,000
1271	08-15-1994	4.00 - 6.00%	15	07-01-2009	555,000	10,000
1268	08-01-1995	4.00 - 5.30%	15	08-01-2010	858,000	245,000
1275	10-30-1997	4.10 - 5.25%	15	08-01-2013	547,000	190,000
1266	10-15-1993	3.50 - 6.40%	20	07-01-2013	636,000	140,000
1301	05-15-2005	3.50 - 5.00%	15	08-01-2020	630,000	630,000
						<u><u>\$ 1,305,000</u></u>

All special assessment bonds are redeemable at the option of the City at any time cash is available in the respective funds for each issue. The City follows the policy of early redemption on these bonds. Accordingly, a schedule of special assessment bond debt service requirements to maturity is deemed not to be meaningful and has been excluded.

Special Improvement District No. 1275 and Special Improvement District No. 1301 Bond statements require additional information to be presented by the City, but do not require that information to be audited. As a result, the special improvement districts outstanding, statement of changes in fund balance of the revolving fund, special improvement district revolving fund, individual special improvement districts-continuing disclosure, market and taxable valuations, and tax collection information is presented in the Statistical Section of the City’s Comprehensive Annual Financial Report for the year ended June 30, 2005.

Revenue Bonds Payable

The City also issues bonds where it pledges income derived from the acquired or constructed assets to pay debt service. The revenue bonds are accounted for in the appropriate proprietary fund type.

8. Long-Term Debt – continued

Revenue Bonds Payable – continued

Revenue bonds outstanding at June 30, 2005, are as follows:

	<u>Issue Date</u>	<u>Interest Rate</u>	<u>Term (Years)</u>	<u>Maturity Date</u>	<u>Bonds Issued</u>	<u>Balance June 30, 2005</u>
Water Improvements	12-21-2000	4.00%	20	01-01-2021	\$ 3,000,000	\$ 2,514,000
Water Improvements	05-15-2002	4.15%	10	02-01-2013	8,030,000	5,810,597
Sewer Improvements	05-15-2002	4.15%	10	02-01-2013	6,470,000	5,146,999
Sewer Improvements	05-15-2002	4.00%	20	01-01-2022	11,179,142	9,820,000
Sewer Improvements	02-01-2005	3.00 - 4.15%	20	08-01-2024	5,005,000	5,005,000
Storm Drain Improvements	07-24-2003	4.20 - 7.00%	10	01-01-2014	1,950,000	1,676,661
Storm Drain Improvements	04-06-2004	4.20 - 7.00%	20	01-01-2024	4,400,000	4,161,491
Golf Course Improvements	03-01-1998	4.20 - 5.38%	18	09-01-2015	1,950,000	1,474,300
Golf Course Improvements	04-01-1999	4.15 - 7.00%	20	09-01-2019	590,000	495,000
						<u>\$ 36,104,048</u>

Annual debt service requirements to maturity for revenue bonds are as follows:

<u>Year Ending June 30</u>	<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 2,300,638	\$ 1,270,810	\$ 3,571,448
2007	2,410,000	1,194,078	3,604,078
2008	2,498,000	1,111,334	3,609,334
2009	2,593,000	1,021,609	3,614,609
2010	2,702,000	924,965	3,626,965
2011-2015	12,060,660	3,086,606	15,147,266
2016-2020	7,513,259	1,407,796	8,921,055
2021-2025	4,026,491	272,938	4,299,429
Totals	<u>\$ 36,104,048</u>	<u>\$ 10,290,134</u>	<u>\$ 46,394,182</u>

Water Fund Advance Refunding

In prior years, the City defeased certain Water Fund revenue bonds by placing the proceeds of new bonds in escrow to provide for all future debt service payments on the old bonds. Accordingly, the escrow account assets and the liability for the defeased bonds are not included in the City's financial statements. At June 30, 2005, \$1,800,000 of bonds outstanding is considered defeased.

Water Bond Covenants

Resolution No. 9216 authorized the issuance of separate series of water and sanitary sewerage system revenue refunding bonds to refund all outstanding water and sewerage system bonds.

8. Long-Term Debt – continued

Water Bond Covenants – continued

The City issued the water system refunding bonds pursuant to Resolution No. 9226 which includes various restrictive provisions and covenants. The more significant provisions and covenants require that reserves be maintained for operations, debt service, and repair and replacement and that the net revenues for each fiscal year be at least equal to 125% of the maximum principal and interest to become due in any year. Net revenues are revenues for a specified period less the operating expenses for the same period. Revenues mean all revenues and receipts from rates, fees, charges and rentals, from penalties and interest, and from any sales of property and all income received from the investment of revenues and receipts, including interest earnings on all accounts excluding the Construction Account. Operating expenses include current expenses of operation, maintenance and minor repair of the system, excluding interest on bonds and depreciation. At June 30, 2005, the City was in compliance with all significant provisions and covenants.

Shown below are the bond reserves of the Water Fund and the calculation of the coverage covenant as of June 30, 2005.

<u>Bond Reserves</u>	
Operating account	\$ 424,713
Debt service account	744,577
Reserve account	<u>1,748,457</u>
	\$ 2,917,748
Repair and replacement account	<u>795,233</u>
	<u>\$ 3,712,981</u>
<u>Coverage Covenant Calculation</u>	
Gross revenues	\$ 6,984,563
Operating expenses	<u>3,623,801</u>
Net revenues	<u>\$ 3,360,762</u>
Maximum annual debt service requirement	<u>\$ 1,748,457</u>
Percent coverage	<u>192.21%</u>
Percent coverage required	<u>125.00%</u>

Additional Covenant Requirements: Resolution No. 9226 requires additional information to be presented by the City, but does not require that information to be audited. As a result, information including updated figures for the number of system connections, user rates, and major system users are presented in the Statistical Section to the City's Comprehensive Annual Financial Report for the year ended June 30, 2005.

Sewer Bond Covenants

The City issued the sewer system refunding bonds pursuant to Resolution No. 9227 which includes the various restrictive provisions and covenants. The more significant provisions and covenants require that reserves be maintained for operations, debt service, and repair and replacement and that the net revenues for each fiscal year be at least equal to 125% of the maximum principal and interest to become due in any year. Net revenues are revenues for a specified period less the operating expenses for the same period. Revenues mean all revenues and receipts from rates, fees, charges and rentals, from penalties and interest, and from any sales of property and all income received from the investment of revenues and receipts, including interest earnings on all accounts excluding the Construction Account. Operating expenses include current expenses of operation, maintenance and minor repair of the system, excluding interest on bonds and depreciation. At June 30, 2005, the City was in compliance with all significant provisions and covenants.

8. Long-Term Debt – continued

Sewer Bond Covenants – continued

Shown below are the bond reserves of the Sewer Fund and the calculation of the coverage covenant as of June 30, 2005.

Bond Reserves

Operating account	\$ 396,481
Debt service account	1,247,340
Reserve account	<u>1,929,835</u>

Repair and replacement account	\$ 3,573,656
	<u>768,028</u>

	<u>\$ 4,341,684</u>
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Coverage Covenant Calculation

Gross revenues	\$ 5,814,598
Operating expenses	<u>3,400,024</u>

Net revenues	<u>\$ 2,414,574</u>
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Maximum annual debt service requirement	<u>\$ 1,929,835</u>
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Percent coverage	<u>125.12%</u>
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Percent coverage required	<u>125.00%</u>
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Additional Covenant Requirements: Resolution No. 9227 requires additional information to be presented by the City, but does not require that information to be audited. As a result, information including updated figures for the number of system connections, user rates, and major system users are presented in the Statistical Section to the City's Comprehensive Annual Financial Report for the year ended June 30, 2005.

Storm Drain Bond Covenants

Resolutions No. 9334 and 9360 authorized the issuance of Storm Drain Revenue bonds and includes various restrictive provisions and covenants. The more significant provisions and covenants require that reserves be maintained for operations, debt service, and repair and replacement and that the net revenues for each fiscal year be at least equal to 125% of the maximum principal and interest to become due in any year. Net revenues are revenues for a specified period less the operating expenses for the same period. Revenues mean all revenues and receipts from rates, fees, charges and rentals, from penalties and interest, and from any sales of property and all income received from the investment of revenues and receipts, including interest earnings on all accounts excluding the Construction Account, Repair and Replacement Account and Surplus Account. Operating expenses include current expenses of operation, maintenance and minor repair of the system, excluding interest on bonds and depreciation. At June 30, 2005, the City was in compliance with all significant provisions and covenants.

8. Long-Term Debt – continued

Storm Drain Bond Covenants – continued

Shown below are the bond reserves of the Storm Drain Fund and the calculation of the coverage covenant as of June 30, 2005.

Bond Reserves

Operating account	\$ 42,756
Debt service account	200,839
Reserve account	<u>635,000</u>
	\$ 878,595
Repair and replacement account	<u>150,000</u>
	<u>\$ 1,028,595</u>
<u>Coverage Covenant Calculation</u>	
Gross revenues	\$ 1,768,780
Operating expenses	<u>268,109</u>
Net revenues	<u>\$ 1,500,671</u>
Maximum annual debt service requirement	<u>\$ 530,161</u>
Percent coverage	<u>283.06%</u>
Percent coverage required	<u>125.00%</u>

Additional Covenant Requirements: Resolutions No. 9334 and 9360 require continuing information to be presented by the City. This includes audited financial statements for each fiscal year accompanied by the audit report and opinion of the independent accounting firm, as permitted by the laws of the State. Additional information is also required but it is not mandated that the information be audited. As a result, information including updated figures for the number of system connections, user rates, and major system users are presented in the Statistical Section to the City's Comprehensive Annual Financial Report for the year ended June 30, 2005.

Golf Course Bond Covenants

At June 30, 2005, the City was not in compliance with the Rates and Charges Covenant set forth in Resolution No. 8931 and further modified through Resolution No. 9013. This covenant requires net revenues (gross revenues less operating expenses, exclusive of depreciation expense, and interest expense) to be at least equal to 140% of the principal of and interest on the Series 1998 Bonds and the Series 1999 Bonds.

The City is required to prepare a schedule of altered rates, charges and rentals which are just and equitable and sufficient to produce gross revenues in such amount, and do all things necessary to place such a schedule in operation at the earliest date. Accordingly, the City has engaged the consulting firm of National Golf Federation (NGF) to conduct a thorough study of the golf course operations. The golf management and operations study will analyze the current operations at Anaconda Hills Golf Course and Eagle Falls Golf Club. Areas will include: 1) management and operational practices and policies, 2) revenues and expenses, 3) debt structure, 4) physical plant/turf management of courses, 5) market area overview to include economic and demographic analysis and competitive golf market analysis, and 6) customer surveys. NGF will provide: 1) operation and management alternatives, 2) develop a five year business plan for courses, and 3) develop a seven to ten year operations proforma to include a conceptual estimate of costs for improvements, and use projections and revenue and expense estimates.

In addition, the City Commission took action in Fiscal Year 2005 to replace Interfund loan obligations in the amount \$318,289 with capital contributions to the Golf Course Fund for this same amount. This will allow for a decrease in debt service obligations that will aid in strengthening the fund's cash position.

8. Long-Term Debt – continued

Golf Course Bond Covenants – continued

While the City golf course operations are experiencing many of the same declining net revenue trends in golf course operations as the other courses throughout the nation, the City is committed to the continued operation of the two municipal golf courses. Cash transfers were approved from the General Fund in the amount of \$185,000 and \$120,000 in 2003 and 2004, respectively. While these transfers and the forgiveness of Interfund debts do not meet the bond covenant definition of revenue, they do provide evidence of the City commitment to the golf courses. Staff continues to explore long-term solutions to the financial health of the municipal golf course fund.

Shown below are the bond reserves of the Golf Course Fund and the calculation of the coverage covenant as of June 30, 2005.

Bond Reserves

Reserve account	\$ 237,718
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Coverage Covenant Calculation

Gross revenues	\$ 1,049,533
Operating expenses	<u>1,021,636</u>

Net revenues	<u>\$ 27,897</u>
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Maximum annual debt service requirement	<u>\$ 237,718</u>
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Percent coverage	<u>11.74%</u>
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Percent coverage required	<u>140.00%</u>
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Additional Covenant Requirements: Resolution Nos. 8931 and 9013 require additional information to be presented by the City, but does not require that information to be audited. As a result, the additional information referred to in Resolution Nos. 8931 and 9013 under the captions “golf courses-memberships,” “golf courses-membership costs and green fees,” and “golf courses-historical operating results” is presented in the Statistical Section to the City’s Comprehensive Annual Financial Report for the year ended June 30, 2005. An additional column is added to the reports to reflect anticipated outcomes for the next fiscal year.

Capitalized Interest Expense

During the year ended June 30, 2005, the City incurred interest expense during the construction of assets financed by revenue bonds. This interest expense, less earnings on invested balances of the bond proceeds, was capitalized into the capital asset cost. The water fund incurred a net of \$338,814, the sewer fund incurred a net of \$108,141, and the storm drain fund incurred a net of \$173,689 in such capitalized interest expenses during the year ended June 30, 2005.

8. Long-Term Debt – continued

Changes in Long-Term Liabilities

During the year ended June 30, 2005, the following changes occurred in long-term liabilities:

	Balance June 30, 2004	Additions	Reductions	Balance June 30, 2005	Due Within One Year
<u>Governmental activities</u>					
Compensated absences	\$ 2,520,100	\$ 1,934,464	\$(1,793,859)	\$ 2,660,705	\$ -
Loans and contracts payable	30,256	203,354	(15,074)	218,536	26,433
General obligation bonds payable	2,500,000	-	(80,000)	2,420,000	90,000
Urban renewal tax increment bonds payable	6,095,003	-	(941,025)	5,153,978	962,557
Special assessment debt	880,000	630,000	(205,000)	1,305,000	-
	<u>\$12,025,359</u>	<u>\$ 2,767,818</u>	<u>\$(3,034,958)</u>	<u>\$ 11,758,219</u>	<u>\$ 1,078,990</u>
<u>Business-type activities</u>					
Notes payable	\$ -	\$ 2,313,366		\$ 2,313,366	\$ -
Capital leases	1,426,352	-	(87,095)	1,339,257	92,866
Compensated absences	461,774	422,126	(381,666)	502,234	-
Revenue bonds payable	31,067,754	7,081,943	(2,045,649)	36,104,048	2,259,996
	<u>\$32,955,880</u>	<u>\$ 9,817,435</u>	<u>\$(2,514,410)</u>	<u>\$ 40,258,905</u>	<u>\$ 2,352,861</u>

Conduit Debt

The City has participated in several issues of revenue bonds issued for the purposes of constructing privately operated facilities within the City. These bonds are not direct or contingent liabilities of the City. Revenues from lease agreements and property purchased with the bond proceeds are pledged for the total payment of principal and interest on the bonds and the bondholders can look only to these sources for repayment. As of June 30, 2005, there were five series of Bonds outstanding, with an aggregate principal amount payable of \$7,134,158. The total of the original issue amount of the outstanding bonds was \$11,885,000.

9. Employee Benefit Plans

Plan Description and Provisions

All City of Great Falls full-time employees participate in one of three statewide cost-sharing multiple-employer retirement benefit plans administered by the Public Employees Retirement Division (PERD). Contributions to the three plans are as required by State statute. Fiscal year 2005 and 2004 required employer contributions received were \$1,746,807 and \$1,568,635, respectively. Financial information for all three plans is reported in the Public Employees' Retirement Board's published *Comprehensive Annual Financial Report* for the fiscal year end. It is available from the PERD at 100 North Park Avenue, Suite 220, P.O. Box 200131, Helena, MT 59620-0131. The authority to establish, amend and provide cost of living adjustments to all three plans is assigned to the State legislature. The authority to establish and amend contribution rates to all three plans is also assigned to the State legislature.

Public Employees' Retirement System (PERS)

All City employees, except firefighters and police officers, are provided pension benefits by this multi-employer plan. Funding is provided by participating units of government and their covered employees. The City's contributions to this plan for the years ending June 30, 2005, 2004, and 2003 were \$794,467, \$714,522, and \$751,080, respectively. One hundred percent of required contributions were made for all three years. Plan members are required to contribute 6.9% of monthly compensation. The City is also required to contribute 6.8% of members' compensation. The State is required to contribute 0.1% of members' compensation.

9. Employee Benefit Plans – continued

Public Employees' Retirement System (PERS) – continued

Participants become eligible for benefits after age 60 and 5 years of service, after age 65 regardless of service, or 30 years of service regardless of age. The normal retirement benefit, payable monthly for life, is the greater of the following formulas:

- a. $1/56 \times \text{Years of Service} \times \text{Final Average Salary (FAS)}$, or
- b. The actuarial equivalent of double the member's accumulating regular contributions, annuitized over the expected life of the member (FAS is the member's highest average gross pay during any 36 consecutive months of membership service).

A participant is eligible for early retirement benefits after age 50 and 5 years of service or after 25 years of service regardless of age. Rights become vested after 5 years of service. The total number of participating employees at the City at June 30, 2005 is 359.

Firefighters' Unified System (FURS)

Funding is provided by units of local government, their covered employees and the State of Montana. The City's contributions to this plan for the years ended June 30, 2005, 2004, and 2003 were \$407,277, \$385,791, and \$375,088, respectively. One hundred percent of required contributions were made for all three years. Plan members are required to contribute 10.7% of monthly compensation for members who have elected to be covered under the guaranteed annual benefit adjustment (GABA), and 9.5% of monthly compensation for members who have not elected to be covered under the guaranteed annual benefit adjustment (GABA). The City is required to contribute 14.36% of members' compensation. The State is required to contribute 32.61% of members' compensation.

Participants are eligible for benefits after 20 years of service and age 50. The benefit for participants hired prior to July 1, 1981 who have attained 50 years of age and 20 years of service is 50% of the monthly salary last received by the participant. Also, an additional 1% for each year of service in excess of 20 years, not to exceed a maximum of 60% of the recipient's latest monthly salary. A participant hired on or after July 1, 1981, or who retires prior to completion of 20 years of service, receives a benefit equal to 2% of average salary for each year of service, not to exceed 60%. Salary is averaged over the last 36 months for those hired on or after July 1, 1981. Rights become vested after 10 years of service. The total number of participating employees at the City at June 30, 2005 is 65

Municipal Police Officers' Retirement System (MPORS)

Funding is provided by local units of government, their covered employees, and the State of Montana. The City's contributions to this plan for the years ended June 30, 2005, 2004, and 2003 were \$545,063, \$468,322, and \$456,621, respectively. One hundred percent of required contributions were made for all three years. Plan members are required to contribute 5.8% of monthly compensation for members hired on or before June 30, 1975 and have not elected to be covered under the guaranteed annual benefit adjustment (GABA); 7.0% of monthly compensation for members hired after June 30, 1975 and prior to July 1, 1979; 8.5% of monthly compensation for members hired after June 30, 1979 and prior to July 1, 1997; and 9.0% of monthly compensation for members hired on or after July 1, 1997 and members who have elected to be covered under the guaranteed annual benefit adjustment (GABA). The City is required to contribute 14.41% of members' compensation. The State is required to contribute 29.37% of members' compensation.

Participants are eligible for retirement benefits after 20 years of service and age 50. The minimum age requirement does not apply to participants first employed prior to July 1, 1975. The benefit is $\frac{1}{2}$ of average monthly salary during the highest 36 consecutive months of earnings plus 1% of average monthly salary for each additional year of service in excess of 20 years, to a maximum of 60%. Benefits are paid as a modified cash refund annuity. Rights become vested after 5 years of service. The total number of participating employees at the City at June 30, 2005 is 79.

9. Employee Benefit Plans – continued

Funding Policy

	<u>PERS</u>	<u>FURS</u>	<u>MPORS</u>
Authority to establish and amend contribution rates to the plan:	State Legislature	State Legislature	State Legislature
Required plan member contributions:	6.9% of monthly compensation	9.5% and 10.7% of monthly compensation	5.8% ¹ , 7.0% ² , 8.5% ³ , 9.0% ⁴ of monthly compensation
			¹ for members hired on or before June 30, 1975, not electing Guaranteed Annual Benefit Adjustment (GABA)
			² for members hired after June 30, 1975, and prior to July 1, 1979
			³ for members hired after June 30, 1979 and prior to July 1, 1997
			⁴ for members electing GABA; and those hired on or after July 1, 1997
Required employer contributions:	6.8% of monthly compensation	14.36% of monthly compensation	14.41% of monthly compensation
Required state contributions:	0.1% of monthly compensation	32.61% of monthly compensation	29.37% of monthly compensation
Required employer contributions received and % of required amount:			
June 30, 2005	\$ 794,467 100%	\$ 407,277 100%	\$ 545,063 100%
June 30, 2004	\$ 714,522 100%	\$ 385,791 100%	\$ 468,322 100%
June 30, 2003	\$ 751,080 100%	\$ 375,088 100%	\$ 456,621 100%

10. Post-Employment Benefits Other Than Pensions

The City allows its retired employees to continue their health care insurance coverage through the City’s group health plan until death. The City also allows terminated employees to continue their health care coverage for 18 months past the date of termination. The City does not make any contributions towards the cost of retiree or terminated employee health care benefits other than contributions made for certain retired union employees. The contributions made by the City for the year ended June 30, 2005, were not significant.

11. Construction Commitments

The City has entered into contracts for the design, construction or renovation of various facilities at June 30, 2005, some of which are as follows:

	<u>Amount Expended to Date</u>	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
Eagle Falls golf course	\$ 865,756	\$ 104,726	August 2005
Medical Tech Park	\$ 252,672	\$ 131,328	April 2006
Miscellaneous Water Treatment Plant Improvements	\$ 509,276	\$ 351,164	December 2006
Agriculture Business Park Sewer	\$ 1,695,375	\$ 120,225	August 2005
5th Street Water Main Replacement	\$ 172,683	\$ 177,317	October 2005
2005 Water Projects	\$ 188,485	\$ 2,047,416	July 2006
2005 Sewer Projects	\$ 120,094	\$ 513,268	July 2006
Agriculture Business Park Lift	\$ 602,273	\$ 180,055	April 2006
Tribune Water Main Replacement	\$ 140,422	\$ 128,813	October 2005
Skyline Park West Ridge	\$ 221,411	\$ 115,589	December 2006

12. Operating Leases

The City leases some of its property to others under operating leases expiring in future years. The current year rental costs and minimum future rentals on noncancellable operating leases as of June 30, 2005, are not significant.

The City also leases certain office equipment from others under operating leases expiring in future years. The current year rental costs and minimum future rentals on noncancellable operating leases as of June 30, 2005, are not significant.

13. Contracted Services

The City has entered into intergovernmental agreements with Cascade County for the following services:

Fire Districts

The City provides fire protection for 16 rural fire districts. The agreement is renewable annually and runs from July 1 to June 30.

Dispatch and Communication Services

The City provides dispatching and communication services for the sheriff and rural fire departments. The agreement is dated May 21, 1996, and continues in effect until canceled by either party.

The City has entered into agreements with the following entities for operation of certain facilities:

Animal Control Shelter

The City's animal control shelter is operated by the Humane Society of Cascade County. The contract runs for five years and expires in June 2007.

Housing Authority

The City provides management and payroll services for the Great Falls Housing Authority. The authority reimburses the City for the costs related to providing these services.

Parking Facilities

The City has a management agreement with APCOA for operation of all the City's parking facilities and for enforcement of parking violations. The contract runs through December 31, 2007.

13. Contracted Services – continued

Power Company

The City is authorized to enter into the electric utility business and eventually supply electricity locally. Through this contract, the City would be able to enter the distribution side of the electric utility business to provide citizens with a stable, reliable and reasonably priced supply of electricity.

Soccer Park

“The Seibel Soccer Park” will be built and owned by the City, but will be operated and maintained through a lease by the Great Falls Soccer Foundation. All costs of operating the park will be paid from an endowment fund or through revenues collected from use of the facility.

Wastewater Treatment Plant

The City’s wastewater treatment plant is operated by Veolia Water North America Operating Services. The contract was renewed in Fiscal Year 2004 and expires in August 2014.

14. Subsequent Events

On October 14, 2005, the City Commission passed Resolution 9523 authorizing the issuance and private negotiated sale of General Fund Obligation Bonds series 2005 in the amount of \$1,500,000 to pay the costs of preliminary design, permitting and engineering related to the City’s 25% portion of costs on construction of a 250 MWH Coal Fired Electric Generation facility east of Great Falls.

On November 15, 2005, the City Commission passed Resolution 9528 approving an amendment to the Interlocal Agreement with the cities of Missoula, Helena, Bozeman and the city/county government of Butte-Silverbow, Montana which created Montanan Public Power Authority. The purpose of the amendment is to authorize the City of Great Falls to invest an additional \$100,000 into the Montana Public Power, Inc. to perform due diligence on the acquisition of NorthWestern Corporation, which owns the electric and gas transmission and distribution systems in Montana. MPPI intends to own and operate the utility for the benefit of Montana customers in order to provide stable rates and invest into the system to ensure reliable, essential, energy service for Montana customers. The Amendment also acknowledges that the City of Great Falls, along with each of the other four cities, may assume a \$100,000 obligation to NorthWestern Corp. in the event that during the due diligence process MPPI commits a willful breach of any representation, warranty, covenant or agreement that remain uncured for 30 days. This is known as a Reverse Breakup Fee.

On September 30, 2005 the Great Falls Port Authority authorized a loan for \$2,941,266 from the Montana Board of Investments for the Centene, corporation economic development project. The long-term loan is for 20 years at 4.68% interest.

15. Contingencies

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the City’s legal counsel that resolution of these matters will not have a material adverse effect on the financial condition of the City. Accordingly, no provision has been made in the financial statements for these contingent liabilities.

16. Risk Management

The City faces a considerable number of risks of loss, including damage to and loss of property and contents, employee torts, professional liability (i.e. errors and omissions), environmental damage, workers’ compensation, and medical insurance costs of employees. A variety of methods are used to provide insurance for these risks. Commercial policies, transferring all risks of loss except for relatively small deductible amounts, are purchased for property and content damage and professional liabilities. The City participates in two state-wide public risk pools operated by the Montana Municipal Insurance Authority, for workers’ compensation and for tort liability coverage. Employee medical insurance is provided through a privately administered, self-insured plan. Given the lack of coverage available, the City has no coverage for potential losses from environmental damages.

16. Risk Management – continued

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 City's funds based on prior years loss experiences. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three fiscal years.

In 1986, the City joined together with other Montana cities to form the Montana Municipal Insurance 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 City's liability limits for damages in tort action are \$750,000 per claim and \$1.5 million per occurrence with a \$7,500 deductible per claim. 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 premiums. The tort liability plan and workers' compensation program originally issued \$4.41 million and \$7.61 million in bonds, respectively, to immediately finance the necessary insurance reserves. In March of 1993, the 1986 tort liability bond issue was refunded and reissued in the amount of \$6.25 million. In June of 1994, the workers' compensation bonds were refunded and reissued in the amount of \$7.62 million. All members signed a contingent note for a pro rata share of this liability in case operating revenues were insufficient to cover the debt service. The City's share is \$659,262 for tort liability and \$1,010,832 for workers' compensation. Based on the current financial position of the plans, the City does not expect to make any payment on these notes.

The City provides medical insurance coverage for its employees via a self-insured plan administered by Blue Cross/Blue Shield. It provides medical, dental and vision benefits and its operated as an internal service fund, the Health and Benefits Fund. Rates are determined in consultation with Blue Cross/Blue Shield based on past claim experience. The rates include a premium for a commercial "stop-loss" policy for when claims, in total, exceed the 115% amount or when any one claimant exceeds \$125,000 in covered charges during a year.

Liabilities of the Health and Benefits Fund are reported when it is probable that a loss has occurred and the amount of that loss can be reasonable estimated. Liabilities include an amount for claims that have been incurred but not reported. These claims are estimated by Blue Cross/Blue Shield, based on past claim experience, to represent 1.8 to 2 time the average monthly claims paid during the previous six months. At June 30, 2005, the amount of these claims was \$460,068.

Changes in the claims payable amount during Fiscal Years 2005 and 2004 are as follows:

	Claims Payable Beginning of Fiscal Year	Claims Incurred	Claims Paid	Claims Payable End of Fiscal Year
2004/2005	\$ 570,941	\$ 3,930,597	\$ (4,041,470)	\$ 460,068
2003/2004	\$ 481,689	\$ 3,307,064	\$ (3,217,812)	\$ 570,941

The cash available to pay claims at June 30, 2005, was \$(1,421).

17. Net Assets

In the government-wide financial statements, net assets are classified in the following categories:

Invested in capital assets, net of related debt

This category groups all capital assets, including infrastructure in future years, into one component of net assets. Accumulated depreciation and outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduces this category.

Restricted net assets

This category represents external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through Constitutional provision enabling legislation. Additionally, this category represents restrictions placed on the categories of Capital Projects, Debt Service, and specific projects and programs established by the City Commission.

17. Net Assets – continued

Unrestricted net assets

This category represents the net assets of the City which are not restricted for any project or other purpose.

In the fund financial statements, reserves and designations segregate portions of fund balance that are either not available or have been earmarked for specific purposes. The various reserves and designations are established by actions of the City Commission and Management and can be increased, reduced, or eliminated by similar actions. As of June 30, 2005, reservations of fund balance are described below:

General Fund	
Designated for dividend safety	\$ 311,049
Special Revenue Funds	
Police	
Designated for drug forfeiture	186,390
Designated for crime prevention education	42,136
Library	
Designated for improvements	115,580
Park Special Revenue	
Designated for parkland	294,996
Natural Resources	
Designated for releaf	20,185
Fiduciary Funds	
Designated for Castle Pines	29,761
	<u>\$ 1,000,097</u>

18. Deficit Fund Balances and Net Assets

The Historical Bridge special revenue fund has a fund balance deficit of \$22,892. The short-term deficit is due to construction costs of preservation of the 10th Street Bridge not yet being reimbursed from Preservation Cascade to the City.

The Lewis and Clark Signature Event special revenue fund has a fund balance deficit of \$245,696. The short-term deficit is due to timing of collection of revenue for the event. The revenue will be collected in Fiscal Year 2006.

The Housing Authority Admin special revenue fund has a fund balance deficit of \$191. This fund provides staff and management to the Great Falls Housing Authority Board of Commission, and should not have a fund balance. The retained deficit was a short term timing issue of payment of funds owed to the City from the Great Falls Housing Authority Board of Commissioners.

The HOME Grant special revenue fund has a fund balance deficit of \$14,699. The short-term deficit is due to costs associated with the HOME Grant programs not yet being reimbursed from the Housing and Urban Development Agency to the City.

The Ag Tech Park special revenue fund has a fund balance deficit of \$5,050. This fund is used to account for fund operations to encourage industrial growth by providing tax increment financing for acquisition of a rail spur. The issuance of debt is in the process of being completed to cover the expenses for the rail spur.

The Swim Pool enterprise fund has a net asset deficit of \$361,286. A development of a long-term plan for dealing with the swimming programs and the retained deficit balance is in the process of being completed.

18. Deficit Fund Balances and Net Assets – continued

The Administrative Services internal service fund has a net asset deficit of \$10,321. Charges for services for this fund have been adjusted in fiscal year 2006 to cover the deficit.

The Health and Benefit internal service fund has a net asset deficit of \$1,554,717. This is primarily due to a nationwide trend in increased medical costs. The fund has also experienced a number of incidents that might be considered unique in that they were unusually expensive and historically infrequent in occurrence. To address future shortfall problems, employees with spouses, dependents, and family coverage have been asked to contribute 10% of the total cost of the health insurance premium a month. In addition, a three year recovery plan has been put in place for the retained deficit. In Fiscal Years 2004, 2005, and 2006, all funds with personal costs will contribute a corresponding percentage of the deficit using fund reserves to the Health and Benefit Fund.

The Craft Services internal service fund has a net asset deficit of \$12,799. In fiscal year 2006, this fund has been closed and the deficit cleared.

The Engineering internal service fund has a net asset deficit of \$8,568. The deficit is due to the timing difference of hiring new staff versus billing for services that the new staff is performing. Engineering is now fully staffed and the retained deficit should not occur in the future.

19. Prior Period Adjustments

The Economic Revolving fund was adjusted for the establishment of a deferred revenue balance. The effect of this adjustment was to decrease the net assets by \$405,402.

20. Restated Financial Statements

The accompanying government-wide financial statements for the year ended June 30, 2005 have been restated to reflect the change in presentation of the following internal service funds: Fiscal Services, Craft Services, Engineering, and Public Works Administration. In the prior year, these funds were included with business-type activities in the government-wide financial statements. These funds are now included with governmental activities along with all other internal service funds. Beginning balances in the capital assets and debt footnotes were also restated to reflect this change. As a result of this change in presentation beginning governmental activities net assets increased and beginning business-type net assets decreased by \$421,349. Restated beginning governmental activities net assets, in the amount of \$(113,441), were for the correction of miscellaneous GASB 34 implementation errors.