

City of Great Falls, Montana
Notes to Financial Statements
June 30, 2009

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.

City of Great Falls, Montana
Notes to Financial Statements (Continued)
June 30, 2009

1. Summary of Significant Accounting Policies – continued

b. Reporting Entity – continued

During the year ended March 31, 2009, the Foundation distributed \$180,240 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 (Southern). The joint venture was organized by five electric cooperatives and the City of Great Falls to provide electric services to its members and to construct Highwood Generating Station (HGS), which is an electric generating facility, intended to serve the energy needs of its six members. The City has an 8.66 percent equity interest in the joint venture with Southern. 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. The investment in joint venture in the statement of net assets (page 26) is included in the unrestricted portion of the total net assets. The corporate office of Southern is located 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 units 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 is 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:

City of Great Falls, Montana
Notes to Financial Statements (Continued)
June 30, 2009

1. Summary of Significant Accounting Policies - continued

e. Fund Accounting – continued

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.

Street Fund

The Street 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 Fund

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.

Electric Fund

The Electric Fund accounts for all aspects of the City electric system operations: providing electricity for City operations, other government agencies, and retail customers. The costs of preliminary design and engineering of the HGS facility is included in this fund.

Golf Courses Fund

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

Port Authority Fund – This fund is used to account for operations of the Great Falls Port Authority as a blended component unit of the City of Great Falls.

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. The City of Great Falls uses internal service funds for Administrative Services, Central Communications, Health and Benefit, Insurance and Safety, Fiscal Services, Information Tech, Central Garage, Engineering, Public Works, and Facility Services.

City of Great Falls, Montana
Notes to Financial Statements (Continued)
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1. Summary of Significant Accounting Policies - continued

e. Fund Accounting – continued

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. The City of Great Falls has one private purpose trust to account for assessments collected from the buyers of Castle Pines Subdivision lots.

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. The City of Great Falls has three agency funds used for the Court Agency, the Payroll Agency and the Upper Lower River Road Water Sewer District Agency.

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.

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 fines, permits, and 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

City of Great Falls, Montana
Notes to Financial Statements (Continued)
June 30, 2009

1. Summary of Significant Accounting Policies - continued

f. Measurement Focus/Basis of Accounting – continued

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.

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 Risk Specialist within the Fiscal Services Department. Investment criteria are established via Montana Code Annotated (MCA) 7-6-202 and the City’s investment policy. The City investment committee reviews policies and broker/dealer qualifications at least annually. 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.

City of Great Falls, Montana
Notes to Financial Statements (Continued)
June 30, 2009

1. Summary of Significant Accounting Policies - continued

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 at the fund financial level.

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 and Prepaid Items

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.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. Prepaid items arise when charges are entered in the accounts for benefits not yet received. Prepaid items are spread over a short period of time and are regularly recurring costs of operation. In subsequent periods, when the benefit criteria are met, or when the City has a legal claim to the resources, the prepaid items are removed from the balance sheet and expenses are recognized.

l. 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 at the fund financial reporting level. 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.

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.

City of Great Falls, Montana
Notes to Financial Statements (Continued)
June 30, 2009

1. Summary of Significant Accounting Policies - continued

l. Capital Assets – continued

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.

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.

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.

City of Great Falls, Montana
Notes to Financial Statements (Continued)
June 30, 2009

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, 2009, was as follows:

	Primary Government	Component Units	
		Business Improvement District	Public Library Foundation
Cash on hand	\$ 9,550	\$ 12,725	\$ -
Deposits in banks	(78,097)	-	6,403
Savings deposits	-	-	27,301
Certificates of deposit	2,191,500	25,601	218,000
Repurchase agreements	1,073,177	-	-
U.S. government securities	14,118,139	-	86,404
Short term investment pool (STIP)	1,264,479	-	-
Money market funds	17,511,036	49,387	-
Mutual funds	-	-	1,332,619
Equity securities	-	-	151,483
Totals	\$ 36,089,784	\$ 87,713	\$ 1,822,210

The City's cash, cash equivalents and investments for the primary government at June 30, 2009, are reported as:

	Governmental	Business-Type	Fiduciary Funds	Total
	Activities	Activities		
Cash and cash equivalents	\$ 11,742,406	\$ 9,474,733	\$ 320,281	\$ 21,537,420
Restricted cash and investments	4,124,202	10,428,162	-	14,552,364
Totals	\$ 15,866,608	\$ 19,902,895	\$ 320,281	\$ 36,089,784

At June 30, 2009, the carrying amount of the City's bank deposits was \$(78,097) and the bank balance was \$1,538,235. Of the bank balance, \$324,565 was covered by federal depository insurance and \$1,213,670 was covered by collateral held by the pledging bank's trustee in the City's name.

At June 30, 2009, the carrying amount of deposits for the Great Falls Business Improvement District, a discretely presented component unit, was \$62,112 and the bank balance was \$62,112. Of the bank balance, \$62,112 was covered by federal depository insurance.

At March 31, 2009, the carrying amount of deposits for the Great Falls Public Library Foundation, a discretely presented component unit, was \$33,704 and the bank balance was \$7,103. Of the carrying amount of deposits, \$6,403 was covered by federal depository insurance and \$27,301 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, 2009.

Montana statutes authorize the City to invest in direct 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.

The City received interest revenue of \$633,572 on invested cash during fiscal year 2009. The annualized rate of return for the year is 1.75% prior to adjustments which 'mark investments to market' and 3.96% 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 increased interest income for all City funds in the amount of \$62,637 for the year ended June 30, 2009. This adjustment increased the cash and cash equivalents by \$62,637.

City of Great Falls, Montana
Notes to Financial Statements (Continued)
June 30, 2009

2. Cash, Cash Equivalents and Investments – continued

At June 30, 2009, the City had the following investments. Investments are in an internal investment pool. It is a common practice for governments to pool the cash and investments of funds to improve investment performance. Unless restricted by bonds, grants, etc., the City pools cash and investments of all funds.

	Fair Value	Investment Maturities (In Years)	
		Less Than 1	1-5
Cash on hand, deposits in banks, savings	\$ (68,547)	\$ (68,547)	\$ -
Repurchase agreements	1,073,177	1,073,177	-
U.S. certificate of deposit	2,191,500	2,191,500	-
U.S. treasuries	503,455	503,455	-
U.S. agencies	13,614,684	1,013,910	12,600,774
Money market funds	17,511,036	17,511,036	-
Investment in STIP	1,264,479	1,264,479	-
Totals	\$ 36,089,784	\$ 23,489,010	\$ 12,600,774

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 \$250,000 to be insured by the FDIC or FSLIC and all deposits over \$250,000 are required to be secured with collateral.

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).

City of Great Falls, Montana
Notes to Financial Statements (Continued)
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2. Cash, Cash Equivalents and Investments – continued

The STIP investments are purchased in accordance with the statutorily mandated “Prudent Expert Principle”. The portfolio may include asset-backed securities, commercial paper, corporate and U.S. government direct obligations, U.S. government agency securities, repurchase agreements, institutional money market funds, certificates of deposit and variable-rate (floating-rate) instruments. These securities are purchased to provide shareholders with a diversified portfolio earning a competitive total 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. Commercial paper is unsecured short-term debt with maturities ranging from 1 to 270 days. Commercial paper issued at a discount, direct or by brokers, is backed by bank credit lines. U.S. government direct obligations include U.S. Treasury securities and debt explicitly guaranteed by the U.S. government. U.S. government agency securities include U.S. Government agency and mortgage-backed securities. Repurchase agreements (REPOs) represent an agreement between a seller and a buyer, usually of U.S. government securities, whereby the seller agrees to repurchase the securities at an agreed upon price and stated time. Variable-rate (floating-rate) securities pay a variable rate of interest until maturity. The STIP portfolio’s variable-rate securities float with LIBOR (London Interbank Offered Rate). The STIP investment portfolio consists of securities with a maximum maturity of 397 days or less with the exception of securities having rate reset dates. The portfolio is carried at amortized cost or book value.

Restricted Cash and Investments

Cash and investments of \$14,552,364 are restricted by bond covenants, state statute, or for specific purposes as follows:

Nonmajor governmental funds			
Library - improvements		\$	115,580
Economic Revolving - project reserves			92,585
Improvement District Revolving - security reserves			204,365
Tax increment Bond - current debt service			1,124,799
General Capital Projects - suit related retainage			98,697
Water			
Current debt service	\$	934,078	
Bond reserves		1,319,066	
Operating reserves		584,856	
Construction reserves		169,034	
Vehicle and equipment replacement		<u>803,823</u>	
Subtotal Water			3,810,857
Sewer			
Current debt service		1,296,623	
Bond reserves		1,925,965	
Operating reserves		542,532	
Bonded construction		224,092	
Vehicle and equipment replacement		<u>750,369</u>	
Subtotal Sewer			4,739,581
Storm Drain			
Current debt service		311,340	
Bond reserves		475,710	
Operating reserves		22,342	
Repair and replacement reserves		<u>150,000</u>	
Subtotal Storm Drain			959,392
Sanitation			
Vehicle and equipment replacement			122,517
Electric			
Security reserves		100,000	
Cash on deposit with others		<u>334,954</u>	
Subtotal Electric			434,954
Golf Courses			
Bond reserves			237,717

City of Great Falls, Montana
Notes to Financial Statements (Continued)
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2. Cash, Cash Equivalents and Investments – continued

Nonmajor enterprise funds		
Parking - vehicle and equipment replacement		81,505
Recreation - vehicle and equipment replacement	24,135	
Recreation - improvements	1,750	
Subtotal Recreation		25,885
Civic Center Events - improvements		15,754
Internal Service funds		
Central Garage - vehicle and equipment replacement		2,004,457
Engineering - vehicle and equipment replacement		123,323
Facility Services - improvements		84,317
Information Tech - information systems	266,629	
Information Tech - vehicle and equipment replacement	7,337	
Subtotal Information Tech		273,966
Public Works Admin - vehicle and equipment replacement		2,113
Totals		\$ 14,552,364

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, 2009, 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.

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 on November 30 and May 31. All assessments are considered delinquent if not paid by May 31.

Loans Receivable

Loans receivable at June 30, 2009, consists of the following:

Federal Block Grant Fund:		
CDBG loan program (a)	\$ 120	
Deferred payment loan program (b)	2,555,064	
Subtotal Federal Block Grant Fund		\$ 2,555,184
Nonmajor governmental funds:		
Home Grant - deferred payment loan program (b)		60,000
Economic Revolving - loan program (c)		1,395
Hazard Removal - loan program		800
Total		\$ 2,617,379

- (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 following program has been developed by the City to accomplish these objectives.

City of Great Falls, Montana
Notes to Financial Statements (Continued)
June 30, 2009

3. Receivables – continued

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

The due to other City funds 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 corresponding funds. The due from general fund to library fund represent tax payments received into general fund for library fund.

Due to/from other City funds at June 30, 2009, consists of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>		
General	Nonmajor governmental funds		
	Planning	\$	6,665
	Historic Bridge		4,856
	Housing Authority Admin		41,105
	Swim Pool Rehab Bond		10,785
	Street Lighting Construction		<u>1,704</u>
Subtotal nonmajor governmental funds		\$	65,115
Nonmajor governmental fund - Library	General		11,963
Internal service fund - Central Garage	West Bank Urban Renewal		1,038,830
General	Electric	1,368,236	
General	Golf Courses	<u>1,427,520</u>	
Subtotal business-type activities funds			<u>2,795,756</u>
Total			<u>\$ 3,911,664</u>

Interfund Loans

The interfund loans represent the current portion due from the advances from other funds which represent the long term portion. The advance from the general fund reported in the electric fund resulted from the establishment of a financial assurance reserve required by the Montana Public Service Commission. The advance from the central garage fund reported in the general fund resulted from a loan made for Legion Park improvements. The advances to the electric fund reported in the general fund, street fund, lighting districts fund, library fund, natural resources fund, water fund, sewer fund, sanitation fund, golf fund, safety services fund, parking fund, swim pools fund, recreation fund, public works admin fund, and facility services fund resulted from an interfund liability. Advances to all funds are being repaid to the respective funds in annual installments including interest.

City of Great Falls, Montana
Notes to Financial Statements (Continued)
June 30, 2009

4. Interfund Receivables, Payables, and Transfers – continued

Interfund Loans – continued

Interfund loans receivable/payable at June 30, 2009, consists of the following:

Receivable Fund	Payable Fund	Amount
Internal service fund - Central Garage	General	\$ 19,532

Advances to/from other funds at June 30, 2009, consists of the following:

Receivable Fund	Payable Fund	Amount
General	Electric	\$ 100,000
General		59,696
Street		16,507
Nonmajor governmental funds		
Lighting Districts		\$ 577,514
Library		19,382
Natural Resources		155
Subtotal nonmajor governmental funds		597,051
Water		300,477
Sewer		278,802
Sanitation		3,219
Golf		39,915
Nonmajor enterprise funds		
Safety Services		3,483
Parking		20,581
Swim Pools		21,054
Recreation		10,770
Subtotal nonmajor enterprise funds		55,888
Internal service funds		
Public Works Admin		17,645
Facility Services		30,800
Subtotal internal service funds		48,445
Internal service fund - Central Garage	General	318,522
Total		\$ 1,818,522
Less current portion		(19,532)
Total due in more than one year		\$ 1,798,990

Transfers

Transfers represent the movement of cash assets between City funds and operations. Transfers are transactions which must be recorded, but should not be confused with operating revenues and expenditures. For example, property taxes are properly recorded as revenues in the general fund. However, part of the property taxes revenue is then transferred to the library fund as general support. Recurring transfers are authorized transfers from a fund receiving revenue to the fund through which the resources are to be expended.

City of Great Falls, Montana
Notes to Financial Statements (Continued)
June 30, 2009

4. Interfund Receivables, Payables, and Transfers – continued

Transfers – continued

Transfers to/from other funds for the year ended June 30, 2009, consists of the following:

<u>Recipient Fund</u>	<u>Amount</u>	<u>Purpose</u>
General	\$ 272,000	Transfer from nonmajor governmental fund - tax increment bond to general fund for distribution of tax increment surplus.
Street District	286,624	Transfer from nonmajor governmental fund - economic revolving for repayment of debt.
Nonmajor governmental funds		
Planning	165,714	Transfer from general fund to planning for operation support.
CTEP Projects	10,456	Transfer from nonmajor governmental fund - general capital projects to CTEP projects for grant match for police station rehabilitation.
Historic Bridge	25,459	Transfer from nonmajor governmental fund - tax increment to historic bridge for operation support.
Library	848,807	Transfers from general fund to library for tax support.
Natural Resources	277,406	Transfer from general fund to natural resources for natural resource operations.
Community Development	990	Transfer from internal service fund - central garage to community development for auction proceeds distribution.
Economic Revolving	160,000	Transfer from nonmajor governmental fund - tax increment to economic revolving for economic development purposes.
General Capital Projects	151,805	Transfer from nonmajor governmental fund - tax increment to general capital projects for resurface tennis courts [\$12,000], fire station #2 roof [\$50,000], and legal office move and remodel [\$15,000]. Transfer from nonmajor governmental fund - park and recreation special revenue to general capital projects for splash parks [\$74,805].
	<u>1,640,637</u>	Subtotal of nonmajor governmental funds
Water	109,265	Transfers from nonmajor governmental fund - river's edge trail for overlook project [\$7,434]. Transfer from nonmajor governmental fund - economic revolving fund to water for sale of asset [\$100,031]. Transfer from internal service fund - central garage to water fund for auction proceeds distribution [\$1,800].
Sewer	72,849	Transfer from nonmajor governmental fund - economic revolving fund to water for sale of asset [\$46,635]. Transfer from nonmajor governmental fund - CTEP projects to sewer fund for return of unused funds [\$26,214].
Golf Course	81,521	Transfer from general fund to golf course fund for operation support [\$76,921]. Transfer from nonmajor business fund - recreation to golf course fund for recurring transfer [\$4,600].
Nonmajor enterprise funds		
Safety Services	317,119	Transfer from nonmajor governmental fund - 911 special revenue to safety services for dispatch services.
Parking	759,899	Transfer from nonmajor governmental fund - tax increment bond to parking for parking garage debt service.
Swim Pools	564,455	Transfer from general fund to swim pools for operations support [\$396,520]. Transfer from nonmajor governmental fund - tax increment to swim pools for debt service [\$167,935].
Recreation	153,371	Transfer from general fund to recreation for operation support.
Multi-Sports	24,259	Transfer from general fund to multi-sports for operation support [\$21,038]. Transfer from nonmajor governmental fund - multi-sports special revenue to multi-sports for close of fund [\$3,221].
Civic Center Events	214,727	Transfer from general fund to civic center events for operation support.
	<u>2,033,830</u>	Subtotal of nonmajor enterprise funds

City of Great Falls, Montana
Notes to Financial Statements (Continued)
June 30, 2009

4. Interfund Receivables, Payables, and Transfers – continued

<u>Recipient Fund</u>	<u>Amount</u>	<u>Purpose</u>
Internal service funds		
Central Garage	2,160	Transfer from general fund to central garage for auction proceeds distribution.
Information Tech	22,180	Transfer from general fund to information tech for mapping tech position [\$11,090]. Transfer from nonmajor governmental fund - 911 special revenue to information tech for mapping tech position [\$11,090].
Engineering	167,099	Transfer from general fund to engineering for operation support.
	<u>191,439</u>	Subtotal of internal service funds
Total	<u>\$ 4,688,165</u>	

5. Due From Other Governments

Amounts due from other governments at June 30, 2009, were as follows:

	<u>Federal</u>	<u>State</u>	<u>County</u>	<u>Other</u>	<u>Total</u>
General fund	\$ 11,061	\$ -	\$ 344,408	\$ -	\$ 355,469
Street fund	-	-	1,790	-	1,790
Community Development Block Grant fund	32,632	-	-	-	32,632
Nonmajor governmental funds					
Planning	74,221	-	-	-	74,221
CTEP Projects	9,089	-	-	-	9,089
Lighting District	-	-	610	-	610
Historic Bridge	30,150	-	-	-	30,150
Support & Innovation	-	-	219	-	219
Safety Services	20,000	-	-	-	20,000
Library	-	-	58	-	58
Natural Resources	-	-	170	-	170
Housing Authority	-	-	-	45,011	45,011
Home Grant	4,566	-	-	-	4,566
Ag Tech Park	-	-	11	-	11
Master Debt SILD	-	-	2	-	2
Improvement District Revolving	-	-	2	-	2
Soccer Park Bonds	-	-	81	-	81
Swim Pool Rehab GO Bond	-	-	163	-	163
Tax Increment Bond	-	-	756	-	756
Subtotal nonmajor governmental funds	<u>138,026</u>	<u>-</u>	<u>2,072</u>	<u>45,011</u>	<u>185,109</u>
Water fund	531,458	34,066	-	-	565,524
Totals	<u>\$ 713,177</u>	<u>\$ 34,066</u>	<u>\$ 348,270</u>	<u>\$ 45,011</u>	<u>\$ 1,140,524</u>

City of Great Falls, Montana
Notes to Financial Statements (Continued)
June 30, 2009

6. Capital Assets

Primary Government

Capital asset activity for the year ended June 30, 2009, was as follows:

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental activities</u>				
Capital assets, not being depreciated:				
Land	\$ 10,165,758	\$ -	\$ (235,440)	\$ 9,930,318
Construction in Progress	594,677	45,831	(594,677)	45,831
	<u>10,760,435</u>	<u>45,831</u>	<u>(830,117)</u>	<u>9,976,149</u>
Capital assets, being depreciated:				
Buildings	13,595,436	680,152	-	14,275,588
Improvements	34,038,450	941,090	(61,320)	34,918,220
Machinery and equipment	18,708,612	995,634	(592,802)	19,111,444
Infrastructure	70,822,597	1,452,371	-	72,274,968
	<u>137,165,095</u>	<u>4,069,247</u>	<u>(654,122)</u>	<u>140,580,220</u>
Less accumulated depreciation for:				
Buildings	(5,821,087)	(347,262)	-	(6,168,349)
Improvements	(14,027,626)	(1,186,163)	6,557	(15,207,232)
Machinery and equipment	(13,847,307)	(971,505)	577,670	(14,241,142)
Infrastructure	(39,158,592)	(671,723)	-	(39,830,315)
	<u>(72,854,612)</u>	<u>(3,176,653)</u>	<u>584,227</u>	<u>(75,447,038)</u>
Total capital assets, being depreciated, net	<u>64,310,483</u>	<u>892,594</u>	<u>(69,895)</u>	<u>65,133,182</u>
Governmental activities capital assets, net	<u>\$ 75,070,918</u>	<u>\$ 938,425</u>	<u>\$ (900,012)</u>	<u>\$ 75,109,331</u>
<u>Business-type activities</u>				
Capital assets, not being depreciated:				
Land	\$ 3,988,513	\$ 126,803	\$ -	\$ 4,115,316
Construction in Progress	6,792,382	1,728,021	(4,679,908)	3,840,495
	<u>10,780,895</u>	<u>1,854,824</u>	<u>(4,679,908)</u>	<u>7,955,811</u>
Capital assets, being depreciated:				
Buildings	30,436,068	939,292	(29,472)	31,345,888
Improvements	76,578,708	247,913	(34,650)	76,791,971
Machinery and equipment	12,153,198	513,173	(314,069)	12,352,302
Infrastructure	73,665,541	6,230,180	(8,040)	79,887,681
	<u>192,833,515</u>	<u>7,930,558</u>	<u>(386,231)</u>	<u>200,377,842</u>
Less accumulated depreciation for:				
Buildings	(15,750,684)	(635,776)	-	(16,386,460)
Improvements	(21,461,866)	(3,338,820)	-	(24,800,686)
Machinery and equipment	(8,986,750)	(612,193)	286,706	(9,312,237)
Infrastructure	(36,394,004)	(1,479,253)	8,040	(37,865,217)
	<u>(82,593,304)</u>	<u>(6,066,042)</u>	<u>294,746</u>	<u>(88,364,600)</u>
Total capital assets, being depreciated, net	<u>110,240,211</u>	<u>1,864,516</u>	<u>(91,485)</u>	<u>112,013,242</u>
Business-type activities capital assets, net	<u>\$ 121,021,106</u>	<u>\$ 3,719,340</u>	<u>\$ (4,771,393)</u>	<u>\$ 119,969,053</u>

During the year the City recognized a \$1,144,504 impairment loss on the value of the Highwood Generation Station due to the change from a coal fired to a gas-fired generating station. At the same time there was a reclassification of the remaining \$629,393 from construction in progress to investment in joint venture. With this change certain costs incurred in past years will no longer have earnings value in generating revenues in future years.

City of Great Falls, Montana
Notes to Financial Statements (Continued)
June 30, 2009

6. Capital Assets - continued

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

Governmental activities

General government	\$	424,339
Public safety		181,114
Public works		1,489,109
Culture and recreation		651,445
Housing and development		430,646
Total governmental activities	\$	3,176,653

Business-type activities

Water	\$	2,387,934
Sewer		1,877,884
Storm Drain		732,284
Sanitation		281,863
Golf Courses		320,974
Port Authority		79,992
Other		385,111
Total business-type activities	\$	6,066,042

Discretely Presented Component Unit

Capital assets activity for the Business Improvement District for the year ended June 30, 2009, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, being depreciated:				
Buildings and improvements	\$ 556,744	\$ -	\$ -	\$ 556,744
Equipment	36,095	1,391	-	37,486
	592,839	1,391	-	594,230
Less accumulated depreciation for:				
Buildings and improvements	(65,948)	-	-	(65,948)
Equipment	(37,358)	(18,337)	-	(55,695)
	(103,306)	(18,337)	-	(121,643)
Total capital assets, being depreciated, net Business Improvement District capital assets, net	489,533	(16,946)	-	472,587

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 Pools enterprise fund.

City of Great Falls, Montana
Notes to Financial Statements (Continued)
June 30, 2009

7. Capital Lease Obligations – continued

Nonmajor Enterprise – continued

The following is an analysis of the property under capital lease as of June 30, 2009:

	Nonmajor Enterprise
Property and equipment	\$ 71,878
Improvements	1,503,530
Less accumulated depreciation	(552,567)
Net leased property	\$ 1,022,841

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, 2009:

Year Ending June 30	Nonmajor Enterprise
2010	\$ 181,793
2011	167,935
2012	167,935
2013	167,935
2014	167,935
2015-2016	335,870
Total lease payments	1,189,403
Less amount representing interest	(260,181)
Present value of future minimum lease payments	\$ 929,222

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, 2009, were as follows:

Governmental activities	\$ 3,234,380
Business-type activities	541,034
Total	\$ 3,775,414

Loans and Contracts Payable

The City Commission adopted Resolution No. 9512 on September 6, 2005, authorizing the borrowing of \$20,000 in Intercap funds by the General Fund for the purpose of designing and installing city street lights in Meadowlark Phase 3. The term of the loan was ten (10) years with an initial interest rate of 3.80%. On January 15, 2008 an extension of five (5) years to the term was granted.

The City Commission adopted Resolution No. 9527 on November 1, 2005, authorizing the borrowing of \$56,000 in Intercap funds by the General Fund for the purpose of designing and installing city street lights in Eagles Crossing Phase 1. The term of the loan was ten (10) years with an initial interest rate of 3.80%. On January 15, 2008 an extension of five (5) years to the term was granted.

The City Commission adopted Resolution No. 9572 on August 1, 2006, authorizing the borrowing of \$23,000 in Intercap funds by the General Fund for the purpose of designing and installing city street lights in Meadowlark Phase 4. The term of the loan was ten (10) years with an initial interest rate of 4.75%. On January 15, 2008 an extension of five (5) years to the term was granted.

City of Great Falls, Montana
Notes to Financial Statements (Continued)
June 30, 2009

8. Long-Term Debt – continued

Loans and Contracts Payable – continued

The City Commission adopted Resolution No. 9712 on November 20, 2007, authorizing the borrowing of \$46,600 in Intercap funds by the General Fund for the purpose of designing and installing city street lights in Eagles Crossing Phase 2 & 3. The term of the loan was fifteen (15) years with an initial interest rate of 4.25%.

The City Commission adopted Resolution No. 9720 on December 18, 2007, authorizing the borrowing of \$29,900 in Intercap funds by the General Fund for the purpose of designing and installing city street lights in Meadowlark Phase 5. The term of the loan was fifteen (15) years with an initial interest rate of 4.85%.

The City Commission adopted Resolution No. 9819 on March 17, 2009, authorizing the borrowing of \$36,346 in Intercap funds by the General Fund for the purpose of designing and installing city street lights in Bootlegger Addition Phase 1. The term of the loan was fifteen (15) years with an initial interest rate of 3.25%.

The rates for these Intercap loans are adjusted annually on February 16th. 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 assessments of the property owners of the Street Light districts in the Master Debt SILD Fund. The interest calculations are projected based on the current interest rate charged of 3.25%.

Annual debt service requirements to maturity for the Intercap loans are as follows:

Year Ending June 30	Governmental Activities		
	Principal	Interest	Total
2010	\$ 8,345	\$ 4,682	\$ 13,027
2011	9,441	4,829	14,270
2012	9,869	4,519	14,387
2013	10,315	4,194	14,509
2014	10,783	3,501	14,284
2015-2019	61,704	11,602	73,305
2020-2024	48,814	1,948	50,762
Totals	\$ 159,270	\$ 35,274	\$ 194,545

Loans and Contracts Payable – 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, 2006, and the final payment is due no later than April 1, 2015, at an interest rate of 4.15%. Due to the sale of related property, the loan will be paid in full in early fiscal year 2010 with no interest accrued.

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

Year Ending June 30	Governmental Activities		
	Principal	Interest	Total
2010	\$ 129,110	\$ -	\$ 129,110

Notes Payable

The Great Falls Port Authority on May 25, 2005, authorized the borrowing of \$1,075,000 from the Great Falls Development Authority, Inc. for the purpose of constructing a building. The term of the loan is twenty (20) years with an annual rate of 4.00%. The loan will be repaid from operating funds of the Great Falls Port Authority.

City of Great Falls, Montana
Notes to Financial Statements (Continued)
June 30, 2009

8. Long-Term Debt – continued

Notes Payable – continued

The Great Falls Port Authority on November 30, 2007, authorized the borrowing of \$4,763,794 from the Board of Investments of the State of Montana for the purpose of financing infrastructure improvements to enhance economic development and create jobs in the basic sector of the economy. The term of the loan is eighteen (18) years with an annual rate of 4.43%. The loan will be repaid from operating funds of the Great Falls Port Authority.

The City Commission adopted Resolution No. 9534 on December 6, 2005, authorizing the borrowing of \$1,500,000 from First Interstate Bank in the form of a taxable non-voted general obligation note by the electric fund for the purpose of preliminary design, engineering, feasibility and environmental review costs related to the construction of HGS. The term of the note is twenty (20) years with a maximum interest rate of 7.21%.

This rate is adjusted on each fifth year anniversary date of the closing of the note. The interest rate varies equal to the constant rate of the Five Year US Treasury Index as reported in the Wall Street Journal on the adjustment date. It is intended the debt will be repaid from operating funds of the electric utility. A pledge from the General fund provides backup security for the debt obligation.

	<u>Start Date</u>	<u>Interest Rate</u>	<u>Term (Years)</u>	<u>Maturity Date</u>	<u>Loan Issued</u>	<u>Balance June 30, 2009</u>
Port Authority Improvements	03-02-2005	4.00%	20	10-01-2025	\$ 1,075,000	\$ 936,349
Port Authority Improvements	11-30-2007	4.43%	18 ¼	09-30-2025	1,250,000	4,492,310
Electric Improvements	12-15-2005	6.79%	20	01-01-2026	1,500,000	<u>1,431,490</u>
Total						<u>\$ 6,860,149</u>

Annual debt service is as follows:

Year Ending June 30	<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 282,577	\$ 328,280	\$ 610,858
2011	296,342	314,530	610,871
2012	310,073	310,784	620,858
2013	325,956	284,902	610,858
2014	341,918	268,940	610,858
2015-2019	1,978,343	1,075,945	3,054,288
2020-2024	2,519,405	534,882	3,054,288
2025-2026	<u>805,536</u>	<u>32,826</u>	<u>838,362</u>
Totals	<u>\$ 6,860,149</u>	<u>\$ 3,151,090</u>	<u>\$ 10,011,239</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 twenty (20) year period. The Great Falls Soccer Foundation partnered with the City to finance and construct the Seibel Soccer Park.

In November 2006, a general obligation bond of \$2.27 million was approved by the taxpayers for the improving and upgrading of certain swimming pools in the City. General obligation bonds were issued May 15, 2008, and are payable over a ten (10) year period.

City of Great Falls, Montana
Notes to Financial Statements (Continued)
June 30, 2009

8. Long-Term Debt – continued

General Obligation Bonds – continued

General obligation bonds outstanding at June 30, 2009, 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, 2009</u>
Series 2004	06-15-2004	3.75 - 4.65%	20	07-01-2024	\$ 2,500,000	\$ 2,045,000
Series 2007	05-15-2007	5.50 - 3.80%	10	07-01-2017	\$ 2,270,000	1,916,366
Total						<u>\$ 3,961,366</u>

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

<u>Year Ending June 30</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 307,422	\$ 165,443	\$ 472,865
2011	322,216	151,443	473,659
2012	336,924	136,755	473,679
2013	351,619	122,505	474,124
2014	366,301	109,263	475,564
2015-2019	1,456,884	334,193	1,791,077
2020-2024	820,000	115,725	935,725
Totals	<u>\$ 3,961,366</u>	<u>\$ 1,135,325</u>	<u>\$ 5,096,691</u>

Additional Covenant Requirements: Annual information to be provided while the Series 2004 G/O Bonds and the Series 2008 G/O Bonds are outstanding includes 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.

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.

Tax increment bonds outstanding at June 30, 2009, 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, 2009</u>
Series 1998A	03-15-1998	3.90 - 4.70%	11	08-15-2009	\$ 1,150,000	\$ 874,126
Series 1998B	03-15-1998	4.20 - 5.05%	11	08-15-2009	875,000	\$ 130,000
Series 2002	11-15-2002	2.45 - 3.25%	7	08-15-2009	5,685,000	\$ 100,000
Total						<u>\$ 1,104,126</u>

City of Great Falls, Montana
Notes to Financial Statements (Continued)
June 30, 2009

8. Long-Term Debt – continued

Urban Renewal Tax Increment Bond Covenants – continued

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

Year Ending June 30	Governmental Activities		
	Principal	Interest	Total
2010	\$ 1,104,126	\$ 19,799	\$ 1,123,925
Totals	\$ 1,104,126	\$ 19,799	\$ 1,123,925

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, 2009, 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.

	Parity	Subordinate
<u>Bond reserves</u>		
Debt service account	\$ 1,022,274	\$ 102,525
<u>Coverage covenant calculation</u>		
Increment taxes collected and available	\$ 2,325,617	inc
Maximum annual debt service	\$ 1,021,400	\$ 102,525
Debt service coverage	2.27x	-
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.

Special Assessment Debt

The City has a secondary responsibility on the special assessment bonds issued for the various special improvement districts (SID). The City has a limited obligation 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." The Special Improvement District Revolving Fund is included as a debt service fund.

Special assessment bonds outstanding at June 30, 2009, are as follows:

Sid No.	Issue Date	Interest Rate	Term (Years)	Maturity Date	Bonds Issued	Balance June 30, 2009
1275	10-30-1997	4.10 - 5.25%	15	08-01-2013	547,000	\$ 90,000
1266	10-15-1993	3.50 - 6.40%	20	07-01-2013	636,000	10,000
1301	05-15-2005	3.50 - 5.00%	15	08-01-2020	630,000	455,000
Total						\$ 555,000

City of Great Falls, Montana
Notes to Financial Statements (Continued)
June 30, 2009

8. Long-Term Debt – continued

Special Assessment Debt – continued

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, 2009.

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.

Revenue bonds issued to make capital improvements outstanding at June 30, 2009, 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, 2009</u>
Water	12-21-2000	4.00%	20	01-01-2021	\$ 3,000,000	\$ 2,004,000
Water	05-15-2002	4.15%	10	02-01-2013	8,030,000	3,495,557
Water	05-01-2008	4.25%	20	07-01-2028	1,337,157	1,200,157
Sewer	05-15-2002	4.15%	10	08-01-2012	6,470,000	2,817,038
Sewer	05-15-2002	4.00%	20	01-01-2022	12,100,000	7,987,000
Sewer	02-01-2005	3.00 - 4.15%	20	08-01-2024	5,005,000	4,332,785
Storm Drain	07-24-2003	4.20 - 7.00%	10	01-01-2014	1,950,000	985,712
Storm Drain	04-06-2004	3.75%	20	01-01-2024	4,400,000	3,487,000
Golf Courses	03-01-1998	4.20 - 5.38%	18	09-01-2015	1,950,000	993,745
Golf Courses	04-01-1999	4.15 - 5.50%	20	09-01-2019	590,000	395,000
Total						<u>\$ 27,697,993</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>
2010	\$ 2,797,839	\$ 1,009,806	\$ 3,807,645
2011	2,841,341	908,390	3,749,731
2012	2,959,229	789,312	3,748,541
2013	3,068,518	669,073	3,737,592
2014	1,836,477	573,903	2,410,380
2015-2019	7,970,005	1,930,099	9,900,105
2020-2024	5,558,570	561,693	6,120,263
2025-2028	666,014	40,867	706,881
Totals	<u>\$ 27,697,993</u>	<u>\$ 6,483,144</u>	<u>\$ 34,181,137</u>

City of Great Falls, Montana
Notes to Financial Statements (Continued)
June 30, 2009

8. Long-Term Debt – continued

Revenue Bonds Payable – continued

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.

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, 2009, 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, 2009.

<u>Bond Reserves</u>	
Operating account	\$ 584,856
Debt service account	934,078
Reserve account	<u>1,319,066</u>
	\$ 2,838,000
Repair and replacement account	<u>972,857</u>
	<u>\$ 3,810,857</u>
 <u>Coverage Covenant Calculation</u>	
Gross revenues	\$ 8,213,123
Operating expenses	<u>4,669,152</u>
Net revenues	<u>\$ 3,543,971</u>
Maximum annual debt service requirement	<u>\$ 1,319,066</u>
Percent coverage	<u>268.67%</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, 2009.

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, 2009, the City was in compliance with all significant provisions and covenants.

City of Great Falls, Montana
Notes to Financial Statements (Continued)
June 30, 2009

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, 2009.

Bond Reserves

Operating account	\$ 542,532
Debt service account	1,296,623
Reserve account	1,925,965

Repair and replacement account	\$ 3,765,120
	750,369

\$ 4,515,489

Coverage Covenant Calculation

Gross revenues	\$ 7,905,348
Operating expenses	4,722,852

Net revenues	\$ 3,182,496
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Maximum annual debt service requirement	\$ 1,925,965
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Percent coverage	165.24%
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Percent coverage required	125.00%
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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, 2009.

Storm Drain Bond Covenants

Resolutions No. 9334 and 9360 authorized the issuance of Storm Drain Revenue bonds and include 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, 2009, the City was in compliance with all significant provisions and covenants.

City of Great Falls, Montana
Notes to Financial Statements (Continued)
June 30, 2009

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, 2009.

Bond Reserves

Operating account	\$ 311,340
Debt service account	22,342
Reserve account	475,710

Repair and replacement account	\$ 809,392
	150,000

	\$ 959,392
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Coverage Covenant Calculation

Gross revenues	\$ 1,863,553
Operating expenses	333,500

Net revenues	\$ 1,530,053
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Maximum annual debt service requirement	\$ 475,710
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Percent coverage	321.64%
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Percent coverage required	125.00%
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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, 2009.

Golf Course Bond Covenants

At June 30, 2009, 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 is planning to adopt new fees for the golf courses in 2010. A copy of the schedule of fees for the golf courses for fiscal year 2009 is included in the Statistical Section to the City's Comprehensive Annual Financial Report for the year ended June 30, 2009. The City Commission in fiscal year 2009 transferred from the General Fund \$76,921 and budgeted in fiscal year 2010 to transfer from the General Fund \$240,000 to assist in operations of the Golf Course Fund.

The City golf course operations are experiencing many of the same declining net revenue trends in golf course operations as other courses throughout the nation. Staff continues to explore long-term solutions to the financial health of the municipal golf course fund.

City of Great Falls, Montana
Notes to Financial Statements (Continued)
June 30, 2009

8. Long-Term Debt – continued

Golf Course Bond Covenants – continued

Shown below are the bond reserves of the Golf Course Fund and the calculation of the coverage covenant as of June 30, 2009.

Bond Reserves

Reserve account	\$ 237,717
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Coverage Covenant Calculation

Gross revenues	\$ 1,309,590
Operating expenses	1,060,153

Net revenues	\$ 249,437
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Maximum annual debt service requirement	\$ 237,717
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Percent coverage	104.93%
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Percent coverage required	140.00%
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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 – pass holder rounds played, counts and fees” “golf courses non-pass holder rounds played 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, 2009. 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, 2009, 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 \$55,340, the sewer fund incurred a net of \$15,059, and the storm drain fund incurred a net of \$6,626 in such capitalized interest expenses during the year ended June 30, 2009.

Other Liabilities

Other liabilities in the Electric Fund result from prepaid water charges from Southern in the amount of \$1,186,062. This liability occurs in conjunction with the intentional effort to mitigate unknown expenses incurred in this startup enterprise. The liability has ceased to increase and will begin decreasing when a generating facility comes online and begins to consume process water, purchased from the City necessary to operate the plant.

Projected Year Ending June 30	Business-Type Activities		
	Additions	Deductions	Total
2009	\$ 102,148	\$ -	\$ (1,186,062)
2010	-	-	(1,186,062)
2011	-	-	(1,186,062)
2012	-	187,639	(998,423)
2013	-	187,639	(810,784)
2014-2018	-	810,784	-
Totals	\$ 102,148	\$ 1,186,062	\$ -

City of Great Falls, Montana
Notes to Financial Statements (Continued)
June 30, 2009

8. Long-Term Debt – continued

Other Liabilities – continued

The City became a member of Southern in fiscal year 2004. In fiscal year 2005, the City began supplying electricity to customers within the City. The first customer group included City, Housing Authority, School District, Airport Authority, Montana Air National Guard, and FedEx. Southern secured a five megawatt per hour block of power for the City at a cost of \$41.70 per megawatt hour. The 5 megawatt per hour block of power was the average energy demand of the customer base. Through December 31, 2008, payment for this block of power was comprised of a cash component of \$36 per megawatt hour, and credit towards future water purchases necessary for the operation of the HGS in the amount of \$5.70 per megawatt hour. Any surplus or shortage of energy consumed related to this block of power is sold or purchased on the energy imbalance market and is also recorded as a prepaid water credit.

In the beginning, the City's energy customers and their previous electricity suppliers were able to provide only a very limited amount of information on actual energy demand at the hourly/daily/monthly/seasonal periods. In addition, the City and Southern were aware of the price volatility in the imbalance market that occurs throughout the year. Therefore, an agreement was reached between the City and Southern, in which a portion of the energy supply from the first block of power would be paid for at a future date when the HGS comes online and begins using raw water, supplied by the City, to generate electricity on behalf of all Southern members, including the City, Great Falls Public Schools, and Great Falls International Airport.

Other Post Employment Benefits (OPEB) Payable

OPEB payable, representing benefits earned by employees but payable after retirement, as of June 30, 2009 were as follows:

Governmental activities	\$123,166
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Changes in Long-Term Liabilities

During the year ended June 30, 2009, the following changes occurred in long-term liabilities:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental activities</u>					
Compensated absences	\$ 3,145,021	\$ 252,244	\$ (162,885)	\$ 3,234,380	\$ 156,631
Loans and contracts payable	274,357	47,560	(33,537)	288,380	137,455
General obligation bonds payable	4,259,037	-	(297,671)	3,961,366	307,422
Urban renewal tax increment bonds payable	2,166,538	-	(1,062,412)	1,104,126	1,104,126
Special assessment debt	765,000	-	(210,000)	555,000	-
OPEB claims payable	-	123,166	-	123,166	-
Totals	\$ 10,609,953	\$ 422,970	\$ (1,766,505)	\$ 9,266,418	\$ 1,705,634
<u>Business-type activities</u>					
Compensated absences	\$ 525,450	\$ 68,015	\$ (52,431)	\$ 541,034	\$ 52,522
Capital leases	1,041,794	-	(112,572)	929,222	120,030
Notes payable	7,130,016	-	(269,867)	6,860,149	282,577
Revenue bonds payable	29,092,903	1,279,325	(2,674,235)	27,697,993	2,797,839
Other liabilities	1,083,914	102,148	-	1,186,062	-
Totals	\$ 38,874,077	\$ 1,449,488	\$ (3,109,105)	\$ 37,214,460	\$ 3,252,968

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, 2009, there was one series of Bonds outstanding, with an aggregate principal amount payable of \$5,500,000. The total of the original issue amount of the outstanding bonds was \$5,500,000.

City of Great Falls, Montana
Notes to Financial Statements (Continued)
June 30, 2009

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 2009 and 2008 required employer contributions received were \$2,329,113 and \$2,207,267, 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, 2009, 2008, and 2007, were \$1,078,973, \$1,008,032, and \$930,145, 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 6.935% of members' compensation. The State is required to contribute 0.1% of members' compensation. The State's contribution is paid directly to the plan and does not flow through City accounts.

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 City employees at June 30, 2009, was 383.

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, 2009, 2008, and 2007, were \$553,050, \$525,381, and \$499,497, 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. The State's contribution is paid directly to the plan and does not flow through City accounts.

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 5 years of service. The total number of participating City employees at June 30, 2009, was 64.

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, 2009, 2008, and 2007 were \$697,090, \$673,854, and \$623,797, 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,

City of Great Falls, Montana
Notes to Financial Statements (Continued)
June 30, 2009

9. Employee Benefit Plans – continued

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. The State's contribution is paid directly to the plan and does not flow through City accounts.

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 ½ 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 City employees at June 30, 2009, was 74.

Funding Policy

	PERS	FURS	MPORS
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% ³ and 10.7% ⁴ 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:	6.935% 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, 2009	\$ 1,078,973 100%	\$ 553,050 100%	\$ 697,090 100%
June 30, 2008	\$ 1,008,032 100%	\$ 525,381 100%	\$ 673,854 100%
June 30, 2007	\$ 930,145 100%	\$ 499,497 100%	\$ 623,797 100%

City of Great Falls, Montana
Notes to Financial Statements (Continued)
June 30, 2009

10. Other Postemployment Benefits

Plan Description

The City provides medical insurance coverage for its employees via a single-employer defined benefit self-insured plan administered by BlueCross/Blue Shield. In accordance with MCA 2-18-702 optional postemployment benefits are provided to employees and dependents who retire under applicable retirement provisions and who elect to continue coverage and pay administratively established premiums. The City allows its retired employees to continue their health care insurance coverage through the City's group health plan until death. Benefit provisions are established through negotiations between the City and the unions representing City employees and are renegotiated each bargaining period.

Funding Policy

The City pays for postemployment health care benefits on a pay-as-you-go basis. Authority establishing the funding policy is given with MCA 2-18-702. The City does not make any contributions towards the cost of retiree health care benefits. The administratively established retiree medical premiums vary between \$328.25 and \$801.00 per month depending on the medical plan selected, family coverage, and Medicare eligibility. As of June 30, 2009, 131 retirees (policyholders) were enrolled in the plan.

Annual OPEB Cost and Net OPEB Obligation

The City's annual other postemployment benefit (OPEB) cost (expense) for health insurance is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. Shown below is the City's annual OPEB cost as of June 30, 2009 and the related information:

Annual Required Contribution	\$	280,845
Interest on net OPEB obligation		-
Adjustment to annual required contribution		-
Annual OPEB cost		280,845
Contributions made		157,679
Increase (Decrease) in net OPEB obligation		123,166
Net OPEB obligation beginning of year		-
Net OPEB obligation end of year	\$	123,166

Shown below is the City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2009 and the two preceding years (4% discount rate, and level percent of pay amortization):

Year Ending June 30	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
2007	N/A	N/A	N/A
2008	N/A	N/A	N/A
2009	\$ 280,845	56.14%	\$ 123,166

Actuarial Methods and Assumptions

Projection of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in

City of Great Falls, Montana
Notes to Financial Statements (Continued)
June 30, 2009

10. Other Postemployment Benefits – continued

actuarial liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2008, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.0% investment rate of return (net of administrative expenses) and an annual healthcare costs trend rate of 6.20%. The amortization of the City’s unfunded actuarial accrued liability is being amortized over thirty level payments.

11. Construction Commitments

The City has entered into contracts for the design, construction or renovation of various facilities at June 30, 2009, some of which are as follows:

	Amount Expended to Date	Remaining Construction Commitment	Expected Date of Completion
5 th Street S Streetscape and Sidewalk	\$ 693	\$ 163,511	December 2009
Engineers Office Remodel	28,239	55,761	June 2010
BNRR/River Drive	661,025	627,707	December 2009
Prairie Ridge Estates	14,021	143,979	June 2010
1 st Avenue N – 5 th Avenue S	395,193	554,807	December 2009
Valley Gutters	522	59,478	December 2009
Lift Station #30 Lift Pad	6,925	52,075	December 2009
Great Falls North Sanitary & Storm Drain	137,220	88,575	June 2010
Sanitary Sewer Phase 12	120,672	119,328	June 2010
Grande Vista 2	125	219,874	June 2010
Backwash/Screen	234,313	94,001	December 2009
Park Improvements	12,500	132,500	December 2009

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, 2009, were 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, 2009, were 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 term of this agreement is for the period of four (4) years from July 1, 2005 to September 30, 2009.

Bulk Water Service

The City and Cascade County entered into an interlocal agreement for the City to provide bulk water service to Cascade County residents. The term of this agreement is for the period of fifteen (15) years from July 1, 1995, through June 20, 2010. The City will supply bulk water and storm drain service to the three (3) City dispensing station sites presently located within the City of Great Falls.

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.

City of Great Falls, Montana
Notes to Financial Statements (Continued)
June 30, 2009

13. Contracted Services – continued

Library

The County contributes to the operations of the City/County Library. The County assesses a rural mill levy for the purpose of making contributions to the City library operating costs.

Health Department

On November 22, 1999, the County and the City entered into an interlocal agreement establishing management authority, maintenance responsibilities, and ownership of record for the new City-County Health Department building. The City contributes to the operations of the City-County Health Department. The City remits to the County a contribution for operating costs on a periodic basis.

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

Electric City Power

Electric City Power (ECP) is licensed through the Public Service Commission to supply electricity. On November 1, 2005, the City created and organized a nonprofit corporation under Ordinance 2925, to own, operate and take all other actions necessary or desirable in connection with the municipal electric utility of the City, including the provision of electricity supply services to consumers and others located within or outside of the City. The City has contracted with Southern Montana Electric Generation and Transmission Cooperative, Inc (Southern) for its energy supply contracts necessary to serve the City's electric utility customers.

On September 21, 2004, the City Commission approved a Wholesale Power Purchase Contract with Southern. The result of the contract was to allow the City to provide enough electricity to supply the City's needs, and the needs of ECP customers which are comprised of Great Falls Public Schools, Veolia Water North America, Great Falls Housing Authority, Montana Refining Company, Pilot Program, Barretts Minerals, Federal Express, Montana Air National Guard, Great Falls Airport Authority, Benefis Healthcare, Meadow Gold Dairies, General Mills, Pacific Steel and Recycling, Davidson Investment Partnership, D A Davidson and Company, McLaughlin Research Institute, Lumber Yard Supply Company, and Southern Foods Group. On October 2, 2007, the City Commission approved a revised Wholesale Power Purchase Contract with Southern. The revisions extended the expiration date to December 30, 2048 and provided language necessary to satisfy various agencies, and financial institutions regarding the relationship of Southern and the City.

On February 3, 2009 two rate riders were added to the October 2007 contract to specify methodology used to determine amounts due to Southern with the implementation of a blended/transition rate as well as reporting of wastewater treatment plant co-generation to Southern in compliance with the contract.

On March 15, 2005 the City Commission approved the water service agreement with Southern outlining the rates charged for water service through June 30, 2010 for raw water, and applicable fees. The agreement also outlines the responsibilities of the parties in regards to the reporting of data, the ownership of the meters and system, and the payment requirements, along with addressing the water rights transfer application necessary to utilize available municipal raw water.

On October 2, 2007 an assignment and assumption agreement between ECP and the City was approved by the City Commission. This agreement transfers and assigns all the City's rights, title and interest in the City's power supply contracts and customer contracts to the nonprofit utility, ECP. The agreement was created under the Interlocal Cooperation Act provided for under Montana Code and would allow ECP to assume all of the existing customer contracts.

On June 17, 2008 the City Commission approved a fire protection and emergency services agreement between the City and Southern related to City services to be provided to the Highwood Generating Station facility.

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.

City of Great Falls, Montana
Notes to Financial Statements (Continued)
June 30, 2009

13. Contracted Services – continued

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, 2010, with an option for the City to renew for an additional three years.

Soccer Park

"The Seibel Soccer Park" was built and is owned by the City, but is operated and maintained through a lease by the Great Falls Soccer Foundation. The lease was approved June 2, 2009 with a twenty-five year term. As a condition of the lease agreement the Great Falls Soccer Foundation will be responsible for maintenance and upkeep of all property and buildings, and be responsible for all associated costs.

Solid Waste

The City has contracted with Montana Waste Systems, currently operating a private landfill for landfill privileges. The contract was initially approved March 19, 2002 with a five-year term with two five-year renewal options.

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. 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.

In 2005, an action against the City was filed concerning the construction of Seibel Soccer Park. Damages are undetermined at this time, but a suit related retainage of \$98,697 was placed in the General Capital Projects fund.

On July 17, 2007 the City Commission approved a security agreement in the amount of \$1,400,000 on behalf of Electric City Power for Southern purchases of energy necessary to supply ECP customers. It is a standard industry practice to require some form of security equal to two months of energy supply costs. Certificates of deposit are held in the name of the City by a third party banking institution. The terms of the security agreement authorize the use of funds in the event payment is not made in accordance with the terms of the energy supply contracts entered into by Southern on behalf of ECP customers. The certificates of deposit are part of the City's pooled cash and investments. Interest earnings on the certificates of deposit accrue to the City. There has never been a draw exercised against these funds. All ECP customers are current in payments to ECP. ECP is current in payments to Southern. Southern is current in payments to the energy supplier.

15. 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 three state-wide public risk pools operated by the Montana Municipal Insurance Authority, for workers' compensation, tort liability coverage, and property coverage. In 2006/2007 the Montana Municipal Insurance Authority added pollution coverage at no additional cost to the members. Employee medical insurance is provided through a privately administered, self-insured plan.

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

City of Great Falls, Montana
Notes to Financial Statements (Continued)
June 30, 2009

15. Risk Management – continued

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. The plan has no debt outstanding at this time. 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 \$1,010,832 for workers' compensation. Based on the current financial position of the plan, the City does not expect to make any payment on this note.

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 it is 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 \$150,000 in covered charges during a year. In December 2007, the aggregate portion of the stop loss was discontinued.

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 reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. These claims are estimated, based on past claim experience, to represent 1.8 to 2 times the average monthly claims paid during the previous six months. At June 30, 2009, the amount of these claims was \$778,475. The City accrues as liabilities those claims that have been reported within sixty days of the date of the financial statements as being incurred prior to the date of the financial statements.

Changes in the claims payable amount during fiscal years 2009 and 2008 are as follows:

	Claims Payable Beginning of Fiscal Year	Claims Incurred	Claims Paid	Claims Payable End of Fiscal Year
2008/2009	\$ 579,147	\$ 5,020,129	\$ (4,820,801)	\$ 778,475
2007/2008	\$ 620,336	\$ 3,697,926	\$ (3,739,115)	\$ 579,147

The cash available to pay claims at June 30, 2009 was \$2,287,161.

16. 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.

City of Great Falls, Montana
Notes to Financial Statements (Continued)
June 30, 2009

16. 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, 2009, reservations of fund balance are described below:

Special Revenue Funds		
Library		
Designated for improvements	\$	115,580
Park Special Revenue		
Designated for parkland		287,939
Economic Revolving		
Designated for BRAC		92,585
Fiduciary Funds		
Designated for Castle Pines		148,707
Total	<u>\$</u>	<u>644,811</u>

17. Deficit Fund Balances and Net Assets

The West Bank Urban Renewal special revenue fund has a fund balance deficit of \$1,090,690. This fund is used to account for fund operations for the West Bank Park Urban Renewal District. The fund is new and revenue has not been received yet to cover expenses. The debt to cover the deficit was issued July 7, 2009.

The Swim Pool Rehab Bond debt service fund has a fund balance deficit of \$5,892. This fund is used to account for 10-year General Obligation Bonds Series 2007 payable for the rehabilitation of the Mitchell, Water Tower, and Jaycee Pools. The fund has taxes receivable in the amount of \$88,503 which will cover the fund deficit when the taxes are received.

The Street Lighting Construction capital projects fund has a fund balance deficit of \$18,400. This fund is used to account for financing the installation of city owned lighting district improvements. The improvements are financed by reimbursement loans from Montana Board of Investments. The timing of the reimbursement requests resulted in the deficit.

The Administrative Services internal service fund has a net asset deficit of \$13,347. Charges for services for this fund have been adjusted in fiscal year 2010 to cover the deficit.

The Electric enterprise fund has a net asset deficit of \$2,329,188. This is due, in part, to the account payable for electricity (prepaid water) from Southern in the amount of \$1,186,062. This occurs in conjunction with the intentional effort to mitigate unknown expenses incurred in the startup enterprise. In addition, there has been a \$1,144,504 impairment loss on the value of the Highwood Generating Station due to a change in construction efforts from a coal-fired generating facility to a gas-fired generating facility. The Electric enterprise fund has an unrestricted net asset deficit of \$2,764,142. This is due to the restriction of funds in the amount of \$100,00 required by the Public Service Commission and \$334,954 that is held by Southern in accordance with Southern policy to have one month's average billing on deposit to be used for the payment of expenses to its suppliers in advance of Southern's billings to its members. The account payable for electricity (prepaid water) increased through fiscal year 2009 and will begin decreasing when a generating plant comes online and begins utilizing raw water provided by the City to operate the plant.

City of Great Falls, Montana
Notes to Financial Statements (Continued)
June 30, 2009

17. Deficit Fund Balances and Net Assets – continued

Long term energy supply contracts were entered into prior to 2007 in anticipation of an expanding customer base. In 2007, Montana legislative actions placed limitations on ECP's ability to sign new customers resulting in energy supply obligations in excess of customer needs in the short term.

On February 3, 2009 the City Commission approved the wholesale power rate adjustment offer from Southern authorizing a transition rate through December 31, 2010 that will be charged for actual kwh's consumed by ECP customers instead of actual costs adjusted for net imbalance sales and purchases on the open market.

City of Great Falls Ordinance 2925, An Ordinance amending Title 5, Chapter 20, OCCGF, Authorizing and Approving the Creation of Electric City Power, Inc. Pursuant to the Montana Nonprofit Corporation Act in order to Secure and Provide reliable and economic supplies of Electricity for the City of Great Falls, its Residents and Other Consumers, was passed by the Commission November 1, 2005. Section 5.20.070 Rates. states "Such rates and charges shall be designed to enable the Corporation to operate on a self-sufficient and self-sustaining basis and to produce revenues at all times sufficient to pay all operating, maintenance, debt service, repair and replacement costs of the Corporation and to provide reserves necessary or desirable for working capital, capital improvements and replacements and rate stabilization purposes." Future rate increases for electricity customers are provided in the customer service contracts. Increased rates paid by customers along with rate decreases occurring as a result of new rate structuring offered by Southern will cause the deficit balance to decline and be eliminated over time.

18. Subsequent Events

On July 7, 2009, the City Commission approved Resolution 9837, authorizing a loan agreement with the Montana Board of Investments for \$20,516 to fund the installation cost of five City owned street lights in Water Tower Park Addition. The loan has a variable interest rate that changes annually in February and the current interest rate is 3.25%. The term of the loan will be fifteen years and is repayable from assessments levied against the sixteen individual properties within the lighting district.

On July 7, 2009, the City Commission approved Resolution 9842, authorizing the issuance and fixing the terms of a \$416,300 subordinate lien taxable series 2009A Bond and a \$333,700 Series 2009B Bond funded through the American Recovery and Reinvestment Act of 2009 (ARRA) to continue the replacement of the water system in various areas throughout Great Falls. Loan A will be forgiven upon completion of the ARRA program requirements. Loan B will be at 1.75% per annum with a term of twenty years. All issuance fees and costs will be paid out of this financing. Pending completion of the financing process, cash balances in the water fund will provide sufficient cash to pay up front expenses.

On July 21, 2009, the City Commission approved Resolution 9815, ratifying the sale and prescribing the form, terms and the security of the \$2,000,000 Tax Increment Urban Renewal Revenue Bonds, Series 2009A. The tax increment generated annually from property improvements within the district, based on reports from the Department of Revenue has been determined to adequately pay the principal and interest of the Series 2009A Bonds of the term of the debt. The bonds have an average interest rate of 5.60%. The term of the bonds is not more than twenty-five years.

On September 1, 2009, the City Commission approved Resolution 9863, authorizing the issuance and fixing the terms of a \$390,700 subordinate lien taxable Series 2009A Bond and a \$359,300 Series 2009B Bond funded through the American Recovery and Reinvestment Act of 2009 (ARRA) to continue the replacement of the water system in various areas throughout Great Falls. Loan A will be forgiven upon completion of the ARRA program requirements. Loan B will be at 1.75% per annum with a term of twenty years. All issuance fees and costs will be paid out of this financing. Pending completion of the financing process, cash balances in the water fund will provide sufficient cash to pay up front expenses.

City of Great Falls, Montana
Notes to Financial Statements (Continued)
June 30, 2009

18. Subsequent Events - continued

On October 20, 2009, the City Commission approved Resolution 9843, authorizing and directing the issuance, awarding the sale, and prescribing the form, terms and security of the \$900,000 Tax Increment Urban Renewal Subordinate Lien Revenue Note, Series 2009. The tax increment generated annually from property improvements within the district, based on reports from the Department of Revenue has been determined to adequately pay the principal and interest of the Series 2009 Bonds of the term of the debt in a subordinate position to the previously authorized \$2,000,000 Tax Increment Revenue Bonds, Series 2009A. The bonds have an average interest rate of 5.60%. The term of the bonds is not more than twenty-five years.

19. BID Component Unit Prior Period Adjustment

The Business Improvement District Component Unit made a prior period adjustment that is reflected on the entity wide statement of activities. The prior year summarized information for the year ended June 30, 2008, has been restated due to an error in recording grants payable. The correction of this error decreased the grants payable and expenditures by \$12,356 for the fiscal year ended June 30, 2008.