

Doyle & Associates, P.C.

The accompanying financial statements and reports are intended for the original recipient.

They must be presented in their entirety and may not be modified in any manner.

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

FINANCIAL & COMPLIANCE REPORTS

FOR THE YEAR ENDED JUNE 30, 2014
(With Independent Auditor's Reports Thereon)

CITY OF COLUMBIA FALLS

Flathead County, Montana

Table of Contents

For the Fiscal Year Ended June 30, 2014

Organization.....	1
Management’s Discussion and Analysis.....	2
Independent Auditor’s Report.....	11
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets.....	14
Statement of Activities.....	15
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	16
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets.....	17
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds.....	18
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	19
Balance Sheet – Proprietary Funds.....	20
Statement of Revenues, Expenses, and Changes in Net Assets- Proprietary Funds.....	21
Combined Statement of Cash Flows – Proprietary Fund Types	22
Statement of Fiduciary Net Assets.....	23
Notes to the Financial Statements.....	24
Required Supplementary Information:	
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual General Fund and Major Special Revenue Funds.....	50
Notes to the Budget and Actual Schedule.....	52
Schedule of Expenditures of Federal Awards.....	53
Notes to the Schedule of Expenditures of Federal Awards.....	54
Independent Auditor’s Reports:	
On Internal Control over Financial Reporting and on Compliance and Other Matters.....	55
On Compliance and on Internal Control over Compliance Applicable to Major Programs.....	57
Schedule of Findings and Questioned Costs.....	59

CITY OF COLUMBIA FALLS
Flathead County, Montana

Organization

Fiscal Year Ended June 30, 2014

Mayor..... Donald W. Barnhart

City Council..... Mike Shepard
Darin Fisher
Jenny Lovering
Julie Plevel
Doug Karper
Dave Petersen

City Manager..... Susan Nicosia, CPA, MPA

Attorney..... Justin Breck

Chief of Police..... David Perry

City Treasurer..... Todd Watkins

City Clerk..... Barb Staaland

City Judge..... Susan Gordon

Fire Chief/Marshall..... Rick Hagen

Public Works Director..... Grady Jenkins

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

This section of the report provides readers with a narrative overview and analysis of the financial activities of the City of Columbia Falls for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with the basic financial statements to enhance their understanding of the City's financial performance.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at June 30 by \$26,244,392 (net position). Of this amount, \$2,709,755, or approximately 10%, may be used to meet the City's ongoing obligations to citizens and creditors. The remainder includes \$19,369,207 in capital assets, net of related debt and \$4,165,430 restricted for future debt payments and future use.
- Total net position increased by \$16,107 over the prior fiscal year from routine operations. Net position in governmental activities was also restated by \$64,900 to correct capital assets.
- As of June 30 the City's governmental funds reported combined ending fund balances of \$2,931,024, an increase of \$222,804 over the prior year. Approximately 14% of this amount, \$443,409 is available for spending at the government's discretion (unassigned fund balance).
- The City's General Fund balance was \$1,021,204 at June 30, 2014. The 2014 General Fund balance is \$89,914 higher than in the previous year. The total *committed and unassigned* components of fund balance for the General Fund are 37% of the 2014-2015 budgeted General Fund operating expenditures. The City Council's goal is to keep General Fund reserves at no less than 20% of operating expenditures. A reserve of 20%, \$554,313, was retained with \$466,891 authorized by Council to fund fiscal year 2014-2015 expenditures.
- The City accepted a donation of an undeveloped lot, Lot 4 O'Neil Subdivision, approximately 0.689 acres, appraised at \$240,000. This lot is located on the corner of Hwy 2/9th St West and South Meadowlake Boulevard. The City plans on creating a "welcome" park on this lot to provide a rest area and information for visitors and residents.
- The City completed the 3rd Ave East bike path, from 7th St East to River's Edge Park at 5th ST East, with CTEP funds and city matching funds for a total expenditure of \$72,531, thereby completing the entire 3rd Ave East bike path that was started in 2013.
- The City also completed the 5th Street West bike path, connecting the 5th Street Homes Subdivision bike path to 6th Ave West, along 5th St West, also known as the Truck Route. Using city labor, the city invested \$9,990 into completing this path. The completion of the path was agreed upon by the City with the subdivision approval.
- The City invested \$7,730 into a radar trailer with display that will alert driver's to the speed limit and record traffic and speed data for enforcement and education purposes.
- The City purchased a 2003 Ford F450 Flatbed truck for the Street Department in the amount of \$14,600.
- The City continued upgrading the SCADA system at the treatment plant and two more life stations, #7 and #8, for a total cost of \$78,720. The City is planning on completing the SCADA upgrades during the 2015 FY for an additional \$106,950, bringing the entire 5-year project total at \$369,390.

Management's Discussion and Analysis (Continued)

- The Water Fund Operating income (loss) for the water enterprise was \$30,737 compared to \$8,700 for the prior year. Water debt was reduced by \$24,000. The water fund's net position increased by \$27,476 for the 2014 fiscal year.
- Operating income (loss) for the sewer enterprise was (\$129,573) compared to operating income (loss) of (\$74,906) for the prior year. Sewer debt was reduced by \$208,462. The sewer fund's net position decreased by \$158,889 for the 2014 fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

Management's Discussion and Analysis (Continued)

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

The City of Columbia Falls maintains 17 individual governmental funds. Information is presented separately for the General Fund, Street Maintenance Fund and CDBG Economic Development Fund as they are major funds. Data from the other 14 funds are combined into a single aggregated presentation. Individual fund data for each of these non-major funds is provided in the form of combining statements contained in this report.

The City of Columbia Falls adopts annual appropriated budgets for its governmental and proprietary funds. Schedules providing budgetary comparison have been provided to demonstrate compliance with both the original and final budgets.

b. Proprietary funds. The City of Columbia Falls operates two utilities, water and sewer, which are proprietary enterprise funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The proprietary fund statements provide detail information for the Water and Sewer Funds, which are classified as major enterprise funds. Data from the other 2 funds, Water Capital Expansion and Sewer Capital Expansion, are combined into a single aggregated presentation. Individual fund data for each of these non-major funds is provided in the form of combining statements contained in this report.

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

c. Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are *not* included in the government-wide financial statements because the resources of these funds are not available to support the City of Columbia Falls' own operations. The City of Columbia Falls has two administrative clearing funds for payroll and claims that are included as agency funds in the basic fiduciary fund financial statement. The basic fiduciary fund financial statement can be found on page 23 of this report.

3. Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 24 through 49 of this report.

4. Other Information. All required supplementary information other than GASB Statement 45 Other Postemployment Benefit (OPEB) schedules and the general and major special revenue funds budgetary comparison schedules is included in the basic financial statements and accompanying notes. Therefore, the only information presented in the section for required supplementary information is required budgetary comparison schedules for the City's major governmental funds on pages 50 to 52 of this report in the section entitled "Required Supplementary Information."

CITY-WIDE FINANCIAL ANALYSIS

Net Position. As noted earlier, net position may serve over time as a useful indicator of a government's financial position.

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

Table I

The City of Columbia Falls Net Position

	Governmental Activities		Business-type Activities		Total	
	2012-2013	2013-2014	2012-2013	2013-2014	2012-2013	2013-2014
Assets						
Current and other assets	\$3,117,773	\$3,250,200	\$3,528,564	\$3,988,591	\$6,646,337	\$7,238,791
Capital assets	\$10,920,122	\$10,577,762	\$12,553,127	\$11,902,719	\$23,473,249	\$22,480,481
Total Assets	\$14,037,895	\$13,827,962	\$16,081,691	\$15,891,310	\$30,119,586	\$29,719,272
Liabilities						
Current and other liabilities	\$340,492	\$299,397	\$308,911	\$339,231	\$649,403	\$638,628
Long-term liabilities	\$1,292,632	\$1,060,312	\$2,014,167	\$1,775,940	\$3,306,799	\$2,836,252
Total Liabilities	\$1,633,124	\$1,359,709	\$2,323,078	\$2,115,171	\$3,956,202	\$3,474,880
Net Position						
Invested in capital assets net of related debt	\$9,632,248	\$9,437,369	\$10,349,784	\$9,931,838	\$19,982,032	\$19,369,207
Restricted	\$1,288,389	\$1,238,569	\$2,730,515	\$2,926,861	\$4,018,904	\$4,165,430
Unrestricted	\$1,484,134	\$1,792,315	\$678,315	\$917,440	\$2,162,449	\$2,709,755
Total Net Position	\$12,404,771	\$12,468,253	\$13,758,614	\$13,776,139	\$26,163,385	\$26,244,392

A significant portion of the City's net assets (74%) reflects its investment in capital assets, less any related debt used to acquire those assets that is still outstanding. These assets include land, buildings, machinery, and equipment, as well as infrastructure. Infrastructure assets include streets, sidewalks, water and sewer mains constructed by the city or constructed and donated by subdivision developers. Capital assets are used to provide services to citizens; consequently, they are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt would need to be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

An additional \$4,165,430 of the City's net assets (16%) represents resources that are subject to external restrictions on how they may be used. Included in this category is a reserve for \$64,415 in the G. O. bond and SID debt service funds, \$391,748 for a long-term receivable in the Cedar Creek Trust Special Revenue Fund and other restrictions due to grant, donor or statutory provisions. Reserves have been established in the water and sewer funds for one year's annual payment in the amount of \$35,308 and \$256,051, respectively. Additional Water and Sewer reserves are for Replacement and Depreciation and System Improvements, as required by bond indenture requirements. These reserves total \$358,047 in Water and \$1,005,232 in Sewer. The Water and Sewer Capital Expansion Fund Net Position are restricted to fund expansion of the applicable systems. Those restricted net assets total \$1,337,123. The remaining balance of unrestricted assets, \$2,709,755 (10%) may be used to meet the City's ongoing obligations to citizens and creditors.

At June 30, the City is able to report positive balances in all three categories of net position, both for the City as a whole, as well as for its separate governmental and business-type activities.

Changes in Net Position. Governmental and Business-type activities increased the City's net position by \$16,107 in 2014. The table below indicates the changes in net assets for governmental and business-type activities in 2014 and compares to prior year.

Table II
The City of Columbia Falls
Changes in Net Position

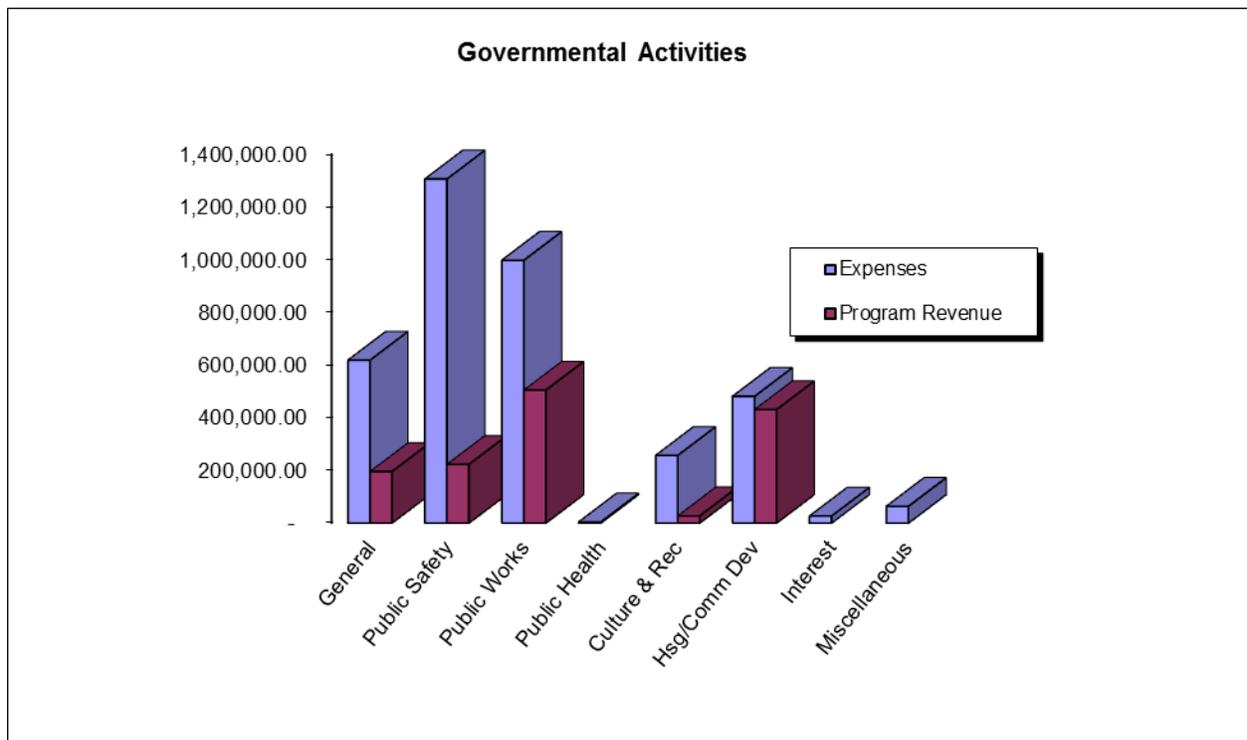
	Governmental Activities		Business-type Activities		Total	
	2012-2013	2013-2014	2012-2013	2013-2014	2012-2013	2013-2014
Revenues						
Program revenues						
Charges for services	\$893,202	\$666,216	\$1,600,581	\$1,697,441	\$2,493,783	\$2,363,657
Operating grants and contributions	331,783	611,537			331,783	611,537
Capital grants and contributions	0	102,386	6,666	0	6,666	102,386
General revenues						
Property taxes	1,106,709	1,214,122			1,106,709	1,214,122
Intergovernmental revenue	600,375	705,123			600,375	705,123
Other revenues	242,230	448,234	26,945	24,220	269,175	472,454
Total revenues	\$3,174,299	\$3,747,618	\$1,634,192	\$1,721,661	\$4,808,491	\$5,469,279
Expenses						
General government	\$716,753	\$ 617,872			\$716,753	\$617,872
Public safety	1,184,409	1,304,982			1,184,409	1,304,982
Public works	899,505	996,710			899,505	996,710
Public health	4,250	4,250			4,250	4,250
Culture and recreation	260,942	256,614			260,942	256,614
Housing and community Development		480,670				480,670
Conservation of Natural Resources						
Interest on long term debt	30,776	26,549			30,776	26,549
Miscellaneous	72,295	63,614			72,295	63,614
Unallocated costs	20,513	(2,225)			20,513	(2,225)
Water			608,910	593,764	608,910	593,764
Sewer			1,070,549	\$1,110,372	1,070,549	1,110,372
Total expenses	3,189,443	3,749,036	\$1,679,459	\$1,704,136	\$4,868,902	\$5,453,172
Increase/(decrease) in Net Assets	(\$15,144)	(\$1,418)	(\$45,267)	\$17,525	(\$60,411)	\$16,107

Governmental Activities. Governmental activities in fiscal year 2014 essentially broke even, with revenues offsetting expenditures except for \$1,418. The key elements of the decrease and the variance between the years are:

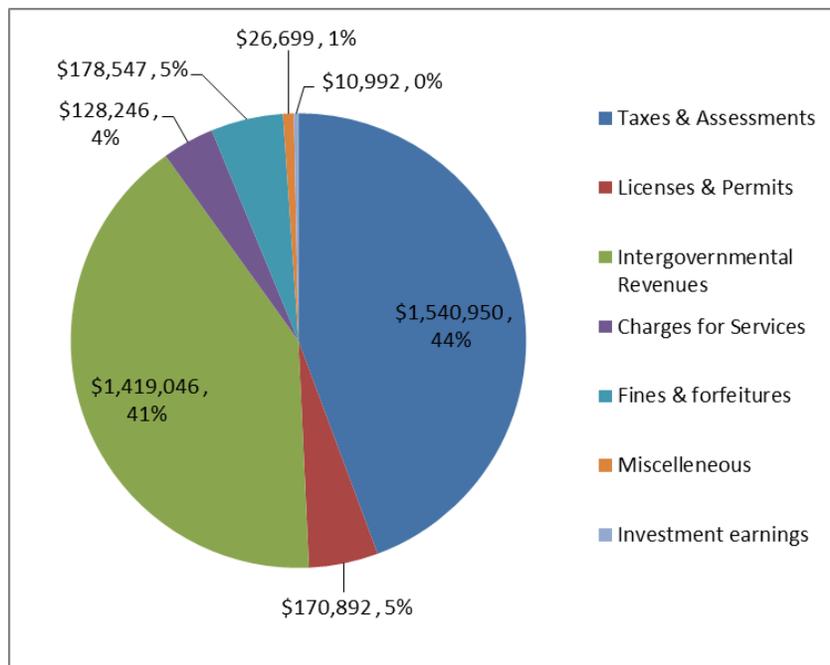
- City was awarded a CDBG Economic Development Grant for \$400,000, receiving \$387,830 of those funds in the 2014 FY.
- Other significant grant funds included HOME Grant funds for \$43,745 and CTEP Grant funds for \$58,640.
- The City received a \$240,000 land donation accounted for under the governmental “other revenues” for 2014.

Management's Discussion and Analysis (Continued)

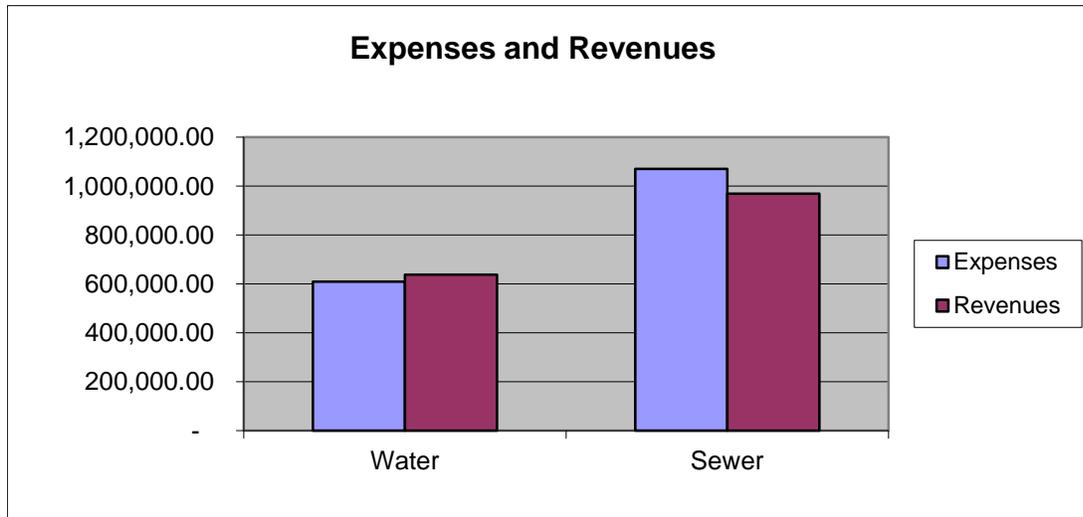
This chart shows the extent to which the City relies on the general revenues, such as Property Tax Revenues and Unrestricted State Revenues, to fund the governmental activities.



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



Business-type Activities. The City's business-type activities, Water and Sewer, increased the City's net position in 2014 by \$17,525, also representing a "break even" position. Key elements of the increase and the variance between is largely due to the increase in residential building activity resulting in an increase in the sale of meters and the collection of plant investment fees for both Water and Sewer.



FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

Governmental Funds Overview

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

As of the end of 2014, the combined ending fund balances of City governmental funds was \$2,931,024, an increase of \$222,804 in comparison with the prior year. Of this amount, \$391,748, or 13% is not in spendable form because it represents a long-term receivable in the Cedar Creek Trust Fund. \$846,822 29%, is restricted to indicate that constraints placed on the use of resources is externally imposed or imposed by law because assets are limited by specific grant agreements, assets are limited by state law or specific voter approved debt covenants. \$577,795, 21%, represents a cash reserve in the General fund to provide liquidity until tax revenue is received in December. Additionally, \$638,940, 22%, represents funds committed to future capital projects. The Cedar Creek Trust has an assigned balance of \$32,310. The unassigned fund balance is \$443,409, 15% total ending fund balance, all of which is within the General Fund.

The General Fund is the chief operating fund of the City. At June 30, the unassigned fund balance was \$443,409 and the committed fund balance was \$577,795 for a total fund balance of \$1,021,204. As a measure of the General Fund's liquidity, it is useful to compare both unassigned fund balance and total fund balance to total General Fund expenditures. Unassigned fund balance represents approximately 21% of the total General Fund expenditures while total fund balance represents approximately 52% of that same amount.

The City of Columbia Falls has three major governmental funds: the General Fund, Street Maintenance Fund and CDBG-Economic Development Fund.

Management's Discussion and Analysis (Continued)

1. **General Fund.** This is the primary operating fund of the City of Columbia Falls government. It accounts for many of the City's general and administrative services, such as legislative, financial, legal, police, fire and parks.
2. **Street Maintenance Fund.** This special revenue fund accounts for the special maintenance assessment charged for the direct street, alley and sidewalk operational and maintenance costs including, but not limited to, snow removal, street sweeping, and minor and major repairs. The street maintenance assessment is set each year by the City Council pursuant to state statute.
3. **CDBG-Economic Development Fund.** This special revenue fund accounts for the Economic Development Grant from the MT Department of Commerce. For the 2014 FY, the grant activity was for the SmartLam, LLC project. The fund accounts for the grant funds and the pass-through to the qualifying business project as well as the administration costs. The fact that this fund qualifies as a major fund for the 2014 FY emphasizes the effect grant funds have on reporting the City's net position.

Proprietary Funds Overview

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

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

The Water Fund unrestricted net assets were \$678,458 as of June 30, 2014. Restricted assets representing investment in capital, net of related debt is \$3,503,968 or 77% of total net position. These assets are acquired through the purchase of equipment, city construction and the donation of constructed infrastructure by subdivision developers. The Water Fund received \$622,479 from customers. Total operations resulted in a cash increase of \$234,683. Other restricted cash accounts are maintained for future system expansion, replacement of capital assets, and one year's debt payment.

The Sewer Fund unrestricted net assets were \$238,982 as of June 30, 2014. Restricted assets representing investment in capital, net of related debt is \$6,427,870 or 82% of total net position. These assets are typically acquired through the purchase of equipment, city construction and the donation of constructed infrastructure by subdivision developers. The Sewer Fund received \$956,350 from its customers. Total operations resulted in a cash increase for the year of \$97,833. Other management restricted cash accounts are maintained for future system expansion, replacement of capital assets, and one year's debt payment.

GENERAL FUND BUDGETARY HIGHLIGHTS

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

In September of 2013, the City Council appropriated \$ 2,650,035 for General Fund expenditures. The budget anticipated using \$359,321 of fund balance.

Table 3
2013-2014 General Fund Budget

	Final Budget	Actual
Fund Balance Carryover for appropriation	\$ 359,321	
Revenue and other financing sources	2,290,714	2,251,895
Expenditures and other financing uses	(2,650,035)	(2,161,988)
Available for fiscal year 2014-2015	-0-	89,907

Actual revenues and other financing sources came within less than 2% of anticipated with a difference of only \$38,819; and actual expenditures were \$488,047 (18%) less than anticipated, mainly due to savings on

Management's Discussion and Analysis (Continued)

contracted services for special planning, litigations services, facility repairs, and termination pay savings and salary and benefit savings within the Finance Department. Additionally, the Police Department did not purchase the automated ticket system in the 2014 FY. The Safe Routes and park development capital projects were also delayed, resulting in budget savings. The operating increase in cash was \$55,390.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. The City of Columbia Falls' investment in capital assets for its governmental and business type activities as of June 30, 2014 totals \$22,480,481 (net of accumulated depreciation). The City's capital investment includes all land, buildings, machinery and equipment, and infrastructure. The City's asset capitalization is \$5,000 for machinery and equipment and other capital improvements. The depreciation of capital assets is reflected in the various governmental and business-type expense activities. The City of Columbia Falls depreciates its infrastructure, and the expense of depreciation is reflected in public works activities and in business activities for infrastructure associated with water and sewer lines.

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

- Accepted a land donation valued at \$240,000 for the development of a park.
- Completed the 3rd Ave. East bike path to River's Edge Park for an additional investment of \$72,531 and completed the 5th St West bike path for \$9,990 for \$82,521 in infrastructure improvements.
- Purchased a flatbed truck for the street department for \$14,600 and a radar speed trailer in the amount of \$7,730.
- The Sewer Fund purchased an additional \$78,720 in SCADA equipment.
- Disposed of a 2008 Crown Victoria Police Vehicle for a loss of \$1,086 that was no worth repairing.

Long-term debt. The City's general obligation long term debt was incurred for the construction of the municipal pool in 1999 and street improvements in 2007. Voters approved the \$1.1 million Street Construction Project to be repaid with a 20-year debt service levy. The City used all but \$33,339 of this authority through the completion of the project in 2011. The City borrowed \$364,449 from the Intercap Program to pay for the remaining Street Construction project in 2012. The City borrowed \$115,365 in 2013 to pay for the City's share of the Fire Apparatus. Revenue bond long term debt issues as of the end of the fiscal year are reflected in the Water and Sewer Fund. The Sewer Fund borrowed \$124,625 from Intercap to pay for the new Camel Jet Rodder in 2012. The Water and Sewer revenue bonds were refunded in November 2012 primarily to reduce the interest rate on the outstanding issues. The City retired \$379,942 of debt and issued no new debt during the 2014 FY. Additional information on The City of Columbia Falls' long-term debt can be found in the Notes to the Financial Statement.

REQUESTS FOR INFORMATION

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

* * * * *

Doyle & Associates, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

103 Tyler Way, Suite 2 ♦ P.O. Box 446

Lolo, MT 59847-0446

Phone: (406) 273-0700 ♦ Fax: (406) 273-4300

www.doyleandassoc.com

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Columbia Falls, Flathead County, Montana (the "City"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment,

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of June 20, 2014, and the respective change in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has

been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2015 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Dafe & Associates, P.C.

Lolo, Montana
June 25, 2015

CITY OF COLUMBIA FALLS, FLATHEAD COUNTY, MONTANA

STATEMENT OF NET POSITION
JUNE 30, 2014

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	2014 Total	Fire Department Relief Association
<u>Assets</u>				
Current assets				
Cash and Cash Equivalents	\$ 716,352	\$ 797,208	\$ 1,513,560	\$ 379,259
Property Taxes Receivable	156,715	-	156,715	-
Special Assessments Receivable	11,322	-	11,322	-
Accounts/Other Receivables	39,835	137,333	177,168	-
Loan Receivable	36,000	-	36,000	-
Internal Balances	(80,548)	80,548	-	-
Due from Other Governments	182,603	-	182,603	-
Total Current Assets	<u>1,062,279</u>	<u>1,015,089</u>	<u>2,077,368</u>	<u>379,259</u>
Non-current Assets				
Restricted Cash	1,752,635	2,973,502	4,726,137	-
Special Assessment Receivable	79,538	-	79,538	-
Loan Receivable	355,748	-	355,748	-
Capital Assets - Net	<u>10,577,762</u>	<u>11,902,719</u>	<u>22,480,481</u>	-
Total Non-current Assets	<u>12,765,683</u>	<u>14,876,221</u>	<u>27,641,904</u>	-
Total Assets	<u>13,827,962</u>	<u>15,891,310</u>	<u>29,719,272</u>	<u>379,259</u>
<u>Liabilities</u>				
Current liabilities				
Accounts Payable and Accrued Expenses	107,811	77,827	185,638	-
Deposits Payable	-	9,400	9,400	-
Compensated Absences due within one year	46,920	16,235	63,155	-
Current Portion of Long-Term Debt	<u>136,021</u>	<u>235,769</u>	<u>371,790</u>	-
Total Current Liabilities	<u>290,752</u>	<u>339,231</u>	<u>629,983</u>	-
Non-current Liabilities				
Compensated Absences	144,666	40,828	185,494	-
Long-Term Debt	<u>924,291</u>	<u>1,735,112</u>	<u>2,659,403</u>	-
Total Non-current Liabilities	<u>1,068,957</u>	<u>1,775,940</u>	<u>2,844,897</u>	-
Total Liabilities	<u>1,359,709</u>	<u>2,115,171</u>	<u>3,474,880</u>	-
Net Position				
Net Investment in Capital Assets	9,437,369	9,931,838	19,369,207	-
Restricted	1,238,569	2,926,861	4,165,430	-
Unrestricted	<u>1,792,315</u>	<u>917,440</u>	<u>2,709,755</u>	<u>379,259</u>
Total Net Position	<u>\$ 12,468,253</u>	<u>\$ 13,776,139</u>	<u>\$ 26,244,392</u>	<u>\$ 379,259</u>

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

CITY OF COLUMBIA FALLS, FLATHEAD COUNTY, MONTANA

STATEMENT OF ACTIVITIES
FISCAL YEAR ENDING JUNE 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
		Charges for Services	Operating Grants and Contributions	Capital Grants & Contributions	Primary Government			Component Unit Fire Department Relief Association
					Governmental Activities	Business-Type Activities	2014 Total	
Primary government:								
Governmental activities:								
General government	\$ 617,872	\$ 195,500	\$ -	\$ -	\$ (422,372)		\$ (422,372)	
Public safety	1,304,982	88,746	133,952	-	(1,082,284)		(1,082,284)	
Public works	996,710	354,815	90,755	58,641	(492,499)		(492,499)	
Public health	4,250	-	-	-	(4,250)		(4,250)	
Culture and recreation	256,614	27,155	-	-	(229,459)		(229,459)	
Housing/Community Development	480,670	-	386,830	43,745	(50,095)		(50,095)	
Interest expense	26,549	-	-	-	(26,549)		(26,549)	
Miscellaneous expense	61,389	-	-	-	(61,389)		(61,389)	
Total governmental activities	<u>3,749,036</u>	<u>666,216</u>	<u>611,537</u>	<u>102,386</u>	<u>(2,368,897)</u>	<u>-</u>	<u>(2,368,897)</u>	<u>-</u>
Business-type activities:								
Water	593,764	684,846	-	-	-	91,082	91,082	-
Sewer	1,110,372	1,012,595	-	-	-	(97,777)	(97,777)	-
Total business-type activities	<u>1,704,136</u>	<u>1,697,441</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,695)</u>	<u>(6,695)</u>	<u>-</u>
Total primary government	<u>\$ 5,453,172</u>	<u>\$ 2,363,657</u>	<u>\$ 611,537</u>	<u>\$ 102,386</u>	<u>(2,368,897)</u>	<u>(6,695)</u>	<u>(2,375,592)</u>	<u>-</u>
Component Unit:								
Fire Department Relief Association	<u>\$ 58,909</u>							<u>(58,909)</u>
General Revenues:								
Property taxes					1,214,122	-	1,214,122	72,357
Licenses and permits					171,630	-	171,630	-
Unrestricted Federal/State shared revenues					705,123	-	705,123	16,525
Unrestricted grants and contributions					240,000	-	240,000	-
Unrestricted investment earnings					10,991	16,067	27,058	776
Miscellaneous					26,699	8,153	34,852	-
Gain (Loss) on sale of capital assets					(1,086)	-	(1,086)	-
Total general revenues					<u>2,367,479</u>	<u>24,220</u>	<u>2,391,699</u>	<u>89,658</u>
Change in net position					(1,418)	17,525	16,107	30,749
Total net position - July 1, 2013 as previously reported					12,404,771	13,758,614	26,163,385	348,509
Prior period adjustment					64,900	-	64,900	-
Total net position - June 30, 2014					<u>\$ 12,468,253</u>	<u>\$ 13,776,139</u>	<u>\$ 26,244,392</u>	<u>\$ 379,258</u>

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

CITY OF COLUMBIA FALLS, FLATHEAD COUNTY, MONTANA

BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2014

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General	Street Maintenance	CDBG Economic Development		
<u>Assets</u>					
Current assets:					
Cash and Cash Equivalents	\$ 419,178	\$ 53,628	\$ -	\$ 243,546	\$ 716,352
Property Taxes Receivable	124,254	8,193	-	24,268	156,715
Accounts/Other Receivables	39,835	-	-	-	39,835
Loan Receivable	-	-	-	36,000	36,000
Special Assessments Receivable	1,312	-	-	10,010	11,322
Due from Other Governments	116,934	33,873	-	31,796	182,603
Total Current Assets	<u>701,513</u>	<u>95,694</u>	<u>-</u>	<u>345,620</u>	<u>1,142,827</u>
Non-current assets:					
Restricted Assets:					
Cash and Cash Equivalents	577,795	111,156	\$ -	1,063,684	1,752,635
Loan Receivable	-	-	-	355,748	355,748
Special Assessments Receivable	-	-	-	79,538	79,538
Total Non-current assets	<u>577,795</u>	<u>111,156</u>	<u>-</u>	<u>1,498,970</u>	<u>2,187,921</u>
Total Assets	<u>\$ 1,279,308</u>	<u>\$ 206,850</u>	<u>\$ -</u>	<u>\$ 1,844,590</u>	<u>\$ 3,330,748</u>
<u>Liabilities:</u>					
Current liabilities					
Accounts Payable	\$ 45,141	\$ 1,797	\$ -	\$ 7,737	\$ 54,675
Other Accrued Payables	43,527	9,195	-	414	53,136
Due to Other Funds	-	-	-	467	467
Total Liabilities	<u>88,668</u>	<u>10,992</u>	<u>-</u>	<u>8,618</u>	<u>108,278</u>
Deferred Inflows of Resources:					
Deferred Inflows of Resources	45,073	-	-	-	45,073
Deferred Inflows of Tax Revenues	124,363	8,193	-	113,816	246,372
Total Deferred Inflows of Resources	<u>169,436</u>	<u>8,193</u>	<u>-</u>	<u>113,816</u>	<u>291,445</u>
<u>Fund Balance:</u>					
Restricted	-	187,664	-	659,158	846,822
Non-Spendable	-	-	-	391,748	391,748
Assigned	-	-	-	32,310	32,310
Committed	577,795	-	-	638,940	1,216,735
Un-Assigned	443,409	-	-	-	443,409
Total Fund Balance	<u>1,021,204</u>	<u>187,664</u>	<u>-</u>	<u>1,722,156</u>	<u>2,931,024</u>
Total Liabilities and Fund Balance	<u>\$ 1,279,308</u>	<u>\$ 206,849</u>	<u>\$ -</u>	<u>\$ 1,844,590</u>	<u>\$ 3,330,747</u>

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

CITY OF COLUMBIA FALLS, FLATHEAD COUNTY, MONTANA

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

JUNE 30, 2014

Fund balance as reported in the governmental fund statement	\$	2,931,024
Add assets not reported in the governmental funds statements:		
Capital assets		16,948,875
Less accumulated depreciation		(6,371,113)
		10,577,762
Less liabilities not reported in the governmental fund statements:		
Bond and notes payable		(1,060,312)
Advance from other Fund		(80,081)
Compensated absences		(191,586)
		(1,331,979)
Special assessments & other receivables recognized as revenue in the government-wide statements		90,860
Deferred inflows for City Court contracts receivable recognized as revenue in the government-wide statements		39,835
Deferred inflows for City licenses and fees recognized as revenue in the government-wide statements		4,036
Deferred inflows for property taxes recognized as revenue in the government-wide statements		156,715
		156,715
Net position as reported in the government-wide statement of net position	\$	12,468,253

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

CITY OF COLUMBIA FALLS, FLATHEAD COUNTY, MONTANA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FISCAL YEAR ENDING JUNE 30, 2014

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General	Street Maintenance	CDBG Economic Development		
<u>Revenues:</u>					
Property Taxes/Assessments	\$ 965,519	\$ 303,074	\$ -	\$ 272,357	\$ 1,540,950
Licenses and Permits	63,938	-	-	106,954	170,892
Intergovernmental	839,825	-	386,830	192,391	1,419,046
Charges for Services	127,526	720	-	-	128,246
Fines and Forfeitures	173,256	-	-	5,292	178,548
Miscellaneous	2,874	48	-	23,777	26,699
Investment Earnings	3,362	666	-	6,964	10,992
Total Revenues	<u>\$ 2,176,300</u>	<u>\$ 304,508</u>	<u>\$ 386,830</u>	<u>\$ 607,735</u>	<u>\$ 3,475,373</u>
<u>Expenditures:</u>					
General Government	554,973	-	-	20,292	575,265
Public Safety	1,142,821	-	-	87,798	1,230,619
Public Works	9,481	293,262	-	142,532	445,275
Public Health	4,250	-	-	-	4,250
Culture and Recreation	174,785	-	-	-	174,785
Housing and Community Development	-	-	386,830	93,840	480,670
Debt Service					
Principal	10,970	-	-	136,511	147,481
Interest	1,071	-	-	25,478	26,549
Capital Outlay	11,515	20,806	-	72,531	104,852
Miscellaneous	62,951	-	-	663	63,614
Total Expenditures	<u>1,972,817</u>	<u>314,068</u>	<u>386,830</u>	<u>579,645</u>	<u>3,253,360</u>
Excess of (Deficiency of) Revenues over Expenditures	203,483	(9,560)	-	28,090	222,013
<u>Other Sources (Uses) of Funds:</u>					
Proceeds from sale of capital assets	-	-	-	790	790
Transfers	(113,569)	17,523	-	96,046	-
Total Other Financing Sources (Uses)	<u>(113,569)</u>	<u>17,523</u>	<u>-</u>	<u>96,836</u>	<u>790</u>
Change in Fund Balance	89,914	7,963	-	124,926	222,803
<u>Fund Balance</u>					
Beginning of the Year	931,290	179,701	-	1,597,230	2,708,221
End of the Year	<u>\$ 1,021,204</u>	<u>\$ 187,664</u>	<u>\$ -</u>	<u>\$ 1,722,156</u>	<u>\$ 2,931,024</u>

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

CITY OF COLUMBIA FALLS, FLATHEAD COUNTY, MONTANA
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 FISCAL YEAR ENDING JUNE 30, 2014

Changes in fund balances as reported in the governmental funds statement	\$	222,803
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:		
Capital assets purchased		104,851
Depreciation Expense		(750,235)
Gain or loss on the sale or disposal of capital assets is recognized in the Statement of Activities. The fund financial statements only recognize the proceeds from the sale of capital assets:		
Gain (loss) on the disposal of capital assets		(1,086)
Proceeds from the sale of capital assets		(790)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the fund financial statements:		
Donated capital assets		240,000
Long-term receivables (deferred revenue)		33,334
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term debt in the Statement of Net Position:		
Long-term debt principal payments		147,480
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental fund financial statements:		
Accrued compensated absences		2,225
Changes in net position on the statement of activities	\$	(1,418)

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

CITY OF COLUMBIA FALLS, FLATHEAD COUNTY OF MONTANA

STATEMENT OF NET POSITION
 PROPRIETARY FUNDS
 JUNE 30, 2014

	Major Enterprise Funds		Nonmajor Enterprise Funds	Totals
	Water	Sewer		
<u>Assets</u>				
Current assets:				
Cash and Cash Equivalents	\$ 626,547	\$ 170,661	\$ -	\$ 797,208
Accounts Receivable	46,857	72,217	18,259	137,333
Due From Other Funds	467	-	-	467
Total Current Assets	<u>673,871</u>	<u>242,878</u>	<u>18,259</u>	<u>935,008</u>
Non-current Assets:				
Restricted Assets:				
Cash and Cash Equivalents	393,355	1,261,283	1,318,864	2,973,502
Advances to Other Funds	50,371	29,710	-	80,081
Capital Assets (net of accumulated depreciation)	3,805,968	8,096,751	-	11,902,719
Total Non-current Assets	<u>4,249,694</u>	<u>9,387,744</u>	<u>1,318,864</u>	<u>14,956,302</u>
Total Assets	<u>\$ 4,923,565</u>	<u>\$ 9,630,622</u>	<u>\$ 1,337,123</u>	<u>\$ 15,891,310</u>
<u>Liabilities:</u>				
Current liabilities				
Accounts Payable and Accrued Expenses	\$ 20,677	\$ 57,150	\$ -	\$ 77,827
Deposits Payable	9,400	-	-	9,400
Current Portion of Compensated Absences	4,728	11,507	-	16,235
Current Portion of Long-term Debt	24,000	211,769	-	235,769
Total Current Liabilities	<u>58,805</u>	<u>280,426</u>	<u>-</u>	<u>339,231</u>
Non-current Liabilities				
Compensated Absences	10,979	29,849	-	40,828
Long-Term Debt	278,000	1,457,112	-	1,735,112
Total Non-current Liabilities	<u>288,979</u>	<u>1,486,961</u>	<u>-</u>	<u>1,775,940</u>
Total Liabilities	<u>347,784</u>	<u>1,767,387</u>	<u>-</u>	<u>2,115,171</u>
<u>Net Position</u>				
Net Investment in Capital Assets	3,503,968	6,427,870	-	9,931,838
Restricted for:				
Debt Service	35,308	191,151	-	226,459
Replacement/Depreciation	246,754	200,000	-	446,754
System Improvements	111,293	805,232	-	916,525
System Expansion	-	-	1,337,123	1,337,123
Unrestricted	<u>678,458</u>	<u>238,982</u>	<u>-</u>	<u>917,440</u>
Total Net Position	<u>\$ 4,575,781</u>	<u>\$ 7,863,235</u>	<u>\$ 1,337,123</u>	<u>\$ 13,776,139</u>

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

CITY OF COLUMBIA FALLS, FLATHEAD COUNTY, MONTANA
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FISCAL YEAR ENDING JUNE 30, 2014

	Major Enterprise Funds		Nonmajor Enterprise Funds	Totals
	Water	Sewer		
<u>Operating revenues</u>				
Charges for Services	\$ 613,437	\$ 941,011	\$ 142,993	\$ 1,697,441
Special Assessments	2,549	1,513	-	4,062
Miscellaneous Revenues	1,313	2,778	-	4,091
Total Operating Revenues	<u>617,299</u>	<u>945,302</u>	<u>142,993</u>	<u>1,705,594</u>
<u>Operating expenses:</u>				
Personal Services	206,111	299,371	-	505,482
Supplies	49,895	82,815	-	132,710
Purchased Services	93,556	172,220	-	265,776
Building Materials	-	383	-	383
Fixed Charges	7,397	20,563	-	27,960
Depreciation	229,605	499,523	-	729,128
Total Operating Expenses	<u>586,564</u>	<u>1,074,875</u>	<u>-</u>	<u>1,661,439</u>
Operating Income (Loss)	<u>30,735</u>	<u>(129,573)</u>	<u>142,993</u>	<u>44,155</u>
<u>Nonoperating Revenues (Expenses):</u>				
Interest Revenue	3,939	6,181	5,947	16,067
Debt Service Interest Expense	(7,200)	(35,497)	-	(42,697)
Total Nonoperating Revenues (Expenses)	<u>(3,261)</u>	<u>(29,316)</u>	<u>5,947</u>	<u>(26,630)</u>
Change in Net Position	27,474	(158,889)	148,940	17,525
Total Net Position - July 1, 2013	<u>4,548,307</u>	<u>8,022,124</u>	<u>1,188,183</u>	<u>13,758,614</u>
Total Net Position - June 30, 2014	<u>\$ 4,575,781</u>	<u>\$ 7,863,235</u>	<u>\$ 1,337,123</u>	<u>\$ 13,776,139</u>

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

CITY OF COLUMBIA FALLS, FLATHEAD COUNTY, MONTANA

COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES
FISCAL YEAR ENDING JUNE 30, 2014

	Business-Type Activities		Nonmajor Enterprise Funds	Totals
	Water	Sewer		
<u>Cash flows from operating activities:</u>				
Cash received from customers	\$ 622,479	\$ 956,350	\$ 148,014	\$ 1,726,843
Cash payments to suppliers for goods and services	(152,081)	(250,355)	-	(402,436)
Cash payments to employees and professionals	(211,875)	(293,694)	-	(505,569)
Net cash provided by operating activities	<u>258,523</u>	<u>412,301</u>	<u>148,014</u>	<u>818,838</u>
<u>Cash flows from noncapital financing activities:</u>				
Advances from (to) other funds	3,421	2,031	-	5,452
Net cash (used for) provided by noncapital financing activities	<u>3,421</u>	<u>2,031</u>	<u>-</u>	<u>5,452</u>
<u>Cash flows from capital and related financing activities:</u>				
Purchases/construction of capital assets	-	(78,720)	-	(78,720)
Principal paid on capital debt	(24,000)	(208,462)	-	(232,462)
Interest paid on capital debt	(7,200)	(35,496)	-	(42,696)
Net cash used for capital and related financing activities	<u>(31,200)</u>	<u>(322,678)</u>	<u>-</u>	<u>(353,878)</u>
<u>Cash flows from investing activities</u>				
Interest on investments	3,939	6,179	5,947	16,065
Net cash provided by investing activities	<u>3,939</u>	<u>6,179</u>	<u>5,947</u>	<u>16,065</u>
Net (decrease) increase in cash and cash equivalents	234,683	97,833	153,961	486,477
Cash and cash equivalents at July 1, 2013	785,219	1,334,111	1,164,903	3,284,233
Cash and cash equivalents at June 30, 2014	<u>\$ 1,019,902</u>	<u>\$ 1,431,944</u>	<u>\$ 1,318,864</u>	<u>\$ 3,770,710</u>
<u>Reconciliation of operating income to net cash provided by operating activities:</u>				
Operating income	\$ 30,737	\$ (129,573)	\$ 142,993	\$ 44,157
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation	229,605	499,523	-	729,128
(Increase) decrease in accounts receivable	5,396	11,047	5,021	21,464
(Increase) decrease in due from other funds	(467)	-	-	(467)
Decrease in customer deposits	250	-	-	250
Increase (decrease) in accounts payable	(1,235)	25,627	-	24,392
Increase (decrease) in intergovernmental payable	1,660	4,520	-	6,180
Increase (decrease) in compensated absences payable	(7,423)	1,157	-	(6,266)
Net cash provided by operating activities	<u>\$ 258,523</u>	<u>\$ 412,301</u>	<u>\$ 148,014</u>	<u>\$ 818,838</u>

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

CITY OF COLUMBIA FALLS, FLATHEAD COUNTY, MONTANA
 FIDUCIARY FUNDS
 STATEMENT OF FIDUCIARY NET POSITION
 JUNE 30, 2014

		<u>Agency Funds</u>
Assets		
	Cash and Investments	\$ 76,881
	Total Assets	<u>\$ 76,881</u>
 Liabilities		
	Warrants Payable	\$ 61,679
	Accounts Payable	15,202
	Total Liabilities	<u>\$ 76,881</u>

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

CITY OF COLUMBIA FALLS, FLATHEAD COUNTY, MONTANA

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Introduction

The financial statements of the City of Columbia Falls, Montana (the City) have been prepared in conformity with generally accepted accounting principles as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles in the United States of America (US GAAP). The accounting and reporting framework and the significant accounting principles and practices of the City are discussed in the sections of this Note. The remaining Notes are organized to provide explanations, including required disclosures, of the City's financial activities for the fiscal year ended June 30, 2014.

B. Reporting Entity

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

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

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

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

C. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The government-wide financial statements include the Statement of Net Position and the Statement of Activities. These statements report financial information for the primary government (the City)

City of Columbia Falls, Flathead County, Montana
Notes to the Financial Statements (Continued)
June 30, 2014

and its component unit. These statements include the financial activities of the overall government, except for fiduciary activities.

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

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

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

Fund Financial Statements

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

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

City of Columbia Falls, Flathead County, Montana
Notes to the Financial Statements (Continued)
June 30, 2014

The City reports the following major governmental funds:

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

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

CDBG – Economic Development Grant Fund. This special revenue fund accounts for the Economic Development Grant from the MT Department of Commerce for the Smartlam LLC Project, Grant Agreement # MT-CDBG-ED13-02. Pursuant to the grant guidelines, the City is eligible to sponsor a grant for qualifying projects. The City has partnered with Montana West Economic Development (MWED) for the administration of the grant and loan process. The grant funds are loaned to the qualifying business project and MWED administers the loan program. The repayments are subsequently loaned to qualifying Columbia Falls businesses.

The City reports the following major enterprise funds:

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

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

Additionally, the City reports the following fund type:

Agency. The City has two agency funds: Payroll and Claim Funds. Agency funds have no measurement focus.

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

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

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

Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. ON

City of Columbia Falls, Flathead County, Montana
Notes to the Financial Statements (Continued)
June 30, 2014

an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

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

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

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

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

E. Assets, Liabilities, and Net Assets or Equity

1. Cash and Investments

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

City of Columbia Falls, Flathead County, Montana
Notes to the Financial Statements (Continued)
June 30, 2014

government backed securities and investments with STIP. Interest income earned as a result of pooling is distributed monthly to the appropriate funds based on the month-end balance of cash in each fund.

The City issues checks in payment of its obligations. Cash balances in all funds are reported net of outstanding checks.

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

Cash and Cash Equivalents

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

2. Receivables and Payables

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

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

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

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

3. Inventories and Prepaid Items

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

4. Restricted Assets

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

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

5. Capital Assets, Depreciation, and Amortization

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

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

Depreciation of all governmental fund capital assets, except land and construction in progress, is charged as an expense to the proper function in the Statement of Activity, but not in the governmental fund statements in accordance with generally accepted accounting principles. Depreciation of all capital assets, except land, easements and construction in progress, used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on the proprietary funds' Statement of Net Position. However, it is shown net of asset's installed cost on the Statement of Net Position for all fund types presented.

City of Columbia Falls, Flathead County, Montana
Notes to the Financial Statements (Continued)
June 30, 2014

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

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

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

6. Deferred Outflows of Resources and Deferred Inflows of Resources

The City adopted the provisions of GASB Statement No. 65 *Items Previously Reported as Assets and Liabilities*. This statement is effective for periods beginning after December 15, 2012. This statement defines new financial statement items referred to as deferred inflows of resources and deferred outflows of resources, and reclassifies certain items previously classified as assets or liabilities as deferred outflows or deferred inflows, respectively. The impact of implementing GASB Statement No. 65 on the City was items that were previously referred to as deferred revenue in the governmental fund financial statements which mainly consists of property taxes receivable, is now reported as a deferred inflow of resources rather than as a liability. The City did not have any items that were required to be reported as deferred outflows of resources as of June 30, 2014.

7. Compensated Absences

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

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

8. Long-term Obligations

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

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

9. Postemployment Benefits

The City accounts for postemployment benefit obligations in accordance with Governmental Accounting Standards Board (GASB) Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions." The City allows retirees, their dependents and spouses to pay similar rates for insurance as current employees. Statement 45 states this provides an "implied rate subsidy" since retirees generally have higher health costs and should pay higher premiums. Even though the City has consistently collected more premiums than it has paid in expenses for retiree insurance, the actuary is not allowed to take this into account since our insurance pool is not large enough for their statistical calculations. The City feels this is not a legal liability since nothing in State law or other contracts requires us to provide the same rate and we can change it at any time. Rates are actuarially established for the entire group and therefore the costs are covered. The City will continue to fund this imposed liability on a pay-as-you-go basis as City staff feel it would be irresponsible to set aside taxpayer funds in an irrevocable trust fund that will never be used and probably continue to increase.

10. Net Position/Fund Balance

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

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

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

The Governmental Accounting Standards Board adopted Statement 54, Fund Balance Reporting and Governmental Type Fund Type Definitions effective for fiscal years beginning after June 15,

2010. As required by GASB 54, the City adopted Resolution 1614 setting the fund balance policy including the order of spending and designating authority.

10. Grant Revenue

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

11. Interfund Transactions

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

E. Stewardship, accountability and compliance

1. Budgetary Data

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

2. Budget Process

The City Manager is responsible for preparation of the preliminary annual budget. The City Commission approves and/or modifies the budget. The City Commission must meet prior to the budget adoption for the purpose of holding a public hearing on the final budget. This hearing can be continued until the budget is finally approved and adopted, and tax levies set, on or before the second Monday in August or within 45 calendar days after receiving certified taxable values from the State Department of Revenue. The total value of property within the City as determined by the County Assessor is the assessed valuation.

The appropriated budget is prepared by fund and department (function). City departments may spend up to the appropriation limit within each function, although they may not alter budgetary appropriations for personnel costs or capital outlay without Council approval. Although the legal level of budget appropriation is the fund level, a management plan is prepared by fund, function and line item. The City maintains budgetary controls whose objective is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Commission.

State law permits the City Commission to transfer any part of an unencumbered balance of an appropriation to a purpose or object for which the appropriation for the current year is insufficient. The City Commission may also appropriate any accruing revenue of the municipality not appropriated, and any balance at any time remaining after the purpose of the

City of Columbia Falls, Flathead County, Montana
Notes to the Financial Statements (Continued)
June 30, 2014

appropriation has been satisfied or abandoned to other uses that do not conflict with any uses for which specifically the revenue was accrued. A public hearing is required for an overall increase in appropriation within a fund except as authorized by State law. The City Commission modified the 2014 budget for the receipt of unanticipated building permit revenues. There were no additional appropriations made during the year that required a public hearing.

The City's assessed valuation and mill value as certified by the MT Department of Revenue in August 2013 were 243,945,917 and 6,669,524 respectively. The City's mill levy totaled 191.875 mills. State law limits the number of mills the City can levy permissively to the amount of property tax dollars levied in the prior fiscal year adjusted by an inflation factor plus newly taxable property as certified by the MT Department of Revenue and for the Permissive Medical Levy. Additionally, the City has two voted levies for general obligation bonds, 1999 Swimming Pool Bond and 2007 Street Improvements Bond.

The City Clerk forwards a copy of the final budget to the State Department of Administration no later than October 1st of each year. A copy of the final budget is available for review in the City Clerk's office located at 130 6th Street West, Columbia Falls, Montana.

The tax levies and special assessments are forwarded to the County Treasurer for collection. Property tax levies are approved on or before the second Monday in August or within 45 calendar days of receiving certified taxable values from the Department of Revenue. Real property and certain attached personal property taxes are billed no later than October 31st and are due in equal installments on November 30 and the following May 31. After those dates they become delinquent and a lien upon the property. After three years, the County may exercise tax deed and take title to the property. Special assessments are billed in two equal installments due November 30 and the following May 31. Personal property taxes other than those billed with real estate are generally billed no later than the second Monday in July, normally in May or June, based on the prior November levies. Personal property taxes, other than mobile homes, are due thirty days after billing. Mobile home taxes are billed in two halves, the first due thirty days after the billing, the second due September 30. The tax billings are considered past due after the respective due date and are subject to penalty (two percent of the tax charge) and monthly interest (ten percent annually of the tax charge).

All appropriations lapse at the end of the year.

3. Negative Fund and Net Position Balances

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

City of Columbia Falls, Flathead County, Montana
Notes to the Financial Statements (Continued)
June 30, 2014

2. CASH AND INVESTMENTS

A summary of cash and investments at June 30, 2014 was as follows:

	<u>Total</u>
Cash on Hand	\$ 525
Flex Advance	5,074
Demand Deposits	2,024,743
Government Backed Securities	1,896,118
State Short-term Investment Pool (STIP)	2,390,118
Total	\$ 6,316,578

The ownership of cash and investments is as follows at June 30, 2014:

	<u>Total</u>
City Government Funds	\$ 2,468,987
City Proprietary Funds	3,770,710
Fiduciary Funds	76,881
Total	\$ 6,316,578

Cash and Investment Policies

Deposits

Custodial Credit Risk for deposits is the risk that in the event of bank failure, the City's deposits may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. The City's policy requires all deposits be insured by an agency of the United States Government and deposits in excess of insurance require pledged securities in compliance with section 7-6-207 of the Montana Code Annotated (MCA), which requires the City obtain securities for the uninsured portion of the deposits equal to 50% of such deposits if the institution in which the deposits are made has a net worth to total asset ratio of 6% or more or securities equal to 100% of uninsured deposits if the institution in which the deposits are made has a net worth to total asset ratio of less than 6%. State statute does not specify in whose custody or name the collateral is to be held. Third party safekeeping of collateral is mandatory and pledged securities are valued at market rather than face value. The amount of collateral held for the City's pooled deposits as of June 30, 2014 was \$1,000,000 which exceeds the amount required by statute. At June 30, 2014, 61.77% of the City's deposits were insured or collateralized.

Investments

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

City of Columbia Falls, Flathead County, Montana
Notes to the Financial Statements (Continued)
June 30, 2014

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

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

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

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

External Investment Pool

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

The pool invests in short-term, highly liquid investments, and as such, the City has reported these investments as cash equivalents. Amounts invested by the City in STIP may be redeemed at any date at the carrying value on that date. Audited financial statements for the State of Montana's Board of Investments are available at 2401 Colonial Drive, 3rd Floor, Helena, Montana 59620.

Investments in the pool are reported at fair value. The fair value of pooled investments is determined annually and is based on year-end market prices. The unit value of the pool is fixed at \$1 for both participant redemptions and purchases. Investments in STIP are carried at cost. STIP is not registered with the Securities and Exchange Commission (SEC) as an investment company but the Board manages STIP in a manner consistent with the SEC's rule 2a7 of the Investment Company Act of 1940. As a 2a7-like pool, the STIP utilizes an amortized cost unit value rather than fair value to report net assets. STIP income is automatically reinvested in additional units. STIP is not rated by a national rating agency.

The City's investment in STIP amounts to 0.0943% of total STIP assets. The investments managed by the City were 37.87% invested in STIP. For the year ended June 30, 2014, STIP's average investment return was 0.140611%.

City of Columbia Falls, Flathead County, Montana
Notes to the Financial Statements (Continued)
June 30, 2014

3. CAPITAL ASSETS

Changes in general capital assets were as follows:

	Balance at July 1, 2013	Additions	Deletions	Balance at June 30, 2014
Capital assets not subject to depreciation:				
Land	\$ 1,562,337	\$ 240,000	\$ -	\$ 1,802,337
Construction in progress	5,874	-	-	5,874
Other capital assets:				
Buildings	2,643,573	-	-	2,643,573
Improvements	722,553	85,121	-	807,674
Machinery and equipment	2,264,054	22,330	27,212	2,259,172
Infrastructure	9,430,245	-	-	9,430,245
Total	16,628,636	347,451	27,212	16,948,875
Less: Accumulated Depreciation	(5,708,514)	87,636	(750,235)	(6,371,113)
Net Capital Assets	\$ 10,920,122	\$ 435,087	\$ (723,023)	\$ 10,577,762

Changes in proprietary fund capital assets were as follows:

	Balance at July 1, 2013	Additions	Deletions	Balance at June 30, 2014
Capital assets not subject to depreciation:				
Land	\$ 17,402	\$ -	\$ -	\$ 17,402
Other capital assets:				
Source of Supply	1,758,428	-	-	1,758,428
Pumping Plant	486,331	-	-	486,331
Treatment Plant	8,198,342	-	-	8,198,342
Transmission and Distribution	10,875,783	78,720	-	10,954,503
General Plant	2,452,154	-	-	2,452,154
Total	23,788,440	78,720	-	23,867,160
Less: Accumulated Depreciation	(11,235,313)	(729,127)	-	(11,964,440)
Net Capital Assets	\$ 12,553,127	\$ (650,407)	\$ -	\$ 11,902,720

Governmental activities depreciation expense was charged to functions as follows:

Governmental Activities:	
General Government	\$ 42,608
Public Safety	74,362
Public Works	551,436
Culture and Recreation	81,829
Total	<u>\$ 750,235</u>

4. LONG-TERM DEBT

Long-term Debt Supporting Government Activities

General obligation bonds in the amount of \$857,000 were issued by the City in 1999 to provide funds for the construction of the municipal pool, as approved by the voters and repaid with property taxes recorded in the Debt Service Fund. These bonds are required to be paid within twenty years from the date of issue and are backed by the full faith and credit of the City. The City redeemed \$50,000 in bonds during the 2014 fiscal year, leaving an outstanding balance of \$290,000.

General obligation debt, in the form of a loan from Cedar Creek Trust, was issued by the City to provide funds for the improvement of City streets, as approved by the voters in June 2007 and repaid with property taxes recorded in the Debt Service Funds. The loan is required to be paid within twenty years from the date of issue and is backed by the full faith and credit of the City. As of June 30, 2014, the City had drawn down a total of \$703,287 from the Trust, and repaid \$46,723 during the 2014 fiscal year, leaving an outstanding balance of \$391,748. As of August 2011, the City closed on a State of MT Intercap Loan in the amount of \$364,449 to cover the final Street Improvement expenditures, repaying \$34,336 during 2014, leaving an outstanding balance of \$279,661 as of June 30, 2014. The City will use the Debt Service authorization to repay the Cedar Creek Trust and the Intercap Loan.

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

After beginning the Street Improvement Project, the City Council had the opportunity to purchase approximately 28 acres of parkland, including 900 ft of river frontage for \$951,072. Upon the vote of at least five (5) City Council members, the purchase of the land was approved in the fall of 2007. Unfortunately shortly after the purchase, sales of lots halted due to the declining economy and the Trust did not have the available cash to fund the entire \$1.1 million street improvement project along with the land purchase. City Council approved an Intercap Loan with the State of MT to fund any potential shortfall after all of the street projects were completed. In June 2011, the City applied for an Intercap Loan in the amount of \$ 364,449 to cover the final street construction costs and in August 2011 closed on the loan. The City has drawn down funds as available in the Cedar Creek Trust. Due to the favorable Intercap Loan terms, the Council will review annually paying the loan early or paying the Intercap Loan in accordance with the loan agreement. As of June 30, 2014, the Cedar Creek Trust had a total cash balance of \$341,336, consisting of \$32,310 unrestricted and \$309,026 restricted funds.

City of Columbia Falls, Flathead County, Montana
Notes to the Financial Statements (Continued)
June 30, 2014

The City purchased a new fire apparatus in July 2012 for a total cost of \$322,762. This purchase was made cooperatively with the Columbia Falls Rural Fire District pursuant to an interlocal agreement with the Rural District contributing \$205,763 or 64%. The City borrowed \$115,365 from the State of MT Intercap Loan program to pay for the City's share of the truck purchase. The City received the \$115,365 in proceeds in August 2012 and repaid \$10,970 during the 2014 Fiscal year, leaving a balance of \$98,903 as of June 30, 2014.

General obligation bonds and debt outstanding as of June 30, 2014, were as follows:

Purpose:	Issue Date	Interest Rate	Bond Term	Maturity Date	Annual Payment	Bonds/Debt Issued	Balance June 30, 2014
Swimming Pool Street Improvements	6/27/1999	4-6.5%	20 yrs	7/1/2019	Varies	\$857,000	\$290,000
Street Improvements – Intercap	6/26/2007	Var	20 yrs	7/1/2027	Varies	\$703,287	\$391,748
Fire Apparatus- Intercap	8/26/2011	1.0-1.25%	10 yrs	8/15/2021	Varies	\$364,449	\$279,661
	8/31/2012	1.0-1.25%	10 yrs	8/15/2022	Varies	\$115,365	\$ 98,903

Changes in long-term debt were as follows:

	Balance June 30, 2013	Change	Balance June 30, 2014	Amount due in 2015
General Obligation Bonds	\$ 340,000	\$ (50,000)	\$ 290,000	\$55,000
General Obligation Debt	862,340	(92,028)	770,312	\$81,021
Compensated Absences	193,811	(2,225)	191,586	\$46,920
Total	\$1,396,151	\$ (144,253)	\$1,251,898	\$182,941

Annual requirement to amortize general obligation debt:

For Fiscal Year Ended	Principal	Interest
2015	136,021	19,545
2016	136,935	16,306
2017	137,912	13,011
2018	143,905	9,636
2019	149,915	6,010
2020 and beyond	355,624	5,403
Total	\$ 1,060,312	\$69,911

City of Columbia Falls, Flathead County, Montana
Notes to the Financial Statements (Continued)
June 30, 2014

Legal Debt Margin:

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

Total Assessed value of taxable property (market value)	\$243,945,917
General limitation percentage	<u>2.50%</u>
General limit of indebtedness	\$ 6,098,648
Outstanding general obligation bonds at June 30	290,000
Outstanding loans subject to limitation	<u>770,312</u>
Total Debt subject to limit	<u>1,060,312</u>
Remaining Legal Debt Margin	<u>\$ 5,038,336</u>

Long-term Debt Supporting Business-type Activities

Changes in long-term debt were as follows:

	Balance June 30, 2013	Change	Balance June 30, 2014	Amount due in 2015
Revenue Bonds	\$ 2,091,000	\$(208,000)	\$1,883,000	\$211,000
Intercap Loan	112,343	(24,462)	87,881	24,769
Compensated Absences	63,329	(6,266)	57,063	16,235
Total	<u>\$ 2,266,672</u>	<u>\$(238,728)</u>	<u>\$2,027,944</u>	<u>\$252,004</u>

Revenue Bonds

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

Revenue bonds outstanding at year-end were as follows:

<u>Purpose</u>	<u>Origination Date</u>	<u>Interest Rate</u>	<u>Bond Term</u>	<u>Maturity Date</u>	<u>Bonds Amount</u>	<u>Annual Payment</u>	<u>Balance June 30, 2014</u>
Water System Revenue Refunding Bond	2005	2.25%	12 yrs	7/1/2025	\$ 350,000	Varies	\$ 302,000
Sewer System Revenue Refunding Bond	2001	2.25%	7 yrs	7/1/2020	\$1,248,000	Varies	954,000
Sewer System Revenue Bond	2009B	0.75%	20 yrs	7/1/2029	\$359,300	Varies	275,000
Sewer System Revenue Refunding Bond	2009C	3.00%	18 yrs	7/1/2030	\$385,000	Varies	352,000
Total					<u>\$2,342,300</u>		<u>\$ 1,883,000</u>

City of Columbia Falls, Flathead County, Montana
Notes to the Financial Statements (Continued)
June 30, 2014

In November 2012, the City issued Water System Revenue Refunding and Sewer System Revenue Refunding Bonds through the State of Montana, Department of Natural Resources, Drinking Water Revolving Fund Loan Program and the Wastewater Revolving Fund Loan Program to take advantage of current interest rates. The City's Series 2005 Water system bonds with an outstanding amount of \$350,000 were refunded and the interest rate reduced from 4.0% to 2.25%, resulting in a savings of \$43,907. The City's Series 2001 Sewer system bonds with an outstanding balance of \$1,248,000 were refunded and the interest rate reduced from 4.0% to 2.25%. Additionally, the Series 2009C Sewer system bonds with an outstanding amount of \$385,000 were refunded and the interest rate reduced from 3.75% to 3.0%. The Sewer system bond refundings resulted in a savings of \$156,285.

Revenue bond resolutions include various restrictive covenants. The more significant covenants 1) require that cash be restricted and reserved for operations, construction, debt service, and replacement and depreciation; 2) specify minimum required operating revenue; and 3) specific and timely reporting of financial information to bond holders and the registrar. The City was in compliance with applicable covenants as of June 30, 2014, as indicated below:

Debt Service Coverage:	<u>Water</u>	<u>Sewer</u>
Operating Revenues	\$684,237	\$1,013,526
Operating Expenses	<u>361,687</u>	<u>558,897</u>
Net Revenue	<u>\$ 322,550</u>	<u>\$ 454,629</u>
Max Debt Service	\$ 35,994	\$234,056
Percent Coverage	896.1%	194.2%

The Sewer Fund borrowed \$124,625 from the MT Board of Investments Program on June 15, 2012. The Sewer Fund used these funds to pay for the new Camel Hydro excavator/Jet Rodder. The loan is for a five-year term, expiring on August 15, 2017. The current interest rate is 1.25%. The Board sets the rate each February. The City repaid \$24,462 leaving an amount outstanding at June 30, 2013 of \$87,881.

Annual requirement to amortize revenue bond and loan debt:

<u>For Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2015	\$235,769	\$38,260
2016	241,080	33,757
2017	244,394	29,147
2018	236,638	24,473
2019	227,000	19,875
Thereafter	786,000	70,201
Total	<u>\$1,970,881</u>	<u>\$215,713</u>

5. EMPLOYEE BENEFIT PLANS

State Retirement Plans

All full-time, qualifying part-time and elective City employees are covered by one of the following retirement plans: Montana Public Employees Retirement System (PERS), Municipal Police Officers' Retirement System (MPORS), and Firefighter Unified Retirement System (FURS). The plans are established by State law and administered by the State of Montana. The plans are cost-sharing; multiple-employer defined benefit or defined contribution plans that provide retirement, disability and death benefits to plan members and beneficiaries, with amounts determined by the State. The City had a total payroll of \$1,352,852 for FY14, of which \$1,223,176 is covered by PERS, MPORS, or FURS.

The plans issue publicly available financial reports that include financial statements and supplementary information for the plans. Those reports may be obtained from the following:

MT Public Employees Retirement Administration, P.O. Box 200131, Helena, Montana
59620-0131, Telephone: (406) 444-3154.

Employer, employee and state contribution rates are determined by State law. The rates, expressed as a percentage of covered payroll, were as follows:

	<u>Employer</u>	<u>Employee</u>	<u>State</u>	<u>Total</u>
MPORS	14.41%	9.00%	29.37%	52.78%
PERS	8.07%	7.9%	0.10%	16.07%
FURS	14.36%	10.70%	32.61%	57.67%

The State contribution qualifies as an on behalf payment. The amounts for MPORS and FURS have been recorded in the City's financial statements. The contribution for PERS is not material to the City's financial statements and is not recorded.

The amounts contributed to MPORS, PERS, and FURS during the years ended June 30, 2012, 2013, and 2014 were equal to the required contribution for each year. The amounts contributed by the City were as follows:

	<u>2012</u>	<u>2013</u>	<u>2014</u>
MPORS	\$53,310	\$51,684	\$56,036
PERS	\$53,817	\$55,427	\$62,427
FURS	\$ 7,875	\$ 8,302	\$8,442

Local Retirement Plans

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

City of Columbia Falls, Flathead County, Montana
Notes to the Financial Statements (Continued)
June 30, 2014

compensation plan. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency pursuant to Internal Revenue Service requirements.

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

Investments are managed by the plan's trustee, Nationwide Retirement Solutions, based on the participant's selected investment options. For the 2014 fiscal year, 10 active employees had elected deferred compensation benefits in lieu of health insurance benefits and 7 active employees elected to defer a portion of their compensation under the provisions of the 457(b) plan. The City contributed \$35,794 on the employees' behalf during the 2014 FY to the 457(b) plan. The City does not manage or control the plan assets.

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

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

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

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

Post Employment Benefits Other than Pensions

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

City of Columbia Falls, Flathead County, Montana
Notes to the Financial Statements (Continued)
June 30, 2014

charged according to the annual actuarial valuation provided by the City's insurer, Montana Municipal Interlocal Authority.

Plan Description: In 2014, the City of Columbia Falls provided employee medical insurance through a cost-sharing, multiple-employer plan administered by the Montana Municipal Interlocal Authority.

Funding Policy: The City of Columbia Falls provides no direct subsidy to the health insurance premiums for retirees. Retirees pay the entire cost of the actuarially determined health insurance premium. Eligible retirees must be enrolled in the City's medical insurance prior to retiring and must elect to continue coverage within 30 days of retirement. As of June 30, 2014, the City had three retired employees or their spouses electing to participate in the City's medical insurance plan entirely at their own cost. There were no former employees under COBRA insurance coverage. In 2014, retirees paid \$18,336 in actuarially determined medical premiums.

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

Funded Status and Funding Progress: As calculated using the alternative method for smaller governments effective June 30, 2014, the actuarial accrued liability (AAL) for benefits was \$ 0. The City will continue to fund benefit costs on a pay-as-you-go basis. Based on the City's thirty-year participation rate, this liability will not be material with respect to the City's financial statements.

Methods and Assumptions: The Montana Municipal Interlocal Authority (MMIA) contracted with Leif Associations, Inc to calculate the actual cost of retiree medical coverage and subsequently calculated the pre-age 65 (not Medicare eligible) and age 65 and older (Medicare eligible) per individual premium subsidy as of June 30, 2013. Leif Associates used the following assumptions in calculating the subsidy rate:

- Medical Trend – 8%
- Out-of-network claims percentage – 10%
- Member to employee ratio: 2.01
- Blended (menu) rates based on enrollment distribution as of 6/30/2013
- HDHP plan enrollment included in Menu blended rates (Rx no copay)
- Retiree costs are 35% greater than an active's cost of the same age
- Medicare assumed to cover 65% of retiree medical costs (65+)

City of Columbia Falls, Flathead County, Montana
Notes to the Financial Statements (Continued)
June 30, 2014

City Implementation of GASB 45: As a phase III government, the City was required to implement the GASB 45 provisions in FY 2010. Accordingly, GASB 45 was implemented prospectively; the City began the 2010 fiscal year with a Net OPEB obligation of – 0 – and is amortizing the Actuarial Accrued Liability (AAL) over a period of 30 years. The City calculated the AAL and ARC using the Leif Associates, Inc. report and the subsidy calculation and Alternative Method Worksheets provided by MMIA for the express purpose of complying with GASB 45 requirements. Pursuant to the Alternative Method, the calculation and assumptions are recalculated every three years. As of June 30, 2013, in accordance with GASB 45 requirements, the City calculated the AAL and ARC using the updated Leif Associations, Inc. report and the subsidy calculation and Alternative Method Worksheets provided by MMIA for the 2013 FY recalculation. Due to a reduction in the employees receiving benefits, the City’s actuarial accrued liability (AAL) as of June 30, 2013 was \$-0-. The City recognizes this AAL for the next two fiscal years, 2014 and 2015 until the City is required to recalculate the AAL.

6. INTER-FUND TRANSFERS

The following is an analysis of governmental operating transfers in and out during fiscal year 2014:

<u>Purpose</u>	<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>
Purchase equipment	General Fund (Major)	Capital Projects Equipment Fund (Non-Major)	\$ 70,844
Park improvements	General Fund (Major)	Capital Projects Building Improvements Fund (Non-Major)	\$ 30,000
Street construction	General Fund (Major)	Capital Projects Street Construction Fund (Non-Major)	\$ 75,000
Path Construction	General Fund (Major)	CTEP/ISTEA Sidewalks (Non-Major)	\$13,317
Permissive Medical Levy Transfer	Permissive Medical Levy Fund (Non-Major)	General Fund (Major) Street Maintenance (Major)	\$75,592 \$17,523

7. INTERFUND LOANS

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

Long-term interfund loans receivable have been recorded in the Water and Sewer Enterprise Funds and at June 30, 2014, the combined balance of the interfund loans was \$80,081, which is the same amount owed to the City by homeowners within the special improvement districts. The City’s special improvement funds 34 and 36 are debt service funds and these funds record the special assessments receivable and receipts and pay back the interfund loans to the Water and Sewer Enterprise Funds. The interfund loan payable is reported as long-term debt in the general long-

City of Columbia Falls, Flathead County, Montana
Notes to the Financial Statements (Continued)
June 30, 2014

term debt account group in the fund financial statements and is eliminated in the government-wide financial statements as interfund activity.

Annual maturity of the long-term special assessment receivable for the 2014 FY is \$5,452, subject to interest at 4.75%.

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

8. RESTRICTED CASH AND INVESTMENTS

In compliance with the City’s policies, debt covenants and Cedar Creek Trust, the governmental and enterprise funds restricted cash and investments at June 30, 2014 are as follows:

Fund	Description	Amount
General (Major)	Reserved by Council/cash flow	\$ 572,228
	Reserved by donor restrictions/flex plan advance	5,567
Street Maintenance (Major)	Reserved by Council/cash flow	111,156
Capital Projects General Equipment	Reserved by Council for future equipment purchases	175,849
Cedar Creek Trust	Reserved by Trust Document	309,026
Street Lighting	Reserved by Council/cash flow	13,821
Permissive Medical Levy	Reserved by Council/Cash flow	510
GO Pool Debt Service	Reserved by Council for debt payments	14,251
GO Street Debt Service	Reserved by Council for debt payments	33,056
Capital Projects Bldg Imp	Reserved by Council/bldg improvements	23,228
Capital Projects Parks Imp	Reserved by Council and Cash in lieu statutory requirements	398,741
Capital Projects Streets	Reserved for future street construction	95,202
Water (Major)	Reserved for Future Debt Service	35,308
Water (Major)	Surplus Cash – System Improvements	111,293
Water (Major)	Replacement/Depreciation	246,754
Sewer (Major)	Reserved for Future Debt Service	256,051
Sewer (Major)	Surplus Cash – System Improvements	313,867
Sewer (Major)	WWTP Project/Debt	491,366
Sewer (Major)	Replacement/Depreciation	200,000
Water Capital Expansion	System Expansion	840,592
Sewer Capital Expansion	System Expansion	478,271
	Total	<u><u>\$4,726,137</u></u>

City of Columbia Falls, Flathead County, Montana
Notes to the Financial Statements (Continued)
June 30, 2014

9. GOVERNMENT FUND BALANCE REPORTING

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

Fund Balances:	Major			Other Gov't	Total
	General	Special Revenue Street Maintenance	Special Revenue CDBG Ec Develop.		
Non-Spendable:					
Long-term receivable				391,748	391,748
Restricted:					
Trust Agreement				309,026	309,026
Grantor or contributors				7,627	7,627
State statute		187,664		342,505	530,169
Assigned:					
Designated by Admin/Council				32,310	32,310
Committed:					
Restricted by definitions of Funds in state law/grantor				638,940	638,940
Reserved by Council in Budget process	577,795				577,795
Un-assigned:	443,409				443,409
Total Fund Balances	<u>\$1,021,204</u>	<u>\$187,664</u>	<u>\$ 0</u>	<u>\$1,722,156</u>	<u>\$2,931,024</u>

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

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

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

City of Columbia Falls, Flathead County, Montana
Notes to the Financial Statements (Continued)
June 30, 2014

Revenues are as follows:

Special assessments	\$303,074
Charges for service	720
Interest earnings	666
Miscellaneous	<u>48</u>
	<u>\$304,508</u>

The other special revenue fund qualifying as a major fund for the fiscal year is the CDBG Economic Development Fund. The purpose of this fund is to account for the grant funds issued pursuant to the grant agreement and to account for pass-through and administrative costs. All of the fund's revenues were from the federal grant received from the MT Department of Commerce.

10. RISK MANAGEMENT

The City faces a number of risks of loss including (a) loss or damage to property, (b) employee torts, (c) professional liability, i.e., errors and omissions, (d) environmental damage, (e) worker's compensation, i.e., employee injuries, and (f) medical insurance costs of employees. Commercial policies through the Montana Municipal Interlocal Authority, which transfer all risk of loss, except for relatively small deductible amounts, are purchased for commercial property and boiler insurance. The City participates in a statewide public risk pool operated by the Montana Municipal Interlocal Authority (MMIA) for business auto, contractors' equipment, bonding of public officials, workers' compensation and for tort liability coverage. In addition the Montana Municipal Insurance Authority provides the City employee medical, dental and vision benefit plans. MMIA provides an environmental damages fund of five million each year for all participants on a first come, first served basis. The City has no coverage for potential losses from environmental damages once the five million is expended. The City has not had any such claims in any of the past five fiscal years.

In 1986, the City joined with other Montana cities to form the Montana Municipal Interlocal Authority which established a workers' compensation plan and a tort liability plan. Both public entity risk pools currently operate as common risk management and insurance programs for the member governments. The liability limits for damages in tort actions are \$750,000 per claim and \$1.5 million per occurrence with an \$11,250 deductible per government. State tort law limits the City's liability to \$1.5 million. The City pays an annual premium for its employee injury insurance coverage, which is allocated to the employer funds based on total salaries and wages.

11. LEASING ARRANGEMENTS

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

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

12. COMMITMENTS AND CONTINGENCIES

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

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

Contingencies

The City is a defendant in one civil litigation matters as of June 30, 2014. Although the outcome of the civil matter is not presently determinable, in the opinion of the City's counsel, the resolution of these matters will not have a materially adverse effect on the financial condition of the City.

13. INTERLOCAL AGREEMENTS

Building Code Enforcement Program

The City of Columbia Falls and the City of Whitefish signed an interlocal agreement to provide for plan review, site review, and site inspection relating to the enforcement of State and City of Columbia Falls technical, building, and plumbing codes within the extended jurisdictional limits of Columbia Falls. Plan review, site review, and site inspection is provided by Whitefish through its Building Department. In consideration of the services provided, the City of Columbia Falls has agreed to pay the City of Whitefish a sum equal to 65% of the permitting fees paid by the permit applicant, or a minimum of \$2,000 per month, on the project inspected payable on a monthly basis according to Columbia Falls' standard procedure.

911 Dispatch Services

Effective July 1, 2010, the City of Columbia Falls began receiving emergency dispatch services through an Interlocal agreement between the City and Flathead County, City of Kalispell, and the City of Whitefish. Pursuant to an April 2009 Interlocal Agreement, the entities established the Flathead Emergency Communications Center Governing Board. The Board adopts an annual budget that is presented for approval to the four parties. The costs of operating the center are prorated amongst the parties based on the latest US census population. The City's proportionate share of the 2014 FY operating budget is \$108,470 and for 2015 FY the share is \$113,369.

14. SERVICES PROVIDED FROM OTHER GOVERNMENTS

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

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

15. PRIOR PERIOD ADJUSTMENT – NET POSITION

During the current fiscal year, the City made an adjustment to increase the prior fiscal year's governmental activities net position in the amount of \$64,900. The adjustment was made to record general capital assets to agree with the City's depreciation schedule as of June 30, 2013.

16. RECENT ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board (GASB) has issued Statement No. 67, Financial Reporting for Pensions Plans – an amendment of GASB Statement No. 25, Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27; and Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date, which are effective for the City beginning in Fiscal year 2015. The objective of these statements is to improve financial reporting by state and local government pension plans replacing the requirements of Statements No. 25, No. 27 and No. 50, as they relate to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria.

The Governmental Accounting Standards Board (GASB) has issued Statement No. 69, Government Combinations and Disposals of Government Operations, which is effective for the City beginning in FY 2015. This statement provides specific accounting and financial reporting guidance for combinations in the governmental environment.

The City does not believe the adoption of Statement No. 69 will have any effect on its basic financial statements. The City believes Statement 67, 68, and 71 will have a material impact on its financial statements but will not be able to determine the amount until the State of Montana provides the estimated liability.

* * * * *

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF COLUMBIA FALLS, FLATHEAD COUNTY, MONTANA

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDING JUNE 30, 2014

	-----General Fund-----			-----Street Maintenance-----		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
Revenues:						
Property Taxes/Assessments	\$ 985,401	\$ 985,401	\$ 965,519	\$ 302,000	\$ 302,000	\$ 303,074
Licenses and Permits	59,500	59,500	63,938	-	-	-
Intergovernmental	846,338	846,338	839,825	-	-	-
Charges for Services	116,480	116,480	127,526	350	350	720
Fines and Forfeitures	203,200	203,200	173,256	-	-	-
Miscellaneous	1,203	1,203	2,874	-	-	48
Investment Earnings	3,000	3,000	3,362	500	500	666
Total Revenues	<u>2,215,122</u>	<u>2,215,122</u>	<u>2,176,300</u>	<u>302,850</u>	<u>302,850</u>	<u>304,508</u>
Expenditures:						
General Government	732,523	732,523	554,973	-	-	-
Public Safety	1,256,150	1,256,150	1,142,821	-	-	-
Public Works	55,903	55,903	9,481	324,972	324,972	293,262
Public Health	4,250	4,250	4,250	-	-	-
Culture and Recreation	245,808	245,808	174,785	-	-	-
Miscellaneous	116,000	116,000	62,951	-	-	-
Debt Service	12,042	12,042	12,041	-	-	-
Capital Outlay	28,750	28,750	11,515	25,250	25,250	20,806
Total Expenditures	<u>2,451,426</u>	<u>2,451,426</u>	<u>1,972,817</u>	<u>350,222</u>	<u>350,222</u>	<u>314,068</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(236,304)</u>	<u>(236,304)</u>	<u>203,483</u>	<u>(47,372)</u>	<u>(47,372)</u>	<u>(9,560)</u>
Other Sources (Uses) of Funds:						
Transfers In	75,592	75,592	75,592	17,523	17,523	17,523
Transfers Out	(198,609)	(198,609)	(189,161)	-	-	-
Total Other Sources (Uses) of Funds	<u>(123,017)</u>	<u>(123,017)</u>	<u>(113,569)</u>	<u>17,523</u>	<u>17,523</u>	<u>17,523</u>
Excess (Deficiency) of Revenues over Expenditures and Other sources (Uses)	<u>(359,321)</u>	<u>(359,321)</u>	<u>89,914</u>	<u>(29,849)</u>	<u>(29,849)</u>	<u>7,963</u>
Fund Balance						
Beginning of the Year	931,290	931,290	931,290	179,701	179,701	179,701
End of the Year	<u>\$ 571,969</u>	<u>\$ 571,969</u>	<u>\$ 1,021,204</u>	<u>\$ 149,852</u>	<u>\$ 149,852</u>	<u>\$ 187,664</u>

The accompanying notes are an integral part of this schedule.

CITY OF COLUMBIA FALLS, FLATHEAD COUNTY, MONTANA

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
 BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDING JUNE 30, 2014

	-----CDBG Economic Development-----		
	Original Budget	Final Budget	Actual
Revenues:			
Property Taxes/Assessments	\$ -	\$ -	\$ -
Licenses and Permits	-	-	-
Intergovernmental	400,000	400,000	386,830
Charges for Services	-	-	-
Fines and Forfeitures	-	-	-
Miscellaneous	-	-	-
Investment Earnings	-	-	-
Total Revenues	<u>400,000</u>	<u>400,000</u>	<u>386,830</u>
Expenditures:			
General Government	-	-	-
Public Safety	-	-	-
Public Works	-	-	-
Public Health	-	-	-
Culture and Recreation	-	-	-
Housing and Community Development	400,000	400,000	386,830
Miscellaneous	-	-	-
Debt Service	-	-	-
Capital Outlay	-	-	-
Total Expenditures	<u>400,000</u>	<u>400,000</u>	<u>386,830</u>
Excess (Deficiency) of Revenues over Expenditures	<u>-</u>	<u>-</u>	<u>-</u>
Other Sources (Uses) of Funds:			
Transfers	-	-	-
Total Other Sources (Uses) of Funds	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues over Expenditures and Other sources (Uses)	-	-	-
Fund Balance			
Beginning of the Year	-	-	-
End of the Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of this schedule.

CITY OF COLUMBIA FALLS, FLATHEAD COUNTY, MONTANA

NOTES TO THE BUDGET AND ACTUAL SCHEDULE JUNE 30, 2014

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

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

The City Commission must meet prior to the budget adoption for the purpose of holding a public hearing on the final budget. This hearing can be continued until the budget is finally approved and adopted, and tax levies set, on or before the second Monday in August or within 45 calendar days after receiving certified taxable values from the State Department of Revenue. The total value of the property within the City as determined by the County Assessor is the assessed valuation.

The City budgets may also include encumbrances, which represent commitments to expend funds under current budget appropriations. All appropriations lapse at the end of the fiscal year except for accounts payable and encumbrances. There were no encumbrances in 2014.

* * * * *

SINGLE AUDIT SECTION

CITY OF COLUMBIA FALLS, FLATHEAD COUNTY, MONTANA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDING JUNE 30, 2014

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
<u>U.S. Department of Housing and Urban Development</u>			
<i>Passed through Montana Department of Commerce:</i>			
Community Development Block Grant	14.239	#M10-SG3001-49	\$ 93,840
Community Development Block Grant	14.228	#MT-CDBG-ED 13-02	386,830
Total U.S. Department of Housing and Urban Development			<u>480,670</u>
<u>U.S. Department of Transportation</u>			
<i>Passed through Montana Department of Transportation:</i>			
Community Transportation Enhancement Program	20.205	8098	72,531
National Highway Traffic Safety	20.600/20.601	CTS# 106709	2,698
National Highway Traffic Safety	20.600	CTS# 107268	11,983
Total U.S. Department of Transportation			<u>87,212</u>
<u>U.S. Department of Homeland Security</u>			
<i>Direct:</i>			
Federal Emergency Management Agency	97.036	N/A	71
Federal Emergency Management Agency	97.036	N/A	236
Total U.S. Department of Homeland Security			<u>307</u>
			<u>\$ 568,189</u>

The accompanying notes are an integral part of this schedule.

CITY OF COLUMBIA FALLS
Flathead County, Montana

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2014

1. ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Columbia Falls, Flathead County, Montana and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the financial statements.

2. SUBRECIPIENTS

Of the federal expenditures presented in the schedule, the City of Columbia Falls provided no federal awards to sub recipients.

* * * * *

Doyle & Associates, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

103 Tyler Way ♦ P.O. Box 446

Lolo, MT 59847

Phone: (406) 273-0700 ♦ Fax: (406) 273-4300

www.doyleandassoc.com

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Columbia Falls, Flathead County, Montana (the "City"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 25, 2015.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be

material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Dafoe & Associates, P.C.

Lolo, Montana
June 25, 2015

Doyle & Associates, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

103 Tyler Way, Suite 2 ♦ P.O. Box 446

Lolo, MT 59847-0446

Phone: (406) 273-0700 ♦ Fax: (406) 273-4300

www.doyleandassoc.com

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Report on Compliance for Each Major Federal Program

We have audited the City of Columbia Falls, Flathead County, Montana's (the "City") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended June 30, 2014. City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Columbia Falls, Flathead County, Montana complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Dafis & Associates, P.C.

Lolo, Montana
June 25, 2015

CITY OF COLUMBIA FALLS
Flathead County, Montana

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2014

SECTION I – SUMMARY OF AUDITOR’S RESULTS

FINANCIAL STATEMENTS

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

- Material weakness identified? Yes X No
- Significant deficiencies identified that are not considered to be material weaknesses? Yes X No

Noncompliance material to financial statements noted? Yes X No

FEDERAL AWARDS

Internal control over federal awards:

- Material weakness identified? Yes X No
- Significant deficiencies identified that are not considered to be material weaknesses? Yes X No

Type of auditors’ report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? Yes X No

Identified major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.228	Community Development Block Grant

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes X No

SECTION II – FINDINGS IN RELATION TO THE AUDIT OF THE FINANCIAL STATEMENTS

There were no findings required to be reported.

SECTION III – FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

There were no findings or questioned costs required to be reported.

SUMMARY OF PRIOR AUDIT FINDINGS

There were no findings required to be reported.

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