

CITY OF BOZEMAN, MONTANA  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Prepared by the City of Bozeman Finance Department

CITY OF BOZEMAN, MONTANA  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
JUNE 30, 2012

TABLE OF CONTENTS

I. INTRODUCTORY SECTION

Letter of Transmittal .....	1-14
Governmental Financial Officers' Association Certificate of Achievement .....	15
Organizational Chart.....	16
City Elected Officials and Officers.....	17-18

II. FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT .....	19-20
------------------------------------	-------

A. MANAGEMENT'S DISCUSSION AND ANALYSIS .....	21-32
---	-------

B. BASIC FINANCIAL STATEMENTS

Government Wide Financial Statements	
Statement of Net Assets .....	33
Statement of Activities .....	34

Fund Financial Statements

Governmental Fund Financial Statements	
Balance Sheet – Governmental Funds .....	35-36
Reconciliation of the Balance Sheet to the Statement of Net Assets – Governmental Funds .....	37
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds.....	38
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to The Statement of Activities – Governmental Funds.....	39
Proprietary Fund Financial Statements	
Statement of Net Assets – Proprietary Funds .....	40-41
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds.....	42
Statement of Cash Flows – Proprietary Funds.....	43-44
Fiduciary Fund Financial Statements	
Statement of Fiduciary Net Assets – Fiduciary Funds.....	45

Notes to Financial Statements.....	46-91
------------------------------------	-------

CITY OF BOZEMAN, MONTANA  
 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
 JUNE 30, 2012

TABLE OF CONTENTS (CONTINUED)

C. REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MANAGEMENT DISCUSSION AND ANALYSIS

Schedule of Funding Progress – Other Post-Employment Health Care Benefits .....	92
Statements of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual – General and Special Revenue Major Funds	
General Fund .....	93
Street and Fire Impact Fees Fund.....	94
Street Maintenance Special Revenue Fund .....	95
Building Inspection Special Revenue Fund .....	96
Notes to Required Supplementary Information Other Than Management Discussion and Analysis .....	97

D. SUPPLEMENTAL INFORMATION

Combining and Individual Fund Statements and Schedules	
Combining Balance Sheet – Non-Major Governmental Funds.....	98-104
Combining Statement of Revenue, Expenditures, and Changes in Fund Balance – Nonmajor Governmental Funds .....	105-110
Budget-to-Actual Statements – Other Major Funds	
Statements of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual - Other Major Funds	
SID Sinking Fund.....	111
Note to Budget-to-Actual Statements – Other Major Funds .....	112
Budget-to-Actual Statements- Nonmajor Funds	
Statements of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual – Nonmajor Governmental Funds	
Non-Major Governmental Funds .....	113-126
Internal Service Funds Statements	
Combining Statements of Net Assets – Internal Service Funds.....	127
Combining Statements of Revenues, Expenses, and Changes in Fund Net Assets – Internal Service Funds.....	128
Combining Statements of Cash Flows .....	129-130
Agency Funds	
Combining Statements of Fiduciary Net Assets.....	131
Combining Schedules of Changes in Assets and Liabilities – Agency Funds .....	132

CITY OF BOZEMAN, MONTANA  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
JUNE 30, 2012

TABLE OF CONTENTS (CONTINUED)

III. STATISTICAL SECTION

Financial Trends Section

Net Assets by Component .....	133
Changes in Net Assets .....	34-135
Fund Balances of Governmental Funds .....	136
Changes in Fund Balances, Governmental Funds .....	137

Revenue Capacity Section

Assessed value of Taxable Property .....	138
Direct and Overlapping Property Tax Rates .....	139
Principal Property Tax Payers .....	140
Property Tax Levies and Collections .....	141
Water Sold by Type of Customer .....	142
Water and Sewer Rates .....	143

Debt Capacity Section

Ratios of Outstanding Debt by Type .....	144
Ratios of General Bonded Debt Outstanding .....	145
Direct and Overlapping General Bonded Debt Outstanding .....	146
Legal Debt Margin Information .....	147
Pledged Revenue Coverage .....	148

Demographics and Economic Section

Demographic and Economic Statistics .....	149
Principal Employers .....	150

Operating Section

Full-time Equivalent City Government Employees by Function/Program .....	151
Operating Indicators by Function/Program .....	152

Capital Assets Statistics by Function/Program .....	153
---	-----

CITY OF BOZEMAN, MONTANA  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
JUNE 30, 2012

TABLE OF CONTENTS (CONTINUED)

IV. REPORTS OF INDEPENDENT PUBLIC ACCOUNTANTS AND SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AS REQUIRED BY OMB CIRCULAR A-133	
Schedule of Expenditures of Federal Awards.....	154
Notes to Schedule of Expenditures of Federal Awards .....	155
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 <i>Government Auditing Standards</i> .....	156-157
Independent Auditor’s Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133.....	158-159
Schedule of Findings and Questioned Costs.....	160
Current Status of Prior Year Recommendations.....	161

**PART I**

**INTRODUCTORY SECTION**

## CITY OF BOZEMAN, MONTANA



December 17, 2012

To the Citizens of the  
City of Bozeman, Montana

The Comprehensive Annual Financial Report of the **CITY OF BOZEMAN, MONTANA** for the fiscal year ended June 30, 2012 is hereby submitted. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various funds of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

The City is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act of 1984 and the Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Information related to the single audit, including the *Schedule of Expenditures of Federal Awards* and the *Auditor's Reports on Basic Financial Statements and Supplementary Schedule of Expenditures of Federal Awards, Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards, and Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133*, are included in the single audit section of this report.

Management's Discussion and Analysis (MD&A) is a narrative introduction, overview and analysis written to accompany the basic financial statements and should be read in conjunction with the transmittal letter.

## CITY OF BOZEMAN, MONTANA

**CITY OF BOZEMAN PROFILE**

The City of Bozeman was incorporated in April of 1883 with a city council form of government, and later in January 1922 transitioned to its current city manager/city commission form of government. Bozeman encompasses an area over 18 square miles and is located on the eastern slope of the Rocky Mountains. The 2010 census put Bozeman's population at 37,280 making it the fourth largest city in the state. Bozeman is the county seat of Gallatin County and is the home to Montana State University – Bozeman, and the fighting Bobcats. Bozeman was elected an All-America City in 2001 by the National Civic League.

The government provides a full range of services. These services include police and fire protection; sanitation services; water and waste water utilities; the construction and maintenance of streets and infrastructure; recreational activities; cultural events; planning and zoning; and general administrative services. The City, as a primary government, is supported or works closely with certain entities to provide these services to the citizens of the City of Bozeman. Of these entities, Bozeman Public Library Foundation, Inc. is considered a component unit subject to the requirements for inclusion as a discretely presented component unit. The City Planning Board is presented as a blended component unit. The Senior Advisory Council and the Parking Commission are excluded from presentation in these financial statements, since their relationship with the City is strictly advisory in nature at this time.

**BUDGET DEVELOPMENT PROCESS**

The City of Bozeman budget serves several purposes. For the *citizens of the City of Bozeman*, it presents a picture of the city government operations and intentions for the year. For the *City Commission*, it serves as a policy tool and as an expression of goals and objectives. For *City Management*, it is used as an operating guide and a control mechanism.

The City Manager's Recommended Budget serves as the preliminary budget and is normally adopted as such in June following six months of development and analysis by staff and the City Commission.

After submitting the City Manager's Recommended Budget to the City Commission, public work sessions may be held by the Commissioners at which time the City Manager, Finance Director, and department staff explain the budget recommendations and underlying justification for the requests. The Commission also reviews departmental requests which could not be funded, as an indication of unmet needs. During or following the work sessions, the Commissioners may make adjustments to the proposed budget. Following any adjustments to the City Manager's budget recommendation, a tentative appropriation ordinance is prepared and a public hearing is held. The Commission may again make adjustments to the budget following the public hearing, after which time, the Commission passes the appropriation ordinance in final form.

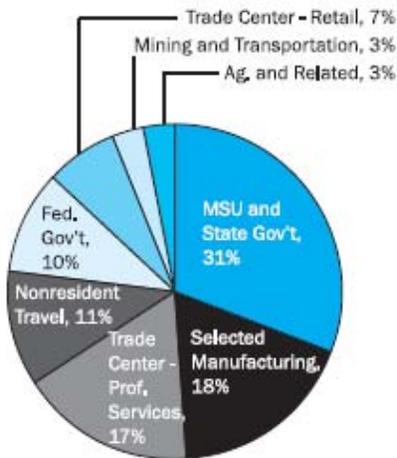
The overall goal of the City's financial policies is to establish and maintain effective management of the City's financial resources.

**ECONOMIC CONDITION AND OUTLOOK**

The Bureau of Business and Economic Research (BBER) is the research and public service branch of the University of Montana’s School of Business Administration. The Bureau is regularly involved in a wide variety of activities, including economic analysis and forecasting. Excerpts from the Bureau’s forecasts contained in the spring 2012 issue of the Montana Business Quarterly relating to Gallatin County and City of Bozeman are stated below.

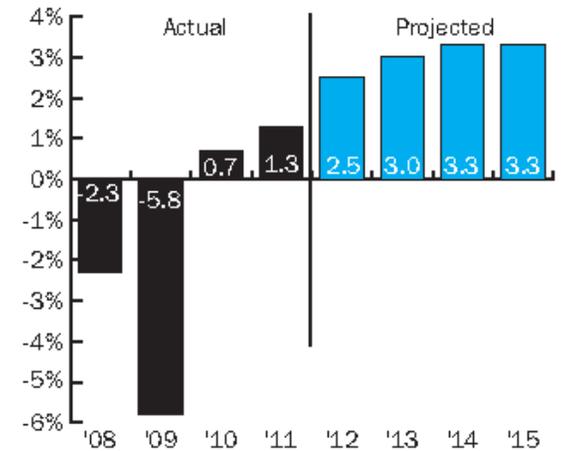
The Great Recession hit the Gallatin County economy hard, but none of the basic industries were permanently scarred. The recession impacts were concentrated in the home building, construction, and nonresident travel industries. The Gallatin County construction industry bore much of the brunt of the recession. Overall construction activity declined by roughly 37 percent during the 2007 to 2009 period, and the median price of homes in Gallatin County decreased by 32 percent. Single family housing starts dropped from a peak of 1,269 in 2004 to 337 in 2010, a decrease of 73 percent. Nonresident travel accounts for about 11 percent of Gallatin County’s economic base and includes the firms serving tourists and recreationists in Big Sky, West Yellowstone, and the Bozeman area. Spending by nonresidents declined significantly during both 2008 and 2009, in the midst of the Great Recession, and then recovered slightly during 2010 and 2011, but has not regained its pre-recession levels.

**Figure 1**  
Earnings in Basic Industries,  
Gallatin County, 2009-2011  
(Percent of Total)



Sources: Bureau of Business and Economic Research, The University of Montana; Bureau of Economic Analysis, U.S. Department of Commerce.

**Figure 2**  
Actual and Projected Change in  
Nonfarm Earnings, Gallatin County,  
2008-2015



Sources: Bureau of Business and Economic Research, The University of Montana; Bureau of Economic Analysis, U.S. Department of Commerce.

Montana State University-Bozeman and other state offices are the largest component of the local economic base, representing about 31 percent of the labor income earned in basic industries. On one hand, these state government jobs are noncyclical and provide an economic buffer during downturns in the business cycle. On the other hand, state employees are now in the third year of a scheduled four-year wage freeze, and this sector contributes little to local economic growth.

Gallatin County is the state’s center for high tech. These companies include manufactures such as Lattice Materials and Wavelength and software producers such as RightNow Technologies. Manufacturing, which also includes non-high-tech companies, accounts for about 18 percent of the economic base. Selected services, such as software production, represent about 17 percent. The sale of RightNow Technologies to Oracle (a multinational computer technology corporation) has recently been announced, and some concerns about the future of the company’s Montana operations have been expressed. But there are recent examples of sales that have benefited Montana-based companies such as the purchase of Kalispell-based Semitool by Applied Materials, another multinational corporation in Silicon Valley.

CITY OF BOZEMAN, MONTANA  
For the Year

**Changes, Initiatives & Priorities ongoing, undertaken or completed during the year include:**

**Street Maintenance Funds Reserved for Reconstruction Projects:** With the increase in Street Maintenance Assessments last July, the Commission made two important financial steps to address the deferred maintenance of our street network. First, this year they dedicated \$228,709 to a reserve for Curb Reconstruction and \$159,952 to a reserve for Street Reconstruction. The plan is to add an additional 6% of street maintenance assessments to this reserve over an additional two years (6% in FY13 and another 6% in FY14). This will accumulate roughly \$500,000 each year to reconstruct streets in town. Last fall, a 5-Year Capital Improvement Plan was established for this money, with future projects identified. Second, they borrowed approximately \$1.5 Million (repaid over the next 10 years) to reconstruct South 8<sup>th</sup> Street, with the debt repaid by another 7% increase in Street Maintenance Assessments. The South 8<sup>th</sup> Street reconstruction began in May and should be a significant improvement to property values and the functioning of our street system.

**General Fund Budget Savings Reserved for Capital Improvement Plan items:** In order to address our lack of maintenance of capital facilities, the Commission also dedicated a large portion of FY12's budget savings (revenues in excess of expenditures) to a reserve assigned for capital improvement projects. This budget strategy allowed us to begin the design work for the Police & Municipal Court facility roughly a year earlier than expected, and left a source for us to draw on to make important heater repairs at the Swim Center. We believe this use of budget savings is a great model; it rewards staff with the benefits of prudent spending by helping address the lack of funding for capital, and has true dividends for the citizens who rely on our facilities.

**Refinance of General Obligation Bonds:** This year, we refinanced all (\$3.1 Million) of existing General Obligation debt related to the Library and Transportation Bonds. With the final underwriting, taxpayers will see a net savings of roughly \$370,000 over the remaining life of the debt, and approximately 1 mill, or roughly \$83,000, in interest costs this year alone.

**Changes in Vehicle Replacement Policy:** During the development of our Capital Improvement Plan in the fall of 2011, the Commission expressed concern that the City's mileage limits for replacement of light vehicles was out-of-line with current automobile life-spans and potentially resulting in the replacement of vehicles too soon. In February, the City Manager revised the Policy so that vehicles are now considered for replacement every 20 years or at/near 150,000 miles. Previously they were considered for replacement every 15 years or at 100,000 miles. Police patrol cars are now to be replaced after 5 years of service or at the discretion of the Chief. Specialized equipment in patrol cars will be evaluated for re-use. As a result of this change, two light vehicles that had been scheduled for replacement are not included in the FY13 Budget.

## CITY OF BOZEMAN, MONTANA

**State Entitlement Share Frozen:** During the 2011 State Legislative session, the State eliminated the statutory growth factor for our Entitlement Share dollars for FY12. Under the prior statute, the City would have seen approximately \$150,000 in increased revenue in the General Fund in FY12 and further increases in FY13. Instead, both FY12 and FY13 will see ZERO growth in Entitlement Share over FY11's amounts in the general fund, and a 10% decrease (-\$3,100) for the Downtown Tax Increment District.

**Solvent Site Active Remediation:** After a decades-long effort, the Montana Department of Environmental Quality entered a Record of Decision regarding the clean-up of the Bozeman Solvent Site. This budget contains approximately \$660,000 in planned expenditures in the Wastewater Fund for active remediation of the Site. This multi-year remediation project is being undertaken with CVS Pharmacy.

**Water Plant Construction:** Construction has been underway, and expected to span 3 fiscal years, for this critical public works project. This budget includes \$18.6M in construction spending on the project, and \$19.5M in borrowing. The new Water Treatment Plant will require substantial borrowing through completion (estimated \$20M total). Loan documents were completed in FY12 and borrowing began at the very end of FY12. This borrowing is secured by water-system ratepayers, and is part of the need for rate increases over the coming years.

### **For the Future**

**South 8<sup>th</sup> Avenue Re-Construction:** In April 2012, the City of Bozeman awarded a \$1.39M contract to Knife River for the reconstruction of South 8<sup>th</sup> Avenue between Main Street and Harrison Street. The entire street, from the gravel base layers to the pavement markings will be replaced. When the funding option was established, the project cost was roughly estimated at \$1.5 million, with \$29,400 coming from street impact fees for the bike lanes, \$184,500 coming from a Special Improvement District, and \$1,300,000 to be borrowed from INTERCAP.

**Police & Municipal Court Facility:** The City recently participated in the 2011 Campus Master Plan for the Gallatin County Law and Justice Center site. This study reviewed and validated the prior estimated space needs for the City and County's criminal justice functions and specifically the facility needs of the Bozeman Police Department and Municipal Courts to 2020 and 2025. We are currently negotiating a memorandum of understanding with the County that will identify a



**City Hall Fall Leaves**

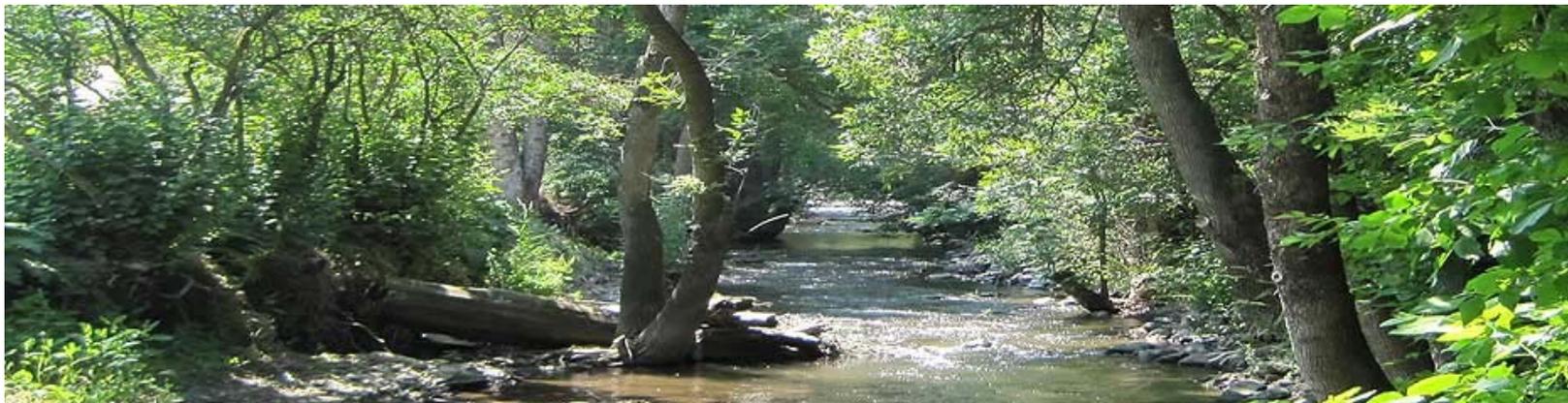
## CITY OF BOZEMAN, MONTANA

construction site, agree to a mutually beneficial ownership model, and allow us to proceed with the design of a municipal courts and police facility, either with or without the county. It is anticipated that total estimated costs will be around \$19M which will be largely funded by voter-approved 20 year General Obligations Bonds.

**Parks & Trails:** On Tuesday, November 6, 2012 the City of Bozeman voters overwhelmingly passed a \$15 Million bond for parks, trails, natural areas, stream corridors and athletic fields. It will be financed with 20-year general obligation bonds that will cost the average household \$44 per year. The Bozeman City Commission will have final authority in reviewing and approving projects and determining how to best spend these funds. For more information, please visit the website <http://bozemanparksandtrails.com>

### **Other**

- Reconstruct College Street from Main Street (Huffine Lane) to 19<sup>th</sup> Avenue to a principal arterial standard as shown in the Transportation Plan.
- Completion of N. 27<sup>th</sup> Street Connector (Oat Street to Tschache Street)
- Water Pipe Replacement Program: Mendenhall Street (North 8<sup>th</sup> Avenue to North Broadway Avenue) for FY13 - approximately \$1M every year for the construction of necessary water system replacement work.
- Waste Water Pipe Replacement Program – approximately \$1M every year for the construction of necessary sewer system replacement work.
- Develop a long term plan for the Streamline bus system.
- Reconstruct Kagy Boulevard (South 19th to Willson Avenue): upgrade to urban arterials using gas tax money.
- Explore sources of funding for Park Maintenance and operations.



**Bozeman Creek**

CITY OF BOZEMAN, MONTANA  
**FINANCIAL POLICIES**

The overall goal of the city's financial policies is to establish and maintain effective management of the city's financial resources. Formal policy statements and major objectives provide the foundation for achieving this goal. Accordingly, this section outlines the policies used in guiding the preparation and management of the city's overall budget and the major objectives to be accomplished. In addition, the rationale which led to the establishment of the fiscal policy statements is also identified.

**Budget Development & Administration**

**1. A comprehensive annual budget will be prepared for all funds expended by the city.**

State law provides that "no money shall be drawn from the treasury of the municipality nor shall any obligation for the expenditure of money be incurred except pursuant to the appropriation made by the commission." Inclusion of all funds in the budget enables the commission, the administration, and the public to consider all financial aspects of city government when preparing, modifying, and monitoring the budget, rather than deal with the city's finances on a "piece meal" basis.

**2. The budget will be prepared in such a manner as to facilitate its understanding by citizens and elected officials.**

One of the stated purposes of the budget is to present a picture of the city government operations and intentions for the year to the citizens of Bozeman. Presenting a budget document that is understandable to the citizens furthers the goal of effectively communicating local government finance issues to both elected officials and the public.

**3. Budgetary emphasis will focus on providing those basic municipal services which provide the maximum level of services, to the most citizens, in the most cost effective manner, with due consideration being given to all costs--economic, fiscal, and social.**

Adherence to this basic philosophy provides the citizens of Bozeman assurance that its government and elected officials are responsive to the basic needs of the citizens and that its government is operated in an economical and efficient manner.

**4. The budget will provide for adequate maintenance of capital, plant, and equipment and for their orderly replacement.**

All governments experience prosperous times as well as periods of economic decline. In periods of economic decline, proper maintenance and replacement of capital, plant, and equipment is generally postponed or eliminated as a first means of balancing the budget. Recognition of the need for adequate maintenance and replacement of capital, plant, and equipment, regardless of the economic conditions, will assist in maintaining the government's equipment and infrastructure in good operating condition.

**5. The city will avoid budgetary practices that balance current expenditures at the expense of meeting future years' expenses.**

Budgetary practices such as postponing capital expenditures, accruing future years' revenues, or rolling over short-term debt are budgetary practices which can solve short-term financial problems; however, they can create much larger financial problems for future administrations and commissions. Avoidance of these budgetary practices will assure citizens that current problems are not simply being delayed to a future year.

## CITY OF BOZEMAN, MONTANA

**6. The city will give highest priority in the use of one-time revenues to the funding of capital assets or other non-recurring expenditures.**

Utilizing one-time revenues to fund on-going expenditures results in incurring annual expenditure obligations which may be unfunded in future years.

Using one-time revenues to fund capital assets or other non-recurring expenditures better enables future administrations and commissions to cope with the financial problems when these revenue sources are discontinued, since these types of expenditures can more easily be eliminated.

**7. The city will maintain a budgetary control system to help it adhere to the established budget.**

The budget passed by the commission establishes the legal spending limits for the city. A budgetary control system is essential in order to insure legal compliance with the city's budget.

**8. The City will exercise budgetary control (maximum spending authority) through City Commission approval of appropriation authority for each appropriated budget unit.**

Exercising budgetary control for each appropriated budget unit satisfies requirements of state law. It also assists the commission in monitoring current year operations and acts as an early warning mechanism when departments deviate in any substantive way from the original budget.

**9. Reports comparing actual revenues and expenditures to budgeted amounts will be prepared monthly.**

The city's budget is ineffective without a system to regularly monitor actual spending and revenue collections with those anticipated at the beginning of the year. Monthly reports comparing actual revenues and expenditures to budget amounts provide the mechanism for the Commission and the administration to regularly monitor compliance with the adopted budget.

**Revenue Collection****1. The city will seek to maintain a diversified and stable revenue base.**

A city dependent upon a few volatile revenue sources is frequently forced to suddenly adjust tax rates or alter expenditure levels to coincide with revenue collections. Establishment of a diversified and stable revenue base, however, serves to protect the city from short-term fluctuations in any one major revenue source.

**2. The city will estimate revenues in a realistic and conservative manner.**

Aggressive revenue estimates significantly increase the chances of budgetary shortfalls occurring during the year--resulting in either deficit spending or required spending reductions. Realistic and conservative revenue estimates, on the other hand, will serve to minimize the adverse impact of revenue shortfalls and will also reduce the need for mid-year spending reductions.

**3. The city will pursue an aggressive policy of collecting revenues.**

An aggressive policy of collecting revenues will help to insure the city's revenue estimates are met, all taxpayers are treated fairly and consistently, and delinquencies are kept to a minimum.

## CITY OF BOZEMAN, MONTANA

**4. The city will aggressively pursue opportunities for Federal or State grant funding.**

An aggressive policy of pursuing opportunities for Federal or State grant funding provides citizens assurance that the city is striving to obtain all state and federal funds to which it is entitled--thereby reducing dependence upon local taxpayers for the support of local public services.

**5. User fees and charges will be used, as opposed to general taxes, when distinct beneficiary populations or interest groups can be identified.**

User fees and charges are preferable to general taxes because user charges can provide clear demand signals which assist in determining what services to offer, their quantity, and their quality. User charges are also more equitable, since only those who use the service must pay--thereby eliminating the subsidy provided by nonusers to users, which is inherent in general tax financing.

**6. User fees will be collected only if it is cost-effective and administratively feasible to do so.**

User fees are often times costly to administer. Prior to establishing user fees, the costs to establish and administer the fees will be considered in order to provide assurance that the city's collection mechanisms are being operated in an efficient manner.

**Expenditures and Payments****1. On-going expenditures will be limited to levels which can be supported by current revenues.**

Utilization of reserves to fund on-going expenditures will produce a balanced budget; however, this practice will eventually cause severe financial problems. Once reserve levels are depleted, the city would face elimination of on-going costs in order to balance the budget. Therefore, the funding of on-going expenditures will be limited to current revenues.

**2. Minor capital projects or recurring capital projects, which primarily benefit current residents, will be financed from current revenues.**

Minor capital projects or recurring capital projects represent relatively small costs of an on-going nature, and therefore, should be financed with current revenues rather than utilizing debt financing. This policy also reflects the view that those who benefit from a capital project should pay for the project.

**3. Major capital projects, which benefit future as well as current residents, will be financed with current revenues as well as other financing sources (e.g. debt financing).**

This policy reflects the view that those who benefit from a capital project should pay for the project.

**4. Major capital projects, which benefit future residents, will be financed with other financing sources (e.g. debt financing).**

Major capital projects represent large expenditures of a non-recurring nature which primarily benefit future residents. Debt financing provides a means of generating sufficient funds to pay for the costs of major projects. Debt financing also enables the costs of the project to be supported by those who benefit from the project, since debt service payments will be funded through charges to future residents.

## CITY OF BOZEMAN, MONTANA

**5. Construction projects and capital purchases of \$10,000 or more will be included in the Capital Improvement Plan (CIP); minor capital outlays of less than \$10,000 will be included in the regular operating budget.**

The Capital Improvement Plan (CIP) differentiates the financing of high cost long-lived physical improvements from low cost "consumable" equipment items contained in the operating budget. CIP items may be funded through debt financing or current revenues while operating budget items are annual or routine in nature and should only be financed from current revenues.

**6. Spending Policy:** The City will spend its resources in the following order. Resources will be categorized according to Generally Accepted Accounting Principles (GAAP) for state and local governments, with the following general definitions:

- Restricted -- Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government) through constitutional provisions or by enabling legislation.
- Committed -- Amounts constrained to specific purposes by the City Commission; to be reported as committed, amounts cannot be used for any other purpose unless the City Commission takes action to remove or change the constraint.
- Assigned -- Amounts the City intends to use for a specific purpose; intent can be expressed by the Commission or by an official or body to which the Commission delegates the authority. The City Commission delegates this authority to the City Manager.
- Unassigned -- Amounts that are available for any purpose; these amounts are reported only in the General Fund.

When both restricted and unrestricted resources are available, spending will occur in the following order for the identified fund types:

Fund Type	Order of Spending
<b>General Fund</b>	<ol style="list-style-type: none"> <li>1. Restricted</li> <li>2. Committed</li> <li>3. Assigned</li> <li>4. Unassigned</li> </ol> <p>The City Commission and the City Manager, individually, have the authority to express assignments in the General Fund.</p>
<b>Special Revenue Funds</b>	<ol style="list-style-type: none"> <li>1. Restricted</li> <li>2. Committed</li> <li>3. Assigned</li> </ol> <p>The City Commission and the City Manager, individually, have the authority to express assignments in Special Revenue Funds.</p>
<b>Debt Service Funds</b>	<ol style="list-style-type: none"> <li>1. Assigned</li> <li>2. Committed</li> <li>3. Restricted</li> </ol>

## CITY OF BOZEMAN, MONTANA

	The City Commission and the City Manager, individually, have the authority to express assignments in Debt Service Funds.
<b>Capital Project Funds</b>	<ol style="list-style-type: none"> <li>1. Restricted</li> <li>2. Committed</li> <li>3. Assigned</li> </ol> <p>The City Commission and the City Manager, individually, have the authority to express assignments in Capital Project Funds.</p>

**Debt Administration****1. The City will limit long-term debt to capital improvements which cannot be financed from current revenues.**

Incurring long-term debt serves to obligate future taxpayers. Excess reliance on long-term debt can cause debt levels to reach or exceed the government's ability to pay. Therefore, conscientious use of long-term debt will provide assurance that future residents will be able service the debt obligations left by former residents.

**2. The city will repay borrowed funds, used for capital projects, within a period not to exceed the expected useful life of the project.**

This policy reflects the view that those residents who benefit from a project should pay for the project. Adherence to this policy will also help prevent the government from over-extending itself with regard to the incurrence of future debt.

**3. The city will not use long-term debt for financing current operations.**

This policy reflects the view that those residents who benefit from a service should pay for the service. Utilization of long-term debt to support current operations would result in future residents supporting services provided to current residents.

**4. The City of Bozeman will adhere to a policy of full public disclosure with regard to the issuance of debt.**

Full public disclosure with regard to the issuance of debt provides assurance that the incurrence of debt, for which the public is responsible, is based upon a genuine need and is consistent with underwriter's guidelines.

**Reserves and Fund Balances****1. Reserves and Fund Balances will be properly designated into the following categories:**

- Nonspendable fund balance -- Amounts that are not in a spendable form (such as inventory) or are required to be maintained intact (such as the corpus of an endowment fund).
- Restricted fund balance -- Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government) through constitutional provisions or by enabling legislation.
- Committed fund balance -- Amounts constrained to specific purposes by the City Commission; to be reported as committed, amounts cannot be used for any other purpose unless the City Commission takes action to remove or change the constraint.

## CITY OF BOZEMAN, MONTANA

- Assigned fund balance -- Amounts the City intends to use for a specific purpose; intent can be expressed by the Commission or by an official or body to which the Commission delegates the authority.
  - Unassigned fund balance -- Amounts that are available for any purpose; these amounts are reported only in the General Fund.
2. **A minimum level of general fund reserve equal to 16.67% of annual revenues will be maintained by the city. This reserve is committed to be used for: cash flow purposes, accrued employee payroll benefits which are not shown as a liability, unanticipated equipment acquisition and replacement, and to enable the city to meet unexpected expenditure demands or revenue shortfalls.**

Property taxes represent the city's primary source of general fund revenue. Property taxes are collected in November and May of each fiscal year. Since the City's fiscal year begins on July 1st, the city must maintain an adequate cash balance in order to meet its expenditure obligations between July 1st and the commencement of the collection of property taxes in November.

Accrued employee payroll benefits represent a bona fide obligation of the city. The city will maintain sufficient reserves to meet its annual expenditure obligations.

The city recognizes the need to maintain adequate equipment in order to carry out required public services. Equipment acquisition and replacement represent on-going costs of a relatively minor nature, as compared to major capital purchases. We plan for equipment replacement within our Capital Improvement Program. However, unforeseen equipment problems will arise. The reserve will provide resources for the immediate, unanticipated replacement of critical equipment.

The city is subject to revenue shortfalls and unexpected expenditure demands during the fiscal year. An undesignated general fund reserve will be maintained to be able to offset these revenue shortfalls or meet unexpected demands occurring during the year, without suddenly adjusting tax rates or reducing expenditures.

### **Financial Reporting & Accounting**

1. **The City will manage and account for its financial activity in accordance with Generally Accepted Accounting Principles (GAAP), as set forth by the Governmental Accounting Standards Board (GASB).**

GASB is recognized as the authority with respect to governmental accounting. Managing the city's finances in accordance with GAAP and in accordance with the rules set forth by GASB provides the Bozeman citizens assurance that their public funds are being accounted for in a proper manner.

2. **The city will maintain its accounting records for general governmental operations on a modified accrual basis, with revenues recorded when available and measurable, and expenditures recorded when services or goods are received and liabilities incurred. Accounting records for proprietary fund types and similar trust funds will be maintained on an accrual basis, with all revenues recorded when earned and expenses recorded at the time liabilities are incurred, without regard to receipt or payment of cash.**

Adherence to this policy will enable the city to prepare its financial statements in accordance with Generally Accepted Accounting Principles as set forth by the Governmental Accounting Standards Board.

## CITY OF BOZEMAN, MONTANA

**3. The City of Bozeman will prepare a Comprehensive Annual Financial Report (CAFR) in conformity with Generally Accepted Accounting Principles (GAAP). The report will be made available to the general public. The CAFR shall be prepared in accordance with the standards established by the GFOA for the Certificate of Achievement for Excellence in Financial Reporting Program**

The Certificate of Achievement represents a significant accomplishment for a government and its financial management. The program encourages governments to prepare and publish an easily readable and understandable comprehensive annual financial report covering all funds and financial transactions of the government during the year. The CAFR provides users with a wide variety of information useful in evaluating the financial condition of a government. The program also encourages continued improvement in the city's financial reporting practices.

**4. The city will ensure the conduct of timely, effective, and annual audit coverage of all financial records in compliance the Local, State, and Federal law.**

Audits of the city's financial records provide the public assurance that its funds are being expended in accordance with Local, State, and Federal law and in accordance with Generally Accepted Accounting Principles. Audits also provide management and the Commission with suggestions for improvement in its financial operations from independent experts in the accounting field.

**5. The City of Bozeman will maintain a policy of full and open public disclosure of all financial activity.**

Full and open public disclosure of all financial activity provides the public with assurance that its elected officials and administrators communicate fully all financial matters affecting the public.

**6. The modified accrual basis of accounting and budgeting is used for the Governmental Funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the related liability is incurred. Employee compensated absences and principal and interest on long-term debt expenditures are recorded when due in the current period. The accrual basis of accounting is used for Proprietary Funds. Under this method, revenues are recorded when earned and expenses are recorded when the related liability is incurred. For Budget preparation and presentation, the Proprietary Funds' expenses are converted to expenditures and follow the same budget format as the Government Fund types. Capital outlays in the Enterprise Funds are presented as expenses for budget basis, but are recorded as assets along with associated depreciation expense on the GAAP basis. Debt service principal payments in the Enterprise Funds are accounted for as expenses for budget purposes, but are reported as reduction of long-term debt liability on the GAAP basis.**

Recording capital outlays as expenditures and principal payments on long-term debt for budget purposes, presents a clearer picture of the city's financial operations, is easier to administer for cash flow purposes, and is easier for the lay person to understand.

## CITY OF BOZEMAN, MONTANA

**OTHER INFORMATION**Independent Audit

The State of Montana requires a biannual audit of the books of accounts, financial records, and transactions of all administrative departments of the City by independent certified accountants selected by the City Commission. It is the belief of the City Commission and Executive staff that an annual audit assures a higher level of financial management and fiscal responsibility. This policy, along with the legal requirements, has been complied with and the auditors' opinion of Junkermier, Clark, Campanella & Stevens P.C., has been included in this report.

Awards

The Government Finance Officers' Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Bozeman for its comprehensive annual financial report for the fiscal year ended June 30, 2011. This was the 28<sup>th</sup> consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the City published an easily readable and efficiently organized comprehensive annual financial report. This report satisfied both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirement and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgements

The preparation of the Comprehensive Annual Financial Report on a timely basis was made possible by the dedicated service of the entire staff of the Finance Department, with special appreciation extended to Assistant Controller Lieveka White. Each member of the department has our sincere appreciation for the contributions made in the preparation of this report.

In closing, without the leadership and support of the governing body of the City, preparation of this report would not have been possible.

Sincerely,

Chris Kukulski  
City Manager

Anna Rosenberry, CPA  
Director of Finance

Brian LaMeres, CPA  
City Controller

CITY OF BOZEMAN, MONTANA

GOVERNMENT FINANCE OFFICERS' ASSOCIATION CERTIFICATE

Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting

Presented to

City of Bozeman  
Montana

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Christopher P. Morville*

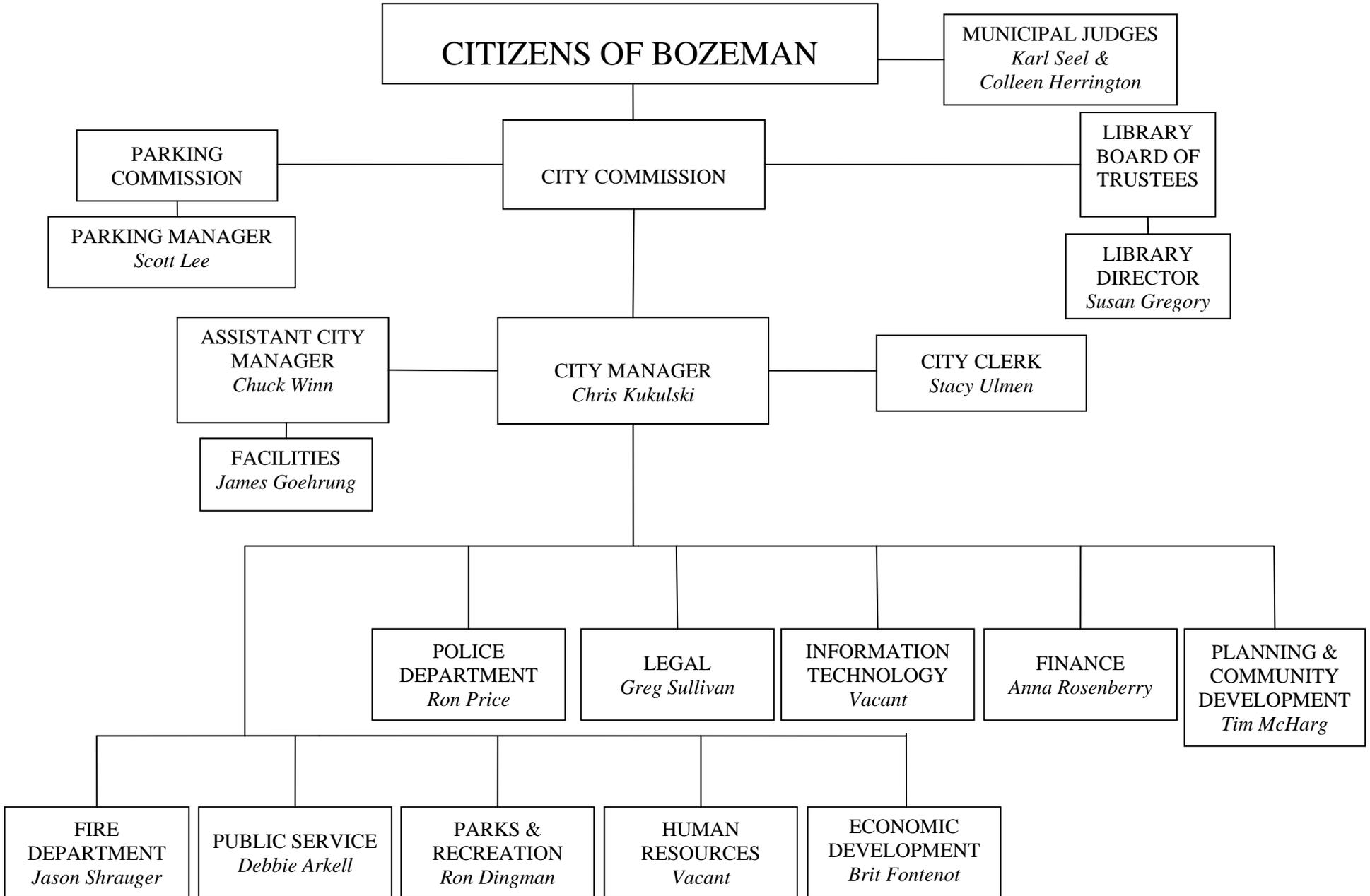
President

*Jeffrey R. Emer*

Executive Director

CITY OF BOZEMAN, MONTANA

ORGANIZATIONAL CHART



## CITY OF BOZEMAN, MONTANA

## CITY ELECTED OFFICIALS AND OFFICERS

ELECTED OFFICIALS

## Legislative

Sean Becker  
 Jeffrey Krauss  
 Cynthia Andrus  
 Christopher Mehl  
 Carson Taylor

Mayor  
 Deputy Mayor  
 Commissioner  
 Commissioner  
 Commissioner

## Judicial

Karl Seel  
 Colleen Herrington

Municipal Judge  
 Municipal Judge

OFFICERS

## Executive

Chris Kukulski  
 Chuck Winn  
 Stacy Ulmen

City Manager  
 Assistant City Manager  
 City Clerk

## Department of Law

Gregory Sullivan  
 Susan Wordal  
 Timothy A. Cooper  
 Kyla Murray  
 Anna Saverud  
 Ryan McCarty

City Attorney  
 Assistant City Attorney

## Department of Finance

Anna Rosenberry, CPA  
 Brian LaMeres, CPA  
 Laurae Clark

Director of Finance  
 Controller  
 Treasurer

## CITY OF BOZEMAN, MONTANA

## CITY ELECTED OFFICIALS AND OFFICERS (CONTINUED)

OFFICERS (CONTINUED)

Department of Economic Development  
Brit Fontenot

Director of Economic Development

Department of Public Safety  
Ronald Price  
Richard McLane  
Jason Shrauger  
Greg Megaard

Chief of Police  
Deputy Chief of Police  
Fire Chief  
Deputy Fire Chief – Operations

Department of Public Service  
Debra H. Arkell  
Rick Hixson  
John Alston  
John Van Delinder  
Kevin Handelin  
Rick Moroney  
Thomas Adams  
James Goehring

Director of Public Service  
City Engineer  
Superintendent of Water and Waste Water Operations  
Superintendent of Street Operations  
Superintendent of Sanitation Operations  
Superintendent of Water Treatment Plant  
Superintendent of Water Reclamation Facility  
Superintendent of Facilities

Department of Public Welfare  
Ron Dingman  
Thomas White  
Vacant  
Timothy McHarg  
Susan Gregory

Director of Parks & Recreation  
Superintendent of Parks & Cemetery  
Superintendent of Recreation Operations  
Director of Planning & Community Development  
Director of Library

**PART II**

**FINANCIAL SECTION**



220 West Lamme, Suite 3A  
P.O. Box 1965  
Bozeman, Montana 59771-1965  
ph. (406) 587-1277  
fx. (406) 587-8794  
www.jccscca.com

---

**Junkermier • Clark  
Campanella • Stevens • P.C.**

Certified Public Accountants and Business Advisors

INDEPENDENT AUDITORS' REPORT

Honorable Mayor, City Commissioners, and City Manager of the  
City of Bozeman, Montana:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bozeman, Montana (the City), as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Bozeman's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, each major fund, and the aggregate remaining fund information of the City of Bozeman, Montana, as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2012 on our consideration of the City of Bozeman's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Audit Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Actuarial Valuation of Post-Employment Benefits, and Budgetary Comparison Information, as listed on 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 Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Bozeman, Montana's basic financial statements. The combining and individual non-major fund financial statements and other schedules, listed in the table of contents as supplementary information, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget *Circular A-133, Audit of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The combining and individual non-major fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

***Junkermier Clark Campanella & Stevens P.C.***

Bozeman, Montana  
December 17, 2012

## A. MANAGEMENT'S DISCUSSION AND ANALYSIS

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of Bozeman's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2012. Please read it in conjunction with the transmittal letter on page 1 and the City's financial statements, which begin on page 31.

### USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 31 and 32) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 33. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

### Reporting the City as a Whole

#### The Statement of Net Assets and the Statement of Activities

Our analysis of the City as a whole begins on page 23. One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's *net assets* and changes in them. You can think of the City's net assets, the difference between assets, what the citizens own, and liabilities, what the citizens owe, as one way to measure the City's financial health, or financial position. Over time, *increases or decreases* in the City's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the City's property tax base, income tax base, and the condition of the City's capital assets (roads, buildings, water and sewer lines) to assess the *overall health* of the City.

In the Statement of Net Assets and the Statement of Activities, we divide the City into two kinds of activities:

- Governmental activities—Most of the City's basic services are reported here, including police, fire, public works, parks, and general administration. Property taxes, state shared revenues, court fines, and recreation fees finance most of these activities.
- Business-type activities—The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water, sewer, solid waste, and parking systems are reported here.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### **Reporting the City's Most Significant Funds Fund Financial Statements**

Our analysis of the City's funds begins on page 27. The fund financial statements begin on page 33 and provide detailed information about the most significant funds, not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City Commission establishes many other funds to help it control and manage money for particular purposes (like Street Maintenance District Funds) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (like grants received from the Environmental Protection Agency). The City's two kinds of funds, governmental and proprietary, use different accounting approaches.

**Governmental funds**--Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliation on pages 35 and 37 of the fund financial statements.

**Proprietary funds**--When the City charges customers for the services it provides, whether to outside customers or to other units of the City, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds (a component of the proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds. We use internal service funds (the other component of proprietary funds) to report activities that provide supplies and services for the City's other programs and activities, such as the Vehicle Maintenance Fund and Health Insurance Fund. Internal service fund activity is reported as governmental activity in the government-wide statements since this activity, the financing of goods and services for other funds of the government, is more governmental than business-type in nature.

### **The City as Trustee**

#### **Reporting the City's Fiduciary Responsibilities**

The City is the trustee, or fiduciary, for other funds, including the Municipal Court Fund and the Montana Arts Council funds for the Montana Ballet, the Bozeman Symphony Orchestra and the Big Sky Association for the Arts. It is also responsible for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. The guidelines for the administration of these funds are contained in applicable financial agreements and/or City ordinances. These documents contain the rules governing the receipt, expenditure, and management of the City's fiduciary funds. All of the City's fiduciary activities are reported in the Statement of Fiduciary Net Assets on page 43 and in the Combining Statement of Changes in Assets and Liabilities-Agency Funds on page 128. As the statements reflect, the financial activity during the year for these funds is nominal. We exclude these activities from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

**THE CITY AS A WHOLE**

The City's *combined* net assets decreased by \$9.6 million this year as compared to a \$6.7 million increase last year. The primary reason for this is a \$2 million litigation settlement combined with a substantial decrease in revenues, yet no significant change in expenses. The specific contributing factors are outlined in the following discussion. Our analysis focuses on the net assets (Table 1) and changes in net assets (Table 2) of the City's governmental and business-type activities.

Net assets of the City's governmental activities decreased by 2.4% (\$122.8 million this year compared to \$125.8 million last year). *Unrestricted* net assets of governmental activities, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements, decreased to \$13.5 million. The net assets of the City's business-type activities decreased by 3.1% (\$206.7 million compared to \$213.3 million in 2011). These net assets cannot be used to make up for deficits reported by governmental activities in the event any such deficits were reported. The City generally can only use the net assets of business-type activities to finance the continuing operations of the water, sewer solid waste, and parking operations.

**Table 1**  
**Net Assets**  
**(in Millions)**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total Primary Government</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Current and Other Assets	\$ 46.0	\$ 42.6	\$ 25.1	\$ 31.5	\$ 71.1	\$ 74.1
Capital Assets	99.8	103.2	216.5	212.2	316.3	315.4
<b>Total Assets</b>	<b>\$ 145.8</b>	<b>\$ 145.8</b>	<b>\$ 241.6</b>	<b>\$ 243.7</b>	<b>\$ 387.4</b>	<b>\$ 389.5</b>
Long-term Debt Outstanding	(13.5)	(14.8)	(27.2)	(27.5)	(40.7)	(42.3)
Other Liabilities	(9.6)	(5.1)	(7.7)	(3.0)	(17.2)	(8.1)
<b>Total Liabilities</b>	<b>\$ (23.1)</b>	<b>\$ (19.9)</b>	<b>\$ (34.9)</b>	<b>\$ (30.5)</b>	<b>\$ (58.0)</b>	<b>\$ (50.4)</b>
<b>Net Assets:</b>						
Invested in Capital Assets, net of related debt	\$ 88.5	\$ 88.8	\$ 192.5	\$ 188.2	\$ 281.0	277.0
Restricted for impact capital projects	-	-	9.5	10.9	9.5	10.9
Restricted for debt service	4.1	5.4	1.8	1.7	5.9	7.2
Restricted for capital projects	-	0.3	0.1	0.1	0.1	0.4
Restricted for general government	0.9	0.4	-	-	-	0.4
Restricted for Public Safety	1.4	0.4	-	-	1.4	0.4
Restricted for Public Service	10.2	12.5	-	-	10.2	12.5
Restricted for Public Welfare	3.1	1.0	-	-	3.1	1.0
Restricted for other purposes	-	-	-	-	0.0	-
Nonspendable	1.1	1.0	-	-	-	-
Unrestricted	13.5	16.0	2.8	12.4	16.3	28.4
<b>Total Net Assets</b>	<b>\$ 122.8</b>	<b>\$ 125.9</b>	<b>\$ 206.7</b>	<b>\$ 213.3</b>	<b>\$ 329.5</b>	<b>\$ 339.2</b>

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The City's total revenues (excluding special items) decreased by 21.2% (\$14.5 million), driven primarily by a significant decrease in developer-contributed infrastructure, which is reported as revenue. The total cost of all programs and services increased by \$1.8 million, or 2.9%. Although expenses increased and revenues decreased for both governmental activities and business-type activities, the City was able to cover this deficit by using accumulated resources from prior years' surplus revenues. Our analysis below separately considers the operations of governmental and business-type activities.

**Table 2**  
**Changes in Net Assets**  
**(in Millions)**

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
<b>Revenues</b>						
Program revenues:						
Charges for Services	\$ 10.7	\$ 10.5	\$ 18.4	\$ 17.0	\$ 29.0	\$ 27.4
Restricted Grants & Contributions	1.2	9.0	0.6	6.6	1.8	15.6
General Revenues						
Property Taxes	15.7	16.3	-	-	15.7	16.3
Unrestricted Grants & Contributions	6.9	6.8	0.0	0.4	6.9	7.2
Other General Revenues	0.4	1.9	-	-	0.4	1.9
Total Revenues	<u>34.9</u>	<u>44.4</u>	<u>18.9</u>	<u>24.0</u>	<u>53.9</u>	<u>68.4</u>
<b>Program Expenses</b>						
General Government	8.7	6.1	-	-	8.7	6.1
Public Safety	13.2	12.9	-	-	13.2	12.9
Public Service	8.2	9.2	-	-	8.2	9.2
Public Welfare	7.2	7.5	-	-	7.2	7.5
Interest and Fiscal Fees	0.7	0.7	-	-	0.7	0.7
Water	-	-	11.7	11.6	11.7	11.6
Waste Water	-	-	10.2	10.1	10.2	10.1
Solid Waste	-	-	2.6	2.6	2.6	2.6
Parking	-	-	1.0	1.0	1.0	1.0
Total Expenses	<u>38.0</u>	<u>36.4</u>	<u>25.5</u>	<u>25.3</u>	<u>63.5</u>	<u>61.7</u>
Excess (deficiency) before special items and transfers	(3.1)	8.1	(6.5)	(1.3)	(9.6)	6.7
Extraordinary items	-	-	-	-	-	-
Sale of Capital Assets	0.0	-	-	-	0.0	-
Transfers of capital assets	(0.0)	-	0.0	-	-	-
Transfers	<u>(0.0)</u>	<u>0.5</u>	<u>0.0</u>	<u>(0.5)</u>	<u>-</u>	<u>-</u>
<b>Increase (decrease) in net assets</b>	<u>\$ (3.1)</u>	<u>\$ 8.6</u>	<u>\$ (6.5)</u>	<u>\$ (1.9)</u>	<u>\$ (9.6)</u>	<u>\$ 6.7</u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

**Governmental Activities**

Revenues for the year from governmental activities decreased by 21.4% (\$9.5 million) to \$34.9 million while total expenses increased by \$1.6 million to \$38 million. This excess of expenses over revenues resulted in a \$3.1 decrease in the total net assets for governmental activities. While taxes did decrease somewhat, the primary driver for this significant decrease in revenues was not a big decrease in taxes or charges for services, but instead developer-provided street infrastructure. This and the other contributing revenue categories listed below are primarily responsible for this decrease in net assets:

Restricted Operating & Capital Grants and Contributions decreased substantially by \$7.8 million, or 87%, from \$9 million last year to \$1.2 million this year. This was primarily due to developer-contributed street infrastructure - recorded as Public Service Capital Grants and Contributions revenue – which decreased by \$6.9 million, or 95%, from \$7.3 million last year to \$392,000 this year.

Property Tax collections also decreased by \$625,998, or 3.8%, from \$16,342,053 last year to \$15,716,055 this year because this year the City chose not to levy taxes for the SAFER Firefighter Federal Grant and Battalion Fire Chief positions, 911-related mills, and also cut an additional \$684,976 (8.34 mills.) This resulting tax levy of 166.75 mills was 29.87 mills (\$2.5 Million) lower than the City's statutory limit. Instead of increased taxes, this year's budget continued to utilize one-time cash (vacancy savings and grant revenue) to lower the property tax levy. While this is often a very prudent use of resources, it is important to note that it is not expected to be available to lower the levy in future years. This fiscal year marks the fourth year of the City's belt-tightening efforts, which started in March of 2008 (FY09 budget development) and carried through this year. Over this time period, property owners in the City have benefitted by over \$4.6 Million in reduced property tax levies related to operating budget and grant savings.

Unrestricted Grants and Contributions increased by \$116,334 (or 1.7%), from \$6,782,383 last year to \$6,898,717 this year due to Montana State Entitlement Share revenue increasing by \$131,659 from \$3,529,124 to \$3,660,683. State Entitlement Share was indeed frozen in 2011 when the State Legislature eliminated the statutory growth factor for the City's Entitlement Share dollars for this fiscal year. Under the prior statute, the City would have seen approximately \$150,000 in increased revenue in the General Fund this year and further increases next year. Instead, both years will see zero growth in Entitlement Share. However, the 2011 Legislature also passed Senate Bill 372, which lowered Class 8 Property Tax rates on business equipment for many Montana businesses. The city received a \$116,400 reimbursement from the Montana Department of Revenue as a one-time backfill payment caused by the tax rate reduction and the timing of when certain Class 8 property pays their property taxes. This reduction in business equipment tax was returned to the City's general fund with instructions to record it as Entitlement Share.

Interest on Investments continued to decline, with this year's revenue decreasing by \$18,334, or 6%, from \$301,424 last year to \$283,090 this year. This represents a 58% decrease from the \$671,859 reported three years ago. This sustained decrease is attributable to low, stagnant interest rates; interest rates on investment income have declined from 4.1% four years ago to .92% by the end of this year.

The cost of all *governmental activities* this year was \$38 million compared to \$36.4 million last year. However, as shown in the Statement of Activities on page 32, the amount that our taxpayers ultimately financed for these activities through City taxes was only \$26,105,677 because some of the cost was paid by those who directly benefited from the programs (\$10,674,272) or by other governments and organizations that subsidized certain programs with operating and capital grants and contributions (\$566,586 + \$635,758 = \$1,202,164). Overall, the City's revenues from governmental activities – including intergovernmental revenues and charges for services – decreased this year from \$44.4 to \$34.9 million. Charges for services increased by \$212,653, or 2%, from \$10,461,619 to \$10,674,272 because Street Maintenance Assessments increased by \$483,000, there were decreases such as street impact fee revenues (down \$117,420 from \$1,208,135 to \$1,090,715), court fines (down \$76,765 from \$1,441,383 to \$1,364,618), billings to other departments (down \$149,724 from \$1,624,456 to \$1,474,732) and licenses and permits (down \$93,673 from \$1,308,378 to \$1,214,705).

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Overall expenses increased by \$1,629,507 to \$38 million this year. The primary driver here was a \$2 million litigation settlement charged to General Government. To help offset the effect of this, Public Service expenses decreased by \$1,016,054 from \$9,190,515 to \$8,174,461 due primarily to a large class of assets being in their final useful life of depreciation last year. These assets – older street infrastructure – are still in service, but were fully depreciated this year and therefore no depreciation expense was recorded.

General government expenses increased by 42.2%, or \$2,585,000, due mainly to the \$2 million litigation settlement combined with increased spending of \$264,580 on Facilities Maintenance, \$88,400 on Municipal Court operations, and a \$47,000 increase in the comprehensive liability and property insurance premium. Public safety expenses increased by 3%, or \$356,000 due primarily to a \$170,000 increase in payroll costs for additional Police officers with some increases in payroll costs of the Fire and Building Inspection Departments, but more notably an increase of \$107,000 in Fire Department operational costs driven primarily by increased hydrant water utility costs and fire supplies.

Table 3 presents the cost of each of the City's six largest programs—Police, Fire, Public Service, Library, Parks and Recreation—as well as each program's *net cost* (total cost less revenues generated by the activities). The net cost shows the financial burden that was placed on the City's taxpayers by each of these functions.

**Table 3**  
**Governmental Activities**  
**(in Millions)**

	<b>Total Cost of Services</b>		<b>Net Cost of Services</b>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Police	\$ 7.1	\$ 6.9	\$ 5.5	\$ 5.3
Fire	5.1	5.7	4.3	4.5
Public Service	8.2	9.2	3.0	4.2
Library	1.4	1.4	0.8	0.8
Parks	1.1	1.2	1.1	1.2
Recreation	1.3	1.3	0.8	0.9
All Others	14.0	10.7	10.6	0.0
<b>Totals</b>	<b>\$ 38.0</b>	<b>\$ 36.4</b>	<b>\$ 26.1</b>	<b>\$ 16.9</b>

**Business-type Activities**

Total revenues of the City's business-type activities (see Table 2) decreased by 21% (\$18.9 million in 2012 compared to \$24 million in 2011) while expenses increased slightly by .17% (\$25.5 million in 2012 compared to \$25.3 million in 2011). The major decline in revenues was due to a substantial decrease in developer-contributed infrastructure. Last year saw contributions of \$3 million for water and \$3.6 million for wastewater, and this year there was \$.5 million for water and zero for wastewater contributed infrastructure. Specific factors driving the other regular operating results include:

**Water** The City's water system operating revenue (charges for services) have steadily increased over the past decade as a result of both an increase in the customer base in past years and as a result of regular rate changes. Due to declining construction activity around the City, customer-base growth was only 245 customers, or 2%, for this year. This rate is markedly lower than the 5% trend of 2005-2008. In updating the rate study for slower customer growth in recent years, decreased Water Impact Fee collections and new estimates of Water Plant costs, the City estimated needing water rate increases this year and next year in order to fund plant construction and other scheduled operations and maintenance costs. Accordingly, the City Commission adopted a two-year rate resolution of 4.5% increase this year and a 4.5% increase for next year. As a result, the City was able to continue funding a concerted improvement in its water distribution pipe replacement program, replacing rehabilitation projects "every-two-years" with an annual program (doubling our efforts).

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Despite the minimal growth in customer base, operating revenues this year increased significantly by 13.3% from \$6,013,211 last year to \$6,814,993 this year due to a 9.3% increase in consumption coupled with the 4.5% rate increase. Water impact fee revenues increased by \$267,708, or 37.5%, while cash-in-lieu of water rights revenue increase by \$71,853. Operating expenses held steady this year and only increased \$19,249 from \$11,648,569 last year to \$11,667,818 this year. Major projects undertaken during the year include \$9,090,753 spent on continued design and construction of the new Water Treatment Plant and \$904,820 spent on the afore-mentioned water distribution pipe replacement and rehabilitation program.

**Wastewater** Revenues in the Wastewater system have, in general, been increasing over the past 10 years, and are estimated at \$6.8 million for upcoming year. Two years ago the City borrowed significantly to construct the new Water Reclamation Facility. This debt is being repaid by system users over the next 20 years. As with the Water system, estimated growth in customer-base is expected to be minimal in the upcoming year, down from 5% in recent years. An update of the existing rate study has been done, suggesting a 6% increase in each of the next 5 years. Accordingly, the City Commission adopted a two-year rate resolution of a 6% increase this year followed by another 6% increase next year. As a result of the rate increase combined with the same increase seen in the water system of 245 customers, operating revenues for the year increased by 6.83% from \$5,939,996 last year to \$6,345,403 this year. Wastewater operating expenses decreased by 1.5% from \$9,488,693 last year to \$9,345,324 this year. The higher number reported last year was due in large part to a \$557,000 expense recorded based on an updated analysis of the Solvent Site remediation liability. The amount of the adjustment this year was only \$31,000. Major projects during the year included construction costs of \$7.4 million spent towards the nearly-completed conversion of the existing Wastewater Treatment Plant into a state-of-the-art Water Reclamation Facility, and \$105,000 spent to refurbish the department's existing 2007 sewer line television inspection van.

**Solid Waste** The City's solid waste collection and disposal system revenues had been declining steadily over the past few years due to the closure of the landfill in 2008. During fiscal year 2006, the Commission discussed how the City would continue solid waste disposal services as our landfill was nearing its capacity. In a measure to reserve the remaining cell space for residential use only, the Commission closed the landfill to tipping by commercial customers and non-city residents and to any construction and demolition waste. The Landfill officially closed in June 2008. The Solid Waste Collection Division continues to operate residential and commercial collection, and in FY09 the Division began to provide curb-side recycling collection services. Last year garbage rates were increased 5%, to cover fuel costs, employee salary and benefit increases, and the assumption of costs that were once shared with the Disposal division. The slowdown in local construction activity has continued to decrease demand for "roll-off" containers and the associated hauling and tipping services. Operating revenues continued to decline this year, from \$2,530,562 last year to \$2,515,857 this year. However, this represents a decrease of only \$14,705, or .6%, compared to last year's decline of \$131,000, or 5.2%, from two years ago. Operating expenses increased slightly by \$6,790, or .3% from \$2,578,109 last year to \$2,584,899 this year.

**Parking** The City's parking revenues for the year decreased notably by \$46,808 from \$410,799 last year to \$363,991 this year due to a combination of revenue changes. Parking Permit revenues increased by \$4,000 due mainly to increased usage of the Bridger Park Downtown Parking Garage. Parking Ticket Fines decreased by \$20,000 because in January 2011 (halfway through last fiscal year), the Parking Commission opted for a courtesy ticket policy, where first-time downtown violators of the overtime ordinance are given a courtesy ticket. In calendar year 2011, 2,526 courtesy tickets were written in the downtown core. This has been very well received by the downtown businesses but, as expected, has led to a decline in citations issued and revenue. The last factor contributing to the \$46,808 decrease in operating revenues is a \$30,700 decrease in Municipal Infraction Fines and Collection Fee revenue from delinquent parking tickets. This is due to more accurate reporting of these relatively new fines now that more historical data has allowed for better estimates of collectability. Operating expenses continued to hold steady, decreasing slightly by \$1,047, or .1%, from \$991,276 this year to \$990,229 this year.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

**THE CITY'S FUNDS**

As the City completed the year, its governmental funds (as presented in the balance sheet on pages 33-34) reported a *combined* fund balance of \$31,536,548. Included in this year's total change in fund balance is a positive General Fund balance of \$7,327,055. This represents 34.1% of total General Fund revenues of \$21,467,764 and therefore fully complies with the City's Financial Policy and with the Government Finance Officers' Association's recommended level of minimum fund balance. The primary reasons for the General Fund's surplus are highlighted below, along with an analysis of each major fund. The general fund balance of \$7,327,055 has been assigned as shown:

GENERAL FUND BALANCE - TOTAL		\$	7,327,055
ASSIGNMENTS			
City Building Facility Condition Assessment	\$	11,000	
Cemetery Columbarium and Scattering Garden		27,160	
Recreation Feasibility Study		30,000	
Lindley Recreation Center Deck		34,000	
Senior Center Mechanical Improvements and Flooring		55,000	
Fire Station #1 Condensing Unit Air Conditioner		75,000	
Police Vacancy Savings Dedicated to Future Tax Cuts		427,370	
Police and Court Facility		500,000	
Litigation Settlement		2,000,000	
16.67% Minimum Reserve Level Required by City Charter		<u>3,903,435</u>	
TOTAL ASSIGNMENTS			<u>7,062,965</u>
UNASSIGNED		\$	<u>264,090</u>

**General fund** The City's general fund balance increased by \$429,805, or 6.2%, from \$6,897,250 in FY11 to \$7,327,055 this year. However, this was not due to increased property tax revenues, which actually decreased by \$228,675, or 1.9%, from \$11,764,146 last year to \$11,535,471 for the current year, because this year we reduced the adopted tax levy for the SAFER Federal Grant and Battalion Chief positions, 911 related mills, and an additional \$684,976 (8.34 mills.) This resulting tax levy of 166.75 mills was 29.87 mills (\$2.5 Million) lower than the City's statutory limit.

Also contributing to the increased General Fund balance is the utilization of conservative budgetary practices. Conservative, yet realistic, revenue estimates, combined with departments operating within their original budgets, naturally has a favorable effect on the bottom line. Maintaining adequate reserves has several internal and external benefits. Internally, reserves can provide for cash flow needs until property tax revenues are received, reducing or eliminating the need for cash flow borrowing; provide funds to leverage state or federal grants; and provide for the unexpected. Externally, reserves tend to be viewed favorably by investors, rating agencies, and local banks with which we do business, thus benefiting rating and the potential need for lines of credit.

The City's General Fund balance was a primary focus of the recent bond rating in May, 2012 by Moody's Investors Service who assigned an Aa3 rating to the City's General Obligation Refunding Bonds, Series 2012, issued in the amount of \$3.1 million. At the same time, Moody's also affirmed the Aa3 rating on the city's rated outstanding general obligation debt not being refunded by this issue, which included \$.6 million outstanding for the 2003 refinancing of the City's General Obligation Transportation Bonds and the remaining bonds issued in 2003 for the new Library. In each of these instances, bond analysts looked favorably on the amount and trend of the City's General Fund balance in determining the City's bond rating.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

As shown on page 93, variances in the General Fund between the original budget and the final budget appropriations totaled \$462,715, which increased the original appropriation budget of \$23,846,453 up to \$24,309,168. This amendment was primarily the net additional appropriation authority needed for the Public Safety budget in order to report the State's share of Police and Firefighter retirement. By design, most of this authority is budgeted under General Government initially and then moved to the Public Safety budget at year-end, at which time any additional amount necessary to cover Police and Firefighter retirement is added as an amendment. The \$1.5 million decrease in the General Government appropriation budget was able to offset the \$1.9 million increase in the Public Safety budget so that, overall, only \$.4 million in additional appropriation authority was needed. Similarly, the decrease of \$333,477 in the Public Welfare budget was primarily just shifting budget authority to Capital Outlay, for Recreation projects, and to Transfers to other funds, for the transfer of the remaining Library budget surplus at year-end into the Library Depreciation Reserve Fund, which is reported on page 103 under Capital Projects Fund.

**Street and Fire Impact Fees Special Revenue** Fund balance decreased \$130,202, or 1.65%, from \$8,049,347 last year to \$7,919,145 this year. This decrease was due in part to declining total revenues – down \$98,347, or 6.6%, from \$1,497,744 last year to \$1,399,397 this year – but was mainly caused by a substantial increase in expenditures. Total expenditures increased \$692,241, or 105%, from \$657,988 last year to \$1,350,199 this year. The primary driver were capital outlay expenditures, including \$586,170 spent on the College Street & South 11<sup>th</sup> Avenue intersection roundabout and \$505,300 spent on the widening of Cottonwood Road (impact fee credits paid out in cash to the developer).

**Street Maintenance Special Revenue** Fund balance increased significantly by \$344,224, or 57.4%, from \$600,049 last year to \$944,273 this year. Total expenditures did decline slightly by \$18,441, or .7%, from \$2,677,382 last year to \$2,658,941 this year. However the major driver for this increase in fund balance was a substantial increase in revenues. Beginning this year, the City expanded the Street Maintenance Assessment program to include major street reconstruction projects; the first being the reconstruction of South 8th Avenue. With the Commission's focused goal of addressing deferred street and curb maintenance, Street Maintenance Assessment rates were increased by 18% this year, with the 18% allocated as follows: Continued increase to Curb Replacement Fund (2%); Debt Service Payments for the Reconstruction of South 8th Avenue (7%); Establishment of a Street Reconstruction Fund (6%); and Increase in Operating Budget (3%). The current fund balance of \$944,273 is accordingly allocated as follows: \$510,449 for Street Maintenance; \$228,709 for Curb Reconstruction; \$159,952 for Street Reconstruction; \$39,412 for Durston Road; and \$5,751 for West Babcock Street.

**Building Inspection Special Revenue** Fund balance increased by \$190,503, or 23.4%, from \$814,982 last year to \$1,005,485 this year. Expenditures did increase this year by \$40,076, or 5.4%, from \$747,826 last year to \$787,901 this year, and revenues did decrease this year by \$41,313, or 4.1%, from \$1,019,717 last year, to \$978,404 this year. However, revenues of \$978,404 still exceeded expenditures of \$787,901, so fund balance increased by \$190,503. The slowdown in local building activity has had many impacts on the operations and finances of the City, including the workload and revenues in the Building Inspection Division. However, the trend seems to be reversing. Total new construction is up 35%, and plan check revenue – historically the best indicator of future construction – is up 48%.

**SID Sinking Debt Service** Fund balance decreased substantially by \$1.4 million, or 63.4%, because roughly \$2.3 million in principal and interest was paid this year as part of retiring over \$2 million in outstanding Special Improvement District Bonds, which were called and paid early to avoid future interest costs. This was funded primarily from accumulated excess capital project residual funds, which were transferred from Capital Projects into the SID Sinking Debt Service Fund last year, in addition to existing resources in the SID Sinking funds. Special Assessment revenues paid back into the fund this year amounted to \$858,699 this year, down \$275,350, or 32%, from last year's revenues of \$1,134,049. This has been the expected trend in recent years, as the number of new Special Improvement Districts has declined, and older SID balances have been completely paid off. This year, however, saw the creation of a new SID for South 8<sup>th</sup> Reconstruction, and other similar older road/curb/sidewalk reconstruction SID's may follow.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets** As shown in Table 4, at the end of 2012 the City had \$316.3 million invested in a broad range of capital assets, including police and fire equipment, buildings, park facilities, roads, and water and sewer lines. This amount represents a net increase (including additions and deductions) of roughly \$.9 million, or .3% over last year. Refer to capital assets disclosure Note 7 beginning on page 56 for more information.

**Table 4**  
**Capital Assets at Year-end**  
**(in Millions)**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Totals</b>	
	<b><u>2012</u></b>	<b><u>2011</u></b>	<b><u>2012</u></b>	<b><u>2011</u></b>	<b><u>2012</u></b>	<b><u>2011</u></b>
Land	\$ 10.5	\$ 10.5	\$ 4.9	\$ 4.9	\$ 15.4	\$ 15.4
Water Rights	-	-	2.1	2.1	2.1	2.1
Buildings	31.0	30.5	87.3	70.8	118.4	101.3
Other Structures and Improvements	1.2	1.2	31.6	31.7	32.8	32.9
Machinery & Equipment	9.3	9.2	5.9	6.2	15.3	15.4
Property under Capital Lease	0.3	0.6	-	-	0.3	0.6
Vehicle	3.1	3.2	1.7	1.8	4.8	5.0
Infrastructure	130.2	127.2	251.6	250.0	381.8	377.2
Subtotal	<u>185.7</u>	<u>182.4</u>	<u>385.1</u>	<u>367.3</u>	<u>570.8</u>	<u>549.9</u>
Accumulated Depreciation	<u>(85.9)</u>	<u>(79.2)</u>	<u>(168.6)</u>	<u>(155.3)</u>	<u>(254.5)</u>	<u>(234.5)</u>
<b>Total Capital Assets</b>	<b><u>\$ 99.8</u></b>	<b><u>\$ 103.2</u></b>	<b><u>\$ 216.5</u></b>	<b><u>\$ 212.0</u></b>	<b><u>\$ 316.3</u></b>	<b><u>\$ 315.4</u></b>

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

This year's major additions and projects underway include:

Water Plant Design and Construction	\$ 9,090,753
Water Reclamation Facility Construction: General	6,648,779
Water Line Replacement and Rehabilitation	904,820
Water Reclamation Facility Construction: Digester #3	600,782
Roundabout at College Street and South 11th Avenue	586,172
Cottonwood Road Widening	505,291
South 8th Avenue Reconstruction	477,763
Street Improvements - Gas Tax	424,018
Public Works Shops Facility Expansion	305,415
College St - Huffine Lane Pathway: CTEP Community Transportation Enhancement Proje	222,493
Street Sweeper - 2012 Elgin Broombear	185,530
Police Patrol Car Fleet Renewal: 3 patrol cars and 1 Chevy Tahoe	174,933
Dump Truck: 2012 Freightliner Tandem Axle with sander and plow - Street Department	158,347
Water Reclamation Facility Construction: Administration Lab	149,135
Downtown Streetscape and Alley Improvements; HUD EDI Blast Site Rehabilitation Grar	132,363
Dump Truck: 2006 Freightliner with sander, box and hoist - Street Department	120,743
Wastewater TV Van: refurbish existing 2007 TV van to video inspect sewer lines	104,644
Bogert Swimming Pool Filter Replacement	98,800
	<u>\$ 20,890,781</u>

### Debt

At year-end, the City had \$35.1 million in bonds and notes outstanding versus \$38.3 million last year – a decrease of 8.5% – as shown in Table 5. This decrease was due primarily to over \$2 million in outstanding Special Improvement District Bonds being called and paid early to avoid future interest costs, as discussed on page 29. General obligation debt, which is reported under Governmental Activities, consists of \$3,080,000 in Series 2012 Refunding Bonds issued to refinance the Series 2003A Transportation Refunding bonds and the Series 2001A and Series 2003B Library Construction Project bonds. Debt reported under Business-Type Activities includes \$23,853,427 of wastewater revenue bonds issued to finance construction of the Wastewater Reclamation Facility.

In May of this year, Moody's Investors Service assigned an Aa3 rating to the City's General Obligation Refunding Bonds, Series 2012. At that time, Moody's also affirmed the Aa3 rating on the city's existing rated outstanding general obligation debt. Moody's views the city's financial operations as sound, noting in their report that City officials have delivered operating surpluses in four of the last five audited financial years and that the City has a moderately-sized tax base that did not decline during the recession, in addition to a low debt burden.

Moody's expects the City to maintain a healthy financial position, given the City's historical performance and management's commitment to maintaining satisfactory reserve levels. As expressed in the fiscal year 2013 Approved Budget, City officials expect to end next fiscal year with general fund reserves totaling \$4.3 million, or 18.6% of operating revenues. This exceeds the minimum level of 16 2/3% required by City Charter, which in May of 2011 was amended to include adoption of GFOA's Best Practice for Unreserved Fund Balance in the General Fund into the City's Budget Administration Ordinance.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Property taxes are the City's primary general revenue source (68.2%), followed by unrestricted grants and contributions (29.9%), and investment earnings (1.2%) Moody's expects the City to maintain a moderate debt position given current moderate debt burdens, above average principal payout, and expected tax base growth. More detailed information about the City's long-term liabilities is presented in Note 9 to the financial statements.

**Table 5**  
**Outstanding Debt, at Year-end**  
**(in Millions)**

	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
General obligation bonds (backed by the City)	\$ 3.1	\$ 3.7	\$ -	\$ -	\$ 3.1	\$ 3.7
Tax Increment Financing District (TIFD) bonds	5.4	5.5	-	-	5.4	5.5
Special Improvement District Debt	2.3	4.4	-	-	2.3	4.4
Notes Payable	0.3	0.5	-	-	0.3	0.5
Lease Payable	0.2	0.2	-	-	0.2	0.2
Wastewater Revenue Bonds (backed by specific fee revenues)	-	-	23.9	24.0	23.9	24.0
<b>Totals</b>	<u>\$ 11.2</u>	<u>\$ 14.3</u>	<u>\$ 23.9</u>	<u>\$ 24.0</u>	<u>\$ 35.1</u>	<u>\$ 38.3</u>

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The City's elected and appointed officials considered many factors when setting the fiscal year 2012-2013 budget, tax rates, and fees that will be charged for the business-type activities. Some of these factors includes: capital improvements identified in the City's Capital Improvement Program; inflation rates, the City's collective bargaining units, the local economy, and the citizen's ability to pay. For the year, inflation rates continued to remain at relatively low yet increasing levels. The Bureau of Labor Statistics of the U.S. Department of Labor reported that over the year, the index for all items less food and energy increased 2.0 percent. This continuing trend could adversely impact the cost of future City capital projects.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the City's Finance Director, Controller, or Assistant Controller at the City of Bozeman, 121 North Rouse Avenue, Bozeman, Montana 59715.

## B. BASIC FINANCIAL STATEMENTS

GOVERNMENT - WIDE FINANCIAL STATEMENTS

CITY OF BOZEMAN, MONTANA  
STATEMENT OF NET ASSETS  
June 30, 2012

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and investments	\$ 23,462,654	\$ 11,603,149	\$ 35,065,803
Restricted cash and investments	11,987,765	12,188,192	24,175,957
Accrued interest	33,839	67,641	101,480
Receivables, net	9,596,552	1,238,114	10,834,666
Notes receivable	324,754	20,489	345,243
Prepaid expenses	427,125	-	427,125
Deferred charges	167,996	-	167,996
Capital assets			
Non-depreciable land	10,483,143	4,934,574	15,417,717
Other capital assets, net of depreciation	89,348,365	211,586,889	300,935,254
Total capital assets	<u>99,831,508</u>	<u>216,521,463</u>	<u>316,352,971</u>
Total assets	<u>\$ 145,832,193</u>	<u>\$ 241,639,048</u>	<u>\$ 387,471,241</u>
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	\$ 6,191,286	\$ 6,124,694	\$ 12,315,980
Unearned revenue	641,086	-	641,086
Current portion of long-term liabilities:			
Compensated absences payable	1,135,700	330,500	1,466,200
Capital leases	61,395	-	61,395
Closure and post-closure care costs	-	100,000	100,000
Litigation settlement payable	666,666	-	666,666
Bonds and notes	867,466	1,113,577	1,981,043
Long-term liabilities, due in more than one year:			
Compensated absences	356,025	131,062	487,087
Capital leases	142,465	-	142,465
Closure and post-closure care costs	-	1,463,356	1,463,356
Pollution remediation obligations	16,874	2,373,873	2,390,747
Other post-employment health benefits - implicit rate subsidy	1,391,806	337,656	1,729,462
Litigation settlement payable	1,333,334	-	1,333,334
Bonds and notes	10,259,745	22,922,427	33,182,172
Total liabilities	<u>\$ 23,063,848</u>	<u>\$ 34,897,145</u>	<u>\$ 57,960,993</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	\$ 88,500,437	\$ 192,485,459	\$ 280,985,896
Restricted:			
Restricted for water and waste water impact capital projects	-	9,502,199	9,502,199
Restricted for debt service	4,133,315	1,805,418	5,938,733
Restricted for parking capital projects	-	139,269	139,269
Restricted for general government	872,617	-	872,617
Restricted for public safety	1,373,688	-	1,373,688
Restricted for public service	10,216,234	-	10,216,234
Restricted for public welfare	3,088,027	-	3,088,027
Nonspendable	1,113,484	-	1,113,484
Unrestricted	13,470,543	2,809,558	16,280,101
Total net assets	<u>\$ 122,768,345</u>	<u>\$ 206,741,903</u>	<u>\$ 329,510,248</u>

The Notes to Financial Statements are an integral part of the financial statements.

CITY OF BOZEMAN, MONTANA  
STATEMENT OF ACTIVITIES  
Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
<b>Primary Government:</b>							
Governmental activities:							
General government	\$ 8,706,665	\$ 1,949,145	\$ -	\$ -	\$ (6,757,520)		\$ (6,757,520)
Public safety	13,215,680	2,638,811	292,245	75,957	(10,208,667)		(10,208,667)
Public service	8,174,461	4,983,420	-	559,801	(2,631,240)		(2,631,240)
Public welfare	7,249,008	1,102,896	274,341	-	(5,871,771)		(5,871,771)
Interest and fiscal fees	636,478	-	-	-	(636,478)		(636,478)
Total governmental activities	<u>37,982,293</u>	<u>10,674,272</u>	<u>566,586</u>	<u>635,758</u>	<u>(26,105,677)</u>		<u>(26,105,677)</u>
Business-type activities:							
Water	11,674,222	7,921,483	-	565,975		\$ (3,186,764)	(3,186,764)
Waste water	10,203,165	7,488,473	-	-		(2,714,692)	(2,714,692)
Solid waste	2,584,899	2,570,644	-	-		(14,255)	(14,255)
Parking	990,229	385,056	-	163		(605,010)	(605,010)
Total business-type activities	<u>25,452,515</u>	<u>18,365,656</u>	<u>-</u>	<u>566,138</u>		<u>(6,520,721)</u>	<u>(6,520,721)</u>
Total primary government	<u>\$ 63,434,808</u>	<u>\$ 29,039,928</u>	<u>\$ 566,586</u>	<u>\$ 1,201,896</u>	<u>(26,105,677)</u>	<u>(6,520,721)</u>	<u>(32,626,398)</u>
General revenues:							
					15,716,055	-	15,716,055
					6,898,717	2,115	6,900,832
					283,090	-	283,090
					155,484	-	155,484
					2,326	-	2,326
					(37,136)	37,136	-
					<u>23,018,536</u>	<u>39,251</u>	<u>23,057,787</u>
					(3,087,141)	(6,481,470)	(9,568,611)
					<u>125,855,486</u>	<u>213,223,373</u>	<u>339,078,859</u>
					<u>\$ 122,768,345</u>	<u>\$ 206,741,903</u>	<u>\$ 329,510,248</u>

The Notes to Financial Statements are an integral part of the financial statements.

FUND FINANCIAL STATEMENTS

GOVERNMENTAL FUND FINANCIAL STATEMENTS

## MAJOR GOVERNMENTAL FUNDS

General Fund – this fund accounts for the financial operations of the City which are not accounted for in any other fund. Principal sources of revenue are property taxes, state and local shared revenues, licenses and permits, and charges for services provided to other funds. Principal expenditures in the general fund are made for police and fire protection, public works, and general government.

Street and Fire Impact Fees Special Revenue Fund – this fund accounts for the collection and expenditures associated with the fire and street impact fees.

Street Maintenance – Accounts for special assessment revenues levied, received, and expended for street maintenance provided to specific property owners.

Building Inspection – This fund was established to account for all activity of enforcing the building regulations adopted by the City. It includes all the money and staff associated with executing any aspect of the code enforcement program. Section 50-60-101 MCA established the code enforcement program requirement.

SID Sinking Debt Service Fund – this fund accounts for the accumulation of resources and payment of special assessment bond principal and interest related to general improvement, sidewalk, and curb construction projects.

CITY OF BOZEMAN, MONTANA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2012

	General Fund	Street and Fire Impact Fees Special Revenue	Street Maintenance Special Revenue	Building Inspection Special Revenue	SID Sinking Debt Service	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>							
Cash and investments	\$ 6,888,488	\$ -	\$ 1,155,669	\$ 1,016,749	\$ 787,746	\$ 12,841,432	\$ 22,690,084
Receivables:							
Property taxes	1,178,339	-	-	-	-	315,670	1,494,009
Accrued interest	10,750	11,373	-	1,908	-	9,808	33,839
Customers, net	1,908,113	-	450	518	-	718	1,909,799
Special assessments	5,315	-	295,225	-	4,638,676	104,854	5,044,070
Other governments	187,236	-	-	-	-	240,885	428,121
Others	-	-	-	-	-	706,198	706,198
Prepaid expenditures	-	-	-	-	-	427,125	427,125
Due from other City funds	461,553	-	-	-	-	-	461,553
Notes receivable	-	-	-	-	-	324,754	324,754
Restricted cash and investments	-	7,934,229	59	-	-	4,053,477	11,987,765
<b>Total assets</b>	<b>\$ 10,639,794</b>	<b>\$ 7,945,602</b>	<b>\$ 1,451,403</b>	<b>\$ 1,019,175</b>	<b>\$ 5,426,422</b>	<b>\$ 19,024,921</b>	<b>\$ 45,507,317</b>

(continued)

CITY OF BOZEMAN, MONTANA  
BALANCE SHEET  
GOVERNMENTAL FUNDS (CONTINUED)  
June 30, 2012

	General Fund	Street and Fire Impact Fees Special Revenue	Street Maintenance Special Revenue	Building Inspection Special Revenue	SID Sinking Debt Service	Other Governmental Funds	Total Governmental Funds
<b>LIABILITIES AND FUND BALANCES</b>							
Liabilities:							
Accounts payable	\$ 975,322	\$ 26,457	\$ 247,311	\$ 4,915	\$ 27,942	\$ 4,527,284	\$ 5,809,231
Accrued employee benefits	220,832	-	14,608	8,775	-	16,576	260,791
Deferred revenue	2,081,527	-	245,211	-	4,594,915	439,816	7,361,469
Escheat property payable	35,058	-	-	-	-	42,667	77,725
Due to other City funds	-	-	-	-	-	461,553	461,553
<b>Total liabilities</b>	<b>3,312,739</b>	<b>26,457</b>	<b>507,130</b>	<b>13,690</b>	<b>4,622,857</b>	<b>5,487,896</b>	<b>13,970,769</b>
Fund balances:							
Nonspendable	-	-	-	-	-	1,113,484	1,113,484
Restricted	-	7,919,145	944,273	1,005,485	803,565	9,011,413	19,683,881
Committed	-	-	-	-	-	3,463,714	3,463,714
Assigned	7,062,964	-	-	-	-	-	7,062,964
Unassigned	264,091	-	-	-	-	(51,586)	212,505
<b>Total fund balances</b>	<b>7,327,055</b>	<b>7,919,145</b>	<b>944,273</b>	<b>1,005,485</b>	<b>803,565</b>	<b>13,537,025</b>	<b>31,536,548</b>
<b>Total liabilities and fund balances</b>	<b>\$ 10,639,794</b>	<b>\$ 7,945,602</b>	<b>\$ 1,451,403</b>	<b>\$ 1,019,175</b>	<b>\$ 5,426,422</b>	<b>\$ 19,024,921</b>	<b>\$ 45,507,317</b>

The Notes to Financial Statements are an integral part of the financial statements.

CITY OF BOZEMAN, MONTANA  
RECONCILIATION OF THE BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS - GOVERNMENTAL FUNDS  
As of June 30, 2012

Fund balances - total governmental funds		\$ 31,536,548
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Governmental capital assets	\$ 185,768,517	
Less: accumulated depreciation	<u>(85,937,009)</u>	99,831,508
Internal service funds are used by management to charge the costs of certain activities to individual funds.		
The assets and liabilities of the internal service funds that are reported in the governmental activities:		
Net assets	2,009,537	
Less: capital assets included in governmental activities	(1,594,061)	
Plus: accumulated depreciation included in governmental activities	294,766	
Plus: other post-employment benefits included in governmental activities	21,093	
Plus: compensated absences included in governmental activities	<u>12,051</u>	743,386
Deferred revenue in the governmental funds are reported on the full accrual method in the government-wide financial statements.		
		6,957,070
Bond issuance costs are expensed in the governmental funds. They are deferred charges for the government-wide financial statements and amortized over the life of the issuance.		
Bond issuance costs	248,482	
Less: amortization	<u>(80,486)</u>	167,996
Bond premiums are other financing source revenue in the governmental funds. They are a liability for the government-wide financial statements and amortized over the life of the issuance.		
Bond premium	(102,728)	
Less: amortization	<u>1,744</u>	(100,984)
Impact fee credits do not affect current financial resources and therefore are not reported in the governmental funds.		
		(236,687)
Capital lease obligations not recorded in the governmental funds are reported in the entity-wide statements.		
		(203,860)
Long-term liabilities, are not due and payable in the current period and therefore are not reported in the governmental funds.		
Bonds and notes payable	(11,026,227)	
Pollution remediation obligations	(16,874)	
Post-employment health benefits	(1,391,806)	
Legal settlement	(2,000,000)	
Compensated absences	<u>(1,491,725)</u>	<u>(15,926,632)</u>
Net assets of governmental activities		<u>\$ 122,768,345</u>

The Notes to Financial Statements are an integral part of the financial statements.

CITY OF BOZEMAN, MONTANA  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2012

	General	Street and Fire Impact Fees Special Revenue	Street Maintenance Special Revenue	Building Inspection Special Revenue	SID Sinking Debt Service	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>							
Taxes	\$ 11,535,471	\$ -	\$ -	\$ -	\$ -	\$ 4,521,847	\$ 16,057,318
Special assessments	9,257	-	73,096	-	858,699	956,955	1,898,007
Licenses and permits	294,411	-	4,750	915,544	-	-	1,214,705
Intergovernmental	6,139,548	-	974	9,063	-	1,548,052	7,697,637
Charges for services	2,166,750	1,335,965	2,692,020	983	-	695,876	6,891,594
Fines and forfeitures	1,241,798	-	-	-	-	122,819	1,364,617
Interest on investments	55,104	63,432	7,316	10,373	22,356	122,658	281,239
Loan repayment	-	-	-	-	-	306,385	306,385
Other	25,425	-	2,275	30	-	127,754	155,484
Total revenues	<u>21,467,764</u>	<u>1,399,397</u>	<u>2,780,431</u>	<u>935,993</u>	<u>881,055</u>	<u>8,402,346</u>	<u>35,866,986</u>
<b>EXPENDITURES</b>							
Current							
General government	5,529,823	-	-	-	-	736,743	6,266,566
Public safety	11,180,578	36,978	-	787,901	-	507,813	12,513,270
Public service	125,634	69,055	1,993,081	-	-	550,296	2,738,066
Public welfare	4,292,126	-	-	-	-	1,891,947	6,184,073
Capital outlay	771,296	1,244,166	460,687	-	-	1,405,239	3,881,388
Debt service							
Principal payments	202,979	-	195,685	-	2,082,000	755,000	3,235,664
Interest and fiscal fees	9,792	-	9,488	-	192,320	454,482	666,082
Total expenditures	<u>22,112,228</u>	<u>1,350,199</u>	<u>2,658,941</u>	<u>787,901</u>	<u>2,274,320</u>	<u>6,301,520</u>	<u>35,485,109</u>
Revenues over (under) expenditures	<u>(644,464)</u>	<u>49,198</u>	<u>121,490</u>	<u>148,092</u>	<u>(1,393,265)</u>	<u>2,100,826</u>	<u>381,877</u>
<b>OTHER FINANCING SOURCES (USES)</b>							
Transfers in	1,952,844	-	48,055	42,411	-	1,439,240	3,482,550
Transfers out	(878,575)	(179,400)	(18,440)	-	-	(2,744,595)	(3,821,010)
Long-term debt issued	-	-	185,530	-	-	3,172,268	3,357,798
Payments to refunded bond escrow agent	-	-	-	-	-	(3,120,000)	(3,120,000)
Sale of capital assets	-	-	7,589	-	-	51,615	59,204
Total other financing sources (uses)	<u>1,074,269</u>	<u>(179,400)</u>	<u>222,734</u>	<u>42,411</u>	<u>-</u>	<u>(1,201,472)</u>	<u>(41,458)</u>
Net change in fund balances	429,805	(130,202)	344,224	190,503	(1,393,265)	899,354	340,419
FUND BALANCE, beginning of year	<u>6,897,250</u>	<u>8,049,347</u>	<u>600,049</u>	<u>814,982</u>	<u>2,196,830</u>	<u>12,637,671</u>	<u>31,196,129</u>
FUND BALANCE, end of year	<u>\$ 7,327,055</u>	<u>\$ 7,919,145</u>	<u>\$ 944,273</u>	<u>\$ 1,005,485</u>	<u>\$ 803,565</u>	<u>\$ 13,537,025</u>	<u>\$ 31,536,548</u>

The Notes to Financial Statements are an integral part of the financial statements.

CITY OF BOZEMAN, MONTANA  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - GOVERNMENTAL FUNDS  
 Year Ended June 30, 2012

Net change in fund balances - total governmental funds		\$ 340,419
Amounts reported for <i>governmental activities</i> in the statement of activities are different because		
Governmental funds report capital outlays as expenditures. In the statement of activities, the cost of these assets is depreciated over the assets' useful lives		
Expenditures for capital assets	\$ 3,881,388	
Capital assets transferred to enterprise funds	(2,088)	
Less: current year depreciation	<u>(7,631,745)</u>	(3,752,445)
Governmental funds report asset disposals as sale of fixed assets for the cash received. In the statement of activities, those gains and losses must be adjusted by the assets basis, net of any depreciation		
		(54,790)
Bond proceeds provide current financial resources in the governmental funds, but issuing debt increase long-term liabilities in the statement of net assets. Repayment of principal is an expenditure in the governmental funds, but this repayment reduces long-term liabilities in the statement of activities:		
Amortization of bond issuance costs	(11,313)	
Payments for new bond issuance costs	29,168	
Premium on bond issuance	(92,268)	
Amortization of bond premium	436	
Proceeds of long term debt	(3,080,000)	
Principal payments on bonds and notes	6,159,978	
Principal payments on capital leases	<u>195,686</u>	3,201,687
Some capital additions were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net assets, the lease obligation is reported as a liability.		
		(185,530)
Deferred revenue in the governmental funds are reported on the full accrual method in the government wide financial statements.		
Property taxes	(341,263)	
Notes receivable	(306,385)	
Special assessments	(706,813)	
Fines	<u>12,161</u>	(1,342,300)
Governmental funds do not report a liability for compensated absences. The change in the liability is current period expense.		
		(59,477)
Governmental funds do not report a liability for other post-employment health benefits		
		(98,138)
Governmental funds do not recognize a liability for long-term legal settlement		
		(2,000,000)
Governmental funds do not report an expenditure for making loan:		
		35,981
Governmental funds do not report impact fee credits. The change in these credits during the year are charged to the statement of activities.		
		68,512
Governmental funds do not report donated assets which are reported as assets and revenue in the statements of activities and net assets.		
		392,000
Internal service funds are used by management to charge the costs of certain activities to individual funds		
The net revenue (expense) of the internal service funds is reported in the governmental activities:		
Net revenue	277,572	
Current year depreciation expense included in governmental activities	79,193	
Change in post-employment benefits included in governmental activities	10,978	
Change in compensated absences included in governmental activities:	<u>(803)</u>	<u>366,940</u>
Change in net assets of governmental activities:		<u><u>\$ (3,087,141)</u></u>

The Notes to Financial Statements are an integral part of the financial statements.

PROPRIETARY FUND FINANCIAL STATEMENTS

## PROPRIETARY FUNDS

These funds are used to account for the financing, acquisition, operation and maintenance of water, sewer, and solid waste facilities, which are supported by user charges.

### Enterprise Funds –

Water Fund – Accounts for the City’s water utility operations and to collect and administer water impact fees.

Waste Water Fund – Accounts for the City’s sewer utility operations and to collect and administer waste water impact fees.

Solid Waste Fund – Accounts for the City’s garbage service operations.

Parking Fund – Accounts for the City’s parking garage and services.

Internal Service Funds – used to account for the goods and services provided by one department to other departments of the City on a cost-reimbursement basis.

CITY OF BOZEMAN, MONTANA  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
June 30, 2012

	Business-type Activities Enterprise Funds				Governmental Activities	
	Water Fund	Waste Water Fund	Solid Waste Fund	Parking Fund	Total	Internal Service Funds
<b>ASSETS</b>						
Current assets						
Cash and investments	\$ 7,371,463	\$ 1,496,429	\$ 2,727,673	\$ 7,584	\$ 11,603,149	\$ 772,570
Receivables						
Accrued interest	40,381	23,068	4,192	-	67,641	-
Customers, net	492,179	493,422	221,557	28,475	1,235,633	14,355
Special assessments	658	546	1,277	-	2,481	-
Total current assets	<u>7,904,681</u>	<u>2,013,465</u>	<u>2,954,699</u>	<u>36,059</u>	<u>12,908,904</u>	<u>786,925</u>
Non current assets						
Other assets						
Notes receivable	-	-	-	20,489	20,489	-
Restricted cash and investments	10,143,507	1,905,416	-	139,269	12,188,192	-
Total other assets	<u>10,143,507</u>	<u>1,905,416</u>	<u>-</u>	<u>159,758</u>	<u>12,208,681</u>	<u>-</u>
Property, plant and equipment						
Nondepreciable:						
Land	162,518	754,043	3,714,577	303,436	4,934,574	-
Depreciable:						
Water rights	2,065,142	-	-	-	2,065,142	-
Buildings	16,021,999	58,684,997	868,302	11,742,190	87,317,488	-
Other structures and improvements	14,679,273	14,745,401	2,155,300	-	31,579,974	1,388,583
Machinery and equipment	1,059,520	2,165,911	2,620,020	98,918	5,944,369	135,166
Vehicles	404,070	682,283	529,231	59,812	1,675,396	70,312
Infrastructure	154,546,544	96,969,800	78,531	-	251,594,875	-
Accumulated depreciation and amortization	(97,245,512)	(63,687,604)	(5,221,698)	(2,435,541)	(168,590,355)	(294,766)
Net property, plant and equipment	<u>91,693,554</u>	<u>110,314,831</u>	<u>4,744,263</u>	<u>9,768,815</u>	<u>216,521,463</u>	<u>1,299,295</u>
Total non current assets	<u>101,837,061</u>	<u>112,220,247</u>	<u>4,744,263</u>	<u>9,928,573</u>	<u>228,730,144</u>	<u>1,299,295</u>
 Total assets	 <u>\$ 109,741,742</u>	 <u>\$ 114,233,712</u>	 <u>\$ 7,698,962</u>	 <u>\$ 9,964,632</u>	 <u>\$ 241,639,048</u>	 <u>\$ 2,086,220</u>

The Notes to Financial Statements are an integral part of the financial statements.

(continued)

CITY OF BOZEMAN, MONTANA  
STATEMENT OF NET ASSETS (CONTINUED)  
PROPRIETARY FUNDS  
June 30, 2012

	Business-type Activities Enterprise Funds				Total	Governmental Activities
	Water Fund	Waste Water Fund	Solid Waste Fund	Parking Fund		Internal Service Funds
<b>LIABILITIES</b>						
Current liabilities:						
Accounts payable and accrued expenses	\$ 4,143,719	\$ 1,866,895	\$ 93,120	\$ 20,960	\$ 6,124,694	\$ 43,539
Compensated absences payable	133,000	107,000	84,000	6,500	330,500	12,051
Closure and post-closure care costs, current portion	-	-	100,000	-	100,000	-
Bonds, notes, and loans payable	182,577	931,000	-	-	1,113,577	-
Total current liabilities	<u>4,459,296</u>	<u>2,904,895</u>	<u>277,120</u>	<u>27,460</u>	<u>7,668,771</u>	<u>55,590</u>
Noncurrent liabilities						
Closure and post-closure care costs	-	-	1,463,356	-	1,463,356	-
Revenue bonds due after one year	-	22,922,427	-	-	22,922,427	-
Compensated absences payable	74,254	37,356	17,686	1,766	131,062	-
Other post-employment health benefits - implicit rate subsidy	147,710	92,966	73,363	23,617	337,656	21,093
Solvent site remediation liability	-	2,373,873	-	-	2,373,873	-
Total noncurrent liabilities	<u>221,964</u>	<u>25,426,622</u>	<u>1,554,405</u>	<u>25,383</u>	<u>27,228,374</u>	<u>21,093</u>
Total liabilities	<u>4,681,260</u>	<u>28,331,517</u>	<u>1,831,525</u>	<u>52,843</u>	<u>34,897,145</u>	<u>76,683</u>
<b>NET ASSETS</b>						
Invested in capital assets, net of related debt	91,510,977	86,461,404	4,744,263	9,768,815	192,485,459	1,299,295
Restricted for impact capital projects	9,502,199	-	-	-	9,502,199	-
Restricted for parking capital projects	-	-	-	139,269	139,269	-
Restricted for debt service	25,135	1,780,283	-	-	1,805,418	-
Unrestricted	4,022,171	(2,339,492)	1,123,174	3,705	2,809,558	710,242
Total net assets	<u>105,060,482</u>	<u>85,902,195</u>	<u>5,867,437</u>	<u>9,911,789</u>	<u>206,741,903</u>	<u>2,009,537</u>
Total liabilities and net assets	<u>\$ 109,741,742</u>	<u>\$ 114,233,712</u>	<u>\$ 7,698,962</u>	<u>\$ 9,964,632</u>	<u>\$ 241,639,048</u>	<u>\$ 2,086,220</u>

The Notes to Financial Statements are an integral part of the financial statements.

CITY OF BOZEMAN, MONTANA  
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - PROPRIETARY FUNDS  
 Year Ended June 30, 2012

	Business-type Activities Enterprise Funds				Totals	Governmental Activities
	Water Fund	Waste Water Fund	Solid Waste Fund	Parking Fund		Internal Service Funds
<b>OPERATING REVENUES</b>						
Charges for services	\$ 6,814,993	\$ 6,385,403	\$ 2,515,857	\$ 363,991	\$ 16,080,244	\$ 4,447,502
<b>OPERATING EXPENSES</b>						
Salaries and benefits	1,992,966	1,626,708	1,043,872	199,610	4,863,156	267,252
Materials and supplies	615,448	239,096	258,549	12,684	1,125,777	377,237
Repairs and maintenance	74,798	190,101	132,430	10,452	407,781	2,611
Utilities	153,111	472,271	369,822	32,065	1,027,269	4,961
Administrative charges	698,738	521,923	249,549	52,465	1,522,675	38,344
Insurance claims	-	-	-	-	-	3,628,512
Other expenses	528,468	734,321	231,296	84,299	1,578,384	85,974
Depreciation and amortization	7,604,289	5,560,904	299,381	598,654	14,063,228	79,193
Total operating expenses	<u>11,667,818</u>	<u>9,345,324</u>	<u>2,584,899</u>	<u>990,229</u>	<u>24,588,270</u>	<u>4,484,084</u>
Operating income (loss)	<u>(4,852,825)</u>	<u>(2,959,921)</u>	<u>(69,042)</u>	<u>(626,238)</u>	<u>(8,508,026)</u>	<u>(36,582)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>						
Interest income	170,306	35,670	24,422	206	230,604	1,851
Interest expense	(6,404)	(857,841)	-	-	(864,245)	(446)
Other income	71,693	80,366	31,339	20,859	204,257	11,425
Intergovernmental income	1,571	1,321	794	163	3,849	-
Impact fees	981,096	986,905	-	-	1,968,001	-
Gain (loss) on disposal of assets	(116,605)	129	(974)	-	(117,450)	-
Total nonoperating revenues (expenses)	<u>1,101,657</u>	<u>246,550</u>	<u>55,581</u>	<u>21,228</u>	<u>1,425,016</u>	<u>12,830</u>
Income (loss) before contributions and transfers	<u>(3,751,168)</u>	<u>(2,713,371)</u>	<u>(13,461)</u>	<u>(605,010)</u>	<u>(7,083,010)</u>	<u>(23,752)</u>
Contributions of infrastructure - developers	564,404	-	-	-	564,404	-
Transfers in	14,942	11,214	282	10,698	37,136	301,324
Transfers out	-	-	-	-	-	-
Change in net assets	<u>(3,171,822)</u>	<u>(2,702,157)</u>	<u>(13,179)</u>	<u>(594,312)</u>	<u>(6,481,470)</u>	<u>277,572</u>
NET ASSETS, beginning of year	<u>108,232,304</u>	<u>88,604,352</u>	<u>5,880,616</u>	<u>10,506,101</u>	<u>213,223,373</u>	<u>1,731,965</u>
NET ASSETS, end of year	<u>\$ 105,060,482</u>	<u>\$ 85,902,195</u>	<u>\$ 5,867,437</u>	<u>\$ 9,911,789</u>	<u>\$ 206,741,903</u>	<u>\$ 2,009,537</u>

The Notes to Financial Statements are an integral part of the financial statements.

CITY OF BOZEMAN, MONTANA  
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS  
Year Ended June 30, 2012

	Business-type Activities Enterprise Funds				Total	Governmental Activities
	Water Fund	Waste Water Fund	Solid Waste Fund	Parking Fund		Internal Service Funds
Cash Flows from Operating Activities						
Receipts from customers	\$ 6,774,191	\$ 6,391,859	\$ 2,512,502	\$ 373,778	\$ 16,052,330	\$ 4,447,507
Receipts from others	71,693	80,366	31,339	18,771	202,169	11,425
Operating loans from other funds	-	-	-	-	-	301,324
Payments to suppliers	2,559,359	(861,831)	(1,130,653)	(145,283)	421,592	(451,443)
Payments to employees	(1,966,227)	(1,608,976)	(1,029,313)	(195,349)	(4,799,865)	(3,885,589)
Payments to internal service funds and administrative fees	(698,738)	(521,923)	(249,549)	(52,465)	(1,522,675)	(38,344)
Net Cash Flows From Operating Activities	<u>6,740,278</u>	<u>3,479,495</u>	<u>134,326</u>	<u>(548)</u>	<u>10,353,551</u>	<u>384,880</u>
Cash Flows from Noncapital Financing Activities:						
Transfers in	14,942	11,214	282	10,698	37,136	-
Transfers out	-	-	-	-	-	-
Net Cash Flows from Noncapital Financing Activities	<u>14,942</u>	<u>11,214</u>	<u>282</u>	<u>10,698</u>	<u>37,136</u>	<u>-</u>
Cash Flows from Capital and Related Financing Activities						
Acquisition of capital assets	(10,491,602)	(7,709,995)	(63,077)	-	(18,264,674)	(72,966)
Principal paid on bonds, interfund loans, loans and leases	(159,000)	(883,000)	-	-	(1,042,000)	-
Receipts from grants and intergovernmental sources	1,571	1,321	794	163	3,849	-
Interest paid on bonds, interfund loans, loans and leases	(6,404)	(857,841)	-	-	(864,245)	(446)
Proceeds from issuance of long-term debt	341,577	719,347	-	-	1,060,924	-
Impact fees received	981,096	986,905	-	-	1,968,001	-
Proceeds from sale of property, plant and equipment	122,149	129	1,462	-	123,740	-
Net Cash Flows from Capital and Related Financing Activities	<u>(9,210,613)</u>	<u>(7,743,134)</u>	<u>(60,821)</u>	<u>163</u>	<u>(17,014,405)</u>	<u>(73,412)</u>
Cash Flows from Investing Activities						
Collections on notes	-	-	-	47,393	47,393	-
Interest on investments	181,246	49,907	26,624	206	257,983	1,851
Net Cash Flows from Investing Activities	<u>181,246</u>	<u>49,907</u>	<u>26,624</u>	<u>47,599</u>	<u>305,376</u>	<u>1,851</u>
Net Increase (Decrease) in Cash and investments	(2,274,147)	(4,202,518)	100,411	57,912	(6,318,342)	313,319
Cash and investments, beginning of year	<u>19,789,117</u>	<u>7,604,363</u>	<u>2,627,262</u>	<u>88,941</u>	<u>30,109,683</u>	<u>459,251</u>
Cash and investments, end of year	<u>\$ 17,514,970</u>	<u>\$ 3,401,845</u>	<u>\$ 2,727,673</u>	<u>\$ 146,853</u>	<u>\$ 23,791,341</u>	<u>\$ 772,570</u>
Classified as:						
Cash and investments	\$ 7,371,463	\$ 1,496,429	\$ 2,727,673	\$ 7,584	\$ 11,603,149	\$ 772,570
Restricted cash and investments	<u>10,143,507</u>	<u>1,905,416</u>	<u>-</u>	<u>139,269</u>	<u>12,188,192</u>	<u>-</u>
Totals	<u>\$ 17,514,970</u>	<u>\$ 3,401,845</u>	<u>\$ 2,727,673</u>	<u>\$ 146,853</u>	<u>\$ 23,791,341</u>	<u>\$ 772,570</u>
Noncash transactions: donated infrastructure	<u>\$ 564,404</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 564,404</u>	<u>\$ -</u>

The Notes to Financial Statements are an integral part of the financial statements.

CITY OF BOZEMAN, MONTANA  
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (CONTINUED)  
Year Ended June 30, 2012

	Business-type Activities Enterprise Funds				Governmental Activities	
	Water Fund	Waste Water Fund	Solid Waste Fund	Parking Fund	Total	Internal Service Funds
Operating income (loss)	\$ (4,852,825)	\$ (2,959,921)	\$ (69,042)	\$ (626,238)	\$ (8,508,026)	\$ (36,582)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities						
Depreciation and amortization	7,604,289	5,560,904	299,381	598,654	14,063,228	79,193
Change in estimated closure and post-closure care costs	-	-	(97,521)	-	(97,521)	-
Change in solvent site remediation obligation	-	30,829	-	-	30,829	-
Other income	71,693	80,366	31,339	18,771	202,169	11,425
Change in Assets and Liabilities:						
(Increase) Decrease in:						
Accounts receivable	(40,802)	6,456	(3,355)	9,787	(27,914)	5
Other governments receivable	-	-	-	-	-	-
Other City funds	-	-	-	-	-	-
Increase (Decrease) in:						
Accounts payable	3,931,184	743,129	(41,035)	(5,783)	4,627,495	19,340
Accrued employee benefits payable	26,739	17,732	14,559	4,261	63,291	10,175
Total adjustments	11,593,103	6,439,416	203,368	625,690	18,861,577	421,462
Net cash provided (used) by operating activities	<u>\$ 6,740,278</u>	<u>\$ 3,479,495</u>	<u>\$ 134,326</u>	<u>\$ (548)</u>	<u>\$ 10,353,551</u>	<u>\$ 384,880</u>

The Notes to Financial Statements are an integral part of the financial statements.

FIDUCIARY FUND FINANCIAL STATEMENTS

## FIDUCIARY FUNDS

### AGENCY FUNDS

Agency funds are used to account for assets held by the City as an agent for individuals, private organizations, other governments and/or other funds.

Montana Arts Council – Accounts for pass-through grant monies given for use by the Montana Arts Council for various programs.

Municipal Court – Accounts for monies held for appearance bonds and restitution.

CITY OF BOZEMAN, MONTANA  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
June 30, 2012

	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 111,575
Customer receivables	<u>560</u>
Total assets	<u><u>\$ 112,135</u></u>
<b>LIABILITIES</b>	
Accounts payable	<u>\$ 112,135</u>
Total liabilities	<u><u>\$ 112,135</u></u>

The Notes to Financial Statements are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

CITY OF BOZEMAN, MONTANA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Bozeman of Gallatin County, Montana (the City) was incorporated as a municipal corporation in 1883. The present City Code of Ordinances was adopted November 22, 1982. Under the charter, the City is governed by a mayor and commission members who comprise the City Commission. The day-to-day affairs of the City are conducted under the supervision of the City Manager, who is appointed by and serves at the pleasure of a majority of the City Commission.

The accompanying financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB), the accepted standard-setting body for establishing governmental accounting and financial reporting principles. In June 1999 the GASB issued Statement 34 *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments* (GASB 34). This Statement establishes new financial reporting requirements for state and local governments throughout the United States. It requires new information and restructures much of the information that governments have presented in the past. Comparability with reports issued in prior years is affected.

The City adopted the provisions of GASB 34 for its fiscal year ended June 30, 2002. With the implementation of GASB 34, the City has prepared required supplementary information titled Management's Discussion and Analysis which precedes the basic financial statements.

Other GASB statements are required to be implemented in conjunction with GASB Statement 34. Therefore, the City implemented the following GASB statements in the year ended June 30, 2002: Statement 33 *Accounting and Financial Reporting for Nonexchange Transactions*, Statement 36 *Recipient Reporting for Certain Shared Nonexchange Revenues*, Statement 37 *Basic Financials Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus*, and Statement 38 *Certain Financial Statement Note Disclosures*.

The City adopted the provisions of GASB Statement 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* for its fiscal year ended June 30, 2009. In addition to pensions, many state and local governmental employers provide other postemployment benefits (OPEB) as part of the total compensation offered to attract and retain the services of qualified employees. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.

The City adopted the provisions of GASB Statement 49 *Accounting and Financial Reporting for Pollution Remediation Obligations* for its fiscal year ended June 30, 2009. This Statement will enhance comparability of financial statements among governments by requiring all governments to account for pollution remediation obligations in the same manner, including required reporting of pollution remediation obligations that previously may not have been reported.

The GASB has issued Statement 51 *Accounting and Financial Reporting for Intangible Assets* effective for periods beginning after June 15, 2009. This Statement establishes accounting and financial reporting requirements for intangible assets including easements, water rights, timber rights, patents, trademarks, and computer software.

The GASB has issued Statement No 53 *Accounting and Financial Reporting for Derivative Instruments* effective for periods beginning after June 15, 2009. This Statement establishes accounting and financial reporting requirements for derivative instruments entered into by state and local governments. This statement did not have a material impact on the City's financial statements.

CITY OF BOZEMAN, MONTANA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

For the year ended June 30, 2011, the City implemented the provisions GASB Statement 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of Statement 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is found to observe constraints imposed upon the use of resources reported in governmental funds. The clarifications of the governmental fund type definitions should reduce uncertainty about which resources can or should be reported in the respective fund types. These new classifications include nonspendable and spendable, which is further reported as restricted, committed, assigned and unassigned. The new fund balance classifications and the minimum fund balance disclosure provided in Statement 54 are discussed in further detail later in Note 1.

The accompanying financial statements present the financial position of the City and the various funds and fund types, the results of operations of the City and the various funds and fund types, and the cash flows of the proprietary funds. The financial statements are presented as of June 30, 2012, and for the year then ended.

The more significant accounting policies of the City are described below.

**Reporting Entity**

The City has considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability in Statement 14 *The Financial Reporting Entity* and Statement 39, *Determining Whether Certain Organizations are Component Units*, an amendment to Statement 14. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the City.

Although the following entities meet the requirements of Statement 14 and Statement 39, they are strictly advisory in nature. Therefore, the government-wide financial statements do not include the financial information of the following entities and their omission does not cause the City's financial statements to be misleading or incomplete. Should there develop a financial element at some point in the future, the City shall include these entities on its government-wide financial statements.

Senior Center Advisory Council - This council is advisory in nature on senior issues and on how to run the City-owned Senior Center building. The City is responsible for the maintenance and operation of the building.

Blended Component Units

The following have been presented as blended component units since their governing bodies are substantially the same as the primary government's government body and because their services are provided entirely or almost entirely to the primary government.

Parking Commission - The City Commission appoints the governing board of the Parking Commission, which was created by ordinance. The City owns the parking lots, collects the rents and assigns the lots to the individuals.

CITY OF BOZEMAN, MONTANA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Reporting Entity (Continued)**

City Planning Board - The agreement forming the City Planning Board holds that it will submit its budget to the City Commission for approval and the City provides all accounting functions and is responsible for the issuance of debt. It is presented with the Special Revenue Funds.

**Basis of Accounting/Measurement Focus**

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Government-Wide Financial Statements

The Government-Wide Financial Statements (the Statement of Net Assets and the Statement of Activities) present information of all the non-fiduciary activities of the primary government and its component units. These statements present summaries of Governmental and Business-Type Activities for the City accompanied by a total column.

These statements are presented on an “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all of the City’s assets and liabilities, including capital assets and long-term liabilities, are included in the accompanying Statement of Net Assets. The City has retroactively included infrastructure in its assets.

The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The types of transactions reported as program revenues for the City are reported in three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions.

Certain eliminations have been made as prescribed by GASB 34 in regards to inter-fund activities, payables and receivables. All internal balances in the Statement of Net Assets 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. In the Statement of Activities, internal service fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated.

The City applies all applicable GASB pronouncements (including all National Council on Governmental Accounting Statements and Interpretations currently in effect) as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) of the Committee on Accounting Procedure. In addition, the City applies all applicable FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements to its business-type activities.

CITY OF BOZEMAN, MONTANA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Basis of Accounting/Measurement Focus (Continued)**

Governmental Fund Financial Statements

Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balances for all major governmental funds and nonmajor funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in fund balances and changes in fund balances as presented in these statements to the net assets and changes in net assets presented in the Government-Wide Financial Statements. The City has presented all major funds that met those qualifications.

All governmental funds are accounted for on a spending or “current financial resources” measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheets. The Statement of Revenues, Expenditures, and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources which have been treated as susceptible to accrual by the City are property taxes, intergovernmental revenues, and other taxes.

Expenditures are recorded in the accounting period in which the related fund liability is incurred. The City has elected to apply the early recognition option of recognizing debt services expenditures provided by GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*. Under this option, an expenditure and a liability are recorded in debt service funds in the current year for amounts due early in the following year, for which resources have been provided during the current year.

Proprietary Fund Financial Statements

Proprietary Fund Financial Statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, and a Statement of Cash Flows for each major proprietary fund. The City has no nonmajor proprietary funds. A column representing internal service funds is also presented with the Proprietary Fund Financial Statements. Internal service balances and activities, however, have been combined with the governmental activities in the Government-Wide Financial Statements.

Proprietary funds are accounted for using the “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Net Assets present increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

CITY OF BOZEMAN, MONTANA  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Basis of Accounting/Measurement Focus (Continued)**

Fiduciary Fund Financial Statements

Fiduciary Fund Financial Statements include a Statement of Net Assets. The City's Fiduciary Funds represent Agency Funds, which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Therefore, Agency Funds do not have a measurement focus. These funds are accounted for using the accrual basis of accounting. The following Agency Funds are included in the Fiduciary Fund financial statements:

Montana Arts Council – Accounts for pass-through monies received from the State of Montana to fund local chapters of cultural enhancement activities such as the Bozeman Symphony Orchestra, Montana Ballet, Mandolin Society, Intermountain Opera Association, and the Emerson Cultural Center.

Municipal Court – Accounts for monies held for appearance bonds and restitution related to criminal arrests and reimbursement for damage caused.

Internal Service Funds

Internal Service Funds are used to account for goods and services provided by one department to other departments of the City on a cost-reimbursement basis. These direct costs and certain indirect costs are included as part of the program expense reported for the individual functions and activities of these other departments. The following Internal Service Funds are included in the Proprietary Fund Financial Statements:

Vehicle Maintenance Shop – Accounts for the maintenance and repair of vehicles used in the operation of City services.

Medical Health Insurance – Accounts for insurance premium revenues received from the various City departments and retirees, and the related costs of health, vision, and dental claims incurred by City employees and retirees which are in-turn paid to the City's insurance program coordinator.

**Funds**

As mentioned, the Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balances for all major governmental funds and nonmajor funds aggregated. The following major funds are presented in separate columns on the Governmental Funds Financial Statements, and the Proprietary Funds Financial Statements, respectively:

Governmental Funds

General Fund – this fund accounts for the financial operations of the City which are not accounted for in any other fund. Principal sources of revenue are property taxes, state and local shared revenues, licenses and permits, and charges for services provided to other funds. Principal expenditures in the General Fund are made for police and fire protection, public works, and general government.

Street and Fire Impact Fees Special Revenue Fund – on January 22, 1996, the City Commission adopted fire, street, water, and waste impact fees in Ordinance Number 1414. This fund accounts for the collection and expenditures associated with the fire and street impact fees.

Street Maintenance Special Revenue Fund – Accounts for special assessment revenues levied, received, and expended for street maintenance provided to specific property owners.

Building Inspection Special Revenue Fund – This fund was established to account for all activity of enforcing the building regulations adopted by the City. It includes all the money and staff associated with executing any aspect of the code enforcement program. Section 50-60-101 MCA established the code enforcement program requirement.

CITY OF BOZEMAN, MONTANA  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Funds (Continued)**

Governmental Funds (continued)

SID Sinking Debt Service Fund – Accounts for the accumulation of resources and payment of special assessment bond principal and interest related to general improvement, sidewalk, and curb construction projects.

Proprietary Funds

Water Fund - Accounts for the City's water utility operations and to collect and administer water impact fees.

Waste Water Fund - Accounts for the City's sewer utility operations and to collect and administer waste water impact fees.

Solid Waste Fund - Accounts for the City's garbage service operations.

Parking Fund - Accounts for the City's parking garage and services.

**Use of Restricted/Unrestricted Net Assets**

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy is to apply restricted net assets first.

**Cash and Investments**

Cash and investments are under the management of the City's Treasurer and consist primarily of investments in U.S. Government Bonds. Interest income earned as a result of pooling of City deposits is distributed to the appropriate funds utilizing a formula based on the average balance of cash and investments of each fund.

Montana State statutes authorize the City to invest in interest-bearing savings accounts, certificates of deposits, and time deposits insured up to \$250,000 by the Federal Deposit Insurance Corporation or fully collateralized, U.S. government and U.S. agency obligations and repurchase agreements where there is a master repurchase agreement and collateral held by a third party.

For the year ended June 30, 2005, the City implemented a new accounting standard issued by GASB, Statement No. 40, *Deposit and Investment Risk Disclosures*. Statement No. 40 amends Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*. Statement No. 40 revises the existing requirements regarding disclosure regarding credit risk, concentration of credit risk, interest rate risk, and foreign currency risk.

**Restricted Cash and Investments**

Certain proceeds of enterprise fund revenue bonds, 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. Impact fees collected and line-oversizing fees are restricted for applicable use. Payments in lieu of parking are restricted by code for future parking related capital projects.

CITY OF BOZEMAN, MONTANA  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Use of Estimates**

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

**Eliminations and Reclassifications**

In the process of aggregating data for the Statement of Net Assets and the Statement of Activities, some amounts reported as inter-fund activity and balances in the funds have been eliminated or reclassified. Internal service fund activity has also been eliminated in the Statement of Activities to remove the “doubling-up” effect.

**Capital Assets**

The City’s assets are capitalized at historical cost or estimated historical cost. City policy has set the capitalization threshold for reporting capital assets at \$5,000. Gifts or contributions of capital assets are recorded at fair market value when received. Depreciable capital assets are reported on the Statement of Net Assets, net of applicable accumulated depreciation. Capital assets which are not depreciable, such as land, and construction in progress are reported separately. Depreciation expense is reported in Statement of Activities and is calculated using the straight-line method based on the assets estimated useful life.

Depreciation is recorded on a straight-line basis over the useful lives of the assets as follows:

Vehicles	5 years
Machinery and equipment	5 to 30 years
Buildings	20 to 50 years
Other structures and improvements	10 to 25 years
Infrastructure	25 to 50 years

In June 1999, GASB issued Statement No. 34 (GASB 34) which requires the inclusion of infrastructure capital assets in local governments’ basic financial statements. According to GASB 34, the City must record infrastructure assets prospectively from the date of implementation and has included infrastructure acquired prior to implementation within the four-year required period.

The City defines infrastructure as the basic physical assets that allow the City to function. The assets to be recorded will include the street system, water purification and distribution system, sewer collection treatment system; park and recreation lands and improvement system, storm water conveyance system, and buildings combined with the site amenities such as parking and landscaped areas; and streets, sidewalks, curbs, and street lights.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

CITY OF BOZEMAN, MONTANA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Compensated Absences Payable**

Earned but unpaid vacation and sick pay is included as a liability in the proprietary fund types and Government-Wide Financial Statements. The portion relating to the governmental fund types not expected to be paid with expendable and available resources is not reported in the governmental fund statements unless the liability has matured (i.e., unused reimbursable leave still outstanding following an employee's resignation or retirement).

**Inter-fund Receivables and Payables**

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those short-term loans related to goods and services type transactions are classified as "due to and from other funds". Long-term inter-fund loans (noncurrent portion) are reported as "advances to and from other funds". Inter-fund receivables and payables between funds are eliminated in the Statement of Net Assets.

**On-Behalf Payments for Fringe Benefits**

On-behalf payments for fringe benefits are direct payments made by one entity to a third-party recipient for the employees of another legally separate entity. On-behalf payments include pension plan contributions. The State's pension contribution is recorded as intergovernmental revenue with an offsetting public safety or general government expenditures in the Pension Special Revenue Fund. (See Note 14)

**Budgets**

Each year, the City Manager must submit to the City Commission a proposed operating budget for all budget units within the City for the fiscal year commencing July 1. This operating budget includes proposed expenditures and the means of financing them. Public hearings are conducted to obtain citizen comments on the proposed budget. The budget is then legally adopted through passage of the appropriation resolution by the City Commission, but not before the second Monday in August.

Budgets are legally required for all governmental fund types. These budgets are prepared on the same basis and using the same accounting practices as are used to account and prepare financial reports for the funds. Budgets presented in this report for comparison to actual amounts are presented in accordance with generally accepted accounting principles. Annual appropriated budgets are adopted for all funds and all appropriations lapse at year end. The level of budgetary control (that is the level at which expenditures cannot legally exceed the appropriated amount) is established at the fund type level. The City Commission may amend the budget during the course of the fiscal year, within each fund type.

Any accruing revenue of the municipality not appropriated and any balance at any time remaining after the purpose of an appropriation has been satisfied or abandoned may from time to time be appropriated 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 authority, except in the case of an emergency.

The City Commission delegated in its annual appropriation resolution, budget amendment authority to the City Manager, for the expenditure of funds from any or all of the following: debt service funds, enterprise funds, internal service funds, trust funds, federal and state grants accepted and approved by the governing body, special assessments, and donations. In all other funds, the City Manager may, without approval from the City Commission, make budget amendments as long as the total appropriation for the fund group is not exceeded.

CITY OF BOZEMAN, MONTANA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Budgets (Continued)**

Spending control is established by the total amount of expenditures budgeted for the fund type, but management may exercise control at budgetary line items.

**Fund Balance**

As discussed above in Note 1, the City has implemented Governmental Accounting Standards Board Statement 54. As a result, the classifications for fund balance now used for governmental fund are reported in two general classifications, nonspendable and spendable.

Nonspendable represents the portion of fund balance that is not in spendable form such as inventories, and, in the general fund, long term notes and loans receivable. Spendable fund balance is further categorized as restricted, committed, assigned, and unassigned.

The restricted fund balance category contains balances that can be spent only for the specific purposes stipulated by external parties or through enabling legislation. External parties include grantors, debt covenants, votes, and laws and regulations of other governments.

The committed fund balance category includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority, the City Commission. The City Commission needs to formally adopt a Resolution in order to establish, modify, or rescind a fund balance commitment.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. Assignments of fund balance are created by an official who the governing body has delegated the authority to assign amounts to be used for specific purposes. The City Commission and the City Manager individually have the authority to express assignments. In governmental funds other than the general fund, assigned fund balance also represents the remaining amount that is not restricted or committed. Also included in the assigned fund balance for the general fund are assignments for the portion of the current general fund balance that is projected to be used to fund expenditures and other cash outflows in excess of the expected revenues and other cash inflows in the next fiscal year.

Unassigned fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

When both restricted and unrestricted resources are available, spending will occur in the following order, for the identified fund types:

General Fund: Restricted, Committed, Assigned, Unassigned

Special Revenue Funds: Restricted, Committed, Assigned

Debt Service Funds: Assigned, Committed, Restricted

Capital Projects Funds: Restricted, Committed, Assigned

CITY OF BOZEMAN, MONTANA  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Minimum General Fund – Fund Balance**

The City does not maintain a stabilization fund. However, the City's Charter requires an established minimum level of General Fund Unreserved Fund Balance, in accordance with the Government Finance Officers' Association (GFOA) Best Practices. The GFOA significantly changed their Best Practice Recommendation in October 2009. As a result, in May 2010, the Commission increased the required minimum from 12% to 16 2/3%.

**Net Assets**

In funds other than governmental, net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

NOTE 2. CASH AND INVESTMENTS

At June 30, 2012, the carrying amount of the City's deposits in local banks and investments is \$59,353,335 and the bank balance is \$59,773,234. Interest bearing account balances are covered by the Federal Depository Insurance Corporation (FDIC) up to \$250,000 per bank, per depositor. In addition, all noninterest bearing transaction account balances are fully insured by FDIC coverage. The remaining balances are covered by collateral held by the pledging bank's agent in the City's name.

The City's cash and investments are reported as follows:

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Governmental activities	\$ 23,462,654	\$ 11,987,765	\$ 35,450,419
Business-type activities	11,603,149	12,188,192	23,791,341
Fiduciary funds	111,575	-	111,575
	<u>\$ 35,177,378</u>	<u>\$ 24,175,957</u>	<u>\$ 59,353,335</u>

Custodial credit risk for deposits is the risk that in the event of a financial institution failure, the City's deposits may not be returned or the City will not be able to recover the collateral securities in the possession of the outside party. The City minimizes custodial credit risk by restrictions set forth in City policy and state law. The City's policy requires deposits to be 104 percent secured by collateral valued at market value. The City Treasurer maintains a listing of financial institutions, which are approved for investment purposes. Types of securities that may be pledged as collateral are detailed in Section 17-6-103 of the Montana Code Annotated (MCA). City policy requires that specific safeguards against risk of loss be evidenced when the City does not physically hold the securities.

CITY OF BOZEMAN, MONTANA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2012

NOTE 2. CASH AND INVESTMENTS (Continued)

On June 30, 2012, the book value approximated the fair value of the investments, therefore no unrealized gain or loss was recorded for the year. The following table provides information about the interest rate risks associated with the City's deposits and investments.

<u>Investment</u>	<u>Maturities</u>	<u>Credit Risk Rating</u>	<u>Fair Value</u>
U.S. Government bonds	Jul 2012 - Jun 2013	S&P AA+	\$ 2,086,688
U.S. Government bonds	Jul 2013 - Jun 2014	S&P AA+	5,149,759
U.S. Government bonds	Jul 2016 - Jun 2017	S&P AA+	40,500,000
U.S. Bank Municipal Investor Account	N/A	N/A	6,651,888
Cash with fiscal agent	N/A	N/A	3,193,081
Demand deposits	N/A	N/A	1,766,022
Petty cash	N/A	N/A	5,897
			\$ 59,353,335

Credit risk is defined as the risk that an issuer or other counterpart to an investments will not fulfill its obligation. The above credit risk rating indicates the probability that the issuer may default in making timely principal and interest payments. The credit ratings presented in the previous tables are provided by Standard and Poor's Corporation (S&P). The City's investment policy is to hold investments to maturity with the contractual understanding that these investments are low risk, locked in to a guaranteed rate of return, are therefore not impacted significantly by changes in short term interest rates. The City has no formal policy relating to interest risk and no formal policy relating to credit risk.

NOTE 3. PROPERTY TAX CALENDAR

Real property taxes are assessed and collected each fiscal year according to the following property tax calendar:

Lien Date	December 1 for the 1 <sup>st</sup> installment and June 1 for the 2 <sup>nd</sup> installment
Levy Date	November 1
Due Dates	November 30 for the 1 <sup>st</sup> installment and May 31 for the 2 <sup>nd</sup> installment

Personal property taxes are assessed on January 1 of each year and billed in May and November, with payment due within thirty days.

Gallatin County collects all property taxes on behalf of the City and remits collections, including penalties and interest, on a monthly basis. The County assesses a delinquency penalty of 2%. If taxes become delinquent the County tax collector may sell the property to collect taxes due plus .83% per month interest.

In the fund financial statements, the City accrues as receivable all property taxes received during the first sixty (60) days of the new fiscal year from Gallatin County, in accordance with the modified accrual basis. In the government-wide financial statements, all taxes billed, but not yet collected are accrued in accordance with the full accrual basis of accounting, as described in Note 1.

CITY OF BOZEMAN, MONTANA  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2012

NOTE 4. SPECIAL ASSESSMENTS RECEIVABLE/DEFERRED REVENUES

Special assessments receivable represent the uncollected amounts levied against benefited property for the cost of local improvements. Assessments are payable over a period of 18 to 20 years and bear interest of 2.5% to 5.75% per annum. Recognition of the revenues from these assessments has been deferred until both measurable and available in governmental funds. In the Government-Wide Financial Statements, however, these amounts are reported as revenues in the period they are levied. Once received, the monies will be used to meet the annual debt service requirements on related bonds. Deferred revenues in the General Fund represent outstanding general property taxes at June 30, 2012. Again, these amounts are reported as revenue in the Government-Wide Financial Statements in the period in which they are levied. Deferred revenues in Special Revenue Funds represent either revenues received but not considered earned or amounts to be received in the future that are recorded as receivables but not yet earned. The deferred revenues in Debt Service Funds represent future assessments to be received to meet the related debt obligation.

NOTE 5. PREPAID RENT (OPERATING LEASE)

On October 22, 1992, the City signed a memorandum of understanding with Gallatin County, Montana, in which the City agreed to lease space from the County's Law and Justice Center for the City Police Department and Municipal Court. The City paid to the County \$765,000 during the renovation of the building which started 1993. The \$765,000 constitutes rent for four rental terms of ten years each. During the term of the lease and renewal of the lease, the principal balance of \$765,000 will be decreased by equal annual rental payments in the amount of \$19,125. If the City and County mutually agree to terminate the lease after the second ten year term, the County will refund \$382,500, to the City for the unused portion of the rent. The lease began when renovations were complete on November 1, 1994. For the year ended June 30, 2012, rent expenditure was \$19,125 regarding this lease.

NOTE 6. NOTES RECEIVABLE

The City had the following loans in funds:

<u>Special Revenue Funds:</u>	
Housing Revolving Loan Fund	\$ 26,143
Economic Development Loan Fund	\$ 182,116
Community Housing Fund	\$ 72,499
 <u>Enterprise Funds</u>	
Parking Fund	\$ 20,489

CITY OF BOZEMAN, MONTANA  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2012

NOTE 7. CAPITAL ASSETS

In accordance with GASB 34, the City has reported all capital assets, with the exception of pre-July 1, 2001 infrastructure in the Government-Wide Statement of Net Assets. The assets are reported whereby accumulated depreciation and depreciation expense have been recorded. For the year ended June 30, 2011, depreciation expense on capital assets was charged to the functions and programs as follows:

Governmental Activities:	
General Government	\$ 377,676
Public Safety	653,904
Public Services	5,538,633
Public Welfare	<u>1,061,532</u>
Total depreciation expense - governmental activities	<u>\$ 7,631,745</u>
Business-type Activities:	
Water	\$ 7,604,289
Waste Water	5,560,904
Solid Waste	299,381
Parking	<u>598,654</u>
Total depreciation expense - business-type activities	<u>\$ 14,063,228</u>

CITY OF BOZEMAN, MONTANA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2012

NOTE 7. CAPITAL ASSETS (Continued)

All capital assets of the City are depreciable with the exception of land. Capital assets activity of the City for the year ended June 30, 2012, consisted of the following:

	June 30, 2011	Additions	Disposals	Transfers	June 30, 2012
Governmental Activities:					
Non-depreciable					
Land	\$ 10,489,902	\$ -	\$ (6,759)	\$ -	\$ 10,483,143
Depreciable					
Buildings	30,465,462	574,337	(66,476)	59,239	31,032,562
Other structures and improvements	1,230,912	-	(20,186)	-	1,210,726
Machinery and equipment	9,204,447	319,875	(674,286)	471,930	9,321,966
Property under capital lease	616,504	185,530	-	(472,599)	329,435
Vehicles	3,164,520	220,895	(290,686)	18,717	3,113,446
Infrastructure	127,231,522	3,045,717	-	-	130,277,239
Total	182,403,269	4,346,354	(1,058,393)	77,287	185,768,517
Accumulated depreciation	(79,229,492)	(7,631,745)	1,001,515	(77,287)	(85,937,009)
Total governmental activities	<u>\$ 103,173,777</u>	<u>\$ (3,285,391)</u>	<u>\$ (56,878)</u>	<u>\$ -</u>	<u>\$ 99,831,508</u>
Business-type Activities:					
Non-depreciable					
Land	\$ 4,934,794	\$ -	\$ (220)	\$ -	\$ 4,934,574
Water rights	2,065,142	-	-	-	2,065,142
Depreciable					
Buildings	70,828,197	16,691,717	(202,426)	-	87,317,488
Other structures and improvements	31,698,157	471	(118,654)	-	31,579,974
Machinery and equipment	6,150,266	166,519	(313,846)	(58,570)	5,944,369
Vehicles	1,827,041	48,593	(181,521)	(18,717)	1,675,396
Infrastructure	249,985,284	1,609,591	-	-	251,594,875
Total	367,488,881	18,516,891	(816,667)	(77,287)	385,111,818
Accumulated depreciation	(155,290,912)	(14,063,228)	686,498	77,287	(168,590,355)
Total business-type activities	<u>\$ 212,197,969</u>	<u>\$ 4,453,663</u>	<u>\$ (130,169)</u>	<u>\$ -</u>	<u>\$ 216,521,463</u>
Total capital assets	<u>\$ 315,371,746</u>	<u>\$ 1,168,272</u>	<u>\$ (187,047)</u>	<u>\$ -</u>	<u>\$ 316,352,971</u>

CITY OF BOZEMAN, MONTANA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2012

NOTE 7. CAPITAL ASSETS (Continued)

Changes in accumulated depreciation are as follows for the year ended June 30, 2012:

	June 30, 2011	Additions	Disposals	Transfers	June 30, 2012
<b>Governmental Activities:</b>					
Buildings	\$ (10,608,827)	\$ (1,286,096)	\$ 66,476	\$ (22,392)	\$ (11,850,839)
Other structures and improvements	(961,611)	(28,829)	15,268	-	(975,172)
Machinery and equipment	(6,780,724)	(823,654)	636,002	(424,662)	(7,393,038)
Property under capital lease	(444,495)	(44,723)	-	388,484	(100,734)
Vehicles	(2,878,547)	(142,361)	283,769	(18,717)	(2,755,856)
Infrastructure	(57,555,288)	(5,306,082)	-	-	(62,861,370)
Total governmental activities	(79,229,492)	(7,631,745)	1,001,515	(77,287)	(85,937,009)
<b>Business-type Activities:</b>					
Buildings	(8,330,473)	(1,134,189)	129,426	-	(9,335,236)
Other structures and improvements	(26,094,995)	(537,676)	60,911	-	(26,571,760)
Machinery and equipment	(5,236,047)	(411,205)	314,639	58,570	(5,274,043)
Vehicles	(1,612,611)	(122,773)	181,522	18,717	(1,535,145)
Infrastructure	(114,016,786)	(11,857,385)	-	-	(125,874,171)
Total business-type activities	(155,290,912)	(14,063,228)	686,498	77,287	(168,590,355)
Total accumulated depreciation	\$ (234,520,404)	\$ (21,694,973)	\$ 1,688,013	\$ -	\$ (254,527,364)

CITY OF BOZEMAN, MONTANA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2012

NOTE 8. COMPENSATED ABSENCES

The City's policy relating to compensated absences is described in Note 1. As shown in the table below, the long-term portion of the debt, amounting to \$356,025 for governmental activities and \$131,062 for business-type activities at June 30, 2012, is expected to be paid in future years from future resources. Historically, compensated absences have been liquidated primarily by the general fund and the proprietary funds. The total amounts outstanding at June 30, 2012, were \$1,491,725 for governmental activities and \$461,562 for business-type activities.

	Balance June 30, 2011	Incurred	Satisfied	Balance June 30, 2012
Compensated absences				
Governmental Activities	\$ 1,432,248	\$ 1,195,166	\$ (1,135,689)	\$ 1,491,725
Business-type Activities	421,257	370,756	(330,451)	461,562
Total compensated absences	<u>\$ 1,853,505</u>	<u>\$ 1,565,922</u>	<u>\$ (1,466,140)</u>	<u>\$ 1,953,287</u>

	Due within one year	Due after one year	Total
Compensated absences			
Governmental Activities	\$ 1,135,700	\$ 356,025	\$ 1,491,725
Business-type Activities	330,500	131,062	461,562
Total compensated absences	<u>\$ 1,466,200</u>	<u>\$ 487,087</u>	<u>\$ 1,953,287</u>

NOTE 9. LONG-TERM DEBT

**Governmental Activities Long Term Debt**

The following is a summary of long-term debt transactions of the City's governmental activities for the year ended June 30, 2012:

	Balance June 30, 2011	Issuances	Repayments	Balance June 30, 2012
General obligation bonds	\$ 3,710,000	\$ 3,080,000	\$ (3,710,000)	\$ 3,080,000
Tax increment financing bonds	5,535,000	-	(165,000)	5,370,000
Special assessment debt	4,351,500	-	(2,082,000)	2,269,500
Intercap notes payable	509,705	-	(202,978)	306,727
Totals	<u>\$ 14,106,205</u>	<u>\$ 3,080,000</u>	<u>\$ (6,159,978)</u>	<u>\$ 11,026,227</u>

CITY OF BOZEMAN, MONTANA  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2012

NOTE 9. LONG-TERM DEBT (Continued)

**Governmental Activities Long Term Debt (Continued)**

The above long-term debt of the City's governmental activities is presented in the accompanying Statement of Net Assets as follows:

	Current Portion (Due within one year)	Long-term Portion (Due after one year)	Total Long Term Debt
General obligation bonds	\$ 635,000	\$ 2,445,000	\$ 3,080,000
Tax increment financing bonds	175,000	5,195,000	5,370,000
Special assessment debt	22,000	2,247,500	2,269,500
Intercap notes payable	35,466	271,261	306,727
	<u>\$ 867,466</u>	<u>\$ 10,158,761</u>	<u>\$ 11,026,227</u>

The long-term portion on page 31 Statement of Net Assets includes \$100,984 unamortized bond premium.

General Obligation Bonds - The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations of the City and are backed by the full faith and credit of the City. General obligation bonds currently outstanding are as follows:

	Interest Rate	Amount	Due within one year
General Obligation Refunding Bonds, series 2012 serial maturities through 2021	2.00%	<u>\$ 3,080,000</u>	<u>\$ 635,000</u>

The City issued \$3,080,000 of General Obligation Refunding Bonds for an advance refunding of \$810,000 of General Obligation Bonds – Transportation, Series 2003b, \$1,320,000 General Obligation Bonds – Library, Series 2002, and \$990,000 of General Obligation Bonds, Series 2003a. The refunding was undertaken to reduce total future debt service payments. The transaction resulted in an economic gain of \$370,321 and a reduction of \$394,636 in future debt service payments.

CITY OF BOZEMAN, MONTANA  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2012

NOTE 9. LONG-TERM DEBT (Continued)

**Governmental Activities Long Term Debt (Continued)**

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

Year ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 635,000	\$ 61,969	\$ 696,969
2014	660,000	46,475	706,475
2015	240,000	33,275	273,275
2016	245,000	29,675	274,675
2017	250,000	26,000	276,000
2018-2022	1,050,000	53,000	1,103,000
	<u>\$ 3,080,000</u>	<u>\$ 250,394</u>	<u>\$ 3,330,394</u>

Tax Increment Financing Bonds - Tax Increment Financing (TIF) Bonds are not general obligations, but are special limited obligations of the City. The Series 2007 Bonds, the premium, and the interest thereon are not a charge against the general credit or taxing powers of the City. The bonds are payable solely, and equally and ratably with additional bonds if and when issued from the tax increment received by the City from its Downtown Bozeman Improvement District. If the incremental revenues are insufficient to pay the principal and interest due on the TIF bonds when due, such payment shortfall shall not constitute a default under the TIF agreement. If and when the incremental revenues are sufficient, the City shall pay the amount of any shortfall to the paying agent and registrar without any penalty interest or premium thereon. Due to the uncertainty of the future tax increment receipts, future payments on the TIF bonds may vary from the summary of debt service requirements. Annual debt services requirements to maturity for the TIF bonds are as follows:

Year ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 175,000	\$ 250,088	\$ 425,088
2014	180,000	243,088	423,088
2015	190,000	235,088	425,088
2016	195,000	228,288	423,288
2017	205,000	220,488	425,488
2018-2022	1,150,000	967,486	2,117,486
2023-2027	1,440,000	676,972	2,116,972
2028-2032	1,835,000	284,334	2,119,334
Thereafter	-	-	-
	<u>\$ 5,370,000</u>	<u>\$ 3,105,832</u>	<u>\$ 8,475,832</u>

CITY OF BOZEMAN, MONTANA  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2012

NOTE 9. LONG-TERM DEBT (Continued)

**Governmental Activities Long Term Debt (Continued)**

Special Assessment Debt - Special assessment bonds are payable from the collection of special assessments levied against benefited property owners within the special improvement district. To the extent that such special assessment collections are not sufficient to make the required debt service payments, the City is obligated to levy and collect a general property tax on all taxable property in the City to provide additional funding for the debt service payments. The cash balance in the SID Revolving Fund must equal at least 5% of the principal amount of bonds outstanding. If the cash balance is less than 5%, a levy is required to bring the cash balance to the required minimum.

The City has issued various special assessment bonds with various maturities through 2025 at interest rates ranging from 2.5% to 5.75%. In addition, the City has issued three notes payable to finance special assessment projects. The following is a schedule of changes in special assessment debt:

	Balance June 30, 2011	Issuances	Repayments	Balance June 30, 2012
Special assessment bonds	\$ 3,970,000	\$ -	\$ (2,060,000)	\$ 1,910,000
Note Payable to Department of Natural Resources and Conservation, #WRF-05067	72,500	-	(4,000)	68,500
Note Payable to Department of Natural Resources and Conservation, #SRF-05132	309,000	-	(18,000)	291,000
	<u>\$ 4,351,500</u>	<u>\$ -</u>	<u>\$ (2,082,000)</u>	<u>\$ 2,269,500</u>

Annual debt service requirements to maturity for special assessment notes payable are as follows:

Year ending June 30,	Notes Payable		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 25,000	\$ 13,246	\$ 38,246
2014	24,000	12,319	36,319
2015	25,000	11,400	36,400
2016	28,000	10,444	38,444
2017	26,500	9,412	35,912
2018-2022	157,500	30,420	187,920
2023-2027	73,500	3,534	77,034
	<u>\$ 359,500</u>	<u>\$ 90,775</u>	<u>\$ 450,275</u>

CITY OF BOZEMAN, MONTANA  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2012

NOTE 9. LONG-TERM DEBT (Continued)

**Governmental Activities Long Term Debt (Continued)**

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

Year ending June 30,	<u>Bonds</u>
2013	\$ -
2014	-
2015	60,000
2016	60,000
2017	135,000
2018-2022	995,000
2023-2027	660,000
	<u>\$ 1,910,000</u>

Substantially all special assessment bonds mature eighteen to twenty years after the date of issuance but are redeemable at the option of the City whenever cash is available in the respective funds for each issue. The City follows the policy of early redemption on these bonds. Accordingly, a schedule of future interest payments through maturity of the bonds is deemed to be not meaningful and has been excluded.

The net revenues of the water fund have been pledged as collateral to secure the debt service related to SID 665. This collateral is subordinate to commitments made prior to July 12, 1993 to pledge this collateral as a guarantee of the payment of other debt. In the event that the resources available to service debt related to SID 665 are insufficient, the City shall transfer amounts from the water fund to satisfy this obligation. The District will be under no obligation to reimburse the water fund for any such transfer. At this time, the City does not anticipate the need to make any such transfers.

Intercap Loans – The City entered in a loan agreement with the Montana Board of Investments to finance the construction of a new fire station. The intercap loans payable had a balance outstanding at June 30, 2012 as follows:

	<u>Due within one year</u>	<u>Due after one year</u>	<u>Total</u>
Note payable to Montana Board of Investments in uneven semi-annual installments including interest at variable rates through July 2019	<u>\$ 35,466</u>	<u>\$ 271,261</u>	<u>\$ 306,727</u>

CITY OF BOZEMAN, MONTANA  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2012

NOTE 9. LONG-TERM DEBT (Continued)

**Governmental Activities Long Term Debt (Continued)**

The debt service requirements for the fire station intercap loan at June 30, 2012 are as follows:

Year ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 35,466	\$ 3,480	\$ 38,946
2014	40,312	3,274	43,586
2015	40,819	2,767	43,586
2016	41,332	2,254	43,586
2017	41,852	1,734	43,586
2018-2022	<u>106,946</u>	<u>2,019</u>	<u>108,965</u>
	<u>\$ 306,727</u>	<u>\$ 15,528</u>	<u>\$ 322,255</u>

**Business-type Activities Long Term Debt**

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

Water revenue bonds outstanding at June 30, 2012 are as follows:

	<u>Balance</u>		<u>Balance</u>	<u>Due in One</u>
	<u>June 30, 2011</u>	<u>Issuances</u>	<u>Repayments</u>	<u>June 30, 2012</u>
				<u>Year</u>
State Revolving Fund - 12247 2011-A	<u>\$ -</u>	<u>\$ 341,577</u>	<u>\$ (159,000)</u>	<u>\$ 182,577</u>

The revenue bond ordinances specifies that the City shall establish various restricted asset accounts and distribute the net revenues for the water fund to the restricted asset accounts and set user rates at levels which will generate minimum net revenues, as defined. The revenue bond ordinances specify that City management and/or the City Commission shall take corrective actions to bring the City into compliance with the revenue bond ordinances, if necessary, and that bondholders shall have the right to institute proceedings, judicial or otherwise, to enforce the covenants of the revenue bond ordinances. The City is in compliance with applicable covenants as of June 30, 2012.

CITY OF BOZEMAN, MONTANA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2012

NOTE 9. LONG-TERM DEBT (Continued)

**Business-type Activities Long Term Debt (continued)**

Water revenue bond debt service requirements to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30, 2013	<u>\$ 182,577</u>	<u>\$ 4,785</u>	<u>\$ 187,362</u>

Water revenue bonds consist of the following as of June 30, 2012:

	<u>Interest Rate</u>	<u>Amount</u>
Waste Water Reclamation Facility Revenue Bonds - 12247 Series 2011A, serial maturities through 2032	3.75%	<u>\$ 182,577</u>

Water revenue bond debt service requirements to maturity are as follows:

Revenue bonds due within one year	<u>\$ 182,577</u>
-----------------------------------	-------------------

Waste Water revenue bonds outstanding at June 30, 2012 are as follows:

	<u>Balance</u>	<u>Issuances</u>	<u>Repayments</u>	<u>Balance</u>	<u>Due in One</u>
	<u>June 30, 2011</u>	<u>June 30, 2011</u>	<u>June 30, 2011</u>	<u>June 30, 2012</u>	<u>Year</u>
State Revolving Fund - 10252 2010-B EPA	\$ 336,000	\$ -	\$ (16,000)	\$ 320,000	\$ 16,000
State Revolving Fund - 10230	9,011,000	-	(345,000)	8,666,000	358,000
State Revolving Fund - 10262 2010-F EPA	788,000	-	(29,000)	759,000	30,000
State Revolving Fund - 10251 2010-A ARRA A	390,700	-	-	390,700	-
State Revolving Fund - 10261 2010-E ARRA A	384,000	-	-	384,000	-
State Revolving Fund - 11291	859,162	-	(43,000)	816,162	44,000
State Revolving Fund - 11292 2010-G	2,820,218	719,347	(137,000)	3,402,565	142,000
State Revolving Fund - 11281 2010-H	9,428,000	-	(313,000)	9,115,000	341,000
	<u>\$ 24,017,080</u>	<u>\$ 719,347</u>	<u>\$ (883,000)</u>	<u>\$ 23,853,427</u>	<u>\$ 931,000</u>

CITY OF BOZEMAN, MONTANA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2012

NOTE 9. LONG-TERM DEBT (Continued)

**Business-type Activities Long Term Debt (continued)**

Waste water revenue bond debt service requirements to maturity are as follows:

Year ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 931,000	\$ 874,407	\$ 1,805,407
2014	967,000	839,269	1,806,269
2015	1,003,000	803,311	1,806,311
2016	1,040,000	765,458	1,805,458
2017	1,081,000	726,603	1,807,603
2018-2022	6,024,000	2,994,532	9,018,532
2023-2027	7,195,162	1,774,160	8,969,322
2028-2032	5,612,265	663,363	6,275,628
	<u>\$ 23,853,427</u>	<u>\$ 9,441,103</u>	<u>\$ 33,294,530</u>

Waste Water revenue bonds consist of the following as of June 30, 2012:

	<u>Interest Rate</u>	<u>Amount</u>
Waste Water State Revolving -10252 ARRA B		
Series 2010B, serial maturities through 2030	1.75%	\$ 320,000
Waste Water Reclamation Facility Revenue Bonds - 10230,		
Series 2010D, serial maturities through 2030	3.75%	8,666,000
Waste Water Reclamation Facility Revenue Bonds - 10262,		
Series 2010F, serial maturities through 2030	3.75%	759,000
Waste Water Reclamation Facility Revenue Bonds - 10251,		
Series 2010A, serial maturities through 2030	0.00%	390,700
Waste Water Reclamation Facility Revenue Bonds - 10261,		
Series 2010E, serial maturities through 2030	0.00%	384,000
Waste Water Reclamation Facility Revenue Bonds - 11291,		
Series 2010C, serial maturities through 2031	3.75%	816,162
Waste Water Reclamation Facility Revenue Bonds - 11292,		
Series 2010G, serial maturities through 2031	3.75%	3,402,565
Waste Water Reclamation Facility Revenue Bonds - 11281		
Series 2010H, serial maturities through 2031	3.75%	<u>9,115,000</u>
Total revenue bonds		<u>\$ 23,853,427</u>

CITY OF BOZEMAN, MONTANA  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2012

NOTE 9. LONG-TERM DEBT (Continued)

**Business-type Activities Long Term Debt (continued)**

Waste water revenue bond debt service requirements to maturity are as follows:

Shown on the accompanying financial statements as:

Revenue bonds due within one year	\$	931,000
Revenue bonds due after one year		22,922,427
	\$	23,853,427

The revenue bond ordinance specifies that the City shall establish various restricted asset accounts and distribute the net revenues for the water fund to the restricted asset accounts and set user rates at levels which will generate minimum net revenues, as defined. The revenue bond ordinances specify that City management and/or the City Commission shall take corrective actions to bring the City into compliance with the revenue bond ordinances, if necessary, and that bondholders shall have the right to institute proceedings, judicial or otherwise, to enforce the covenants of the revenue bond ordinances. The City is in compliance with applicable covenants as of June 30, 2012.

**Industrial Revenue and Private Activity Bonds**

The City issues tax exempt industrial revenue and private activity bonds to finance construction of facilities within the City which it sells on installment contracts to the facilities' users. The bonds and the interest payable thereon are not obligations of the City and do not constitute or give rise to a pecuniary liability or contingent liability of the City or a charge against the general credit or taxing power of the City. The bonds are issued under and collateralized by the indentures and are payable solely from the payments to be made pursuant to the loan agreements between the City and the facilities users. The bonds are not a lien on any of the City's properties or revenues, other than the facilities for which they were issued.

To provide financial assistance for the acquisition and improvements of the building occupied by a private elementary school, the City has issued a Private Activity Revenue Bond. This bond is secured by the property financed and is payable solely from payments received on the underlying mortgage loan. Upon repayment of the bond, ownership of the acquired facility transfer to the private-sector entity served by the bond issuance. Neither the City nor any political subdivision thereof is obligated in any manner for repayment of the bond. Accordingly, the bond is not reported as a liability in the accompanying financial statements. As of June 30, 2012, the Revenue Bond outstanding had an aggregate principal amount payable of \$338,570.

CITY OF BOZEMAN, MONTANA  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2012

NOTE 10. CAPITAL LEASE OBLIGATIONS

On November 14, 2007, the City entered into a lease for a Volvo Grader. The lease term is four years payable in annual installments of \$24,999 with a balloon payment of \$100,811 at maturity including interest at 4.715%. The total amount capitalized of \$198,078 represents the present value of the future lease payments. The payments of this obligation are being recorded in the street maintenance fund.

On May 6, 2008, the City entered into a lease for a Caterpillar Grader. The lease term is four years payable in monthly installments of \$1,984 at 5.25%. The total amount capitalized of \$86,088 represents the present value of the future lease payments. The payments for this obligation are being recorded in the street maintenance fund.

On February 24, 2009, the City entered into a lease for an Elgin Street Sweeper. The lease term is five years payable in annual installments of \$27,900 at 6.3%. The total amount capitalized of \$143,905 represents the present value of the future lease payments. The payments for this obligation are being recorded in the street maintenance fund.

On April 30, 2012, the City entered into a lease for an Elgin Street Sweeper. The lease term is five years payable in annual installments of \$33,495 at 3.3%. The total amount capitalized of \$185,530 represents the present value of the future lease payments. The payments for this obligation are being recorded in the street maintenance fund.

The capital lease balance outstanding for governmental activities at June 30, 2012 is as follows:

	Balance			Balance
	June 30, 2011	Issuances	Repayments	June 30, 2012
Caterpillar Grader	\$ 17,119	-	\$ (17,119)	\$ -
Volvo Grader	121,093	-	(121,093)	-
Street Sweeper	75,804	-	(23,979)	51,825
2012 Street Sweeper	-	185,530	(33,495)	152,035
	<u>\$ 214,016</u>	<u>185,530</u>	<u>\$ (195,686)</u>	<u>\$ 203,860</u>

CITY OF BOZEMAN, MONTANA  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2012

NOTE 10. CAPITAL LEASE OBLIGATIONS (Continued)

The following is a schedule, by year, of future minimum lease payments under capital lease, together with the present value of minimum lease payments at June 30, 2012:

Year ending June 30,	<u>Governmental Activities</u>
2013	\$ 61,395
2014	61,395
2015	33,495
2016	33,495
2017	33,495
Less amount representing interest	<u>(19,415)</u>
Present value of future minimum lease payments	<u><u>\$ 203,860</u></u>

The property under capital lease for governmental activities and the corresponding accumulated depreciation at June 30, 2012, is as follows:

	<u>Governmental Activities</u>
Machinery and equipment	\$ 329,435
Less: accumulated depreciation	<u>(100,734)</u>
	<u><u>\$ 228,701</u></u>

CITY OF BOZEMAN, MONTANA  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2012

NOTE 11. CLASSIFICATION OF NET ASSETS

In the Government-Wide Financial Statements, net assets are classified in the following categories:

Invested in Capital Assets, Net of Related Debt – This category groups all capital assets, including infrastructure in future years, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce this category.

Restricted Net Assets – This category represents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provision or enabling legislation. Net assets are presented restricted by major purpose.

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

In the Fund Financial Statements, commitments and assignments segregate portions of fund balance that are either not available or have been earmarked for specific purposes. The various commitments and assignments are established by actions of the City Commission and Management and can be increased, reduced or eliminated by similar actions.

NOTE 12. DEFICIT FUND BALANCES

At June 30, 2012, the following funds had deficit fund balances:

Capital Projects Fund	\$ (51,386)
-----------------------	-------------

The deficit balances do not represent any type of legal violation, and it is the City management's opinion that the deficits will be eliminated by additional grant funding, collection of long-term receivables, or transfers from other funds.

NOTE 13. DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

In accordance with Governmental Accounting Standards Board Statements No. 32, the City has removed the balances related to the deferred compensation plan as of June 30, 1998, as these amounts represent neither assets nor liabilities to the City, and the plan is administered by an independent third party.

CITY OF BOZEMAN, MONTANA  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2012

NOTE 14. EMPLOYEE BENEFIT PLANS

Plan Description and Provisions - All City of Bozeman full-time employees participate in one of three statewide cost-sharing multiple-employer retirement benefit plans administered by the Public Employees Retirement Division (PERD). Contributions to the three plans are as required by State statute. Fiscal years 2012 and 2011 total payroll and covered payroll for all retirement plans were \$17,417,713 and \$17,419,875, respectively. Financial information for all three plans is reported in the Public Employees' Retirement Board's published *Comprehensive Annual Financial Report* for the fiscal year end. It is available from the PERD at 100 North Park Avenue, Suite 220, P.O. Box 200131, Helena, MT 59620-0131. The authority to establish, amend and provide cost of living adjustments to all three plans is assigned to the State legislature. The authority to establish and amend contribution rates to all three plans is also assigned to the State legislature.

In accordance with GASB Statement 24, on-behalf payments of fringe benefits and salaries for the City of Bozeman are recognized as revenues and expenditures in the fund financial statements during the period.

Public Employees' Retirement System (PERS)

All City employees, except firefighters and police officers, are provided pension benefits by this multi-employer plan. Funding is provided by participating units of government and their covered employees. Plan members are required to contribute 7.9% of their compensation (6.9% if hired prior to July 1, 2011). The City contributes 7.07% and the State of Montana contributes 0.1% (on behalf of the City), of members' compensation. One hundred percent of required contributions were made for all three years. Total covered payroll for the City and total contributions to the plan by the employees and by the City for the year ended June 30, 2012 and the two previous years is presented in the following table:

Year Ended June 30	Covered Payroll	Employee Contributions	Employer Contributions	State Contributions
2012	\$ 11,066,629	\$ 768,957	\$ 782,411	\$ 11,067
2011	11,003,546	759,245	777,951	11,004
2010	11,435,097	789,022	808,792	11,435

Defined Benefit Retirement Plan (DBRP) - Participants become eligible for benefits after age 60 and 5 years of service, after age 65 regardless of service, or 30 years of service regardless of age. The benefit is 1/56 of the final compensation for each year of credited service, paid as a modified cash refund annuity. A participant is eligible for early retirement benefits after age 50 and 5 years of service or after 25 years of service regardless of age. Rights become vested after 5 years of service.

Defined Contribution Retirement Plan (DCRP) – Participants may elect the defined contribution plan, in which the contributions into the plan are known, but the benefit is not. The retirement benefit received is based upon account balance, which is determined by contributions made plus investment earnings, or losses, less administrative costs.

The total number of participating employees in both the defined benefit and defined contribution plans at the City at June 30, 2012 is 229.

CITY OF BOZEMAN, MONTANA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2012

NOTE 14. EMPLOYEE BENEFIT PLANS

Firefighters' Unified Retirement System (FURS)

Funding is provided by units of local government, their covered employees and the State of Montana. Plan members are required to contribute 10.7% of monthly compensation, since all employees have elected to be covered under the guaranteed annual benefit adjustment (GABA). The City contributes 14.36% and the State of Montana contributes 32.61% of members' compensation. One hundred percent of required contributions were made for all three years. Total covered payroll for the City and total contributions to the plan by the employees and by the City for the year ended June 30, 2012 and the two previous years is presented in the following table:

Year Ended June 30	Covered Payroll	Employee Contributions	Employer Contributions	State Contributions
2012	\$ 2,876,756	\$ 307,596	\$ 413,102	\$ 938,110
2011	2,884,700	308,663	414,243	940,701
2010	2,747,949	294,031	394,606	896,106

Participants are eligible for benefits after 5 years of service and age 50. The benefit for participants hired prior to July 1, 1981 who have attained 50 years of age and 20 years of service is 50% of the monthly salary last received by the participant. Also, an additional 1% for each year of service in excess of 20 years, not to exceed a maximum of 60% of the recipient's latest monthly salary. A participant hired on or after July 1, 1981, or who retires prior to completion of 20 years of service, receives a benefit equal to 2.5% of average salary for each year of service, not to exceed 60%. Salary is averaged over the last 36 months for those hired on or after July 1, 1981. Rights become vested after 5 years of service. The total number of participating employees at the City of Bozeman at June 30, 2012 is 41.

Municipal Police Officers' Retirement System (MPORS)

Funding is provided by local units of government, their covered employees, and the State of Montana. Plan members are required to contribute 9% of their compensation. The City contributes 14.41% and the State of Montana contributes 29.37% of members' compensation. One hundred percent of required contributions were made for all three years. Total covered payroll for the City and total contributions to the plan by the employees and by the City for the year ended June 30, 2012 and the two previous years is presented in the following table:

Year Ended June 30	Covered Payroll	Employee Contributions	Employer Contributions	State Contributions
2012	\$ 3,474,328	\$ 312,047	\$ 500,651	\$ 1,020,410
2011	3,531,629	317,847	777,951	1,037,239
2010	3,122,526	281,027	808,792	917,086

Participants are eligible for retirement benefits after 20 years of service and age 50. The minimum age requirement does not apply to participants first employed prior to July 1, 1975. The benefit is 1/2 of average monthly salary during the highest 36 consecutive months of earnings plus 1% of average monthly salary for each additional year of service in excess of 20 years, to a maximum of 60%. Benefits are paid as a modified cash refund annuity. Rights become vested after 5 years of service. The total number of participating employees at the City at June 30, 2012 is 60.

CITY OF BOZEMAN, MONTANA  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2012

NOTE 15. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

In addition to providing a deferred compensation plan, the City provides other post-employment benefits (OPEB) allowing its retired employees to continue their medical, dental and vision care coverage through the City's group health plan until death (Retiree Health Plan). The plan allows retirees to participate, as a group, at a rate that does not cover all of the related costs. This results in the reporting of an implied rate subsidy in the financial statements and footnotes. The City's contract with Allegiance Benefits details the plan eligibility. MMIA is the administrator of the benefit plan which covers both active and retired members. In accordance with MCA 2-18-704, the City's retirees may continue coverage for themselves and their covered eligible dependents if they are eligible for public employees' retirement by virtue of their employment with the City of Bozeman. The City's current labor contracts do not include any obligations for payments to retirees. 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).

OPEB is recorded on an accrual basis for all enterprise and internal service funds. OPEB is recorded on a modified accrual basis for the governmental funds. Plan contributions are recognized in the period in which the contributions are made. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

*Funding Policy.* The plan is unfunded by the City and plan members receiving benefits contribute 100 percent of their cost of the benefits on a pay-as-you-go basis. The City plan's administratively established retiree medical, dental and vision premiums vary between \$37 and \$912 per month depending on the medical plan selected, family coverage, and Medicare eligibility. The plan provides different coinsurance amounts depending on whether members use preferred, non-preferred, or other hospitals. For a single individual, after an annual deductible of \$300 for most non-Medicare-eligible retirees, the plan reimburses 70% for the first \$500 medical claims and 100% thereafter. For a family, after an annual deductible of \$600 for most non-Medicare-eligible retirees, the plan reimburses 70% for the first \$1,000 medical claims and 100% thereafter. For fiscal year ended June 30, 2012, the City has 30 retired members receiving benefits.

*Annual OPEB Cost and Net OPEB Obligation.* The City's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a closed amortization period not to exceed thirty years.

The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation to the Retiree Health Plan:

Annual required contribution	\$ 263,074
Interest on net OPEB obligation	64,334
Adjustment to annual required contribution	<u>(93,011)</u>
Annual OPEB cost (expense)	234,397
Contributions made	<u>(113,273)</u>
Increase in net OPEB obligation	121,124
Net OPEB obligation - beginning of year	<u>1,608,338</u>
Net OPEB obligation - end of year	<u><u>\$ 1,729,462</u></u>

CITY OF BOZEMAN, MONTANA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2012

NOTE 15. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal year ended June 30, 2012 and the two preceding fiscal years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	\$ 794,598	10.01%	\$ 1,472,055
June 30, 2011	\$ 236,826	42.45%	\$ 1,608,338
June 30, 2012	\$ 234,397	48.33%	\$ 1,729,462

The June 30, 2012 year end OPEB obligation is reported in the City's funds as follows:

Functions/Programs	Expenses
Primary Government:	
Governmental activities:	
General government	\$ 19,215
Public safety	39,460
Public service	10,637
Public welfare	28,823
Total governmental activities	<u>98,135</u>
Business-type activities:	
Water	9,951
Waste water	6,176
Solid waste	5,147
Parking	1,716
Total business-type activities	<u>22,990</u>
Total primary government	<u>\$ 121,125</u>

*Funded Status and Funding Progress.* The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The City has elected not to fund this liability.

CITY OF BOZEMAN, MONTANA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2012

NOTE 15. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
7/1/2008	\$ -	\$ 4,899,179	\$ 4,899,179	0%	Not available	Not available
7/1/2010	\$ -	\$ 2,203,253	\$ 2,203,253	0%	\$ 12,788,780	17.2%

*Actuarial Methods and Assumptions.* As of July 1, 2010, the most recent valuation date, the City's actuarially accrued liability (AAL) for benefits was \$2,203,253. The AAL by status breakdown is shown below:

	<u>Fiscal 2011</u>	<u>Fiscal 2012</u>
Actives	\$ 1,459,180	N/A
Retirees, Dependents and Surviving Spouses	<u>744,073</u>	<u>N/A</u>
Total AAL	<u>\$ 2,203,253</u>	<u>N/A</u>
Normal Cost	\$ 130,444	N/A
Impact on Statement of Activities		
Annual OPEB Cost	\$ 236,826	\$ 234,397
Impact on Statement of Net Assets		
Assumed Contributions	\$ 100,543	\$ 113,273
Net OPEB Obligation at June 30	\$ 1,608,338	\$ 1,729,462
Participant Information		
Actives	266	N/A
Retirees, Dependents and Surviving Spouses	<u>68</u>	<u>N/A</u>
Total	<u>334</u>	<u>N/A</u>

CITY OF BOZEMAN, MONTANA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2012

NOTE 15. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

The following key assumptions were chosen by the City:

1. Discount Rate: 4.0%
2. Inflation Rate: 3.0%
3. Expected Long Term Rate of Return on Assets: 4.0%
4. Healthcare Cost Increases: 8.5% for 2012, 8.0% for 2013, 7.5% for 2014, 7.0% for 2015, 6.5% for 2016, 6.0% for 2017, 5.5% for 2018, 5.0% for 2019 and thereafter.
5. Average Salary Increase: 4.0%
6. Retirement Rates: Based upon the separate rates used to value the pension obligations for Police Officers, Firefighters, and all other employees, respectively.
7. Retiree Participation Rate: 30%
8. Marital Assumption: For future retirees, 60% of participants are assumed to be married, with husbands 3 years older than wives.

The Projected Unit Credit Actuarial Cost Method was used to determine the annual required contribution. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples, as detailed above, include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revisions as actual results are compared with past expectations, and new estimates are made about the future. Actuarial calculations reflect a long-term perspective. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, is designed to present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial liabilities for benefits. Historically, the net other post employment benefit obligation has been liquidated primarily by the general fund and the proprietary funds.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

This report constitutes the only analysis and presentation of the City's post-employment benefit plan. There is no separate, audited GAAP-basis post-employment benefit plan report.

CITY OF BOZEMAN, MONTANA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2012

**NOTE 16. JOINT VENTURE AGREEMENTS**

Joint ventures are legal entities or other organizations that result in a contractual arrangement, and that are owned, operated, or governed by two or more participants. Each participant retains both an ongoing financial interest and an ongoing financial responsibility.

Joint ventures are legal entities or other organizations that result in a contractual arrangement, and that are owned, operated, or governed by two or more participants. Each participant retains both an ongoing financial interest and an ongoing financial responsibility. As of June 30, 2012, the City has entered into joint venture contractual arrangements, as described below.

**911 Communication Center**

The City and Gallatin County, Montana (the County) have entered into an inter-local agreement for the purposes of establishment of the operation and financing of a 911 communication services division (the Division) for dispatch and records services, to define the relationship of the Administrative Board with the City and County, and to establish the line of authority for personnel furnishing the communication services to the City and County and others who may contract for the services.

Though the City has no equity interest in the Division, the City has indirect access to the joint venture's resources, as the Division's purpose is of direct interest to the City, and the City has the ability to influence the management of the Division. In addition, the City and County have agreed to pay 45% and 55% of the Division expenditures, respectively. The agreement expired December 19, 2005, and automatically renewed until terminated by either party. Financial information regarding the Division can be obtained by contacting Shelley Vance, Gallatin County, Clerk and Records Office, 311 West Main, Bozeman, MT 59715.

**City-County Drug Forfeitures**

The City and Gallatin County, Montana (the County) have entered into an inter-local agreement for the purposes of establishment of a joint drug forfeiture account funded from drug related forfeitures, seizures and prosecutions of City and County law enforcement cases and to establish an equitable means of distributing those funds to continue drug interdiction activities. The goal of the agreement is to make the City and County Drug Enforcement operations less reliant on the general and public safety fund monies of the City and County. The original term of the agreement was for a period of one year, beginning September 20, 2004 and automatically renews for a period of one year until terminated by either party with written notice of intent to terminate. Financial information regarding the joint drug forfeiture account can be obtained by contacting the City of Bozeman Department of Finance, 411 East Main Street, Bozeman, MT 59715.

**Montana Municipal Interlocal Authority**

The City and Montana Municipal Interlocal Authority (MMIA) have entered into a 20-year agreement in December 2012 to share up to \$1 million in profits from the sale of city-owned property known as the Mandeville Farm. The agreement came about as part of a settlement on legal claims from the City of Bozeman vs. MMIA litigation. A "profit" shall occur only when the City has recovered its total investment in the property, which includes the original purchase price together with all "costs of development" as defined in the settlement agreement.

CITY OF BOZEMAN, MONTANA  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2012

NOTE 17. RESTRICTED ASSETS

At June 30, 2012, the balances of restricted asset accounts for business-type activities are as follows:

	Business-Type Activities				Total
	Water Fund	Waste Water Fund	Solid Waste Fund	Parking Fund	
Restricted by revenue bond covenants					
For debt service	\$ -	\$ -	\$ -	\$ -	\$ -
For bond reserve	25,135	1,780,283	-	-	1,805,418
For operations	-	-	-	-	-
Restricted by ordinance					
Cash in lieu of parking	-	-	-	139,269	139,269
Impact fees	9,502,199	-	-	-	9,502,199
	<u>\$ 9,527,334</u>	<u>\$ 1,780,283</u>	<u>\$ -</u>	<u>\$ 139,269</u>	<u>\$ 11,446,886</u>

NOTE 18. INTERFUND TRANSFERS AND ASSETS/LIABILITIES

A summary of interfund transfers reported in the fund financial statements for the year ended June 30, 2012 follows:

	Transfers From						Total
	Governmental Funds			Proprietary Funds			
	General Fund	Impact Fees	Street Maintenance	Nonmajor Governmental	Water	Waste Water	
General Fund	\$ -	\$ 150,000	\$ -	\$ 1,802,844	\$ -	\$ -	\$ 1,952,844
Impact Fees	-	-	-	-	-	-	-
Building Inspection	-	-	-	42,411	-	-	42,411
Street Maintenance	-	29,400	-	33,506	-	-	62,906
Nonmajor Governmental	878,575	-	18,440	527,374	-	-	1,424,389
Water Enterprise	-	-	-	14,942	-	-	14,942
Wastewater Enterprise	-	-	-	11,214	-	-	11,214
Solid Waste Enterprise	-	-	-	282	-	-	282
Parking Enterprise	-	-	-	10,698	-	-	10,698
Vehicle Internal Service	-	-	-	301,324	-	-	301,324
Health Insurance Internal Service	-	-	-	-	-	-	-
Total	<u>\$ 878,575</u>	<u>\$ 179,400</u>	<u>\$ 18,440</u>	<u>\$ 2,744,595</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,821,010</u>

CITY OF BOZEMAN, MONTANA  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2012

NOTE 18. INTERFUND TRANSFERS AND ASSETS/LIABILITIES (Continued)

Transfers are used to (1) move revenues from the fund that statute or budgets requires to collect them to the fund that statute or budgets require to expend them, (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, and (3) to transfer non-restricted interest income from the permanent fund to the general fund.

A summary of due from/to other funds at June 30, 2012, is as follows:

	Due From	Due To
Major Funds:		
General Fund	\$ 461,553	\$ -
Nonmajor Funds:		
Special Revenue Funds		
Departmental Special Revenues	-	461,553
	\$ 461,553	\$ 461,553

Interfund balances reported as due from or due to other funds are a result of transfers for reporting purposes to cover negative cash balances within a fund. These transfers are reversed as cash becomes available in a fund where cash previously had been in a deficit.

CITY OF BOZEMAN, MONTANA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2012

NOTE 19. RISK MANAGEMENT

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

Commercial Policies

Coverage limits and the deductibles on the commercial policies have stayed relatively constant for the last several years. The premiums for the policies are allocated between the City's Enterprise Funds and the General Fund. Premiums are subsidized through a special purpose property tax levy, based on total appropriations. Settled claims resulting from these risks did not exceed commercial insurance coverage during the three years ended June 30, 2012, 2011, and 2010.

Public Entity Risk Pools

In 1986, the City joined together 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 action are \$750,000 per claim and \$1.5 million per occurrence, and \$12.5 million per occurrence for any claim that is not subject to the limitations on governmental liability, as described in Montana Code Annotated Section 2-9-108 (the Statute) or any successor statute, either as matter of law, by operation of the Statute, or by a judicial determination that the Statute is inapplicable or is otherwise invalid, with \$11,250 deductible per occurrence. State tort law limits the City's liability to \$1.5 million. The City pays premiums for its employee injury insurance coverage, which is allocated to the employer funds based on total salaries and wages. The agreements for formation of the pools provide that they will be self-sustaining through member premiums. The tort liability plan and workers' compensation program issued debt of \$4.41 million and \$6.155 million, respectively, to immediately finance the necessary insurance reserves. All members signed a contingent note for a pro rata share of this liability in case operating revenues were insufficient to cover the debt service; the debt was retired in 2011.

The City also owns a policy with MMIA for loss or damage to property. This is an all risk policy, essentially all property owned by the City being insured for 100% of replacement cost, subject to a \$5,000 deductible per occurrence. MMIA reinsures their property insurance with a national municipal pool, Public Entities' Property Insurance.

CITY OF BOZEMAN, MONTANA  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2012

NOTE 19. RISK MANAGEMENT (Continued)

Self- Insurance

Starting in 1992, the City has provided medical insurance coverage for its employees via a partially self-insured plan administered by Blue Cross/Blue Shield. It provides medical, dental, and vision benefits and is operated as an Internal Service Fund. Rates are determined in consultation with Blue Cross/Blue Shield based on past claim experience for the coming year plus an administrative fee. The rates include a premium for a commercial "stop-loss" policy for when individual claim exceeds \$75,000 in covered charges during a year. A reconciliation of claims payable follows:

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Claims payable, beginning of year	\$ 55	\$ -
Claims incurred during year	3,628,512	3,133,905
Claims paid during year	<u>(3,628,099)</u>	<u>(3,133,850)</u>
Claims payable, end of year	<u>\$ 468</u>	<u>\$ 55</u>

On July 1, 2006 the City began purchasing employee health insurance from the Montana Municipal Interlocal Authority's Employee Health Benefits program; as of that date the City was no longer self-funded for health insurance claims. The fiscal year ending June 30, 2006 was the last year that the City was self-funded for employee health insurance claims. Over the course of the next months, the City paid claims that had been incurred but not reported as of June 30, 2006. On May 22, 2007, the City's self-funded program administrator informed the City that they were closing out administration of Bozeman's FY06 Self-Insured Health Benefits fund. The fund was closed because all incurred claims under the self-funded plan had been reported and paid. Going forward, as a purchaser of health insurance coverage, the City will have not "incurred but not reported" liabilities.

CITY OF BOZEMAN, MONTANA  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2012

NOTE 20. CONTINGENCIES (Continued)

City of Bozeman v. Montana Municipal Interlocal Authority

This litigation was a civil claim asserted by the City of Bozeman for the purposes of determining insurance coverage for a \$3 million judgment in *Delaney v. City of Bozeman*. This case was settled in December 2012 (see Note 26).

Apollo Inc. v. City of Bozeman

Apollo, Inc. is the general contractor on the Hyalite/Sourdough Water Treatment Plant Replacement Project. Knife River is one of their subcontractors. Construction commenced in the fall of 2011. In March 2012, Gallatin County observed damage to Nash Road resulting from heavy truck traffic and ordered it repaired. On March 13, 2012, the County imposed load limits/weight restrictions on Nash Road effectively proscribing hauling of construction loads. The City asserted the damage was caused by Knife River and ordered the repair. The general contractor disputed responsibility. Eventually the road was repaired and the County lifted its load limits.

The contractor asserted a claim for the costs of repair and a delay claim seeking additional days to complete the contract and an adjustment in the contract price. The City's consulting engineer granted additional days but denied an adjustment in price. The City Manager agreed to provide Apollo additional days to complete the contract but did not agree to an adjustment of the contract price.

In September 2012, the contractor requested a formal dispute resolution with a mediator. The City Manager, in consultation with the City Attorney's office, declined the offer based on the initial agreement to conduct discussions without involvement of an independent mediator, as allowed by the contract. There has been no further communication from the contractor regarding their claims. They may still exercise such rights or remedies they may otherwise have under the contract in respect of the dispute that was not agreed upon during the information mediation. As of the date of the financial statements, the City believes it is not possible to determine whether there exists the potential for an unfavorable outcome or to estimate the potential range of loss.

Southwest Montana Building Industry Association, et al v. City of Bozeman

Presently before the Court is a motion of the City of Bozeman requesting that the remaining undistributed settlement funds be turned over to the City of Bozeman. The City would then hold these funds and annually advertise or publish a notice that the unclaimed funds area available to members of the Class who have yet to receive settlement funds. Upon submission of a claim, the City may use these funds to pay the claim. If any funds remain unpaid after three (3) years, the City of Bozeman proposes to deliver the funds to the Montana Department of Revenue pursuant to the Uniform Unclaimed Property Act.

The City is involved with numerous other lawsuits which arise out of the normal course of operations by the City. Management of the City intends to vigorously defend each claim and believes no material losses will be incurred on such claims. The following is list of pending litigation where an unfavorable outcome is possible but not likely:

	<u>Possible Adverse Verdict</u>
<u>Verdi v. City of Bozeman</u>	\$100,000 - \$150,000

CITY OF BOZEMAN, MONTANA  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2012

NOTE 21. SOLID WASTE LANDFILL CLOSURE AND POST-CLOSURE CARE COSTS

State and Federal laws and regulations require the City to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after final closure. The \$1,563,356 reported as landfill closure and post-closure care liability at June 30, 2012, represents the cumulative amount reported to date based on the use of 95% of the total capacity of the landfill. This amount represents a \$97,521 decrease from the \$1,660,877 liability reported in 2011 due to actual closure and post-closure costs incurred during the year. The City stopped accepting waste effective June 30, 2008. The final capping of the cells is still pending. In 2012, the City budgeted for, and funded, landfill closure and post-closure care liability through normal operations and is in compliance with EPA requirements.

NOTE 22. SEGMENT INFORMATION FOR WATER ENTERPRISE FUND

The City's Water Fund accounts for the City's water utility operations and collection and administration of water impact fees. Segment information for the utility operations, excluding impact fees, is as follows:

<u>Condensed Statement of Net Assets</u>	
Current assets	\$ 17,252,689
Capital assets	78,136,719
Other assets	-
Total assets	<u>\$ 95,389,408</u>
Current liabilities	\$ 594,992
Noncurrent liabilities	-
Total liabilities	<u>594,992</u>
Invested in capital assets, net of related debt	78,136,719
Restricted for debt service	-
Unrestricted	<u>16,657,697</u>
Total net assets	<u>94,794,416</u>
Total liabilities and net assets	<u>\$ 95,389,408</u>

CITY OF BOZEMAN, MONTANA  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2012

NOTE 22. SEGMENT INFORMATION FOR ENTERPRISE FUND (Continued)

Condensed Statement of Revenues, Expenses and Changes in Net Assets	
<b>OPERATING REVENUES AND EXPENSES</b>	
Operating revenues	\$ 6,814,990
Operating expenses	
Depreciation	7,509,452
Other operating	3,972,562
Total operating expenses	<u>11,482,014</u>
Operating loss	<u>(4,667,024)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Interest income	142,888
Interest expense	-
Grant income	1,571
Gain on sale of assets	(116,605)
Contributions of infrastructure	564,404
Other income	71,693
Transfers	<u>101,532</u>
Total nonoperating revenues	<u>765,483</u>
Change in net assets	(3,901,541)
NET ASSETS, beginning of year	<u>98,695,957</u>
NET ASSETS, end of year	<u>\$ 94,794,416</u>
 <u>Condensed Statement of Cash Flows</u>	
Net cash provided by operating activities	\$ 2,461,119
Net cash flows from capital and related financing activities	-
Net cash flows from noncapital and financing activities	174,796
Net cash flows from investing activities	<u>2,917,005</u>
Net increase (decrease) in cash flows	5,552,920
Beginning cash and equivalents	<u>11,180,657</u>
Ending cash and equivalents	<u>\$ 16,733,577</u>

CITY OF BOZEMAN, MONTANA  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2012

NOTE 23. IMPACT FEES

On January 22, 1996, the City Commission adopted fire, water, waste water and street impact fees in Ordinance number 1414. The impact fees were first effective on March 23, 1996. Impact fees were set at a percentage of the cost of the impact, as follows:

	Original, as of March 23, 1996	Change as of May 10, 1998	Change as of January 15, 1999	Change as of July 15, 1999
Fire impact fee	90%	90%	90%	90%
Water impact fee	35%	50%	90%	90%
Waste water impact fee	35%	50%	90%	90%
Street impact fee	10%	10%	75%	90%

An applicant may obtain an Impact Fee Credit by dedication of non-site-related land or construction of non-site-related improvements. Credits must be made before the beginning of improvement construction, must comply with the City's Capital Improvements Program, and must be approved by the City Commission. Credits may be used only for like-type impact fees. The full provisions for impact fee credits are contained in Chapter 3.24 of the Bozeman Municipal Code. For proprietary type funds, the City records a liability for the impact fee credit and capitalizes the underlying asset. For governmental type funds the credits are only disclosed in the footnotes. For government-wide financial reporting the outstanding credits are reported as unearned revenue. The Water Impact Fee Fund, Street Impact Fee Fund, and Wastewater Impact Fee Fund have recorded impact fee credits amounting to \$33,232, \$236,687, and \$199,615, respectively, as of June 30, 2012. The Fire Impact Fee Fund does not have any outstanding credits. The following impact fee revenues were collected and expensed/expended during fiscal year 2012:

	Beginning balances	Impact fees	Other income	Expenses, expenditures and transfers	Ending balances
Fire	\$ 146,088	\$ 245,250	\$ 1,589	\$ (186,978)	\$ 205,949
Water	9,460,982	981,096	76,700	(148,350)	10,370,428
Waste water	930,959	986,905	3,041	(1,691,806)	229,099
Streets	7,903,258	1,090,715	61,841	(1,342,621)	7,713,193
Total	<u>\$ 18,441,287</u>	<u>\$ 3,303,966</u>	<u>\$ 143,171</u>	<u>\$ (3,369,755)</u>	<u>\$ 18,518,669</u>

CITY OF BOZEMAN, MONTANA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2012

NOTE 24. POLLUTION REMEDIATION OBLIGATIONS

Jewel v. City of Bozeman / State of Montana v. City of Bozeman

This action was filed in the United States District Court for the District of Montana. The multi-count complaint reduced itself to a cost recovery action under the Federal Superfund (CERCLA) and State Superfund (CECRA). On July 8, 1999, the City, Jewel Food Stores, Inc. and the other parties reached a final settlement agreement in this action. The settlement, in part, required Jewel Food Stores, Inc. to pay the City of Bozeman \$1,200,000, the City and Jewel to extend alternative water supply to businesses and residents in the North 19th Avenue area of the City; and Jewel and the City to share specified remediation costs on an equal basis (50% each) up to a cumulative amount of \$4,000,000, and for eligible costs in excess of that amount, to be shared 70% by Jewel and 30% by the City. The City is reimbursed by insurers for 23% of the City's expenditures for these purposes.

The Montana Department of Environmental Quality (MDEQ) issued the Record of Decision (ROD) for the Bozeman Solvent Site (BSS) in August 2011. The Administrative Order of Consent (AOC) was finalized in January 2012. The ROD and AOC specifically delineate the remediation to be completed for the BSS. The AOC serves as the legal mechanism for the implementation of the selected remedies identified in the ROD. Though remediation may be completed relatively quickly, monitoring of the site will continue for a period of up to 30 years. ATC and Associates, Inc. serves as the Project Engineer for the potentially liable parties (the City of Bozeman and CVS Pharmacy, Inc.). Based on the selected remedies identified in the ROD, ATC has completed a long-term cost projection for the project. The long-term cost projection for the City is \$3,082,952. Reduced by its insurer's reimbursement, the amount is \$2,373,873. This liability is recorded in the Waste Water Fund.

CMC Asbestos Bozeman CECRA Facility

In 2001, the City purchased the former CMC Heartland Partners property, the main portion of the CMC Asbestos Bozeman CECRA Facility ("Facility"), in order to build a new public library. The City submitted a *Voluntary Cleanup Plan* ("VCP") pursuant to Montana statutes, to the Department of Environmental Quality ("DEQ") in order to remediate contamination within the Facility. The DEQ approved the City's VCP on December 20, 2002. The City implemented the VCP and its addendums and submitted a *Voluntary Cleanup Completion Report for the CMC East Main Depot Site* in August 2004. In 2003, at the commencement of the remedial activity, the City of Bozeman petitioned the DEQ for an allocation of liability at the facility. Montana statutes provide a voluntary process (CALA) that allows potentially liable parties to petition for an allocation of liability as an alternative to the strict, joint and several liability scheme included in state law. CALA involves negotiations designed to allocate liability among persons involved at the facility, including bankrupt or defunct persons, referred to as the "orphan shares." CALA also provides the funding for the orphan share of the cost of remediation. An agreement was reached that allocates 79% liability to the orphan shares.

The allocation agreement requires the City to complete remedial actions at the facility. The City retained the services of an environmental engineering firm, Tetra Tech, to prepare a Supplemental Investigation (SI) Work Plan. The plan was approved by the DEQ and implemented from December 2007 through June 2008. Tetra Tech's Final SI Report was submitted to DEQ on June 20, 2008. This report describes the contaminated soils remaining at the Facility and provides recommendations for corrective actions. The recommendation for corrective action involves a DEQ-approved Addendum to the City's original Voluntary Cleanup Plan.

CITY OF BOZEMAN, MONTANA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2012

NOTE 24. POLLUTION REMEDIATION OBLIGATIONS (Continued)

CMC Asbestos Bozeman CECRA Facility (Continued)

At the City's request, the DEQ made a hardship determination for the City on August 8, 2007, pursuant to state statute. This hardship determination means that the City is eligible to have all of its ongoing actual documented remedial action costs reimbursed, subject to eligibility, as soon as the City expends the money.

In the first phase of remediation the City spent approximately \$2.4 million. State statute limits reimbursement from the orphan share fund to "eligible" remedial action costs incurred after the date of the CALA petition. DEQ determined that \$2.1 million of the City's costs were eligible. The 79% proportional share that the City may be reimbursed is approximately \$1,663,718.

The statute also provides that costs may not be reimbursed until all remedial actions are complete. However, DEQ agreed to reimburse a portion of the past cleanup costs in recognition of the City's commitment and good faith efforts to keep moving forward with completion of the cleanup. Last year the DEQ paid the City \$831,859.

The City submitted its construction completion report/petition for closure in September 2009. DEQ is reviewing the report and will provide comments. The DEQ is still reviewing various invoices and the documentation of certain remaining costs. The remaining reimbursement amount owed by DEQ to the City can be estimated by determining the appropriate allocation of that total amount to the orphan share. By the end of the cleanup project, the City expects to receive 79% of the estimated total eligible costs of \$4,449,092, which amounts to \$3,514,782. To date, all payments from DEQ have been received, leaving no estimated remaining reimbursement amount.

As of June 30, 2012, the City has accrued \$16,874 on the entity-wide financials for governmental activities, which is the potential remediation liability net of projected recoveries.

CITY OF BOZEMAN, MONTANA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2012

**NOTE 25. MAJOR PURPOSE PRESENTATION**

The table presented below displays the City's fund balances by major purpose as displayed on page 34 of the governmental funds balance sheet. Statement 54 requires the disclosure of the purpose of each Major Fund.

	<b>General Fund</b>	<b>Street and Fire Impact Fees Special Revenue</b>	<b>Street Maintenance Special Revenue</b>	<b>Building Inspection Special Revenue</b>	<b>SID Sinking Debt Service</b>	<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Nonspendable</b>							
Prepays	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 427,125	\$ 427,125
Cemetery perpetual care	-	-	-	-	-	686,359	686,359
Total nonspendable	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,113,484</u>	<u>1,113,484</u>
<b>Restricted</b>							
General government	-	-	-	-	-	872,617	872,617
Public safety	-	-	-	1,005,485	-	368,203	1,373,688
Public service	-	7,919,145	944,273	-	-	1,352,816	10,216,234
Public welfare	-	-	-	-	-	3,088,027	3,088,027
Debt service	-	-	-	-	803,565	3,329,750	4,133,315
Total restricted	<u>-</u>	<u>7,919,145</u>	<u>944,273</u>	<u>1,005,485</u>	<u>803,565</u>	<u>9,011,413</u>	<u>19,683,881</u>
<b>Committed</b>							
General government	-	-	-	-	-	1,046,970	1,046,970
Public safety	-	-	-	-	-	1,317,302	1,317,302
Public welfare	-	-	-	-	-	1,099,442	1,099,442
Total committed	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,463,714</u>	<u>3,463,714</u>
<b>Assigned</b>							
General government	2,427,369	-	-	-	-	-	2,427,369
Public welfare	30,000	-	-	-	-	-	30,000
Capital projects	702,160	-	-	-	-	-	702,160
Budget ordinance minimum 16.67%	3,903,435	-	-	-	-	-	3,903,435
Total assigned	<u>7,062,964</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,062,964</u>
<b>Unassigned</b>							
Total fund balances	<u>\$ 7,327,055</u>	<u>\$ 7,919,145</u>	<u>\$ 944,273</u>	<u>\$ 1,005,485</u>	<u>\$ 803,565</u>	<u>\$ 13,537,025</u>	<u>\$ 31,536,548</u>

CITY OF BOZEMAN, MONTANA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2012

NOTE 26. SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 17, 2012, the date on which the financial statements were available to be issued. The City reached a settlement with MMIA regarding the Delaney matter (see Note 20 Contingencies) on December 10, 2012. A liability of \$2 million has been accrued on the entity-wide financials at June 30, 2012.

C. REQUIRED SUPPLEMENTARY INFORMATION  
OTHER THAN MANAGEMENT DISCUSSION AND ANALYSIS

CITY OF BOZEMAN, MONTANA  
 SCHEDULE OF FUNDING PROGRESS - OTHER POST-EMPLOYMENT HEALTHCARE BENEFITS  
 For the Year Ended June 30, 2012

The annual OPEB costs, the percentage of OPEB cost contributed to the plan, and the net OPEB obligation for June 30, 2012 for the Retiree Health Plan are as follows:

ANNUAL OPEB COST				
Retiree Health Plan	Year Ended	Annual OPEB Cost	Percentage of OPEB Cost	Net OPEB Obligation
	6/30/2010	\$ 794,598	10.01%	\$ 1,472,055
	6/30/2011	\$ 236,826	42.45%	\$ 1,608,338
	6/30/2012	\$ 234,397	48.33%	\$ 1,729,462

The funded status of the plan was as follows:

FUNDED STATUS	
(a) Actuarial accrued liability (AAL)	\$ 2,203,253
(b) Actuarial value of plan assets (UAAL)	-
Unfunded actuarial accrued liability (funding excess) [(a) - (b)]	<u>\$ 2,203,253</u>
Funded ratio (b) / (a)	0.0%
(c) Covered payroll	\$ 12,788,780
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll ((a) - (b)) / (c)	17.23%

SCHEDULE OF FUNDING PROGRESS							
Retiree Medical Plan	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
	7/1/2008	\$ -	\$ 4,899,179	\$ 4,899,179	0%	Not available	Not available
	7/1/2010	\$ -	\$ 2,203,253	\$ 2,203,253	0%	\$ 12,788,780	17.2%

CITY OF BOZEMAN, MONTANA  
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET TO ACTUAL  
 GENERAL FUND  
 For the Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
Budgetary fund balance, July 1	\$ 6,897,250	\$ 6,897,250	\$ 6,897,250	\$ -
Resources (inflows):				
Taxes	11,310,004	11,310,004	11,535,471	225,467
Special assessments	-	-	9,257	9,257
Licenses and permits	278,250	278,250	294,411	16,161
Intergovernmental	5,767,836	5,767,836	6,139,548	371,712
Charges for services	2,160,935	2,160,935	2,166,750	5,815
Fines and forfeitures	1,226,500	1,226,500	1,241,798	15,298
Sale of assets	-	-	-	-
Interest on investments	70,000	70,000	55,104	(14,896)
Transfers from other funds	2,080,567	2,080,567	1,952,844	(127,723)
Other	46,500	46,500	25,425	(21,075)
Amounts available for appropriation	<u>29,837,842</u>	<u>29,837,842</u>	<u>30,317,858</u>	<u>480,016</u>
Charges to appropriations (outflows):				
Current				
General government	7,246,008	5,776,784	5,529,823	246,961
Public safety	10,027,085	11,940,317	11,180,578	759,739
Public service	205,702	205,702	125,634	80,068
Public welfare	4,856,008	4,522,531	4,292,126	230,405
Capital outlay	649,500	772,153	771,296	857
Debt service	150,000	213,000	212,771	229
Transfers to other funds	712,150	878,681	878,575	106
Total charges to appropriations	<u>23,846,453</u>	<u>24,309,168</u>	<u>22,990,803</u>	<u>1,318,365</u>
Budgetary fund balance, June 30	<u>\$ 5,991,389</u>	<u>\$ 5,528,674</u>	<u>\$ 7,327,055</u>	<u>\$ 1,798,381</u>

CITY OF BOZEMAN, MONTANA  
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES- BUDGET TO ACTUAL  
 STREET AND FIRE IMPACT FEE SPECIAL REVENUE FUND  
 Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balance, July 1	\$ 8,049,347	\$ 8,049,347	\$ 8,049,347	\$ -
Resources (inflows):				
Charges for services	750,000	750,000	1,335,965	585,965
Interest on investments	100,000	100,000	63,432	(36,568)
Other	-	-	-	-
Proceeds from long-term debt	-	-	-	-
Amounts available for appropriation	<u>8,899,347</u>	<u>8,899,347</u>	<u>9,448,744</u>	<u>549,397</u>
Charges to appropriations (outflows):				
Current				
Public safety	17,500	37,000	36,978	22
Public service	-	69,500	69,055	445
Capital outlay	850,000	1,244,500	1,244,166	334
Transfers to other funds	<u>179,400</u>	<u>179,400</u>	<u>179,400</u>	<u>-</u>
Total charges to appropriations	<u>1,046,900</u>	<u>1,530,400</u>	<u>1,529,599</u>	<u>801</u>
Budgetary fund balance, June 30	<u><u>\$ 7,852,447</u></u>	<u><u>\$ 7,368,947</u></u>	<u><u>\$ 7,919,145</u></u>	<u><u>\$ 550,198</u></u>

CITY OF BOZEMAN, MONTANA  
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES- BUDGET TO ACTUAL  
 STREET MAINTENANCE SPECIAL REVENUE FUND  
 Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	Budgetary Basis	Final Budget Positive (Negative)
Budgetary fund balance, July 1	\$ 600,049	\$ 600,049	\$ 600,049	\$ -
Resources (inflows):				
Taxes	-	-	-	-
Special assessments	2,000	2,000	73,096	71,096
Licenses and permits	15,000	15,000	4,750	(10,250)
Intergovernmental	-	-	974	974
Charges for services	3,032,504	3,032,504	2,692,020	(340,484)
Fines and forfeitures	-	-	-	-
Sale of Assets	-	-	7,589	7,589
Interest on investments	11,000	11,000	7,316	(3,684)
Other	10,000	10,000	2,275	(7,725)
Proceeds from long-term debt	1,480,200	1,480,200	185,530	(1,294,670)
Transfers from other funds	<u>29,400</u>	<u>29,400</u>	<u>48,055</u>	<u>18,655</u>
Amounts available for appropriation	<u>5,180,153</u>	<u>5,180,153</u>	<u>3,621,654</u>	<u>(1,558,499)</u>
Charges to appropriations (outflows):				
Current				
General government	-	-	-	-
Public safety	-	-	-	-
Public service	2,081,579	2,081,579	1,993,081	88,498
Public welfare	439,452	439,452	-	439,452
Other	-	-	-	-
Capital outlay	1,667,100	1,648,600	460,687	1,187,913
Debt service	135,000	205,500	205,173	327
Transfers to other funds	<u>-</u>	<u>18,500</u>	<u>18,440</u>	<u>60</u>
Total charges to appropriations	<u>4,323,131</u>	<u>4,393,631</u>	<u>2,677,381</u>	<u>1,716,250</u>
Budgetary fund balance, June 30	<u>\$ 857,022</u>	<u>\$ 786,522</u>	<u>\$ 944,273</u>	<u>\$ 157,751</u>

CITY OF BOZEMAN, MONTANA  
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES- BUDGET TO ACTUAL  
 BUILDING INSPECTION SPECIAL REVENUE FUND  
 Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget
	Original	Final		Positive (Negative)
Budgetary fund balance, July 1	\$ 814,982	\$ 814,982	\$ 814,982	\$ -
Resources (inflows):				
Taxes	-	-	-	-
Special assessments	-	-	-	-
Licenses and permits	854,600	854,600	915,544	60,944
Intergovernmental	-	-	9,063	9,063
Charges for services	4,500	4,500	983	(3,517)
Fines and forfeitures	-	-	-	-
Sale of Assets	-	-	-	-
Interest on investments	10,000	10,000	10,373	373
Other	-	-	30	30
Proceeds from long-term debt	-	-	-	-
Transfers from other funds	-	-	42,411	42,411
Amounts available for appropriation	<u>1,684,082</u>	<u>1,684,082</u>	<u>1,793,386</u>	<u>109,304</u>
Charges to appropriations (outflows):				
Current				
General government	-	-	-	-
Public safety	868,136	909,518	787,901	121,617
Public service	-	-	-	-
Public welfare	-	-	-	-
Capital outlay	-	-	-	-
Debt service	-	-	-	-
Transfers to other funds	-	-	-	-
Total charges to appropriations	<u>868,136</u>	<u>909,518</u>	<u>787,901</u>	<u>121,617</u>
Budgetary fund balance, June 30	<u>\$ 815,946</u>	<u>\$ 774,564</u>	<u>\$ 1,005,485</u>	<u>\$ 230,921</u>

CITY OF BOZEMAN, MONTANA  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MANAGEMENT DISCUSSION AND ANALYSIS  
Year Ended June 30, 2012

	General Fund	Street and Fire Impact Fees	Street and Tree Maintenance	Building Inspection
<b>Sources/inflows of resources</b>				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 30,317,858	\$ 9,448,744	\$ 3,621,654	\$ 1,793,386
<b>Differences - budget to GAAP:</b>				
The fund balance at the beginning of the year is a budgetary resource but is not a current-year revenue for financial reporting purposes.	(6,897,250)	(8,049,347)	(600,049)	(814,982)
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes.	(1,952,844)	-	(48,055)	(42,411)
The proceeds from the issuance of long-term debt are a budgetary resource but are a other financing source for financial reporting purposes	-	-	(185,530)	-
The proceeds from the sale of assets are budgetary resources but are regarded as a special item, rather than revenue, for financial reporting purposes	-	-	(7,589)	-
<b>Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds</b>	<b><u>\$ 21,467,764</u></b>	<b><u>\$ 1,399,397</u></b>	<b><u>\$ 2,780,431</u></b>	<b><u>\$ 935,993</u></b>
<b>Uses/outflows of resources</b>				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 22,990,803	\$ 1,529,599	2,677,381	787,901
<b>Differences - budget to GAAP:</b>				
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes.	(878,575)	(179,400)	(18,440)	-
<b>Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds</b>	<b><u>\$ 22,112,228</u></b>	<b><u>\$ 1,350,199</u></b>	<b><u>\$ 2,658,941</u></b>	<b><u>\$ 787,901</u></b>

## D. SUPPLEMENTAL INFORMATION

COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES

## NONMAJOR GOVERNMENTAL FUNDS

### SPECIAL REVENUE FUNDS

Departmental Special Revenues – Accounts for monies received and expended for projects relating to various City departments.

City Planning Board – Accounts for monies received from various sources including property taxes, fees, and County revenues. Expenditures are for short-term and long-term planning of City and adjacent County zones. Section 76-1-102 MCA provides that the purpose of City planning is to encourage local governments to improve the present health, safety, convenience, and welfare of the citizens.

Health-Medical Insurance – Accounts for property tax revenues received and transferred to the general fund for premiums and deductibles on group insurance coverage for City employees.

Gas Tax Apportionment – Accounts for revenues from State gasoline taxes apportioned from the State of Montana Department of Highways.

Drug Forfeitures – Accounts for monies received from fines and forfeitures of drug-related criminal prosecution, to be expended on drug law enforcement and education.

City-County Drug Forfeitures – Accounts for monies received from fines and forfeitures of drug-related criminal prosecution, from an inter-local agreement with Gallatin County, to be expended on drug law enforcement and education.

Beautification of Bozeman – Accounts for monies for special beautification projects throughout Bozeman.

Tree Maintenance – Accounts for special assessment revenues levied, received, and expended for tree maintenance provided to specific property owners.

Law and Justice Center – Accounts for the receipt and expenditure of monies earmarked by the City Commission for the City's share of the Law and Justice Center renovation.

Special Projects – Accounts for the receipt and expenditure of Valley Unit Special Improvement District funds which are in excess of the amounts required to retire the outstanding SID indebtedness.

Community Transportation – Accounts for federal funding for highways, mass transit, and alternative transportation programs as defined by the Intermodal Surface Transportation Efficiency Act (ISTEA). Money is distributed on a per-capita basis.

Highway Safety Improvement Projects – Accounts for grants, other revenues, and expenditure related to the U. S. Department of Transportation funded program to reduce number and severity of traffic accidents.

Economic Development Revolving Loan Fund – Accounts for revenues received and expended relative to loans made in accordance with the Community Development Block Grant Program, for economic development purposes.

Housing Revolving Loan Fund – Accounts for revenues received and expended relative to loans made in accordance with the Community Development Block Grant Program, for housing development purposes.

Community Housing – Accounts for money set aside by the City Commission and related expenditure for the establishment of safe, decent and affordable housing for low and moderate-income citizens.

Downtown Improvement District – In November 1995, the City adopted an Urban Renewal Plan for the downtown area. This fund accounts for the revenue and expenditures associated with the district.

Street Lighting – Accounts for special assessment revenues levied, received and expended for street and public highway lighting provided to specific property owners.

Park Land – Accounts for monies donated for the purpose of acquiring and developing City Parks.

Municipal Court Restitution – Accounts for checks that were canceled on the restitution checking account, per MCA 46-18-250.

#### DEBT SERVICE FUNDS

Special Improvement District (SID) Revolving – Accounts for property tax revenues received and expended for the payment of special improvement district bond principal and interest.

General Obligation Bonds Debt Service Fund – Accounts for the debt service payments associated with the Library and Transportation general obligation bonds.

Tax Increment Financing Bonds Debt Service Fund – Accounts for the debt service payments associated with the Tax Increment Urban Renewal Revenue Bonds issued as partial funding for the construction of a Downtown Intermodal Parking Facility.

#### CAPITAL PROJECTS FUNDS

General Improvements Capital Projects Fund – Accounts for the construction of general improvement projects financed by special assessments other than those financed by proprietary funds.

#### PERMANENT FUNDS

Perpetual Cemetery Care- Accounts for 15% maintenance fee received from the sale of City cemetery plots which is to be used for perpetual care. The interest income from the trust is transferred to the general fund for use in maintaining the City's cemetery.

CITY OF BOZEMAN, MONTANA  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 June 30, 2012

	Special Revenue Funds			
	Departmental Special Revenues	City Planning Board	Health-Medical Insurance	Gas Tax Apportionment
<b>ASSETS</b>				
Cash and cash equivalents	\$ 4,361,671	\$ 211,269	\$ 414,486	\$ 600,918
Receivables				
Property taxes	49,867	16,234	142,287	-
Accrued interest	2,576	-	-	-
Customers, net	-	-	-	-
Special assessments	3,515	-	-	-
Other governments	227,993	-	-	-
Others	-	-	-	-
Due from other City funds	-	-	-	-
Prepaid expenditures	-	-	-	-
Notes receivable	43,996	-	-	-
Restricted cash and cash equivalents	25,000	149,026	-	-
	<u>4,714,618</u>	<u>376,529</u>	<u>556,773</u>	<u>600,918</u>
Total assets				
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	344,331	1,588	-	2,306
Escheat property payable	-	-	-	-
Accrued employee benefits payable	2,042	7,657	-	-
Deferred revenue	55,166	4,093	47,347	-
Due to other City funds	461,553	-	-	-
	<u>863,092</u>	<u>13,338</u>	<u>47,347</u>	<u>2,306</u>
Total liabilities				
<b>Fund balances:</b>				
Nonspendable	-	-	-	-
Restricted	1,222,935	363,191	509,426	598,612
Committed	2,628,591	-	-	-
Assigned	-	-	-	-
Unassigned	-	-	-	-
	<u>3,851,526</u>	<u>363,191</u>	<u>509,426</u>	<u>598,612</u>
Total fund balances				
Total liabilities and fund balances	<u>\$ 4,714,618</u>	<u>\$ 376,529</u>	<u>\$ 556,773</u>	<u>\$ 600,918</u>

(continued)

CITY OF BOZEMAN, MONTANA  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS (CONTINUED)  
 June 30, 2012

	Special Revenue Funds				
	Drug Forfeitures	City-County Drug Forfeitures	Beauti- fication of Bozeman	Tree Maintenance	Law and Justice Center
<b>ASSETS</b>					
Cash and cash equivalents	\$ 116,477	\$ 152,242	\$ 986	\$ 256,625	\$ -
Receivables					
Property taxes	-	-	-	-	-
Accrued interest	-	-	-	-	-
Customers, net	718	-	-	-	-
Special assessments	-	-	-	39,992	-
Other governments	12,892	-	-	-	-
Others	-	-	-	-	-
Due from other City funds	-	-	-	-	-
Prepaid expenditures	-	-	-	-	427,125
Notes receivable	-	-	-	-	-
Restricted cash and cash equivalents	-	-	-	11	-
	<u>130,087</u>	<u>152,242</u>	<u>986</u>	<u>296,628</u>	<u>427,125</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable	986	-	-	19,660	-
Escheat property payable	-	-	-	-	-
Accrued employee benefits payable	2,865	-	-	4,012	-
Deferred revenue	-	-	-	31,792	-
Due to other City funds	-	-	-	-	-
	<u>3,851</u>	<u>-</u>	<u>-</u>	<u>55,464</u>	<u>-</u>
<b>Fund balances:</b>					
Nonspendable	-	-	-	-	427,125
Restricted	-	-	986	241,164	-
Committed	126,236	152,242	-	-	-
Assigned	-	-	-	-	-
Unassigned	-	-	-	-	-
	<u>126,236</u>	<u>152,242</u>	<u>986</u>	<u>241,164</u>	<u>427,125</u>
Total fund balances	<u>126,236</u>	<u>152,242</u>	<u>986</u>	<u>241,164</u>	<u>427,125</u>
Total liabilities and fund balances	<u>\$ 130,087</u>	<u>\$ 152,242</u>	<u>\$ 986</u>	<u>\$ 296,628</u>	<u>\$ 427,125</u>

(continued)

CITY OF BOZEMAN, MONTANA  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS (CONTINUED)  
 June 30, 2012

	Special Revenue Funds				
	Special Projects	Community Transportation	Highway Safety	Economic Development Revolving Loan	Housing Revolving Loan Fund
<b>ASSETS</b>					
Cash and cash equivalents	\$ -	\$ 65,829	\$ 22,343	\$ -	\$ 23,513
Receivables					
Property taxes	-	-	-	-	-
Accrued interest	-	-	-	-	-
Customers, net	-	-	-	-	-
Special assessments	-	-	-	-	-
Other governments	-	-	-	-	-
Others	-	-	-	706,198	-
Due from other City funds	-	-	-	-	-
Prepaid expenditures	-	-	-	-	-
Notes receivable	-	-	-	182,116	26,143
Restricted cash and cash equivalents	-	-	-	-	-
Total assets	<u>-</u>	<u>65,829</u>	<u>22,343</u>	<u>888,314</u>	<u>49,656</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable	-	-	-	-	-
Escheat property payable	-	-	-	-	-
Accrued employee benefits payable	-	-	-	-	-
Deferred revenue	-	-	-	182,116	26,143
Due to other City funds	-	-	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>182,116</u>	<u>26,143</u>
<b>Fund balances:</b>					
Nonspendable	-	-	-	-	-
Restricted	-	65,829	-	706,198	23,513
Committed	-	-	22,343	-	-
Assigned	-	-	-	-	-
Unassigned	-	-	-	-	-
Total fund balances	<u>-</u>	<u>65,829</u>	<u>22,343</u>	<u>706,198</u>	<u>23,513</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 65,829</u>	<u>\$ 22,343</u>	<u>\$ 888,314</u>	<u>\$ 49,656</u>

(continued)

CITY OF BOZEMAN, MONTANA  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS (CONTINUED)  
 June 30, 2012

	Special Revenue Funds				
	Community Housing	Downtown Improvement District	Street Lighting	Park Land	Municipal Court Restitution
<b>ASSETS</b>					
Cash and cash equivalents	\$ 327,914	\$ 1,703,951	\$ 655,796	\$ 206,388	\$ 43,767
Receivables					
Property taxes	-	47,199	-	-	-
Accrued interest	-	1,981	-	-	-
Customers, net	-	-	-	-	-
Special assessments	-	2,062	59,285	-	-
Other governments	-	-	-	-	-
Others	-	-	-	-	-
Due from other City funds	-	-	-	-	-
Prepaid expenditures	-	-	-	-	-
Notes receivable	72,499	-	-	-	-
Restricted cash and cash equivalents	-	-	-	-	-
<b>Total assets</b>	<b>400,413</b>	<b>1,755,193</b>	<b>715,081</b>	<b>206,388</b>	<b>43,767</b>
<b>LIABILITIES AND FUND EQUITY</b>					
Liabilities:					
Accounts payable	-	493,043	26,706	-	1,000
Escheat property payable	-	-	-	-	42,667
Accrued employee benefits payable	-	-	-	-	-
Deferred revenue	72,499	816	-	-	-
Due to other City funds	-	-	-	-	-
<b>Total liabilities</b>	<b>72,499</b>	<b>493,859</b>	<b>26,706</b>	<b>-</b>	<b>43,667</b>
Fund balances:					
Nonspendable	-	-	-	-	-
Restricted	-	1,261,334	688,375	-	100
Committed	327,914	-	-	206,388	-
Assigned	-	-	-	-	-
Unassigned	-	-	-	-	-
<b>Total fund balances</b>	<b>327,914</b>	<b>1,261,334</b>	<b>688,375</b>	<b>206,388</b>	<b>100</b>
<b>Total liabilities and fund balances</b>	<b>\$ 400,413</b>	<b>\$ 1,755,193</b>	<b>\$ 715,081</b>	<b>\$ 206,388</b>	<b>\$ 43,767</b>

(continued)

CITY OF BOZEMAN, MONTANA  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS (CONTINUED)  
 June 30, 2012

		Special Revenue Funds
		<u>        </u>
		<u>        </u>
		Total
		<u>        </u>
<b>ASSETS</b>		
Cash and cash equivalents	\$	9,164,175
Receivables		
Property taxes		255,587
Accrued interest		4,557
Customers, net		718
Special assessments		104,854
Other governments		240,885
Others		706,198
Due from other City funds		-
Prepaid expenditures		427,125
Notes receivable		324,754
Restricted cash and cash equivalents		174,037
		<u>11,402,890</u>
Total assets		<u>11,402,890</u>
<b>LIABILITIES AND FUND BALANCES</b>		
Liabilities:		
Accounts payable		889,620
Escheat property payable		42,667
Accrued employee benefits payable		16,576
Deferred revenue		419,972
Due to other City funds		461,553
		<u>1,830,388</u>
Total liabilities		<u>1,830,388</u>
Fund balances:		
Nonspendable		427,125
Restricted		5,681,663
Committed		3,463,714
Assigned		-
Unassigned		-
		<u>9,572,502</u>
Total fund balances		<u>9,572,502</u>
Total liabilities and fund balances	\$	<u>11,402,890</u>
		(continued)

CITY OF BOZEMAN, MONTANA  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS (CONTINUED)  
 June 30, 2012

	Debt Service Funds				Capital Projects Fund
	SID Revolving	G.O. Bonds	TIF Bonds	Total	General Improvements
<b>ASSETS</b>					
Cash and cash equivalents	\$ 3,190,244	\$ 150,647	\$ 4,788	\$ 3,345,679	\$ 331,578
Receivables					
Property taxes	-	60,083	-	60,083	-
Accrued interest	5,251	-	-	5,251	-
Customers, net	-	-	-	-	-
Special assessments	-	-	-	-	-
Other governments	-	-	-	-	-
Others	-	-	-	-	-
Due from other City funds	-	-	-	-	-
Prepaid expenditures	-	-	-	-	-
Notes receivable	-	-	-	-	-
Restricted cash and cash equivalents	-	3,193,081	-	3,193,081	-
<b>Total assets</b>	<b>3,195,495</b>	<b>3,403,811</b>	<b>4,788</b>	<b>6,604,094</b>	<b>331,578</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable	-	3,254,500	-	3,254,500	383,164
Escheat property payable	-	-	-	-	-
Accrued employee benefits payable	-	-	-	-	-
Deferred revenue	-	19,844	-	19,844	-
Due to other City funds	-	-	-	-	-
<b>Total liabilities</b>	<b>-</b>	<b>3,274,344</b>	<b>-</b>	<b>3,274,344</b>	<b>383,164</b>
<b>Fund balances:</b>					
Nonspendable	-	-	-	-	-
Restricted	3,195,495	129,467	4,788	3,329,750	-
Committed	-	-	-	-	-
Assigned	-	-	-	-	-
Unassigned	-	-	-	-	(51,586)
<b>Total fund balances</b>	<b>3,195,495</b>	<b>129,467</b>	<b>4,788</b>	<b>3,329,750</b>	<b>(51,586)</b>
<b>Total liabilities and fund balances</b>	<b>\$ 3,195,495</b>	<b>\$ 3,403,811</b>	<b>\$ 4,788</b>	<b>\$ 6,604,094</b>	<b>\$ 331,578</b>

CITY OF BOZEMAN, MONTANA  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS (CONTINUED)  
 June 30, 2012

	Permanent Fund	Total Nonmajor Governmental Funds
	Perpetual Cemetery Care	
<b>ASSETS</b>		
Cash and cash equivalents	\$ -	\$ 12,841,432
Receivables		
Property taxes	-	315,670
Accrued interest	-	9,808
Customers, net	-	718
Special assessments	-	104,854
Other governments	-	240,885
Others	-	706,198
Due from other City funds	-	-
Prepaid expenditures	-	427,125
Notes receivable	-	324,754
Restricted cash and cash equivalents	686,359	4,053,477
	<u>686,359</u>	<u>4,053,477</u>
Total assets	<u>686,359</u>	<u>19,024,921</u>
<b>LIABILITIES AND FUND BALANCES</b>		
<b>Liabilities:</b>		
Accounts payable	-	4,527,284
Escheat property payable	-	42,667
Accrued employee benefits payable	-	16,576
Deferred revenue	-	439,816
Due to other City funds	-	461,553
	<u>-</u>	<u>5,487,896</u>
Total liabilities	<u>-</u>	<u>5,487,896</u>
<b>Fund balances:</b>		
Nonspendable	686,359	1,113,484
Restricted	-	9,011,413
Committed	-	3,463,714
Assigned	-	-
Unassigned	-	(51,586)
	<u>686,359</u>	<u>13,537,025</u>
Total fund balances	<u>686,359</u>	<u>13,537,025</u>
Total liabilities and fund balances	<u>\$ 686,359</u>	<u>\$ 19,024,921</u>

CITY OF BOZEMAN, MONTANA  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-  
 NONMAJOR GOVERNMENTAL FUNDS  
 Year Ended June 30, 2012

	Special Revenue Funds			
	Departmental Special Revenues	City Planning Board	Health-Medical Insurance	Gas Tax Apportionment
<b>REVENUES</b>				
Taxes	\$ 967,014	\$ 165,523	\$ 1,866,700	\$ -
Special assessments	399,054	-	-	-
Licenses and permits	-	-	-	-
Intergovernmental	452,695	99,516	-	650,383
Charges for services	19,363	159,858	-	-
Fines and forfeitures	73,640	-	-	-
Interest on investments	36,955	1,251	272	4,100
Loan repayment	3,445	-	-	-
Other	59,578	14,789	-	-
Total revenues	<u>2,011,744</u>	<u>440,937</u>	<u>1,866,972</u>	<u>654,483</u>
<b>EXPENDITURES</b>				
Current				
General government	87,911	648,832	-	-
Public safety	221,385	-	-	-
Public service	19,825	-	-	191,669
Public welfare	908,389	-	-	-
Capital outlay	278,905	-	-	424,018
Debt service				
Principal	-	-	-	-
Interest and fiscal fees	-	-	-	-
Total expenditures	<u>1,516,415</u>	<u>648,832</u>	<u>-</u>	<u>615,687</u>
Revenues over (under) expenditures	<u>495,329</u>	<u>(207,895)</u>	<u>1,866,972</u>	<u>38,796</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	168,440	331,482	40,000	-
Transfers out	(217,250)	-	(1,789,983)	-
Long-term debt issued	-	-	-	-
Payments to refunded bond escrow agent	-	-	-	-
Sale of capital assets	39,290	-	-	-
Total other financing sources and uses	<u>(9,520)</u>	<u>331,482</u>	<u>(1,749,983)</u>	<u>-</u>
Net change in fund balance	485,809	123,587	116,989	38,796
FUND BALANCES, beginning of year	<u>3,365,717</u>	<u>239,604</u>	<u>392,437</u>	<u>559,816</u>
FUND BALANCES, end of year	<u>\$ 3,851,526</u>	<u>\$ 363,191</u>	<u>\$ 509,426</u>	<u>\$ 598,612</u>

(continued)

CITY OF BOZEMAN, MONTANA  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-  
 NONMAJOR GOVERNMENTAL FUNDS (CONTINUED)  
 Year Ended June 30, 2012

	Special Revenue Funds				
	Drug Forfeitures	City-County Drug Forfeitures	Beauti- fication of Bozeman	Tree Maintenance	Law and Justice Center
<b>REVENUES</b>					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Special assessments	-	-	-	4,753	-
Licenses and permits	-	-	-	-	-
Intergovernmental	136,199	-	-	1,000	-
Charges for services	-	-	-	429,082	-
Fines and forfeitures	48,894	285	-	-	-
Interest on investments	392	1,837	9	2,000	-
Loan repayment	-	-	-	-	-
Other	46	-	-	5,950	-
Total revenues	<u>185,531</u>	<u>2,122</u>	<u>9</u>	<u>442,785</u>	<u>-</u>
<b>EXPENDITURES</b>					
Current					
General government	-	-	-	-	-
Public safety	208,420	58,883	-	-	19,125
Public service	-	-	-	-	-
Public welfare	-	-	54	428,552	-
Capital outlay	-	-	-	-	-
Debt service					
Principal	-	-	-	-	-
Interest and fiscal fees	-	-	-	-	-
Total expenditures	<u>208,420</u>	<u>58,883</u>	<u>54</u>	<u>428,552</u>	<u>19,125</u>
Revenues over (under) expenditures	<u>(22,889)</u>	<u>(56,761)</u>	<u>(45)</u>	<u>14,233</u>	<u>(19,125)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	140,000	-	-	14,851	-
Transfers out	-	-	-	-	-
Long-term debt issued	-	-	-	-	-
Payments to refunded bond escrow agent	-	-	-	-	-
Sale of capital assets	9,125	-	-	3,200	-
Total other financing sources and uses	<u>149,125</u>	<u>-</u>	<u>-</u>	<u>18,051</u>	<u>-</u>
Net change in fund balances	126,236	(56,761)	(45)	32,284	(19,125)
FUND BALANCES, beginning of year	-	209,003	1,031	208,880	446,250
FUND BALANCES, end of year	<u>\$ 126,236</u>	<u>\$ 152,242</u>	<u>\$ 986</u>	<u>\$ 241,164</u>	<u>\$ 427,125</u>

(continued)

CITY OF BOZEMAN, MONTANA  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-  
 NONMAJOR GOVERNMENTAL FUNDS (CONTINUED)  
 Year Ended June 30, 2012

	Special Revenue Funds				
	Special Projects	Community Transportation	Highway Safety	Economic Development Revolving Loan	Housing Revolving Loan Fund
<b>REVENUES</b>					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Special assessments	-	-	-	-	-
Licenses and permits	-	-	-	-	-
Intergovernmental	9,300	167,801	-	-	-
Charges for services	-	-	-	-	-
Fines and forfeitures	-	-	-	-	-
Interest on investments	-	-	207	17,502	521
Loan repayment	-	-	-	292,496	5,444
Other	-	35,679	-	-	-
Total revenues	<u>9,300</u>	<u>203,480</u>	<u>207</u>	<u>309,998</u>	<u>5,965</u>
<b>EXPENDITURES</b>					
Current					
General government	-	-	-	-	-
Public safety	-	-	-	-	-
Public service	-	-	-	-	-
Public welfare	3,460	-	-	78,835	44,400
Capital outlay	2,060	222,493	-	-	-
Debt service					
Principal	-	-	-	-	-
Interest and fiscal fees	-	-	-	-	-
Total expenditures	<u>5,520</u>	<u>222,493</u>	<u>-</u>	<u>78,835</u>	<u>44,400</u>
Revenues over (under) expenditures	<u>3,780</u>	<u>(19,013)</u>	<u>207</u>	<u>231,163</u>	<u>(38,435)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	83,014	30,150	-	-	-
Transfers out	(289,624)	-	-	-	-
Long-term debt issued	-	-	-	-	-
Payments to refunded bond escrow agent	-	-	-	-	-
Sale of capital assets	-	-	-	-	-
Total other financing sources and uses	<u>(206,610)</u>	<u>30,150</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	(202,830)	11,137	207	231,163	(38,435)
FUND BALANCES, beginning of year	<u>202,830</u>	<u>54,692</u>	<u>22,136</u>	<u>475,035</u>	<u>61,948</u>
FUND BALANCES, end of year	<u>\$ -</u>	<u>\$ 65,829</u>	<u>\$ 22,343</u>	<u>\$ 706,198</u>	<u>\$ 23,513</u>

(continued)

CITY OF BOZEMAN, MONTANA  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-  
 NONMAJOR GOVERNMENTAL FUNDS (CONTINUED)  
 Year Ended June 30, 2012

	Special Revenue Funds					Totals
	Community Housing	Downtown Improvement District	Street Lighting	Park Land	Municipal Court Restitution	
<b>REVENUES</b>						
Taxes	\$ -	\$ 731,796	\$ -	\$ -	\$ -	\$ 3,731,033
Special assessments	-	113,803	439,345	-	-	956,955
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	31,158	-	-	-	1,548,052
Charges for services	-	-	-	-	-	608,303
Fines and forfeitures	-	-	-	-	-	122,819
Interest on investments	2,956	10,771	5,494	1,854	3	86,124
Loan repayment	5,000	-	-	-	-	306,385
Other	-	-	-	11,712	-	127,754
Total revenues	<u>7,956</u>	<u>887,528</u>	<u>444,839</u>	<u>13,566</u>	<u>3</u>	<u>7,487,425</u>
<b>EXPENDITURES</b>						
Current						
General government	-	-	-	-	-	736,743
Public safety	-	-	-	-	-	507,813
Public service	-	-	336,836	-	-	548,330
Public welfare	40,000	388,257	-	-	-	1,891,947
Capital outlay	-	-	-	-	-	927,476
Debt service						
Principal	-	-	-	-	-	-
Interest and fiscal fees	-	-	-	-	-	-
Total expenditures	<u>40,000</u>	<u>388,257</u>	<u>336,836</u>	<u>-</u>	<u>-</u>	<u>4,612,309</u>
Revenues over (under) expenditures	<u>(32,044)</u>	<u>499,271</u>	<u>108,003</u>	<u>13,566</u>	<u>3</u>	<u>2,875,116</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	41,031	-	-	-	-	848,968
Transfers out	-	(447,738)	-	-	-	(2,744,595)
Long-term debt issued	-	-	-	-	-	-
Payments to refunded bond escrow agent	-	-	-	-	-	-
Sale of capital assets	-	-	-	-	-	51,615
Total other financing sources and uses	<u>41,031</u>	<u>(447,738)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,844,012)</u>
Net change in fund balance	8,987	51,533	108,003	13,566	3	1,031,104
FUND BALANCES, beginning of year	<u>318,927</u>	<u>1,209,801</u>	<u>580,372</u>	<u>192,822</u>	<u>97</u>	<u>8,541,398</u>
FUND BALANCES, end of year	<u>\$ 327,914</u>	<u>\$ 1,261,334</u>	<u>\$ 688,375</u>	<u>\$ 206,388</u>	<u>\$ 100</u>	<u>\$ 9,572,502</u>

(continued)

CITY OF BOZEMAN, MONTANA  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-  
 NONMAJOR GOVERNMENTAL FUNDS (CONTINUED)  
 Year Ended June 30, 2012

	Debt Service Funds			
	SID Revolving	G.O. Bonds	TIF Bonds	Totals
<b>REVENUES</b>				
Taxes	\$ -	\$ 790,814	\$ -	\$ 790,814
Special assessments	-	-	-	-
Licenses and permits	-	-	-	-
Intergovernmental	-	-	-	-
Charges for services	-	-	-	-
Fines and forfeitures	-	-	-	-
Interest on investments	28,554	637	1,213	30,404
Loan repayment	-	-	-	-
Other	-	-	-	-
Total revenues	<u>28,554</u>	<u>791,451</u>	<u>1,213</u>	<u>821,218</u>
<b>EXPENDITURES</b>				
Current				
General government	-	-	-	-
Public safety	-	-	-	-
Public service	-	-	-	-
Public welfare	-	-	-	-
Capital outlay	-	-	-	-
Debt service				
Principal	-	590,000	165,000	755,000
Interest and fiscal fees	-	197,494	256,988	454,482
Total expenditures	<u>-</u>	<u>787,494</u>	<u>421,988</u>	<u>1,209,482</u>
Revenues over (under) expenditures	<u>28,554</u>	<u>3,957</u>	<u>(420,775)</u>	<u>(388,264)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	424,878	424,878
Transfers out	-	-	-	-
Long-term debt issued	-	3,172,268	-	3,172,268
Payments to refunded bond escrow agent	-	(3,120,000)	-	(3,120,000)
Sale of capital assets	-	-	-	-
Total other financing sources and uses	<u>-</u>	<u>52,268</u>	<u>424,878</u>	<u>477,146</u>
Net change in fund balance	28,554	56,225	4,103	88,882
FUND BALANCES, beginning of year	<u>3,166,941</u>	<u>73,242</u>	<u>685</u>	<u>3,240,868</u>
FUND BALANCES, end of year	<u>\$ 3,195,495</u>	<u>\$ 129,467</u>	<u>\$ 4,788</u>	<u>\$ 3,329,750</u>

CITY OF BOZEMAN, MONTANA  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-  
 NONMAJOR GOVERNMENTAL FUNDS (CONTINUED)  
 Year Ended June 30, 2012

	<u>Capital Projects Fund</u>	<u>Permanent Fund</u>	Total Nonmajor Governmental Funds
	General Improvements	Cemetery Perpetual Care	
REVENUES			
Taxes	\$ -	\$ -	\$ 4,521,847
Special assessments	-	-	956,955
Licenses and permits	-	-	-
Intergovernmental	-	-	1,548,052
Charges for services	-	87,573	695,876
Fines and forfeitures	-	-	122,819
Interest on investments	558	5,572	122,658
Loan repayment	-	-	306,385
Other	-	-	127,754
Total revenues	<u>558</u>	<u>93,145</u>	<u>8,402,346</u>
EXPENDITURES			
Current			
General government	-	-	736,743
Public safety	-	-	507,813
Public Service	1,966	-	550,296
Public welfare	-	-	1,891,947
Capital outlay	477,763	-	1,405,239
Debt service			
Principal	-	-	755,000
Interest and fiscal fees	-	-	454,482
Total expenditures	<u>479,729</u>	<u>-</u>	<u>6,301,520</u>
Revenues over (under) expenditures	<u>(479,171)</u>	<u>93,145</u>	<u>2,100,826</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	125,394	40,000	1,439,240
Transfers out	-	-	(2,744,595)
Long-term debt issued	-	-	3,172,268
Payments to refunded bond escrow agent	-	-	(3,120,000)
Sale of capital assets	-	-	51,615
Total other financing sources and uses	<u>125,394</u>	<u>40,000</u>	<u>(1,201,472)</u>
Net change in fund balance	(353,777)	133,145	899,354
FUND BALANCES, beginning of year	<u>302,191</u>	<u>553,214</u>	<u>12,637,671</u>
FUND BALANCES, end of year	<u>\$ (51,586)</u>	<u>\$ 686,359</u>	<u>\$ 13,537,025</u>

**BUDGET TO ACTUAL SCHEDULES – OTHER MAJOR FUNDS**

CITY OF BOZEMAN, MONTANA  
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET TO ACTUAL  
 OTHER MAJOR FUNDS - SID SINKING FUND  
 Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balance, July 1	\$ 2,196,830	\$ 2,196,830	\$ 2,196,830	\$ -
Resources (inflows):				
Taxes	-	-	-	-
Special assessments	1,500,000	1,500,000	858,699	(641,301)
Licenses and permits	-	-	-	-
Intergovernmental	-	-	-	-
Charges for services	-	-	-	-
Fines and forfeitures	-	-	-	-
Interest on investments	-	-	22,356	22,356
Transfers from other funds	-	-	-	-
Proceeds from long term debt	-	-	-	-
Premium on bonds issued	-	-	-	-
Proceeds from the sale of fixed assets	-	-	-	-
Other	-	-	-	-
Amounts available for appropriation	<u>3,696,830</u>	<u>3,696,830</u>	<u>3,077,885</u>	<u>(618,945)</u>
Charges to appropriations (outflows):				
Current				
General government	-	-	-	-
Public safety	-	-	-	-
Public service	-	-	-	-
Public welfare	-	-	-	-
Capital outlay	-	-	-	-
Debt service	1,500,000	2,275,000	2,274,320	680
Transfers to other funds	-	-	-	-
Total charges to appropriations	<u>1,500,000</u>	<u>2,275,000</u>	<u>2,274,320</u>	<u>680</u>
Budgetary fund balance, June 30	<u>\$ 2,196,830</u>	<u>\$ 1,421,830</u>	<u>\$ 803,565</u>	<u>\$ (618,265)</u>

CITY OF BOZEMAN, MONTANA  
 NOTE TO BUDGET TO ACTUAL STATEMENT - OTHER MAJOR FUNDS  
 Year Ended June 30, 2012

	<u>SID</u> <u>Sinking</u>
<b>Sources/inflows of resources</b>	
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 3,077,885
<b>Differences - budget to GAAP:</b>	
The fund balance at the beginning of the year is a budgetary resource but is not a current-year revenue for financial reporting purposes.	(2,196,830)
Proceeds of long term debt are inflows for budgetary purposes, but are not revenues for financial reporting purposes.	-
Proceeds from the sale of fixed assets are a budgetary resource but are not a current-year revenue for financial reporting purposes.	-
Transfers from other funds are inflows of budgetary purposes, but are not revenues for financial reporting purposes.	-
<b>Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - Other nonmajor governmental funds</b>	<b><u>\$ 881,055</u></b>
 <b>Uses/outflows of resources</b>	
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 2,274,320
<b>Differences - budget to GAAP:</b>	
Bond issuance costs are outflows for budgetary purposes, but are not expenditures for financial reporting purposes.	-
Transfers to other funds are outflows of budgetary purposes, but are not expenditures for financial reporting purposes.	-
<b>Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - Other nonmajor governmental funds</b>	<b><u>\$ 2,274,320</u></b>

BUDGET TO ACTUAL SCHEDULES – NONMAJOR FUNDS

CITY OF BOZEMAN, MONTANA  
 SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL  
 NONMAJOR GOVERNMENTAL FUNDS  
 Year Ended June 30, 2012

	Special Revenue Funds					
	Departmental Special Revenues			City Planning Board		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Taxes	\$ 1,023,310	\$ 967,014	\$ (56,296)	\$ 164,124	\$ 165,523	\$ 1,399
Special assessments	398,000	399,054	(1,054)	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	452,695	452,695	76,500	99,516	23,016
Charges for services	40,000	19,363	(20,637)	125,960	159,858	33,898
Fines and forfeitures	70,000	73,640	3,640	-	-	-
Interest on investments	33,700	36,955	3,255	-	1,251	1,251
Loan repayment	-	3,445	3,445	-	-	-
Other	11,000	59,578	48,578	33,000	14,789	(18,211)
Total revenues	1,576,010	2,011,744	435,734	399,584	440,937	41,353
EXPENDITURES - BUDGET UNIT	2,353,375	1,516,415	836,960	661,405	648,832	12,573
Revenues over (under) expenditures	(777,365)	495,329	1,272,694	(261,821)	(207,895)	53,926
OTHER FINANCING SOURCES (USES)						
Transfers in	150,000	168,440	18,440	312,000	331,482	19,482
Transfers out	(288,000)	(217,250)	70,750	-	-	-
Long-term debt issued	-	-	-	-	-	-
Sale of capital assets	-	39,290	39,290	-	-	-
Total other financing sources (uses)	(138,000)	(9,520)	128,480	312,000	331,482	19,482
Revenues and other sources over (under) expenditures	\$ (915,365)	485,809	\$ 1,401,174	\$ 50,179	123,587	\$ 73,408
FUND BALANCES, beginning of year		3,365,717			239,604	
FUND BALANCES, end of year		\$ 3,851,526			\$ 363,191	

(continued)

CITY OF BOZEMAN, MONTANA  
 SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL  
 NONMAJOR GOVERNMENTAL FUNDS (CONTINUED)  
 Year Ended June 30, 2012

	Special Revenue Funds					
	Insurance			Gas Tax Apportionment		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Taxes	\$ 1,849,219	\$ 1,866,700	\$ 17,481	\$ -	\$ -	\$ -
Special assessments	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	660,960	650,383	(10,577)
Charges for services	-	-	-	-	-	-
Fines and forfeitures	-	-	-	-	-	-
Interest on investments	-	272	272	7,500	4,100	(3,400)
Loan repayment	-	-	-	-	-	-
Other	40,000	-	(40,000)	-	-	-
Total revenues	1,889,219	1,866,972	(22,247)	668,460	654,483	(13,977)
EXPENDITURES - BUDGET UNIT	-	-	-	656,500	615,687	40,813
Revenues over (under) expenditures	1,889,219	1,866,972	(22,247)	11,960	38,796	26,836
OTHER FINANCING SOURCES (USES)						
Transfers in	40,000	40,000	-	-	-	-
Transfers out	(2,002,219)	(1,789,983)	212,236	-	-	-
Long-term debt issued	-	-	-	-	-	-
Sale of capital assets	-	-	-	-	-	-
Total other financing sources (uses)	(1,962,219)	(1,749,983)	212,236	-	-	-
Revenues and other sources over (under) expenditures	<u>\$ (73,000)</u>	116,989	<u>\$ 189,989</u>	<u>\$ 11,960</u>	38,796	<u>\$ 26,836</u>
FUND BALANCES, beginning of year		392,437			559,816	
FUND BALANCES, end of year		<u>\$ 509,426</u>			<u>\$ 598,612</u>	

(continued)

CITY OF BOZEMAN, MONTANA  
 SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL  
 NONMAJOR GOVERNMENTAL FUNDS (CONTINUED)  
 Year Ended June 30, 2012

	Special Revenue Funds					
	Drug Forfeitures			City-County Drug Forfeitures		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Special assessments	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	136,199	136,199	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeitures	40,000	48,894	8,894	50,000	285	(49,715)
Interest on investments	-	392	392	5,000	1,837	(3,163)
Loan repayment	-	-	-	-	-	-
Other	7,000	46	(6,954)	-	-	-
Total revenues	47,000	185,531	138,531	55,000	2,122	(52,878)
EXPENDITURES - BUDGET						
UNIT	216,801	208,420	8,381	59,000	58,883	117
Revenues over (under) expenditures	(169,801)	(22,889)	146,912	(4,000)	(56,761)	(52,761)
OTHER FINANCING SOURCES (USES)						
Transfers in	140,000	140,000	-	-	-	-
Transfers out	-	-	-	-	-	-
Long-term debt issued	-	-	-	-	-	-
Sale of capital assets	-	9,125	9,125	-	-	-
Total other financing sources (uses)	140,000	149,125	9,125	-	-	-
Revenues and other sources over (under) expenditures	<u>\$ (29,801)</u>	126,236	<u>\$ 156,037</u>	<u>\$ (4,000)</u>	(56,761)	<u>\$ (52,761)</u>
FUND BALANCES, beginning of year		-			209,003	
FUND BALANCES, end of year		<u>\$ 126,236</u>			<u>\$ 152,242</u>	

(continued)

CITY OF BOZEMAN, MONTANA  
 SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL  
 NONMAJOR GOVERNMENTAL FUNDS (CONTINUED)  
 Year Ended June 30, 2012

	Special Revenue Funds					
	Beautification of Bozeman			Tree Maintenance		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Special assessments	-	-	-	2,000	4,753	2,753
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	1,000	1,000
Charges for services	-	-	-	416,000	429,082	13,082
Fines and forfeitures	-	-	-	-	-	-
Interest on investments	-	9	9	3,500	2,000	(1,500)
Loan repayment	-	-	-	-	-	-
Other	1,000	-	(1,000)	10,000	5,950	(4,050)
Total revenues	1,000	9	(991)	431,500	442,785	11,285
EXPENDITURES - BUDGET UNIT	100	54	46	439,452	428,552	10,900
Revenues over (under) expenditures	900	(45)	(945)	(7,952)	14,233	22,185
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	-	14,851	14,851
Transfers out	-	-	-	-	-	-
Long-term debt issued	-	-	-	-	-	-
Sale of capital assets	-	-	-	-	3,200	3,200
Total other financing sources (uses)	-	-	-	-	18,051	18,051
Revenues and other sources over (under) expenditures	\$ 900	(45)	\$ (945)	\$ (7,952)	32,284	\$ 40,236
FUND BALANCES, beginning of year		1,031			208,880	
FUND BALANCES, end of year		\$ 986			\$ 241,164	

(continued)

CITY OF BOZEMAN, MONTANA  
 SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET TO ACTUAL  
 NONMAJOR GOVERNMENTAL FUNDS (CONTINUED)  
 Year Ended June 30, 2012

	Special Revenue Funds		
	Law and Justice Center		
	Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>			
Taxes	\$ -	\$ -	\$ -
Special assessments	-	-	-
Licenses and permits	-	-	-
Intergovernmental	-	-	-
Charges for services	-	-	-
Fines and forfeitures	-	-	-
Interest on investments	-	-	-
Loan repayment	-	-	-
Other	-	-	-
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>
<b>EXPENDITURES - BUDGET</b>			
UNIT	<u>20,000</u>	<u>19,125</u>	<u>875</u>
Revenues over (under) expenditures	<u>(20,000)</u>	<u>(19,125)</u>	<u>875</u>
<b>OTHER FINANCING SOURCES</b>			
Transfers in	-	-	-
Transfers out	-	-	-
Long-term debt issued	-	-	-
Sale of capital assets	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Revenues and other sources over (under) expenditures	<u>\$ (20,000)</u>	<u>(19,125)</u>	<u>\$ 875</u>
FUND BALANCES, beginning of year		<u>446,250</u>	
FUND BALANCES, end of year		<u>\$ 427,125</u>	

(continued)

CITY OF BOZEMAN, MONTANA  
 SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET TO ACTUAL  
 NONMAJOR GOVERNMENTAL FUNDS (CONTINUED)  
 Year Ended June 30, 2012

	Special Revenue Funds					
	Special Projects			Community Transportation		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Special assessments	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	9,300	9,300	-	167,801	167,801
Charges for services	-	-	-	-	-	-
Fines and forfeitures	-	-	-	-	-	-
Interest on investments	-	-	-	-	-	-
Loan repayment	-	-	-	-	-	-
Other	-	-	-	-	35,679	35,679
<b>Total revenues</b>	<b>-</b>	<b>9,300</b>	<b>9,300</b>	<b>-</b>	<b>203,480</b>	<b>203,480</b>
<b>EXPENDITURES - BUDGET</b>						
UNIT	6,000	5,520	480	222,515	222,493	22
Revenues over (under) expenditures	(6,000)	3,780	9,780	(222,515)	(19,013)	203,502
<b>OTHER FINANCING SOURCES</b>						
Transfers in	-	83,014	83,014	30,150	30,150	-
Transfers out	(290,000)	(289,624)	376	-	-	-
Long-term debt issued	-	-	-	-	-	-
Sale of capital assets	-	-	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>(290,000)</b>	<b>(206,610)</b>	<b>83,390</b>	<b>30,150</b>	<b>30,150</b>	<b>-</b>
Revenues and other sources over (under) expenditures	<u>\$ (296,000)</u>	<u>(202,830)</u>	<u>\$ 93,170</u>	<u>\$ (192,365)</u>	<u>11,137</u>	<u>\$ 203,502</u>
FUND BALANCES, beginning of year		<u>202,830</u>			<u>54,692</u>	
FUND BALANCES, end of year		<u>\$ -</u>			<u>\$ 65,829</u>	

(continued)

CITY OF BOZEMAN, MONTANA  
 SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET TO ACTUAL  
 NONMAJOR GOVERNMENTAL FUNDS (CONTINUED)  
 Year Ended June 30, 2012

	Special Revenue Funds		
	Highway Safety		
	Budget	Actual	Variance Positive (Negative)
REVENUES			
Taxes	\$ -	\$ -	\$ -
Special assessments	-	-	-
Licenses and permits	-	-	-
Intergovernmental	-	-	-
Charges for services	-	-	-
Fines and forfeitures	-	-	-
Interest on investments	-	207	207
Loan repayment	-	-	-
Other	-	-	-
Total revenues	<u>-</u>	<u>207</u>	<u>207</u>
EXPENDITURES - BUDGET			
UNIT	<u>-</u>	<u>-</u>	<u>-</u>
Revenues over (under) expenditures	<u>-</u>	<u>207</u>	<u>207</u>
OTHER FINANCING SOURCES			
Transfers in	-	-	-
Transfers out	-	-	-
Long-term debt issued	-	-	-
Sale of capital assets	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Revenues and other sources over (under) expenditures	<u>\$ -</u>	<u>207</u>	<u>\$ 207</u>
FUND BALANCES, beginning of year		<u>22,136</u>	
FUND BALANCES, end of year		<u>\$ 22,343</u>	

(continued)

CITY OF BOZEMAN, MONTANA  
 SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET TO ACTUAL  
 NONMAJOR GOVERNMENTAL FUNDS (CONTINUED)  
 Year Ended June 30, 2012

	Special Revenue Funds					
	Economic Development Revolving Loan Fund			Housing Revolving Loan Fund		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Special assessments	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeitures	-	-	-	-	-	-
Interest on investments	-	17,502	17,502	3,000	521	(2,479)
Loan repayment	-	292,496	292,496	4,000	5,444	1,444
Other	-	-	-	-	-	-
Total revenues	-	309,998	309,998	7,000	5,965	(1,035)
EXPENDITURES - BUDGET						
UNIT	-	78,835	(78,835)	44,400	44,400	-
Revenues over (under) expenditures	-	231,163	231,163	(37,400)	(38,435)	(1,035)
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-
Long-term debt issued	-	-	-	-	-	-
Sale of capital assets	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-
Revenues and other sources over (under) expenditures	<u>\$ -</u>	<u>231,163</u>	<u>\$ 231,163</u>	<u>\$ (37,400)</u>	<u>(38,435)</u>	<u>\$ (1,035)</u>
FUND BALANCES, beginning of year		<u>475,035</u>			<u>61,948</u>	
FUND BALANCES, end of year		<u>\$ 706,198</u>			<u>\$ 23,513</u>	

(continued)

CITY OF BOZEMAN, MONTANA  
 SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET TO ACTUAL  
 NONMAJOR GOVERNMENTAL FUNDS (CONTINUED)  
 Year Ended June 30, 2012

	Special Revenue Funds					
	Community Housing			Downtown Improvement District		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Taxes	\$ 41,031	\$ -	\$ (41,031)	\$ 1,339,000	\$ 731,796	\$ (607,204)
Special assessments	-	-	-	114,000	113,803	(197)
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	31,158	31,158	-
Charges for services	-	-	-	-	-	-
Fines and forfeitures	-	-	-	-	-	-
Interest on investments	5,000	2,956	(2,044)	10,000	10,771	771
Loan repayment	5,000	5,000	-	-	-	-
Other	-	-	-	-	-	-
Total revenues	<u>51,031</u>	<u>7,956</u>	<u>(43,075)</u>	<u>1,494,158</u>	<u>887,528</u>	<u>(606,630)</u>
EXPENDITURES - BUDGET						
UNIT	<u>40,000</u>	<u>40,000</u>	<u>-</u>	<u>2,189,000</u>	<u>388,257</u>	<u>1,800,743</u>
Revenues over (under) expenditures	<u>11,031</u>	<u>(32,044)</u>	<u>(43,075)</u>	<u>(694,842)</u>	<u>499,271</u>	<u>1,194,113</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	-	41,031	41,031	-	-	-
Transfers out	-	-	-	(447,878)	(447,738)	140
Long-term debt issued	-	-	-	-	-	-
Sale of capital assets	-	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>41,031</u>	<u>41,031</u>	<u>(447,878)</u>	<u>(447,738)</u>	<u>140</u>
Revenues and other sources over (under) expenditures	<u>\$ 11,031</u>	<u>8,987</u>	<u>\$ (2,044)</u>	<u>\$ (1,142,720)</u>	<u>51,533</u>	<u>\$ 1,194,253</u>
FUND BALANCES, beginning of year		<u>318,927</u>			<u>1,209,801</u>	
FUND BALANCES, end of year		<u>\$ 327,914</u>			<u>\$ 1,261,334</u>	

(continued)

CITY OF BOZEMAN, MONTANA  
 SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET TO ACTUAL  
 NONMAJOR GOVERNMENTAL FUNDS (CONTINUED)  
 Year Ended June 30, 2012

	Special Revenue Funds					
	Street Lighting			Park Land		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Special assessments	315,000	439,345	124,345	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeitures	-	-	-	-	-	-
Interest on investments	-	5,494	5,494	-	1,854	1,854
Loan repayment	-	-	-	-	-	-
Other	-	-	-	-	11,712	11,712
Total revenues	<u>315,000</u>	<u>444,839</u>	<u>129,839</u>	<u>-</u>	<u>13,566</u>	<u>13,566</u>
EXPENDITURES - BUDGET						
UNIT	<u>337,000</u>	<u>336,836</u>	<u>164</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenues over (under) expenditures	<u>(22,000)</u>	<u>108,003</u>	<u>130,003</u>	<u>-</u>	<u>13,566</u>	<u>13,566</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-
Long-term debt issued	-	-	-	-	-	-
Sale of capital assets	-	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenues and other sources over (under) expenditures	<u>\$ (22,000)</u>	<u>108,003</u>	<u>\$ 130,003</u>	<u>\$ -</u>	<u>13,566</u>	<u>\$ 13,566</u>
FUND BALANCES, beginning of year		<u>580,372</u>			<u>192,822</u>	
FUND BALANCES, end of year		<u>\$ 688,375</u>			<u>\$ 206,388</u>	

(continued)

CITY OF BOZEMAN, MONTANA  
 SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET TO ACTUAL  
 NONMAJOR GOVERNMENTAL FUNDS (CONTINUED)  
 Year Ended June 30, 2012

	Special Revenue Funds					
	Municipal Court Restitution			Total		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Taxes	\$ -	\$ -	\$ -	\$ 4,416,684	\$ 3,731,033	\$ (685,651)
Special assessments	-	-	-	829,000	956,955	127,955
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	768,618	1,548,052	779,434
Charges for services	-	-	-	581,960	608,303	26,343
Fines and forfeitures	-	-	-	160,000	122,819	(37,181)
Interest on investments	-	3	3	67,700	86,124	18,424
Loan repayment	-	-	-	9,000	306,385	297,385
Other	-	-	-	102,000	127,754	25,754
Total revenues	-	3	3	6,934,962	7,487,425	552,463
EXPENDITURES - BUDGET						
UNIT	-	-	-	7,245,548	4,612,309	2,633,239
Revenues over (under) expenditures	-	3	3	(310,586)	2,875,116	3,185,702
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	672,150	848,968	176,818
Transfers out	-	-	-	(3,028,097)	(2,744,595)	283,502
Long-term debt issued	-	-	-	-	-	-
Sale of capital assets	-	-	-	-	51,615	51,615
Total other financing sources (uses)	-	-	-	(2,355,947)	(1,844,012)	511,935
Revenues and other sources over (under) expenditures	<u>\$ -</u>	<u>3</u>	<u>\$ 3</u>	<u>\$ (2,666,533)</u>	<u>1,031,104</u>	<u>\$ 3,697,637</u>
FUND BALANCES, beginning of year		<u>97</u>			<u>8,541,398</u>	
FUND BALANCES, end of year		<u>\$ 100</u>			<u>\$ 9,572,502</u>	

(continued)

CITY OF BOZEMAN, MONTANA  
 SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL  
 NONMAJOR GOVERNMENTAL FUNDS (CONTINUED)  
 Year Ended June 30, 2012

	Debt Service Funds					
	SID Revolving			G.O. Bonds		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Taxes	\$ -	\$ -	\$ -	\$ 783,937	\$ 790,814	\$ 6,877
Intergovernmental	-	-	-	-	-	-
Interest on investments	20,000	28,554	8,554	-	637	637
Total revenue	<u>20,000</u>	<u>28,554</u>	<u>8,554</u>	<u>783,937</u>	<u>791,451</u>	<u>7,514</u>
EXPENDITURES						
Other	-	-	-	-	-	-
Debt service						
Principal	-	-	-	590,000	590,000	-
Interest and fiscal fees	-	-	-	187,498	197,494	(9,996)
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>777,498</u>	<u>787,494</u>	<u>(9,996)</u>
Revenues over (under) expenditures	<u>20,000</u>	<u>28,554</u>	<u>8,554</u>	<u>6,439</u>	<u>3,957</u>	<u>(2,482)</u>
OTHER FINANCING SOURCES (USES)						
Operating transfers in	-	-	-	-	-	-
Operating transfers out	-	-	-	-	-	-
Proceeds of long-term debt	-	-	-	3,172,269	3,172,268	(1)
Payments to refunded bond escrow agent	-	-	-	(3,120,000)	(3,120,000)	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>52,269</u>	<u>52,268</u>	<u>(1)</u>
Revenues and other sources over (under) expenditures	<u>\$ 20,000</u>	28,554	<u>\$ 8,554</u>	<u>\$ 58,708</u>	56,225	<u>\$ (2,483)</u>
FUND BALANCES, beginning of year		<u>3,166,941</u>			<u>73,242</u>	
FUND BALANCES, end of year		<u>\$ 3,195,495</u>			<u>\$ 129,467</u>	

(continued)

CITY OF BOZEMAN, MONTANA  
 SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL  
 NONMAJOR GOVERNMENTAL FUNDS (CONTINUED)  
 Year Ended June 30, 2012

	Debt Service Funds					
	TIF Bonds			Total		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Taxes	\$ -	\$ -	\$ -	\$ 783,937	\$ 790,814	\$ 6,877
Intergovernmental	-	-	-	-	-	-
Interest on investments	-	1,213	1,213	20,000	30,404	10,404
Total revenue	-	1,213	1,213	803,937	821,218	17,281
EXPENDITURES						
Other	-	-	-	-	-	-
Debt service						
Principal	165,000	165,000	-	755,000	755,000	-
Interest and fiscal fees	259,878	256,988	2,890	447,376	454,482	(7,106)
Total expenditures	424,878	421,988	2,890	1,202,376	1,209,482	(7,106)
Revenues over (under) expenditures	(424,878)	(420,775)	4,103	(398,439)	(388,264)	10,175
OTHER FINANCING SOURCES (USES)						
Operating transfers in	424,878	424,878	-	424,878	424,878	-
Operating transfers out	-	-	-	-	-	-
Proceeds of long-term debt	-	-	-	3,172,269	3,172,268	(1)
Payments to refunded bond escrow agent	-	-	-	(3,120,000)	(3,120,000)	-
Total other financing sources (uses)	424,878	424,878	-	477,147	477,146	(1)
Revenues and other sources over (under) expenditures	\$ -	4,103	\$ 4,103	\$ 78,708	\$ 88,882	\$ 10,174
FUND BALANCES, beginning of year		685			3,240,868	
FUND BALANCES, end of year		\$ 4,788			\$ 3,329,750	

CITY OF BOZEMAN, MONTANA  
 SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL  
 NONMAJOR GOVERNMENTAL FUNDS (CONTINUED)  
 Year Ended June 30, 2012

	Capital Projects Fund			Permanent Fund		
	General Improvements			Cemetery Perpetual Care		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Special assessments	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	-	84,000	87,573	3,573
Fines and forfeitures	-	-	-	-	-	-
Interest on investments	-	558	558	8,000	5,572	(2,428)
Loan repayment	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total revenues	-	558	558	92,000	93,145	1,145
EXPENDITURES - BUDGET						
UNIT	480,000	479,729	271	-	-	-
Revenues over (under) expenditures	(480,000)	(479,171)	829	92,000	93,145	1,145
OTHER FINANCING SOURCES (USES)						
Transfers in	-	125,394	125,394	40,000	40,000	-
Transfers out	-	-	-	-	-	-
Total other financing sources	-	125,394	125,394	40,000	40,000	-
Revenues and other sources over (under) expenditures	<u>\$ (480,000)</u>	(353,777)	<u>\$ 126,223</u>	<u>\$ 132,000</u>	133,145	<u>\$ 1,145</u>
FUND BALANCES, beginning of year		302,191			553,214	
FUND BALANCES, end of year		<u>\$ (51,586)</u>			<u>\$ 686,359</u>	

INTERNAL SERVICE FUNDS STATEMENTS

## INTERNAL SERVICE FUNDS

Internal Service Funds are used to account for the goods or services provided by one department to other departments of the City on a cost-reimbursement basis.

Vehicle Maintenance Shop – Accounts for the maintenance and repair of vehicles used in the operation of City services.

Medical Health Insurance – Accounts for insurance premium revenues received from the various City departments and retirees, and the related costs of health and dental claims incurred by city employees and retirees which are in-turn paid to the City's insurance program coordinator.

CITY OF BOZEMAN, MONTANA  
 COMBINING STATEMENT OF NET ASSETS  
 INTERNAL SERVICE FUNDS  
 June 30, 2012

	Vehicle Maintenance Shop	Medical Health Insurance	Total
<b>ASSETS</b>			
Current assets			
Cash and equivalents	\$ 529,403	\$ 243,167	\$ 772,570
Customer receivables, net	-	14,355	14,355
Total current assets	529,403	257,522	786,925
Machinery and equipment	135,166	-	135,166
Vehicles	70,312	-	70,312
Buildings	1,388,583	-	1,388,583
Less: accumulated depreciation	(294,766)	-	(294,766)
Net property, plant, and equipment	1,299,295	-	1,299,295
Total assets	\$ 1,828,698	\$ 257,522	\$ 2,086,220
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable	\$ 43,071	\$ 468	\$ 43,539
Accrued employee benefits	12,051	-	12,051
Other post-employment health benefits - implicit rate subsidy	21,093	-	21,093
Due to other City funds	-	-	-
Total current liabilities	76,215	468	76,683
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	1,299,295	-	1,299,295
Unrestricted	453,188	257,054	710,242
Total net assets	\$ 1,752,483	\$ 257,054	\$ 2,009,537

CITY OF BOZEMAN, MONTANA  
 COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
 INTERNAL SERVICE FUNDS  
 Year Ended June 30, 2012

	Vehicle Maintenance Shop	Medical Health Insurance	Total
<b>OPERATING REVENUES</b>			
Charges for services	\$ 763,086	\$ 3,684,416	\$ 4,447,502
<b>OPERATING EXPENSES</b>			
Salaries and benefits	267,252	-	267,252
Materials and supplies	377,237	-	377,237
Repairs and maintenance	2,611	-	2,611
Utilities	4,961	-	4,961
Administrative charges	38,344	-	38,344
Insurance claims	-	3,628,512	3,628,512
Other expenses	19,920	66,054	85,974
Depreciation	79,193	-	79,193
Total operating expenses	789,518	3,694,566	4,484,084
Operating income (loss)	(26,432)	(10,150)	(36,582)
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Interest income	1,851	-	1,851
Interest expense	-	(446)	(446)
Other income	3,128	8,297	11,425
Total non-operating revenue (expenses)	4,979	7,851	12,830
Income (loss) before transfers	(21,453)	(2,299)	(23,752)
Transfers in	301,324	-	301,324
Transfers out	-	-	-
Change in net assets	279,871	(2,299)	277,572
NET ASSETS, beginning of year	1,472,612	259,353	1,731,965
NET ASSETS, end of year	\$ 1,752,483	\$ 257,054	\$ 2,009,537

CITY OF BOZEMAN, MONTANA  
INTERNAL SERVICE FUNDS  
COMBINING STATEMENT OF CASH FLOWS  
Year Ended June 30, 2012

	Vehicle Maintenance Shop	Medical Health Insurance	Total
	<u>          </u>	<u>          </u>	<u>          </u>
<b>CASH FLOWS FROM OPERATIONS:</b>			
Receipts from customers	\$ 763,086	\$ 3,684,421	\$ 4,447,507
Receipts from others	3,128	8,297	11,425
Operating loans from other City funds	301,324	-	301,324
Payments to suppliers	(385,802)	(65,641)	(451,443)
Payments to employees	(257,077)	(3,628,512)	(3,885,589)
Payments to Internal Service Funds and administrative fees	(38,344)	-	(38,344)
	<u>          </u>	<u>          </u>	<u>          </u>
Net Cash Provided (Used) by Operating Activities	386,315	(1,435)	384,880
	<u>          </u>	<u>          </u>	<u>          </u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Additions to property, plant and equipment	(72,966)	-	(72,966)
Interest paid on bonds, interfund loans, loans and leases	-	(446)	(446)
	<u>          </u>	<u>          </u>	<u>          </u>
Net Cash Flows Used by Capital and Related Financing Activities	(72,966)	(446)	(73,412)
	<u>          </u>	<u>          </u>	<u>          </u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Interest on investments	1,851	-	1,851
	<u>          </u>	<u>          </u>	<u>          </u>
Net Increase (Decrease) in Cash and Cash Equivalents	315,200	(1,881)	313,319
	<u>          </u>	<u>          </u>	<u>          </u>
CASH AND EQUIVALENTS, beginning of year	214,203	245,048	459,251
	<u>          </u>	<u>          </u>	<u>          </u>
CASH AND EQUIVALENTS, end of year	<u>\$ 529,403</u>	<u>\$ 243,167</u>	<u>\$ 772,570</u>
			(continued)

CITY OF BOZEMAN, MONTANA  
INTERNAL SERVICE FUNDS  
COMBINING STATEMENT OF CASH FLOWS (CONTINUED)  
Year Ended June 30, 2012

A reconciliation of operating loss to cash provided (used) by operating activities follows:

	<u>Vehicle Maintenance Shop</u>	<u>Medical Health Insurance</u>	<u>Total</u>
OPERATING INCOME (LOSS)	\$ (26,432)	\$ (10,150)	\$ (36,582)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Depreciation	79,193	-	79,193
Other income	3,128	8,297	11,425
Changes in assets and liabilities:			
(Increase) Decrease in:			
Customer receivables	-	5	5
Prepaid expenses	-	-	-
Increase (Decrease) in:			
Accounts payable	18,927	413	19,340
Accrued employee benefits payable	10,175	-	10,175
Interfund borrowings	301,324	-	301,324
Total adjustments	<u>412,747</u>	<u>8,715</u>	<u>421,462</u>
Net cash provided (used) by operating activities	<u>\$ 386,315</u>	<u>\$ (1,435)</u>	<u>\$ 384,880</u>

AGENCY FUNDS STATEMENTS

## AGENCY FUNDS

Agency Funds are used to account for assets held by the City as an agent for individuals, private organizations, or other governments.

Montana Arts Council – Accounts for pass-through monies granted by the State of Montana for use by the Montana Ballet Company, Bozeman Symphony Orchestra, Intermountain Opera Association, Children’s Museum of Bozeman, Emerson Cultural Center, and the Equinox Theater Company.

Municipal Court – Accounts for monies held for court appearance bonds.

CITY OF BOZEMAN, MONTANA  
 AGENCY FUNDS  
 COMBINING STATEMENT OF FIDUCIARY NET ASSETS  
 June 30, 2012

	<u>Montana Arts Council</u>	<u>Municipal Court</u>	<u>Total Agency Funds</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ -	\$ 111,575	\$ 111,575
Customer receivables	-	560	560
	<u>\$ -</u>	<u>\$ 112,135</u>	<u>\$ 112,135</u>
Total assets	<u>\$ -</u>	<u>\$ 112,135</u>	<u>\$ 112,135</u>
<b>LIABILITIES</b>			
Accounts payable	\$ -	\$ 112,135	\$ 112,135
	<u>\$ -</u>	<u>\$ 112,135</u>	<u>\$ 112,135</u>
Total liabilities	<u>\$ -</u>	<u>\$ 112,135</u>	<u>\$ 112,135</u>

CITY OF BOZEMAN, MONTANA  
 AGENCY FUNDS  
 COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
 Year ended June 30, 2012

Montana Arts Council				
	Balance June 30, 2011	Additions	Deletions	Balance June 30, 2012
<b>ASSETS</b>				
Cash and cash equivalents	\$ -	\$ 11,092	\$ (11,092)	\$ -
Total assets	-	11,092	(11,092)	-
<b>LIABILITIES</b>				
Accounts payable	\$ -	\$ 11,092	\$ (11,092)	\$ -
Total liabilities	\$ -	\$ 11,092	\$ (11,092)	\$ -
Municipal Court				
	Balance June 30, 2011	Additions	Deletions	Balance June 30, 2012
<b>ASSETS</b>				
Cash and cash equivalents	\$ 218,595	\$ -	\$ (107,020)	\$ 111,575
Customer receivables	1,725	-	(1,165)	560
Total assets	\$ 220,320	\$ -	\$ (108,185)	\$ 112,135
<b>LIABILITIES</b>				
Accounts payable	\$ 220,320	-	(108,185)	112,135
Total liabilities	\$ 220,320	\$ -	\$ (108,185)	\$ 112,135

**PART III**

**STATISTICAL SECTION**

## Statistical Section

This part of the City of Bozeman's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures and required supplementary information says about the government's overall financial health.

<b>Contents</b>	<b>Page</b>
Financial Trends These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time	133
Revenue Capacity These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.	138
Debt Capacity These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.	144
Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.	149
Operating Information These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.	151

Sources: Unless otherwise noted, the information in these schedules is derived from the City of Bozeman comprehensive annual financial reports for the relevant year.

Note: The City of Bozeman implemented GASB Statement 34 in Fiscal Year 2002, therefore the data for prior years are not shown; schedules presenting government-wide information include information beginning in that year.

## FINANCIAL TRENDS SECTION

**CITY OF BOZEMAN, MONTANA**  
**NET ASSETS BY COMPONENT**  
**Past Ten Fiscal Years**

	Fiscal Year									
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Governmental activities										
Invested in capital assets, net of related debt	(1,618,282)	5,197,117	8,409,053	22,987,166	77,734,584	80,873,924	83,707,824	84,113,904	88,844,404	88,500,437
Restricted	6,890,530	10,615,720	12,343,248	5,242,903	546,916	9,254,307	7,699,511	8,082,181	20,962,038	20,797,365
Unrestricted	24,396,920	17,345,961	21,077,779	25,537,959	28,481,673	23,443,921	20,871,106	25,076,908	16,049,044	13,470,543
Total governmental activities net assets	<u>\$ 29,669,168</u>	<u>\$ 33,158,798</u>	<u>\$ 41,830,080</u>	<u>\$ 53,768,028</u>	<u>\$ 106,763,173</u>	<u>\$ 113,572,152</u>	<u>\$ 112,278,441</u>	<u>\$ 117,272,993</u>	<u>\$ 125,855,486</u>	<u>\$ 122,768,345</u>
Business-type activities										
Invested in capital assets, net of related debt	19,960,910	25,174,352	28,124,307	28,416,015	154,227,534	177,379,168	188,077,778	189,965,189	188,180,889	192,485,459
Restricted	967,939	13,357,348	11,041,147	13,462,443	17,099,866	18,322,089	19,775,588	9,044,280	12,660,466	11,446,886
Unrestricted	19,412,803	9,174,747	12,284,379	12,899,363	16,550,235	17,547,218	11,936,119	16,069,597	12,382,018	2,809,558
Total business-type activities	<u>\$ 40,341,652</u>	<u>\$ 47,706,447</u>	<u>\$ 51,449,833</u>	<u>\$ 54,777,821</u>	<u>\$ 187,877,635</u>	<u>\$ 213,248,475</u>	<u>\$ 219,789,485</u>	<u>\$ 215,079,066</u>	<u>\$ 213,223,373</u>	<u>\$ 206,741,903</u>
Primary government										
Invested in capital assets, net of related debt	18,342,628	30,371,469	36,533,360	51,403,181	231,962,118	258,253,092	271,785,602	274,079,093	277,025,293	280,985,896
Restricted	7,858,469	23,973,068	23,384,395	18,705,346	17,646,782	27,576,396	27,475,099	17,126,461	33,622,504	32,244,251
Unrestricted	43,809,723	26,520,708	33,362,158	38,437,322	45,031,908	40,991,139	32,807,225	41,146,505	28,431,062	16,280,101
Total primary government net assets	<u>\$ 70,010,820</u>	<u>\$ 80,865,245</u>	<u>\$ 93,279,913</u>	<u>\$ 108,545,849</u>	<u>\$ 294,640,808</u>	<u>\$ 326,820,627</u>	<u>\$ 332,067,926</u>	<u>\$ 332,352,059</u>	<u>\$ 339,078,859</u>	<u>\$ 329,510,248</u>

Unaudited statistical section.

**CITY OF BOZEMAN, MONTANA**  
**CHANGES IN NET ASSETS**  
**Past Ten Fiscal Years**  
*(accrual basis of accounting)*

	Fiscal Year									
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
<b>Expenses</b>										
Governmental Activities:										
General government	5,095,401	4,427,676	4,986,413	5,666,069	5,733,371	6,969,181	6,629,783	6,299,831	6,122,190	8,706,665
Public Safety	8,027,193	8,078,120	8,834,875	9,858,055	10,488,873	11,183,637	11,556,016	12,382,157	12,859,702	13,215,680
Public Service	3,182,445	3,096,273	3,475,067	4,163,644	8,511,308	8,979,085	10,130,184	9,703,594	9,190,515	8,174,461
Public Welfare	3,542,608	4,017,654	4,372,959	5,477,065	5,536,741	5,412,192	6,465,940	6,915,557	7,500,727	7,249,008
Interest and fiscal fees	672,243	667,118	709,178	550,296	549,667	649,226	737,762	714,714	679,652	636,478
Total governmental activities expenses	\$ 20,519,890	\$ 20,286,841	\$ 22,378,492	\$ 25,715,129	\$ 30,819,960	\$ 33,193,321	\$ 35,519,685	\$ 36,015,853	\$ 36,352,786	\$ 37,982,292
Business-type activities:										
Water	2,924,951	3,782,726	4,292,503	4,824,505	10,490,811	11,150,266	11,872,984	12,016,149	11,649,639	11,674,222
Wastewater	2,556,245	3,353,567	4,246,156	4,586,959	7,376,348	8,061,412	10,293,894	9,143,077	10,128,397	10,203,165
Solid waste	1,955,939	2,462,291	2,720,738	3,547,902	3,283,135	2,574,651	2,687,590	2,561,124	2,578,109	2,584,899
Parking							766,454	967,077	991,712	990,229
Total business-type activities expenses	7,437,135	9,598,584	11,259,397	12,959,366	21,150,294	21,786,329	25,620,922	24,687,427	25,347,857	25,452,515
Total primary government expenses	\$ 27,957,025	\$ 29,885,425	\$ 33,637,889	\$ 38,674,495	\$ 51,970,254	\$ 54,979,650	\$ 61,140,607	\$ 60,703,280	\$ 61,700,643	\$ 63,434,807
<b>Program Revenues</b>										
Governmental activities:										
Charges for services:										
General government	1,230,771	793,529	1,261,652	1,496,818	2,023,362	2,237,962	1,795,469	2,774,869	2,870,443	1,949,125
Public Safety	2,586,058	2,390,179	1,898,531	1,984,642	3,712,280	3,575,133	3,500,929	2,414,893	2,684,724	2,638,811
Public Service	4,084,641	3,934,801	10,302,583	9,217,198	5,361,852	4,858,444	4,790,460	3,742,856	4,454,492	4,983,420
Public Welfare	812,909	865,910	567,471	718,162	704,790	713,342	779,841	399,280	451,960	1,102,896
Operating grants and contributions	461,355	878,713	360,980	502,198	409,263	502,863	439,131	693,342	1,114,835	566,586
Capital grants and contributions	61,675	37,538	513,034	1,380,553	18,694,375	7,153,103	8,219,791	5,307,118	7,867,093	635,758
Total governmental activities program revenues	\$ 9,237,409	\$ 8,900,670	\$ 14,904,251	\$ 15,299,571	\$ 30,905,922	\$ 19,040,847	\$ 19,525,621	\$ 15,332,358	\$ 19,443,547	\$ 11,876,596
Business-type activities										
Charges for services:										
Water	5,503,363	5,842,122	6,547,228	7,434,574	8,604,498	8,222,724	7,221,378	6,986,247	7,064,571	7,921,483
Wastewater	5,626,790	5,765,594	6,074,615	6,430,206	7,052,987	6,918,132	6,052,668	6,505,119	6,930,036	7,488,473
Solid waste	3,632,183	3,884,723	3,648,930	2,582,437	2,428,230	2,608,662	2,391,641	2,716,981	2,569,607	2,570,644
Parking	-	-	-	-	-	-	467,607	326,820	417,114	385,056
Operating grants and contributions	14,643	35,396	36,129	-	-	-	-	-	-	-
Capital grants and contributions:	1,520,318	1,585,544	1,595,805	1,624,237	26,464,222	29,405,599	6,465,230	3,621,051	6,589,612	566,138
Total business-type activities program revenues	16,297,297	17,113,379	17,902,707	18,071,454	44,549,937	47,155,117	22,598,524	20,156,218	23,570,940	18,931,794
Total primary government program revenues	\$ 25,534,706	\$ 26,014,049	\$ 32,806,958	\$ 33,371,025	\$ 75,455,859	\$ 66,195,964	\$ 42,124,145	\$ 35,488,576	\$ 43,014,487	\$ 30,808,390

**CITY OF BOZEMAN, MONTANA**  
**CHANGES IN NET ASSETS**  
**Past Ten Fiscal Years**  
*(accrual basis of accounting)*

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>Net (Expense) / Revenue</b>										
Governmental activities	(11,282,481)	(11,386,171)	(7,474,241)	(10,415,558)	85,962	(14,152,474)	(15,994,064)	(20,683,495)	(16,909,239)	(26,105,696)
Business-type activities	8,860,162	7,514,795	6,643,310	5,112,088	23,399,643	25,368,788	(3,022,398)	(4,531,209)	(1,776,917)	(6,520,721)
Total primary government net expense	<u>\$ (2,422,319)</u>	<u>\$ (3,871,376)</u>	<u>\$ (830,931)</u>	<u>\$ (5,303,470)</u>	<u>\$ 23,485,605</u>	<u>\$ 11,216,314</u>	<u>\$ (19,016,462)</u>	<u>\$ (25,214,704)</u>	<u>\$ (18,686,156)</u>	<u>\$ (32,626,417)</u>
General Revenues and Other Changes in Net Assets										
Governmental activities:										
Taxes										
Property taxes	8,028,832	9,104,945	10,437,702	11,137,006	11,836,748	12,070,765	14,629,230	15,501,316	16,342,053	15,716,055
Unrestricted grants and contributions	4,732,127	4,327,489	4,910,306	5,163,288	5,375,807	5,617,243	6,125,789	6,284,467	6,782,383	6,898,717
Investment earnings	417,156	344,013	606,120	852,222	1,093,115	1,362,790	671,859	352,378	301,424	283,090
Miscellaneous	1,093,888	979,820	2,422,805	3,416,890	1,940,156	1,859,313	2,766,671	2,256,071	1,556,790	155,484
Sale of capital assets	-	-	-	-	490,637	51,342	68,057	761,952	(8,168)	2,326
Transfers of capital assets	-	-	-	-	-	-	(6,311,324)	-	-	-
Transfers	-	150,000	-	1,784,100	489,780	-	(3,249,929)	521,863	517,250	(37,136)
Extraordinary items	-	-	(2,231,410)	-	-	-	-	-	-	-
Total governmental activities	<u>\$ 14,272,003</u>	<u>\$ 14,906,267</u>	<u>\$ 16,145,523</u>	<u>\$ 22,353,506</u>	<u>\$ 21,226,243</u>	<u>\$ 20,961,453</u>	<u>\$ 14,700,353</u>	<u>\$ 25,678,047</u>	<u>\$ 25,491,732</u>	<u>\$ 23,018,536</u>
Business-type activities:										
Unrestricted grants and contributions	-	-	-	-	3,182	2,052	2,155	342,653	438,475	2,115
Transfers of capital assets	-	-	-	-	-	-	6,311,324	-	-	-
Transfers	-	(150,000)	-	(1,784,100)	(489,780)	-	3,249,929	(521,863)	(517,251)	37,136
Extraordinary items	-	-	(2,899,924)	-	-	-	-	-	-	-
Total business-type activities	<u>-</u>	<u>(150,000)</u>	<u>(2,899,924)</u>	<u>(1,784,100)</u>	<u>(486,598)</u>	<u>2,052</u>	<u>9,563,408</u>	<u>(179,210)</u>	<u>(78,776)</u>	<u>39,251</u>
Total primary government	<u>\$ 14,272,003</u>	<u>\$ 14,756,267</u>	<u>\$ 13,245,599</u>	<u>\$ 20,569,406</u>	<u>\$ 20,739,645</u>	<u>\$ 20,963,505</u>	<u>\$ 24,263,761</u>	<u>\$ 25,498,837</u>	<u>\$ 25,412,956</u>	<u>\$ 23,057,787</u>
<b>Change in Net Assets</b>										
Governmental activities	2,989,522	3,520,096	8,671,282	11,937,948	21,312,205	6,808,979	(1,293,711)	4,994,552	8,582,493	(3,087,160)
Business-type activities	8,860,162	7,364,795	3,743,386	3,327,988	22,913,045	25,370,840	6,541,010	(4,710,419)	(1,855,693)	(6,481,470)
Total primary government	<u>\$ 11,849,684</u>	<u>\$ 10,884,891</u>	<u>\$ 12,414,668</u>	<u>\$ 15,265,936</u>	<u>\$ 44,225,250</u>	<u>\$ 32,179,819</u>	<u>\$ 5,247,299</u>	<u>\$ 284,133</u>	<u>\$ 6,726,800</u>	<u>\$ (9,568,630)</u>

**CITY OF BOZEMAN, MONTANA**  
**FUND BALANCE, GOVERNMENTAL FUNDS**  
**Past Ten Fiscal Years**  
*(modified accrual basis of accounting)*

	Fiscal Year									
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
General Fund										
Reserved	-	-	11,687	5,725	3,000	3,000	63,000	-		
Unreserved	3,083,832	3,345,541	3,996,600	3,173,374	4,367,538	4,516,814	5,301,397	5,119,400		
Nonspendable									-	-
Restricted									-	-
Committed									-	-
Assigned									5,991,388	7,062,964
Unassigned									905,862	264,091
Total general fund	<u>3,083,832</u>	<u>3,345,541</u>	<u>4,008,287</u>	<u>3,179,099</u>	<u>4,370,538</u>	<u>4,519,814</u>	<u>5,364,397</u>	<u>5,119,400</u>	<u>6,897,250</u>	<u>7,327,055</u>
All Other Governmental										
Reserved	7,965,826	7,315,275	1,606,904	2,164,698	2,996,832	3,045,231	2,660,918	6,597,569		
Unreserved, reported in:										
Special revenue funds	11,993,869	14,362,029	16,296,309	9,776,823	13,205,328	13,723,846	12,516,240	14,916,152		
Capital projects funds	3,656,555	2,037,255	4,545,867	6,598,235	-	2,884,553	-	1,793,287		
Debt service funds	-	-	-	-	-	-	-	-		
Nonspendable									999,464	1,113,484
Restricted									19,962,574	19,683,881
Committed									3,278,422	3,463,714
Assigned									6,049,807	7,062,964
Unassigned									905,862	212,205
Total all other governmental funds	<u>23,616,250</u>	<u>23,714,559</u>	<u>22,449,080</u>	<u>18,539,756</u>	<u>16,202,160</u>	<u>19,653,630</u>	<u>15,177,158</u>	<u>23,307,008</u>	<u>31,196,129</u>	<u>31,536,248</u>

Note: The City of Bozeman implemented the new standards for reporting fund balance GASB Statement 54 in fiscal year 2011

Unaudited statistical section.

**CITY OF BOZEMAN, MONTANA**  
**CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS**  
**Past Ten Fiscal Years**  
*(modified accrual basis of accounting)*

	Fiscal Year									
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
<b>Revenues</b>										
Taxes	7,940,777	9,274,923	10,480,668	11,222,034	11,853,872	12,004,946	14,451,954	15,055,844	16,634,924	16,057,318
Special assessments	1,234,119	1,164,151	2,478,024	1,931,261	1,866,717	1,793,813	1,633,896	1,643,500	1,866,272	1,898,007
Licenses and permits	1,138,801	1,120,864	1,566,812	1,653,546	1,762,086	1,351,887	1,140,831	958,590	1,308,378	1,214,705
Intergovernmental	5,255,157	5,243,740	5,784,320	7,046,039	6,115,697	9,642,918	7,102,049	7,900,176	8,299,803	7,697,637
Charges for service	5,637,618	5,246,608	5,818,566	6,347,087	7,403,739	6,748,891	6,468,006	5,790,382	6,629,507	6,891,594
Fines and forfeitures	1,305,536	1,188,706	1,443,468	1,461,398	1,746,213	1,644,767	1,597,236	1,518,481	1,441,383	1,364,617
Interest on investments	413,212	342,979	545,805	848,909	1,068,802	1,360,914	671,859	352,378	300,516	281,239
loan repayment	211,936	183,987	426,076	291,338	10,193	19,849	9,985	10,401	193,302	306,385
Other	1,037,347	901,696	2,421,201	3,412,410	1,940,156	1,859,313	2,766,671	2,256,071	1,556,790	155,484
<b>Total revenues</b>	<b>24,174,503</b>	<b>24,667,654</b>	<b>30,964,940</b>	<b>34,214,022</b>	<b>33,767,475</b>	<b>36,427,298</b>	<b>35,842,487</b>	<b>35,485,823</b>	<b>38,230,875</b>	<b>35,866,986</b>
<b>Expenditures</b>										
General government	3,853,464	4,406,577	5,006,986	5,309,637	5,577,810	6,153,838	5,946,355	5,690,488	5,939,771	6,266,566
Public safety	7,232,374	7,661,421	8,535,646	9,494,622	10,160,291	10,778,917	11,056,742	11,709,170	12,137,616	12,513,270
Public service	2,028,864	2,115,856	2,363,585	2,276,802	3,060,672	3,020,855	2,976,711	2,702,510	3,002,021	2,738,066
Public welfare	3,430,983	4,154,228	4,320,299	5,099,873	4,315,086	4,819,758	5,161,997	4,916,828	6,435,916	6,184,073
Capital outlay	3,536,045	4,824,965	6,417,671	18,374,651	11,397,365	12,205,040	9,380,742	4,248,758	3,299,017	3,881,388
Debt service										
Principal	850,119	1,448,320	6,788,969	989,041	833,158	2,013,232	1,138,051	1,194,819	1,611,087	3,235,664
Interest & Fiscal Fees	672,243	667,118	709,178	570,360	549,667	649,662	738,198	715,150	680,088	666,082
<b>Total expenditures</b>	<b>21,604,092</b>	<b>25,278,485</b>	<b>34,142,334</b>	<b>42,135,050</b>	<b>35,894,049</b>	<b>39,641,302</b>	<b>36,398,796</b>	<b>31,177,723</b>	<b>33,105,516</b>	<b>35,485,109</b>
Excess of revenues over (under) expenditures	2,570,411	(610,831)	(3,177,394)	(7,921,028)	(2,126,574)	(3,214,004)	(556,309)	4,308,100	5,125,359	381,877
<b>Other Financing Sources (Uses)</b>										
Proceeds from borrowing	5,271,000	-	4,804,467	1,376,869	-	-	-	-	-	-
Transfers in	3,012,716	3,137,517	5,497,553	17,619,744	4,565,896	4,604,100	8,394,126	10,857,332	6,985,734	3,482,550
Transfers out	(3,013,286)	(2,987,517)	(5,497,553)	(15,835,644)	(4,076,116)	(4,604,100)	(11,733,378)	(11,033,925)	(7,255,505)	(3,821,010)
Issuance of debt						6,554,166	177,346	890,000	-	3,357,798
Premium on Bonds Issued						10,896	-	-	-	-
Payments to Refunded Bond Escrow Agent										(3,120,000)
Sales of capital assets	7,856	820,849	1,604	1,483	490,637	249,688	86,326	766,922	10,555	59,204
<b>Total other financing sources (uses)</b>	<b>5,278,286</b>	<b>970,849</b>	<b>4,806,071</b>	<b>3,162,452</b>	<b>980,417</b>	<b>6,814,750</b>	<b>(3,075,580)</b>	<b>1,480,329</b>	<b>(259,216)</b>	<b>(41,458)</b>
<b>Extraordinary items</b>										
Net change in fund balances	\$ 7,848,697	\$ 360,018	\$ 1,628,677	\$ (4,758,576)	\$ (1,146,157)	\$ 3,600,746	\$ (3,631,889)	\$ 5,788,429	\$ 4,866,143	\$ 340,419
Debt service as a percentage of noncapital expenditures	8.4%	10.3%	27.0%	6.6%	5.6%	9.7%	6.9%	7.1%	7.7%	12.3%

Unaudited statistical section.

REVENUE CAPACITY SECTION

**CITY OF BOZEMAN, MONTANA**  
**ASSESSED VALUE OF TAXABLE PROPERTY**  
**Past Ten Fiscal Years**

Fiscal Year Ended <u>June 30,</u>	<u>Residential Property</u>	<u>Commercial &amp; Industrial Property</u>	<u>Agricultural Property</u>	Total Taxable Assessed <u>Value</u>	Total Direct Tax <u>Rate</u>
2003	25,790,800	17,500,900	2,763,300	46,055,000	154.21
2004	27,753,040	18,832,420	2,973,540	49,559,000	163.31
2005	29,671,600	20,134,300	3,179,100	52,985,000	171.99
2006	32,515,280	22,063,940	3,483,780	58,063,000	168.26
2007	35,419,440	24,034,620	3,794,940	63,249,000	163.42
2008	38,629,360	26,212,780	4,138,860	68,981,000	154.18
2009	41,539,680	28,187,640	4,450,680	74,178,000	171.16
2010	43,842,400	29,750,200	4,697,400	78,290,000	170.19
2011	45,023,440	30,551,620	4,823,940	80,399,000	168.75
2012	45,954,720	31,183,560	4,923,720	82,062,000	166.75

Source: Based on information provided by Gallatin County and Department of Revenue

Note: Property is assessed by the State Department of Revenue every six years.

**CITY OF BOZEMAN, MONTANA**  
**DIRECT AND OVERLAPPING PROPERTY TAX RATES**  
**Past Ten Fiscal Years**  
*(rate per \$1,000 of assessed value)*

Fiscal Year Ended <u>June 30.</u>	<u>Basic Rate</u>	General Obligation Debt <u>Service</u>	Total Direct Tax <u>Rate</u>	Bozeman School <u>District</u>	Gallatin <u>County</u>	State of <u>Montana</u>
2003	139.95	14.26	154.21	252.94	189.94	46.00
2004	154.09	9.22	163.31	266.43	200.59	46.00
2005	158.67	13.32	171.99	264.68	194.15	46.00
2006	155.89	12.37	168.26	265.55	196.74	46.00
2007	152.07	11.35	163.42	182.74	197.36	46.00
2008	142.98	11.20	154.18	183.85	205.40	46.00
2009	160.59	10.57	171.16	212.53	210.14	46.00
2010	160.18	10.01	170.19	199.54	210.25	46.00
2011	158.96	9.79	168.75	196.89	217.21	46.00
2012	157.19	9.56	166.75	196.86	215.77	46.00

Source: Based on information provided by Gallatin County and Department of Revenue

**CITY OF BOZEMAN, MONTANA  
PRINCIPAL PROPERTY TAX PAYERS  
Current Year and Nine Years Ago**

<u>Taxpayer</u>	<u>2012</u>			<u>2003</u>		
	<u>Taxable Assessed Value</u>	<u>Rank</u>	<u>Percentage of Total City Taxable Assessed Value</u>	<u>Total Assessed Value</u>	<u>Rank</u>	<u>Percentage of Total City Taxable Assessed Value</u>
Northwestern Corp Transmission & Distribution	3,476,581	1	4.24%	2,194,321	1	4.76%
Qwest Corporation	974,616	2	1.19%	1,286,347	2	2.79%
Bresnan Communications	973,911	3	1.19%			
Verizon Wireless	543,977	4	0.66%			
Harry Daum - Gallatin Mall	508,230	5	0.62%	633,689	3	1.38%
Stone Ridge Partners LLC	440,095	6	0.54%			
First Security Bank	342,184	7	0.42%	218,822	8	0.48%
Bridger Peaks Holding LLC	339,009	8	0.41%	303,380	4	0.66%
Highgate Bozeman LLC	321,938	9	0.39%			
BVI/HJSI Bozeman LLC	308,067	10	0.38%			
Bozeman Deaconess Foundation				279,071	5	0.61%
Costco Wholesale				270,589	6	0.59%
Dayton Hudson Corporation				224,177	7	0.49%
Bozeman Investors of Duluth, LP				214,026	9	0.46%
Arcadia Gardens Apartments LLC				205,239	10	0.45%
<b>Total</b>	<b>\$ 8,228,608</b>		<b>10.03%</b>	<b>\$ 5,829,661</b>		<b>12.66%</b>
<b>Total City Taxable Assessed Value</b>	<b>\$ 82,062,000</b>			<b>\$ 46,055,000</b>		

Source: Gallatin County Treasurer

**CITY OF BOZEMAN, MONTANA**  
**PROPERTY TAX LEVIES AND COLLECTIONS**  
**Past Ten Fiscal Years**

<b>Fiscal Year Ended June 30,</b>	<b>Taxes Levied for the Fiscal Year</b>	<b>Collected within the Fiscal Year of the Levy</b>		<b>Collections in Subsequent Years</b>	<b>Total Collections to Date</b>	
		<b><u>Amount</u></b>	<b><u>Percentage of Levy</u></b>		<b><u>Amount</u></b>	<b><u>Percentage of Levy</u></b>
2003	7,102,142	6,691,991	94.22%	406,806	7,098,797	99.95%
2004	8,093,480	7,910,446	97.74%	181,351	8,091,797	99.98%
2005	9,112,890	8,825,662	96.85%	285,312	9,110,973	99.98%
2006	9,769,893	9,490,225	97.14%	183,410	9,673,635	99.01%
2007	10,336,467	10,227,386	98.94%	105,990	10,333,376	99.97%
2008	10,635,491	10,324,653	97.08%	221,694	10,546,347	99.16%
2009	12,696,306	12,493,145	98.40%	138,874	12,632,018	99.49%
2010	13,324,175	12,415,922	93.18%	883,305	13,299,227	99.81%
2011	13,567,611	13,001,537	95.83%	434,439	13,435,976	99.03%
2012	13,683,839	13,108,003	95.79%	-	13,108,003	95.79%

Source: Gallatin County  
City Manager's Final Adopted Budget

**CITY OF BOZEMAN, MONTANA**  
**WATER SOLD BY TYPE OF CUSTOMER**  
**Past Ten Fiscal Years**  
*(in hundreds of cubic feet "HCF")*

Type of Customer	Fiscal Year									
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Residential	1,224,671	1,255,288	1,286,670	1,318,837	1,437,114	1,379,115	1,516,359	1,224,164	1,181,195	1,323,816
Government	25,667	26,308	26,966	27,640	62,913	49,623	66,253	51,168	48,228	49,349
MSU	274,049	280,901	287,923	295,121	298,352	260,232	254,891	228,789	227,019	235,965
Commercial	661,049	677,576	694,515	711,878	659,831	626,846	670,961	571,223	568,474	602,352
<b>Total</b>	<b>2,185,436</b>	<b>2,240,072</b>	<b>2,296,074</b>	<b>2,353,476</b>	<b>2,458,209</b>	<b>2,315,816</b>	<b>2,508,464</b>	<b>2,075,343</b>	<b>2,024,916</b>	<b>2,211,481</b>
Total direct rate per 1,000 HCF	\$ 1,653.23	\$ 1,790.77	\$ 1,753.67	\$ 2,055.72	\$ 2,190.03	\$ 2,478.36	\$ 2,495.43	\$ 2,679.44	\$ 2,787.06	\$ 2,887.40

Source: City of Bozeman Finance Department

**CITY OF BOZEMAN, MONTANA  
WATER AND SEWER RATES  
Past Ten Fiscal Years**

<b>Fiscal Year Ended June 30,</b>	<b>Water</b>		<b>Sewer</b>	
	<b>Monthly Base Rate</b>	<b>Rate per 1,000 Gallons</b>	<b>Monthly Base Rate</b>	<b>Rate per 1,000 Gallons</b>
2003	\$ 9.92	\$ 16.06	\$ 10.74	\$ 17.80
2004	\$ 9.92	\$ 17.24	\$ 10.74	\$ 17.80
2005	\$ 10.42	\$ 16.83	\$ 8.59	\$ 14.20
2006	\$ 11.46	\$ 18.53	\$ 9.88	\$ 16.30
2007	\$ 12.60	\$ 19.74	\$ 10.87	\$ 18.00
2008	\$ 12.60	\$ 19.74	\$ 11.17	\$ 18.50
2009	\$ 12.60	\$ 19.74	\$ 12.13	\$ 20.10
2010	\$ 13.00	\$ 20.37	\$ 13.37	\$ 22.15
2011	\$ 13.42	\$ 21.02	\$ 14.73	\$ 24.41
2012	\$ 14.02	\$ 21.96	\$ 15.61	\$ 25.87

\* For Residential Customers, using 5/8 inch meter size.

Sources: City of Bozeman, Montana Commission Resolution 3804  
City of Bozeman, Montana Commission Resolution 3805  
City of Bozeman, Montana Commission Resolution 3929  
City of Bozeman, Montana Commission Resolution 3930  
City of Bozeman, Montana Commission Resolution 4042  
City of Bozeman, Montana Commission Resolution 4043  
City of Bozeman, Montana Commission Resolution 4184  
City of Bozeman, Montana Commission Resolution 4185  
City of Bozeman, Montana Commission Resolution 4327  
City of Bozeman, Montana Commission Resolution 4328

Unaudited statistical section.

DEBT CAPACITY SECTION

**CITY OF BOZEMAN, MONTANA**  
**RATIO OF OUTSTANDING DEBT BY TYPE**  
**Past Ten Fiscal Years**

<b>Fiscal Year Ended June 30,</b>	<b>Governmental Activities</b>				<b>Business-Type Activities</b>		<b>Total Primary Government</b>	<b>Percentage of Personal Income</b>	<b>Per Capita</b>
	<b>General Obligation Bonds</b>	<b>Notes Payable</b>	<b>Special Assessment Bonds</b>	<b>Tax Increment Financing Bonds</b>	<b>Water Revenue Bonds</b>	<b>Wastewater State of MT RLF Loans</b>			
2003	10,960,000	377,761	5,152,000	-	1,995,578	-	18,485,339	4.09%	\$ 622.55
2004	10,565,000	308,397	4,149,800	-	1,582,299	-	16,605,496	3.38%	\$ 538.95
2005	6,800,000	235,628	6,065,600	-	1,150,633	-	14,251,861	2.66%	\$ 446.40
2006	6,325,000	159,286	7,004,769	-	700,412	-	14,189,467	2.42%	\$ 426.37
2007	5,840,000	79,198	6,736,700	-	226,460	-	12,882,358	2.00%	\$ 369.84
2008	5,340,000	-	5,601,000	6,000,000	143,729	-	17,084,729	2.43%	\$ 475.32
2009	4,815,000	-	5,211,000	5,850,000	56,615	-	15,932,615	1.97%	\$ 431.39
2010	4,275,000	851,071	4,819,000	5,695,000	28,992	7,902,127	23,571,191	2.72%	\$ 635.32
2011	3,710,000	509,705	4,351,500	5,535,000	-	24,017,080	38,123,285	4.65%	\$1,022.62
2012	3,080,000	306,727	2,269,500	5,370,000	182,577	23,853,427	35,062,231	4.36%	\$ 922.08

Sources: City Manager's Final Adopted Budget  
City of Bozeman Finance Department

**CITY OF BOZEMAN, MONTANA**  
**RATIOS OF GENERAL BONDED DEBT OUTSTANDING**  
**Past Ten Fiscal Years**

<b>Fiscal Year Ended June 30,</b>	<b>General Bonded Debt Outstanding</b>			<b>Percentage of</b>	
	<b>General Obligation Bonds</b>	<b>Special Assessment Bonds</b>	<b>Total</b>	<b>Actual Taxable Value of Property</b>	<b>Per Capita</b>
2003	10,960,000	-	16,112,000	35.0%	\$ 542.62
2004	10,565,000	-	14,714,800	29.7%	\$ 477.58
2005	6,800,000	-	12,865,600	24.3%	\$ 402.98
2006	6,325,000	-	13,329,769	23.0%	\$ 400.53
2007	5,840,000	-	12,576,700	19.9%	\$ 361.07
2008	5,340,000	6,000,000	11,340,000	16.4%	\$ 315.49
2009	4,815,000	5,850,000	10,665,000	14.4%	\$ 288.77
2010	4,275,000	5,695,000	9,970,000	12.7%	\$ 268.73
2011	3,710,000	5,535,000	9,245,000	11.5%	\$ 247.99
2012	3,080,000	5,370,000	8,450,000	10.3%	\$ 222.22

Source: City Manager's Final Adopted Budget

**CITY OF BOZEMAN, MONTANA**  
**DIRECT & OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT**  
**Past Two Fiscal Years**

	Debt Outstanding as of June 30, 2012	Estimated Percentage Applicable (1)	Estimated Share of Overlapping Debt
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<u>Overlapping Bonded Indebtedness</u>			
Gallatin County:			
Various issues outstanding	\$ 55,929,523	36%	\$ 19,994,529
Bozeman School District #7:			
Various issues outstanding	<u>64,799,451</u>	<u>68%</u>	<u>\$ 43,815,887</u>
Subtotal overlapping debt			\$ 63,810,416
<u>City of Bozeman, Montana</u>			
Direct Debt	<u>11,230,088</u>	<u>100%</u>	<u>\$ 11,230,088</u>
Total Direct & Overlapping Debt			<u>\$ 75,040,505</u>

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of Bozeman. This process recognizes that, when considering the City's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

(1) The percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the portion of another governmental unit's taxable assessed value that is within the City's boundaries and dividing it by each entity's total taxable assessed value.

Sources:

City of Bozeman Finance Department  
Gallatin County Assessor's Office  
Bozeman School District #7

**CITY OF BOZEMAN, MONTANA**  
**LEGAL DEBT MARGIN INFORMATION**  
**Past Ten Fiscal Years**

	Fiscal Year									
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Debt limit*	21,560,620	23,737,036	26,559,967	29,591,000	34,755,653	54,804,000	60,185,000	66,375,000	70,688,000	74,875,000
Total net debt applicable to limit	(7,747,833)	(7,588,181)	(3,750,411)	(6,568,569)	(5,595,558)	(5,423,128)	(4,842,905)	\$ (4,295,240)	\$ (3,638,239)	\$ (3,386,727)
Legal debt margin	<u>\$ 13,812,787</u>	<u>\$ 16,148,855</u>	<u>\$ 22,809,556</u>	<u>\$ 23,022,431</u>	<u>\$ 29,160,095</u>	<u>\$ 49,380,872</u>	<u>\$ 55,342,095</u>	<u>\$ 62,079,760</u>	<u>\$ 67,049,761</u>	<u>\$ 71,488,273</u>
Total net debt applicable to the limit as a percentage of debt limit	35.9%	32.0%	14.1%	22.2%	16.1%	9.9%	8.0%	6.5%	5.1%	4.5%

\*2.5% of total market value of taxable property of \$2.995 Billion

Source: City Manager's Final Adopted Budget

Unaudited statistical section.

**CITY OF BOZEMAN, MONTANA  
PLEDGED-REVENUE COVERAGE  
Past Ten Fiscal Years**

<b>Fiscal Year Ended June 30,</b>	<b>Water Revenue Bonds</b>					<b>Special Assessment Bonds</b>			
	<b>Utility Service Charges</b>	<b>Less: Operating Expenses</b>	<b>Debt Service</b>		<b>Coverage</b>	<b>Special Assessment Collections</b>	<b>Debt Service</b>		<b>Coverage</b>
			<b>Principal</b>	<b>Interest</b>			<b>Principal</b>	<b>Interest</b>	
2003	3,935,636	(2,271,120)	(395,052)	(103,613)	1,165,851	1,050,180	(479,000)	(270,202)	300,978
2004	4,359,299	(2,440,762)	(413,280)	(85,391)	1,419,866	932,771	(997,200)	(250,571)	(315,000)
2005	4,429,294	(2,647,507)	(431,666)	(65,963)	1,284,158	588,887	(2,951,200)	(364,814)	(2,727,127)
2006	5,401,069	(2,866,140)	(450,220)	(45,317)	2,039,392	1,472,058	(437,700)	(297,876)	736,482
2007	6,124,533	(3,114,053)	(473,952)	(23,391)	2,513,137	1,428,084	(268,069)	(309,119)	850,896
2008	6,163,883	(3,769,941)	(82,731)	(10,231)	2,300,981	1,178,846	(1,135,700)	(278,393)	(235,247)
2009	5,938,745	(3,770,800)	(87,009)	(5,978)	2,074,958	1,022,641	(390,000)	(241,395)	391,246
2010	5,860,144	(3,950,566)	(27,622)	(2,440)	1,879,516	989,977	(392,000)	(223,763)	374,214
2011	6,013,211	(3,869,048)	(28,992)	(1,070)	2,114,101	1,134,049	(467,500)	(211,204)	455,345
2012	6,814,990	(4,063,529)	(159,000)	(6,405)	2,586,056	858,699	(2,082,000)	(192,320)	(1,415,621)

<b>Fiscal Year Ended June 30,</b>	<b>Waste Water Revenue Bonds</b>				
	<b>Utility Service Charges</b>	<b>Less: Operating Expenses</b>	<b>Debt Service</b>		<b>Coverage</b>
			<b>Principal</b>	<b>Interest</b>	
2003	3,877,903	(1,873,649)	-	-	2,004,254
2004	3,929,029	(2,163,495)	-	-	1,765,534
2005	3,388,716	(2,608,972)	-	-	779,744
2006	3,839,157	(2,675,004)	-	-	1,164,153
2007	4,262,052	(2,792,274)	-	-	1,469,778
2008	4,739,702	(2,981,164)	-	-	1,758,538
2009	4,905,772	(4,843,180)	-	-	62,592
2010	5,389,070	(3,468,705)	(166,300)	(69,470)	1,684,594
2011	5,939,996	(4,183,596)	(606,000)	(494,298)	656,102
2012	6,385,404	(3,784,420)	(883,000)	(857,842)	860,141

Unaudited statistical section.

DEMOGRAPHICS AND ECONOMIC SECTION

**CITY OF BOZEMAN, MONTANA**  
**DEMOGRAPHIC AND ECONOMIC STATISTICS**  
**Past Ten Fiscal Years**

<b>Fiscal Year Ended June 30,</b>	<b>Population</b>	<b>Estimated Annual % Change in Population</b>	<b>Personal Income</b>	<b>Per Capita Personal Income</b>	<b>Median Age (years)</b>	<b>Residents with Bachelors Degree or Higher Schooling</b>	<b>K-12 School Enrollment</b>	<b>Unemployment Rate</b>
2003	29,693	2.6%	\$ 451,556,301	\$ 17,755	25.8	49.2%	5,101	3.5%
2004	30,811	3.6%	\$ 491,986,201	\$ 18,642	25.9	49.3%	5,086	3.3%
2005	31,926	3.5%	\$ 535,279,901	\$ 19,575	26.1	49.4%	5,198	3.1%
2006	33,280	4.1%	\$ 585,880,500	\$ 20,553	26.3	49.5%	5,332	2.7%
2007	34,832	4.5%	\$ 643,862,953	\$ 21,581	26.5	49.5%	5,356	2.3%
2008	35,944	3.1%	\$ 703,013,220	\$ 23,387	27.2	53.7%	5,432	2.3%
2009	36,933	2.7%	\$ 808,624,803	\$ 26,313	27.0	52.7%	5,463	3.4%
2010	37,101	0.5%	\$ 866,396,960	\$ 25,909	26.0	50.6%	5,509	5.4%
2011	37,280	0.5%	\$ 819,014,169	\$ 25,611	27.2	50.1%	5,679	5.9%
2012	38,025	2.0%	\$ 803,487,262	\$ 24,709	27.2	53.9%	5,810	5.6%

## Sources:

Bozeman Area Chamber of Commerce  
Bozeman Public Schools  
U.S. Census Bureau

**CITY OF BOZEMAN, MONTANA  
PRINCIPAL EMPLOYERS  
Current Year and Ten Years Ago**

<b>June 2012</b>		<b>June 2003</b>	
<b>Private Employers By Class</b>	<b>Employer Class Size</b>	<b>Private Employers By Class</b>	<b>Employer Class Size</b>
Bozeman Deaconess Hospital	9	Bozeman Deaconess Hospital	8
Oracle America Inc.	7	Capital Opportunities (Home Care Services)	8
Wal-Mart	7	Ranch & Home Supply (Murdoch's)	7
Albertson's	6	Wal-Mart	7
Community Food Co-Op	6	Albertson's	6
Costco	6	Bozeman Daily Chronicle	6
Croakies	6	Costco	6
First Security Bank	6	First Security Bank	6
Gibson Guitar	6	Home Depot	6
Kenyon Noble Lumber & Hardware	6	JC Billion	6
Lowe's	6	JTL Group	6
Luzenac America	6	Kenyon Noble Lumber & Hardware	6
Martel Construction	6	Louisiana Pacific	6
McDonald's	6	Martel Construction	6
Murdoch's Ranch & Home Supply	6	McDonalds	6
Ressler Chevrolet Cadillac & Toyota	6	Montana Conservation Corps	6
Rosauers Supermarket	6	Right Now Technologies	6
Town & Country Foods	6	Simkins Hallin Lumber	6
Town Pump	6	Video Lottery Consultants	6
Zoot Enterprises	6	Williams Plumbing & Heating	6
<b>Public Employers By Class</b>	<b>Employer Class Size</b>	<b>Public Employers By Class</b>	<b>Employer Class Size</b>
Montana State University	9	Montana State University	9
School District #7	9	School District #7	8
City of Bozeman	7	City of Bozeman	7
Gallatin County	7	Gallatin County	5

<i>Class 6 - 100 to 249 Employees</i> <i>Class 7 - 250 to 499 Employees</i> <i>Class 8 - 500 to 999 Employees</i> <i>Class 9 - 1,000+ Employees</i>
--

Source: Montana Department of Labor & Industry

Unaudited statistical section.

## OPERATING SECTION

CITY OF BOZEMAN, MONTANA  
 FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM  
 Past Ten Fiscal Years

	Fiscal Year Ended June 30,									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General Government										
City commission	4.00	4.00	4.00	2.10	2.10	2.10	2.10	2.10	2.10	2.10
City manager	6.50	7.50	7.50	9.50	9.50	10.50	10.50	11.50	11.50	8.00
Municipal court	5.00	6.00	6.00	6.00	6.00	7.00	7.00	7.50	8.50	8.50
City attorney	6.00	6.00	6.00	6.00	6.00	7.00	6.00	11.50	7.00	7.00
Finance	16.00	16.00	16.00	16.00	16.00	10.00	10.00	8.75	8.75	10.00
Information Technology (used to be in Finance)	-	-	-	-	-	6.00	6.00	5.88	5.88	6.00
Office of planning & community development	12.70	12.70	12.70	12.70	12.70	15.20	13.70	12.20	12.20	9.00
Building maintenance	0.55	1.55	2.55	2.55	2.55	3.05	3.55	3.55	3.55	3.50
Total general government	<u>50.75</u>	<u>53.75</u>	<u>54.75</u>	<u>54.85</u>	<u>54.85</u>	<u>60.85</u>	<u>58.85</u>	<u>62.98</u>	<u>59.48</u>	<u>54.10</u>
Public Safety										
Police department	48.25	48.25	49.75	52.75	54.75	57.75	62.75	71.75	71.75	71.25
Fire department	29.75	29.75	29.25	29.25	31.25	34.25	45.25	41.75	41.75	41.75
Building inspection	10.55	10.55	15.05	15.05	15.55	16.55	13.55	9.55	10.55	10.55
Parking	2.75	2.75	2.75	2.75	3.75	3.75	4.75	4.75	4.75	4.50
Total public safety	<u>91.30</u>	<u>91.30</u>	<u>96.80</u>	<u>99.80</u>	<u>105.30</u>	<u>112.30</u>	<u>126.30</u>	<u>127.80</u>	<u>128.80</u>	<u>128.05</u>
Public Services										
Public services administration	7.15	7.15	7.15	7.15	7.15	8.15	8.15	8.15	8.15	10.00
Streets	13.62	13.62	13.62	13.62	15.62	15.62	17.62	17.62	17.62	17.62
Stormwater	-	-	-	-	-	-	-	-	-	-
Water plant	9.27	9.27	9.27	9.27	9.27	9.27	9.27	9.27	9.27	9.27
Water operations	14.12	14.12	14.12	14.62	14.62	15.62	16.62	15.62	15.62	15.62
Wastewater operations	7.75	7.75	7.75	9.25	9.25	10.25	11.25	10.25	10.25	10.25
Wastewater plant	15.87	14.87	14.87	14.87	14.87	14.87	15.87	15.87	15.87	15.87
Solid waste collection	10.74	10.74	11.74	11.74	12.74	14.74	14.74	14.74	14.74	14.74
Solid waste disposal	7.66	7.66	7.66	7.66	7.66	2.00	-	-	-	-
Solid waste recycling	-	-	-	-	-	1.00	1.00	1.00	1.00	1.00
Vehicle maintenance	2.50	2.50	3.50	3.50	4.00	3.00	4.00	5.00	5.00	5.00
Total public services	<u>88.68</u>	<u>87.68</u>	<u>89.68</u>	<u>91.68</u>	<u>95.18</u>	<u>94.52</u>	<u>98.52</u>	<u>97.52</u>	<u>97.52</u>	<u>99.37</u>
Public Welfare										
Cemetery (numerous seasonals)	5.25	5.25	5.25	5.25	5.25	5.75	5.75	5.75	5.75	3.33
Parks (numerous seasonals)	11.95	11.95	11.95	11.95	12.95	13.45	13.45	13.45	13.45	11.77
Forestry	3.60	3.60	3.60	3.60	4.60	4.60	4.60	4.60	4.60	4.60
Library	19.66	19.66	19.66	19.66	19.66	20.66	21.66	21.66	21.66	21.66
Recreation	14.65	14.65	14.65	14.65	14.65	14.90	15.00	15.00	15.00	15.83
Community development	1.00	1.00	1.00	1.00	1.00	2.00	1.00	2.00	2.00	2.00
Total public welfare	<u>56.11</u>	<u>56.11</u>	<u>56.11</u>	<u>56.11</u>	<u>58.11</u>	<u>61.36</u>	<u>61.46</u>	<u>62.46</u>	<u>62.46</u>	<u>59.19</u>
Total all funds	<u>286.84</u>	<u>288.84</u>	<u>297.34</u>	<u>302.44</u>	<u>313.44</u>	<u>329.03</u>	<u>345.13</u>	<u>350.76</u>	<u>348.26</u>	<u>340.71</u>

Source: City Manager's Final Adopted Budget

Unaudited statistical section.

CITY OF BOZEMAN, MONTANA  
OPERATING INDICATORS BY FUNCTION/PROGRAM  
Past Ten Fiscal Years

Fiscal Year Ended June 30,

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>Finance</b>										
SID Statements	9,955	10,443	10,443	11,086	11,086	14,919	15,000	15,816	16,000	16,000
Utility Bills	101,303	105,720	111,463	111,463	112,775	134,460	134,000	135,000	135,000	135,000
Grants Recorded and Reported	23	25	26	25	26	13	30	30	35	
Business Licenses	2,812	3,360	3,588	3,596	3,596	3,836	3,800	4,260	3,750	4,250
<b>Police</b>										
Number of Officers	39	40	42	47	45	51	52	55	56	60
Calls for Service	34,000	34,797	36,842	39,790	40,758	42,728	45,145	43,385	45,131	48,404
Arrests	3,800	2,400	2,106	2,299	2,524	2,581	2,853	2,338	2,325	2,066
Traffic Citation Issued **	n/a	3,311	4,504	5,988						
Traffic Stops **	n/a	10,702	10,036	10,104						
Traffic Crashes	1,800	1,644	1,521	1,666	1,780	1,519	1,302	1,194	1,486	1,362
<b>Fire</b>										
Fires, Hazardous Conditions & Rupture/Explosions	265	295	280	230	242	230	248	248	278	278
Emergency Medical Services/Rescue	1,300	1,398	1,270	1,373	1,454	1,658	1,441	1,441	1,483	1,483
Service Calls	50	50	55	96	118	148	145	145	187	187
<b>Building Inspection</b>										
Commercial Permits:										
Number	30	22	37	44	50	234	284	252	817	416
Value (Millions)	22.04	27.91	36.85	43.11	38.54	103.98	100.71	38.55	88.01	41.60
Residential Permits:										
Number	440	257	927	890	764	431	705	879	2,972	1,549
Value (Millions)	67.29	34.11	118.25	135.64	118.15	77.60	28.10	46.00	54.00	79.40
<b>Water</b>										
New Service Main Taps	28	30	39	76	79	15	39	16	20	15
Meter Replacement/Repair	0	100	120	844	663	878	368	650	467	650
Water Main Breaks	13	6	6	5	8	5	6	4	1	4
<b>Wastewater</b>										
Main Line Flushing (in Miles)	94	120	134	101	95	110	90	81	78.26	90
New Infrastructure TV (in Miles)	7	7	6	10	19	4.8	1	1	1	1
New Service Taps	33	20	41	29	37	22	15	5	4	10
<b>Solid Waste</b>										
Residential Customers	5,549	5,551	5,800	6,310	6,608	6,779	6,957	7,130	7,092	7,240
Commercial Customers	202	202	200	211	239	254	262	268	271	281
Recycling Customers	-	-	-	-	-	484	881	965	970	1,000
Yearly Tonnage Collected: Collections Program	8,500	8,499	9,000	11,171	11,953	11,879	10,397	10,657	10,920	11,248
<b>Vehicle Maintenance</b>										
Work Orders Processed	1,261	1,275	1,300	1,068	1,070	974	870	1,005	1,435	1,473
Gallons of Oil Disposed	14,382	13,500	14,500	11,384	10,000	9,350	9,350	9,175	9,445	8,751
<b>Parks</b>										
Park Reservations	500	330	330	340	340	360	221	280	319	320

Sources: City Manager's Final Adopted Budget  
City of Bozeman Finance Department

\*\* Not used as an operating indicator until 2010

Unaudited statistical section.

CITY OF BOZEMAN, MONTANA  
 CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM  
 Past Ten Fiscal Years

	Fiscal Year Ended June 30,									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol Units (Cars)	13	14	15	16	17	18	19	20	20	20
Patrol Units (Motorcycles)	4	4	4	4	4	4	4	4	4	4
Fire										
Stations	2	2	2	2	2	2	3	3	3	3
Fire Trucks	5	5	5	5	5	5	5	6	6	6
Streets										
Street & Alley Mileage	145.364	172.817	188.694	196.773	229.905	234.736	242.650	246.951	254.565	254.957
Lineal Fee of Curb Replaced	562	275	1,330	737	750	1,526	240	0	0	630
Number of Signs Installed	310	370	649	756	652	652	732	750	187	220
Water										
Water Mains (Miles)	194.30	202.22	218.87	230.15	247.23	250.16	253.73	256.32	257.51	261.33
Fire Hydrants	1,730	1,888	1,973	2,045	2,206	2,238	2,274	2,308	2,324	2,351
Wastewater										
Sanitary Sewers (Miles)	150.31	161.69	171.29	179.45	198.17	200.01	201.37	205.00	205.00	207.56
Number of Manholes	3,321	3,345	3,397	3,571	3,888	3,946	3,988	4,034	4,080	4,084
Solid Waste										
Number of Collection Vehicles	3	4	4	5	7	6	7	7	7	7
Number of Roll-off Trucks	1	1	1	1	2	3	4	4	4	4
Number of Recycling Trucks	0	0	0	0	0	0	1	1	1	1
Parks										
Formal Turf Acres	228	250	250	258	258	265	120	120	125	125
Natural Parkland Acres	219	118	118	110	110	115	205	205	210	220
Miles of Trails	23	25	25	45	45	50	50	54	55	55

Sources: City Manager's Final Adopted Budget  
 City of Bozeman Finance Department  
 City of Bozeman GIS Department  
 City of Bozeman Police Department

Unaudited statistical section.

**PART IV**

**REPORTS OF INDEPENDENT PUBLIC ACCOUNTANTS AND  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

AS REQUIRED BY U.S. OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133,  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

*AUDITS OF STATE AND LOCAL GOVERNMENTS AND NON-PROFIT ORGANIZATIONS*

CITY OF BOZEMAN, MONTANA  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR THE YEAR ENDED JUNE 30, 2012

<b>FEDERAL GRANTOR</b>	<u>CFDA</u>	<u>Grant Award</u>	<u>Balance June 30, 2011</u>	<u>Grant Revenue Received</u>	<u>Grant Revenue Accrued</u>	<u>Total Revenue</u>	<u>Federal Awards Expended</u>	<u>Balance June 30, 2012</u>
<u>U.S. Department of Justice</u>								
Rural Domestic Violence Assistance Program	16.589	\$ 119,315	\$ -	\$ 17,387	\$ 101,928	\$ 119,315	\$ 119,315	\$ -
Passed through Gallatin County:								
Missouri River Drug Task Force	16.579	56,628	-	56,628	-	56,628	56,628	-
Edward Byrne JAG Local Solicitation -								
Electronic Ticket Writer 2009-SB-B9-2080 (ARRA)	16.804	32,736	-	32,736	-	32,736	32,736	-
JAG: Police Rifles 2011-DJ-BX-2464	16.738	17,888	-	17,887	1	17,888	17,888	-
Bullet-Proof Vest Partnership	16.607	6,150	-	-	6,150	6,150	6,150	-
<u>U.S. Department of Transportation</u>								
Passed through MT Dept. of Transportation:								
Highway Traffic Safety								
STEP-Bozeman Occupant Protection: 00-03-09-02	20.600	13,129	-	13,129	-	13,129	13,129	-
CTEP Community Transportation Enhancement Projects								
STPE1299(22) - College Pathway	20.205	167,801	-	167,801	-	167,801	167,801	-
<u>U.S. Department of Interior</u>								
Passed through the Historical Society:								
Historic Preservation	15.904	5,500	-	5,500	-	5,500	5,500	-
<u>Federal Emergency Management Agency</u>								
SAFER Firefighter Grant (Dept. of Homeland Security)	97.083	97,023	-	-	97,023	97,023	97,023	-
Fire FEMA Assistance to Firefighters Grant - Opticom	83.554	25,333	-	-	25,333	25,333	25,333	-
<u>U.S. Department of Energy - National Energy Tech Laboratory</u>								
Energy Efficiency and Conservation Block Grant (ARRA)	81.128	120,741	-	120,741	-	120,741	120,741	-
<u>U.S. Department of Housing &amp; Urban Development</u>								
Passed through MT Department of Commerce:								
HUD EDI-SP #B-10-SP-MT-0075	14.251	148,100	-	22,035	126,066	148,100	148,100	-
<b>Total Federal Financial Assistance</b>		<u>\$ 810,344</u>	<u>\$ -</u>	<u>\$ 453,844</u>	<u>\$ 356,500</u>	<u>\$ 810,344</u>	<u>\$ 810,344</u>	<u>\$ -</u>

CITY OF BOZEMAN, MONTANA  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
June 30, 2012

NOTE 1. REPORTING ENTITY

The City of Bozeman's reporting entity is defined in Note 1 of the City's financial statements. Expenditures of federal awards received directly from federal agencies as well as federal awards passed through other government agencies are included in the accompanying schedule.

NOTE 2. BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note 1 of the City's financial statements.

NOTE 3. NON-CASH TRANSACTIONS

The City had no non-cash transactions in the accompanying schedule of expenditures of federal awards.



220 West Lamme, Suite 3A  
P.O. Box 1965  
Bozeman, Montana 59771-1965  
ph. (406) 587-1277  
fx. (406) 587-8794  
www.jccscca.com

**Junkermier • Clark  
Campanella • Stevens • P.C.**

Certified Public Accountants and Business Advisors

**INDEPENDENT AUDITORS' 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**

Honorable Mayor, City Commissioners, and City Manager of the  
City of Bozeman, Montana:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bozeman, Montana, as of and for the year ended June 30, 2012, and have issued our report thereon dated December 17, 2012. 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.

**Internal Control over Financial Reporting**

Management of the City of Bozeman is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Bozeman's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of the section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Bozeman's financial statements are free of 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 that is required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the City of Bozeman's management, Board of Commissioners, the Montana Department of Administration, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Junkermier, Clark, Campanella, Stevens, P.C.*

Bozeman, Montana  
December 17, 2012

INDEPENDENT AUDITORS' 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

Honorable Mayor, City Commissioners, and City Manager of the  
City of Bozeman, Montana:

Compliance

We have audited the City of Bozeman's 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 each of the City of Bozeman's major federal programs for the year ended June 30, 2012. The City of Bozeman's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirement of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Bozeman's management. Our responsibility is to express an opinion on the City of Bozeman's compliance based on our audit.

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 of Bozeman'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. Our audit does not provide a legal determination of the City of Bozeman's compliance with those requirements.

In our opinion, the City of Bozeman complied, in all material respects, with the 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, 2012.

### Internal Control Over Compliance

Management of the City of Bozeman is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Bozeman's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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 of Bozeman'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.

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 deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the City of Bozeman's management, Board of Commissioners, the Montana Department of Administration, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Junkermier Clark Campanella & Stevens, PC*

Bozeman, Montana  
December 17, 2012

CITY OF BOZEMAN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2012

SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditors' report issued	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiencies noted not considered to be material weaknesses?	No
Non-compliance material to the financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiencies identified not considered to be material weaknesses	No
Type of auditors' report issued on compliance for major programs	Unqualified
Audit findings that are required to be reported in accordance with section 510(a) of Circular A-133?	No
Major Programs:	
Community Transportation Enhancement Project, CFDA 20.205	
Energy Efficiency and Conservation Block Grant, CFDA 81.128	
Dollar threshold used to distinguish between Types A and Type B programs	\$300,000
Auditee qualified as a low-risk auditee?	Yes

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT

None reported.

CITY OF BOZEMAN  
CURRENT STATUS OF PRIOR YEAR RECOMMENDATIONS  
Year Ended June 30, 2011

There were no prior year audit findings relative to federal award programs.