

CITY OF BIG TIMBER, MONTANA

ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2014



AMATICS
CPA GROUP

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ANNUAL FINANCIAL REPORT
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PART I
INTRODUCTORY SECTION

**CITY OF BIG TIMBER, MONTANA
ORGANIZATION OF ENTITY
June 30, 2014**

CITY COUNCIL

Justin Ferguson
Bill Miller
Ron Thomas
Gary Johnson

CITY OFFICIALS

Mark A. Stephens, Mayor

Bill Frazier, Attorney

Gayle McPherson, Clerk/Treasurer

Jessie Connolly, City Court Judge

Marilyn Raisland, Deputy Clerk

CITY OF BIG TIMBER
LETTER OF TRANSMITTAL
June 30, 2014

This report consists of management representations concerning the finances of the City of Big Timber, Montana. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report. To the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City of Big Timber's financial statements have been audited by Amatics CPA Group, a firm of licensed certified public accountants. The goal of the independent audit is to provide reasonable assurance that the financial statements of the City of Big Timber for the fiscal year ended June 30, 2014, are free of material misstatement.

The independent audit of the financial statements of the City is part of a broader federally mandated single audit. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the City's internal controls and compliance with the legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are in the compliance section of this report.

Generally accepted accounting principles (GAAP) require that management provide a narrative, introduction, overview and analysis to accompany the basic financial statement in the form of Management's Discussion and Analysis. This letter of transmittal is designed to complement MD&A and should be read in conjunction with it.

Big Timber, incorporated in 1902, is situated in the center of Sweet Grass County, and is the only incorporated city or town in the county. Lewis and Clark came into the area in 1806 and were the first white men that were definitely known to have been in the present area of Sweet Grass County, which was once part of the Crow Indian reservation.

The original name given to Big Timber was "Dornix" and was situated east of its present site, where the railroad located its station. The station relocated to higher ground and Dornix was given the new name of Big Timber because of the large cottonwoods along the river.

In the late 1800's Big Timber was the largest wool shipper in the United States, shipping more than five million pounds a year. The community is still primarily agricultural; however, several years ago Stillwater Mining Company opened up the East Boulder platinum and palladium mine, which has provided jobs for area workers.

The City Council operates under the Mayor/Council form of government, comprised of the Mayor and four Councilpersons who serve four-year terms. The Council chairperson is selected by the Council from among their members.

Mark Stephens, Mayor

**CITY OF BIG TIMBER
LETTER OF TRANSMITTAL
June 30, 2014**

Clerk's Perspective

Preparation of the budget for fiscal year 2013/2014 was, once again a challenge, due to present economic conditions and critical issues in both sewer and water. We are working toward getting bigger projects completed by spreading project expenditures over a number of years rather than just one year. The Council opted to adopt the legally allowed mill levy of 138.77 for the fiscal year ending June 30, 2014. Over the past four years the Council has attempted to keep a static mill levy due to the national downturn in economic conditions, and concern for the taxpayer's ability to provide basic necessities for their families. This year, however, the east half of a main traffic artery in Big Timber had to be replaced due to severely deteriorating conditions, and they took the fully allowed levy. 26.77 mills remain on the table from prior fiscal years.

Councils must strive to provide services to the public at reasonable rates, yet realize the cost of doing business is not unlike any other business. Big Timber has one of the lowest water rates in the state. The cost of materials, labor, and machinery continues to escalate, and in order to continue providing services at the same level, rates need to be increased. Even though the City started billing water and sewer charges based on a water meter reading each month, the City has not increased water and sewer rates in many years. Solid Waste costs have increased significantly over that last several years, and Councilmembers are giving serious thought to how to manage those costs. Big Timber's City Council has mounted an extensive recycling effort over the past few years.

The overall 13-14 Budget for ALL funds indicates the total projected expenditures were slated to exceed the total projected revenues by \$652,560, for the year ended June 30, 2014. Actual Revenue exceeded Actual Expenditures by \$217,238. Expenditures were under-spent by \$884,334 and Revenues collected came in \$24,836 higher than anticipated.

Staff and Management are very conscientious concerning the City's resources, with eyes always toward capital improvements and accomplishing tasks in-house whenever possible. Mayor Stephens and the Council are constantly exploring ways to conserve on all expenses.

The Mayor and Council should consider raising the costs of services by at least the rate of inflation each year or they will eventually find themselves having to raise rates by a considerable amount in order to operate the various enterprise budgets. While maintaining the current rates from year to year may be politically popular, the bottom line is, when maintenance is done at some future point, the necessary utility rate increases will be staggering to the populace.

It is the job of the City Clerk to advise the Mayor and Council of their legal fiscal responsibilities and financial obligations, and provide the data to make sound budgetary decisions. Ultimately the decisions regarding fiscal management are the responsibility of the Mayor and Council and accountability to the public is strictly their responsibility.

Gayle McPherson, Clerk

PART II
FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and City Council
City of Big Timber, 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 for the City of Big Timber, Montana, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Big Timber, Montana, as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles accepted in the United States of America.



Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management Discussion and Analysis and Budgetary Comparison information on pages II-3 through II-15 and II-51 through II-52 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures, 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 financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying introductory section, the combining and individual nonmajor fund financial statements, and the combining and individual statements of revenues, expenditures and changes in fund equity budget and actual are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund balance sheets and statements of revenues, expenditures, and changes in fund balance are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund balance sheets and statements of revenues, expenditures, and changes in fund balance are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory section and the combining and individual statements of revenues, expenditures and changes in fund equity budget and actual have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2014, on our consideration of the City of Big Timber, Montana'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 Auditing Standards* in considering the City of Big Timber, Montana's internal control over financial reporting and compliance.

Amatics CPA Group

Bozeman, Montana
December 1, 2014

A. Management Discussion and Analysis

CITY OF BIG TIMBER
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2014

The discussion and analysis of the City of Big Timber's financial performance provides an overall review of the City's financial activities for the year ended June 30, 2014. The intent of this discussion and analysis is to look at the City's financial performance as a whole. Readers should also review the transmittal letter and the basic financial statements to enhance their understanding of the City's financial performance.

FINANCIAL HIGHLIGHTS

- In FY 13/14, the City's total net position for **ALL FUNDS** decreased by \$42,040.
- Total net position for all funds was \$12,385,301 at the end of FY 12/13, and \$12,343,261 at the end of FY 13/14.
- The net position of Governmental Activities is \$4,152,974.
- The net position of Business-type Activities is \$8,190,287.

The City's **GENERAL FUND cash balance** was \$507,350 as of June 30, 2013. The June 30, 2014 General Fund cash balance was \$586,531, which is \$79,181 more than the previous year. Revenue for 13-14 totaled \$786,611 and expenditures totaled \$700,582. The projected expenditures for fiscal 2013/2014 were utilized at a level of 74%. The General Fund has new construction in process of \$34,921. There were no disposals or sales of General Fund fixed assets. Overall, considering depreciation, compensated absences, deferred revenue, contract payments, and assets transferred from other funds, the General Fund's fund balance increased by \$86,209.

The **GAS TAX FUND** had a cash balance of \$175,583 as of June 30, 2013, and \$183,252 as of June 30, 2014. The Gas Tax cash balance is \$7,669 more than last fiscal year. Revenue was \$42,664, and expenditures were \$34,995. Projected expenditures were utilized at 49%. These funds are spent for street repair and maintenance. It costs approximately \$55,000 per block to replace street, curb, and gutter.

The **WATER FUND** had a cash balance of \$613,817 as of June 30, 2013, and \$707,197 as of June 30, 2014. Expenditures in the Water Department were \$301,101, compared to Revenues of \$286,554. Expenditures were utilized at 44%. After taking Accounts Receivable, Depreciation, Compensated Absences, Notes Payable, and Capital acquisitions into consideration, net position for the Water Fund is \$3,221,737, or \$14,547 less than last fiscal year.

The **SEWER FUND** had a cash balance \$953,411 as of June 30, 2013, and \$924,270 as of June 30, 2014. Expenditures in the Sewer Department were \$356,709 compared to Revenues of \$242,615. Expenditures were utilized at 41%. After taking Accounts Receivable, Depreciation, Compensated Absences, Notes Payable and Debt Service into consideration, Net Position in the Sewer Fund is \$4,131,049, or \$114,094 less than last fiscal year. An additional \$8,000 was paid on the SRF Sewer loan in addition to the regular yearly payments. That loan was refinanced at 2% interest, or 1% lower than preceding years.

CITY OF BIG TIMBER
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2014

The **SOLID WASTE FUND** had a cash balance of \$710,501 as of June 30, 2013, and \$743,710 as of June 30, 2014. Expenditures in the Solid Waste Department were \$475,552 compared to Revenues of \$502,822. Expenditures were utilized at 102%. There were no capital outlay purchases in the Solid Waste Department during the fiscal year. After taking Accounts Receivable, Depreciation, Compensated Absences, Debt Service, and Notes Payable into consideration, Net Position in the Solid Waste Fund is \$837,501, or \$27,270 more than last fiscal year.

ALL OTHER GOVERNMENTAL FUNDS had cash balances totaling \$379,696 on June 30, 2013 and \$388,513 on June 30, 2014.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The basic financial statements contain four components: 1) government-wide financial statements, 2) fund financial statements, 3) notes to the financial statements, and 4) budgetary comparisons.

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

The statement of net position (page II-16 of the Basic Financial Statements) presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the City's financial position is improving or deteriorating.

The statement of activities (page II-17 of the Basic Financial Statements) presents information showing how the City's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their cost through user fees and charges (business-type activities). Governmental activities include general government, public safety, public works, public health, culture and recreation, and debt service. The City has three business type activities – operation of a water, sewer, and solid waste utility.

CITY OF BIG TIMBER
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2014

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decision. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide reconciliation between governmental funds and governmental activities view of financial position. These statements are found on pages II-20 and II-22.

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

- b) **Proprietary funds.** The City of Big Timber operates three utilities, water, sewer and solid waste, which are proprietary enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The proprietary fund statements provide detail information for the Water, Sewer, and Solid Waste funds, which are classified as major enterprise funds. The basic proprietary fund financial statements can be found on pages II-23 through II-27 of this report.
- c) **Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not included in the government-wide financial statements because the resources of these funds are not available to support the City of Big Timber's own operations.

Two administrative clearing funds for payroll and claims are included in this category. The basic fiduciary fund financial statement can be found on page II-28 of this report.

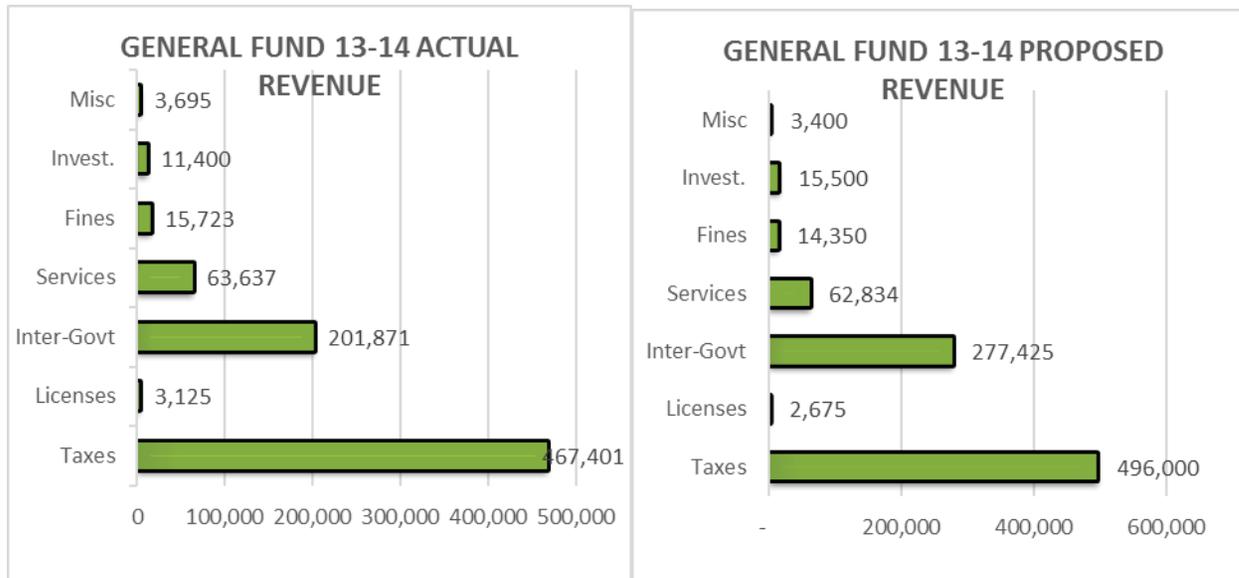
**CITY OF BIG TIMBER
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2014**

Notes to the Financial Statements

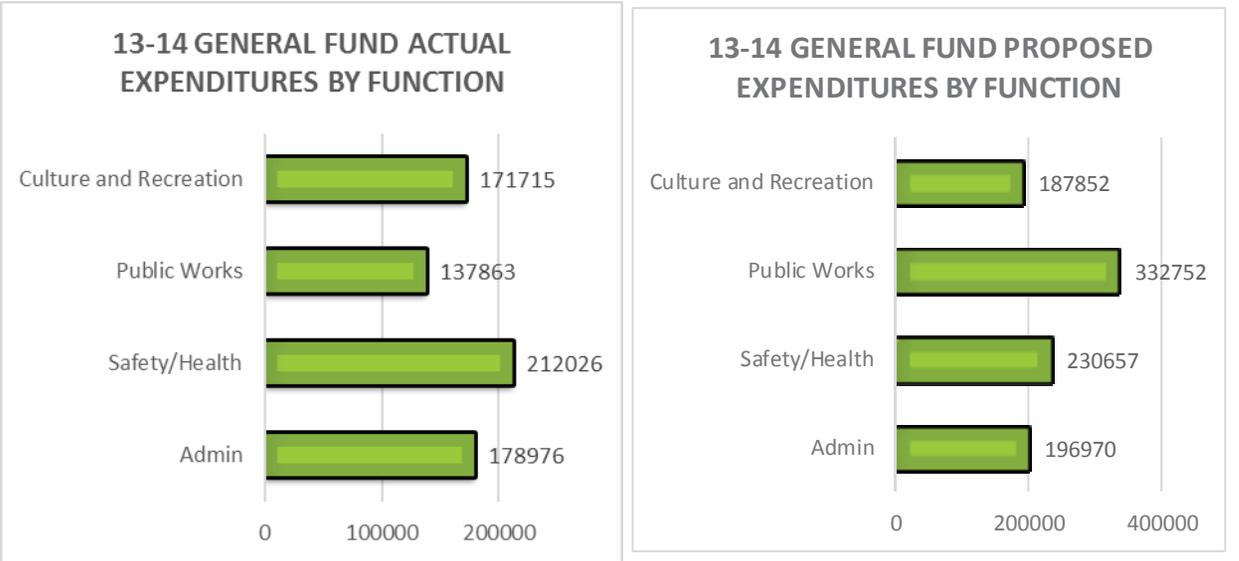
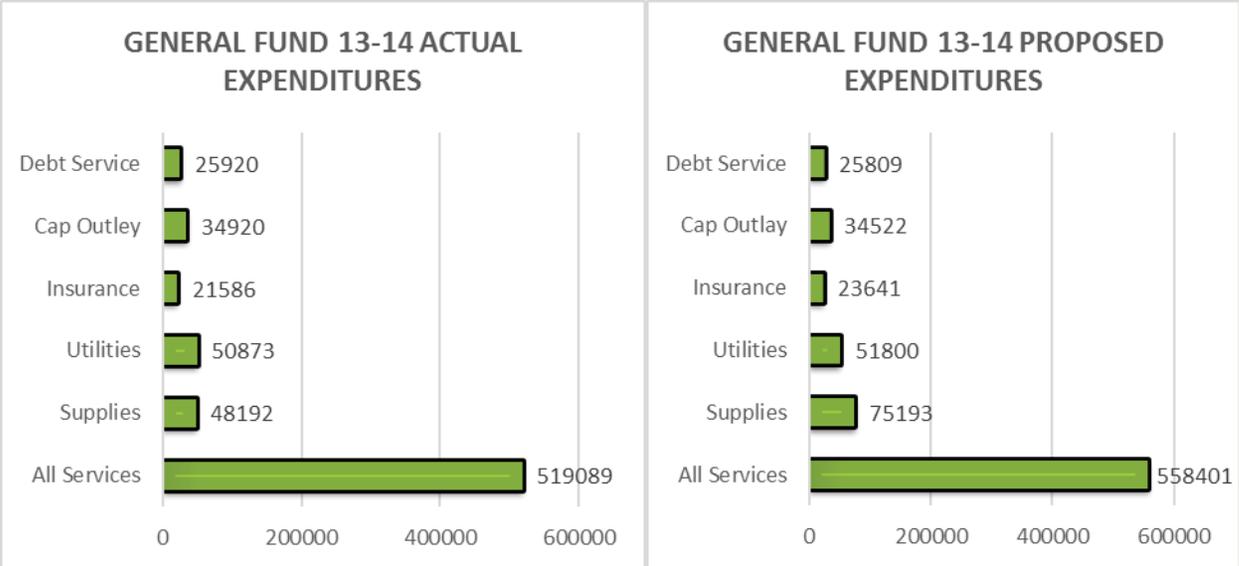
The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The note to the financial statements can be found on page II-29 through II-49 of this report.

Budgetary Comparison

The City of Big Timber adopts an annual appropriated budget for all of its funds. A budgetary comparison statement has been provided for its major governmental funds in the section entitled “Required Supplementary Information” on pages II-52 to II-53 of this report. Budget-to-actual comparisons for each of the non-major funds is provided in combining statements in the section entitled “Other Supplementary Information”, pages II-61 through II-64. The following departments, General, Gas Tax, Water, Sewer, and Solid Waste, have Appropriations compared to actual Expenditures for 2013/2014 shown below. General Fund Revenue figures are provided also.

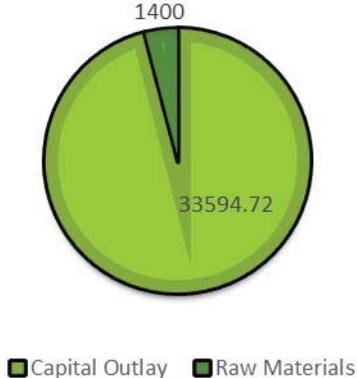


**CITY OF BIG TIMBER
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2014**

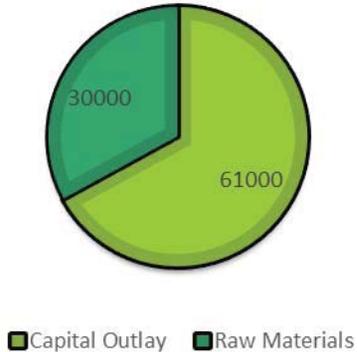


**CITY OF BIG TIMBER
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2014**

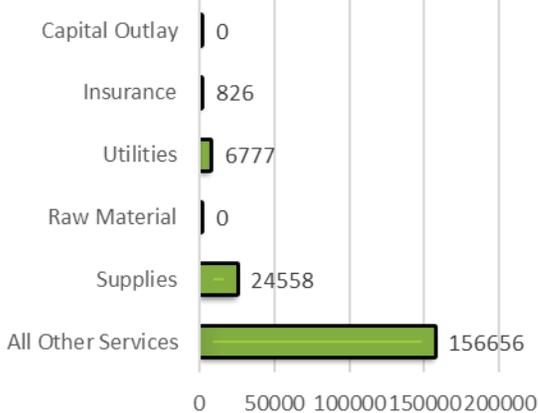
**13-14 Gas Tax Fund
Actual Expenditures**



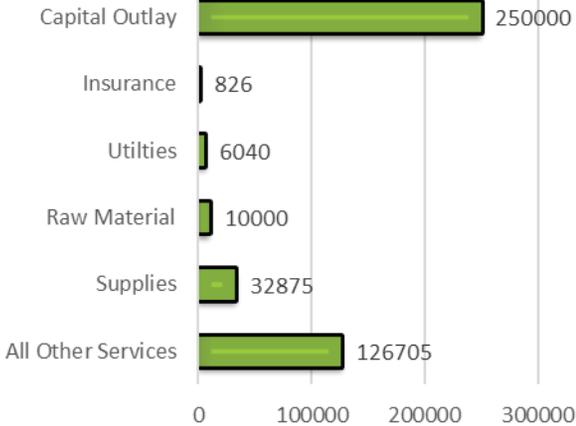
**13-14 Gas Tax Fund
Proposed Expenditures**



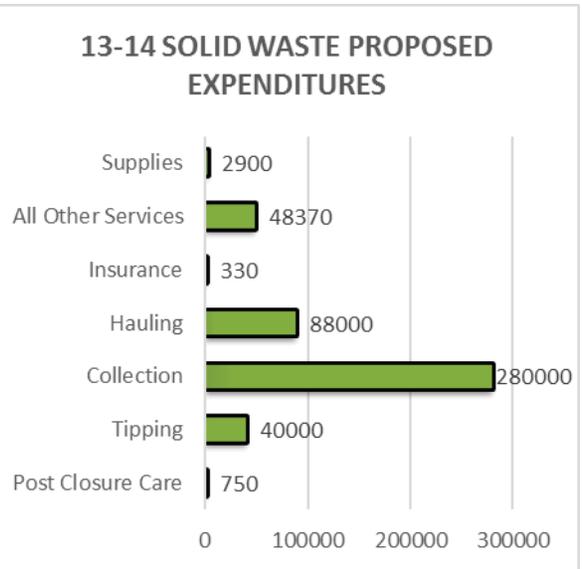
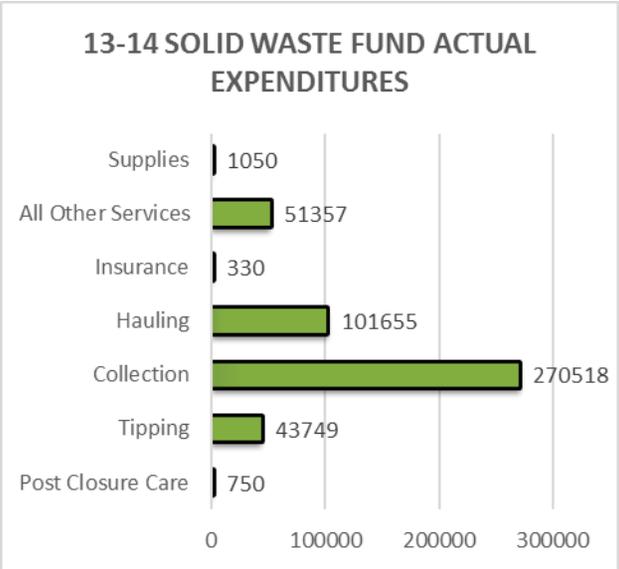
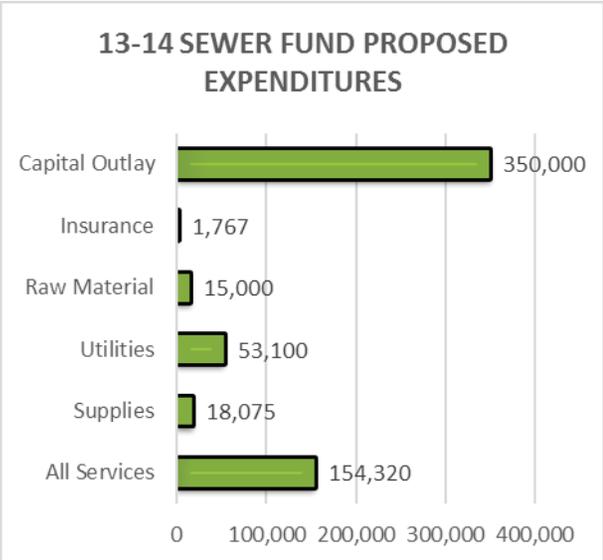
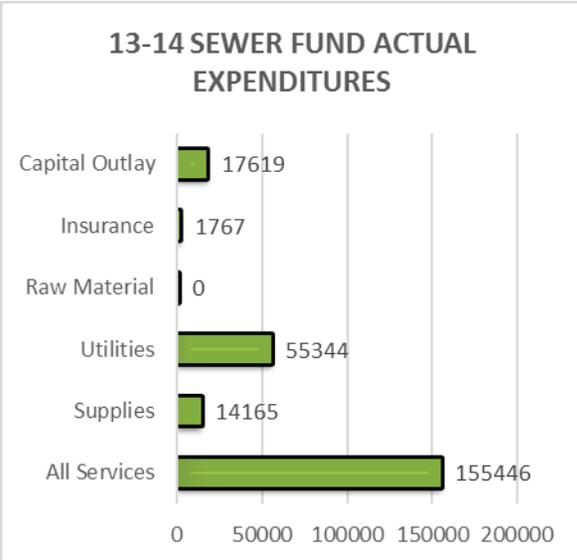
**13-14 WATER FUND ACTUAL
EXPENDITURES**



**13-14 WATER FUND PROPOSED
EXPENDITURES**



**CITY OF BIG TIMBER
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2014**



**CITY OF BIG TIMBER
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2014**

City Wide Financial Analysis

Net Position

Net position may serve over time a useful indicator of a government's financial position. The following table provides a summary comparison of the City's governmental and business-type net position for fiscal year 2014.

The City of Big Timber Net Position

		Governmental Activities	Business type Activities	Total
Assets				
Current and other assets	\$	1,190,822	2,465,615	3,656,437
Capital assets		3,027,149	5,916,788	8,943,937
Total assets	\$	4,217,971	8,382,403	12,600,374
Liabilities				
Current and other liabilities	\$	23,540	27,100	50,640
Long Term Liabilities		41,457	165,016	206,473
Total liabilities		64,997	192,116	257,113
Net Position	\$	4,152,974	8,190,287	12,343,261
Net investment in capital assets	\$	2,954,240	5,772,788	8,727,028
Restricted		439,464	189,369	628,833
Unrestricted		759,270	2,228,130	2,987,400
Total Net Position	\$	4,152,974	8,190,287	12,343,261

A significant portion of the City's net position reflects its investment in capital assets. These assets include land, buildings, machinery, and equipment, as well as infrastructure recorded as of June 30, 2014. The City of Big Timber uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

**CITY OF BIG TIMBER
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2014**

Changes in Net Position

Governmental and Business-type activities decreased the City's net position by \$42,040 in fiscal 13/14. The following table outlines those changes, which include changes in Taxes Receivable, Accounts Receivable, and Compensated Absences.

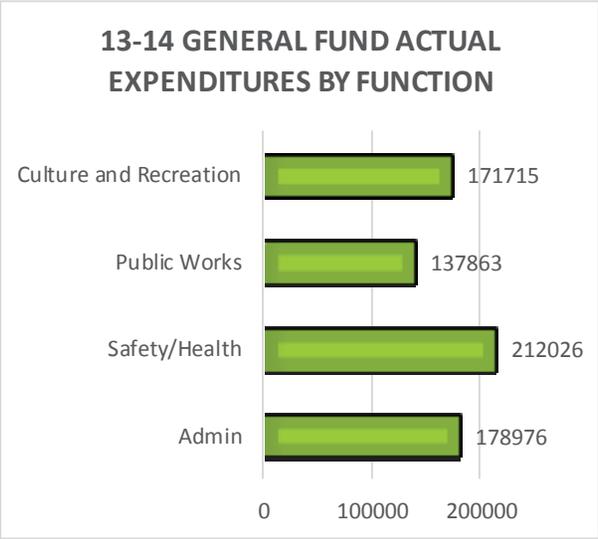
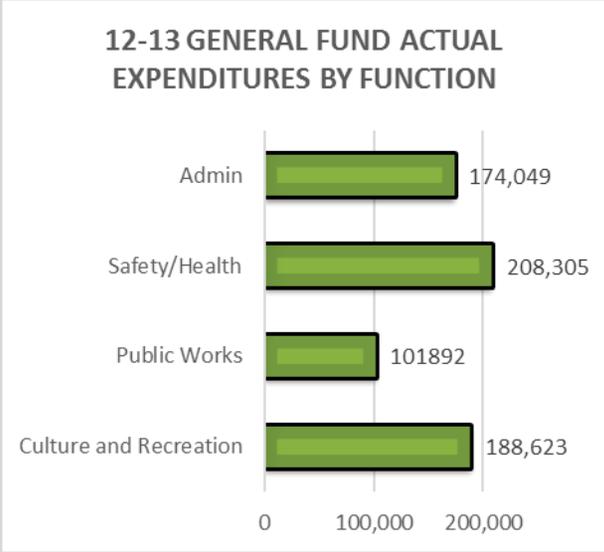
Changes in Net Assets

	Governmental	Business type	Total
	Activities	Activities	
Program Revenues			
Charges for Services	\$ 82,485	1,008,513	1,090,998
Operating grants & contributions	59,205	-	59,205
Capital grants & contributions	300	-	300
General Revenues			
Property Taxes	526,219	-	526,219
Intergovernmental revenue	199,651	-	199,651
Miscellaneous	16,085	23,478	39,563
Total Revenues	883,945	1,031,991	1,915,936
Expenses			
General Government	154,089		154,089
Public Safety	210,987		210,987
Public Works	187,273		187,273
Public Health	78,161		78,161
Culture & Recreation	181,087		181,087
Interest on long term debt	2,559		2,559
Miscellaneous	10,458		10,458
Water		301,101	301,101
Sewer		356,709	356,709
Solid Waste		475,552	475,552
Total Expenses	824,614	1,133,362	1,957,976
Change in Net Position	59,331	-101,371	-42,040
Net Assets on July 1, 2013	4,093,643	8,291,658	12,385,301
Net Assets on June 30, 2014	4,152,974	8,190,287	12,343,261

**CITY OF BIG TIMBER
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2014**

Governmental Activities

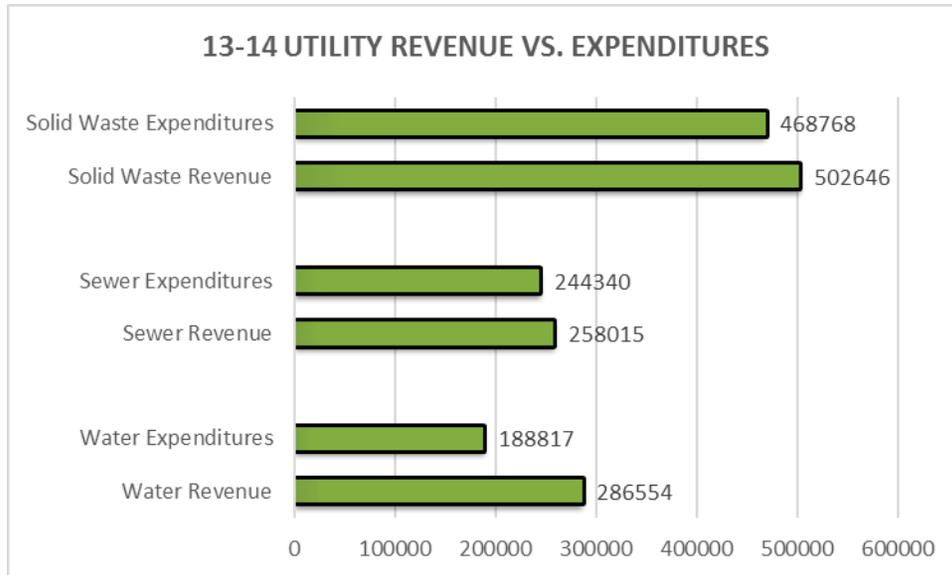
Governmental activities for the City of Big Timber are represented by the chart below. The chart represents the General Fund expenditures by functions in the fiscal years 12/13 & 13/14.



**CITY OF BIG TIMBER
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2014**

Business-type Activities

The City's business-type activities, Water, Sewer, and Solid Waste, lost net assets of \$101,371 in 2013/2014. This chart reflects cash transactions only.



Financial Analysis of the City's Funds

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

The City of Big Timber has one major governmental funds, the General Fund.

1. General Fund. This is the primary operating fund of the City of Big Timber government. It accounts for many of the City's general and administrative services such as legislative, financial, legal, law enforcement, fire and parks.

**CITY OF BIG TIMBER
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2014**

Proprietary Funds Overview

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

The City has three enterprise-type proprietary funds, the Water, Sewer, and Solid Waste funds.

The three proprietary funds had net investment in capital assets of \$5,772,788, restricted net position of \$189,369 and unrestricted net position of \$2,228,130 totaling \$8,190,287 as of June 30, 2014. Restricted amounts are maintained for future system expansion, replacement of capital assets, and one year's debt payment.

General Fund Budgetary Highlights

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

On September 03, 2013, the City Council budgeted expenditures of \$948,231 and anticipated revenues at \$872,184 with cash available of \$507,350. The taxable valuation per mill was \$3,483.90 and the council levied a 138.77 mill which would bring in \$483,461. The beginning cash balance as of July 1, 2013 was \$507,350 which includes \$120 restricted cash. The receipts for the fiscal year were \$779,763 and disbursements were \$700,582, leaving an ending cash balance of \$586,531, including restricted cash, as of June 30, 2014.

Capital Asset and Debt Administration

Capital Assets

The City of Big Timber's investment in capital assets for its governmental and business type activities as of June 30, 2014 is \$8,943,937 (net of accumulated depreciation). The City's capital investment includes all land, buildings, machinery and equipment. The City's asset capitalization is \$5000. The depreciation of capital assets is reflected in the various governmental and business-type expense activities. General fund infrastructure assets are included in these figures for all infrastructures acquired in the General Fund since July 1, 2004. The water, sewer, and solid waste infrastructure assets were always included as assets. The City of Big Timber depreciates its infrastructure, and the expense of depreciation is reflected in public works activities and in business activities for infrastructure associated with water and sewer lines.

Long-term Debt

The City's Revenue Bond long term debt issues, as of the end of the fiscal year are reflected in the General, Water, Sewer, and Solid Waste statements.

**CITY OF BIG TIMBER
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2014**

Economic Factors and Next Year's Budget

The following factors were expected to have a significant effect on the City's financial position.

Taxable valuation is anticipated to increase with the annexation of a three new subdivisions on the City's west end, but that will take time to come to fruition, and the economy has forced them to be put on hold. The taxable increased slightly. The Council chose to take the legally allowed mill levy for the fiscal year ending June 30, 2014, of 138.77 as half of one of the main traffic arteries needed replacing. At the present time the Council has no choice but to institute a bare bones budget for all departments. Law enforcement costs continue to plague both the City and County, who operate a shared public safety department. The cost of boarding prisoners at other localities is taking a toll on both budgets. A new regional incarceration facility is being considered to accommodate those prisoners. A task force comprised of area law enforcement agencies has been studying the feasibility of constructing a new facility. Other departments may need increased budgets in order to meet the service demands and expectation of its citizens. The Water and Sewer departments have immediate needs as well as updating the infrastructure on a yearly basis, and the Council may have to consider raising the costs of those services. Allied Waste has served the City of Big Timber for twenty years, and during that time costs have increased significantly, not the least of which is fuel. The price of each new contract increases by three percent, and as noted earlier in this discussion, the City is vigorously promoting recycling and other cost saving measures.

The Future

In terms of the future, Big Timber is in fair financial shape at this time, despite the state of the economy. We need to be alert to the public benefit versus the costs of the services we provide. As the budget better reflects actual revenues and as we move into the future we need to be careful our spending does not outpace revenues. Through the budget, the City Council sets the direction of the City, allocates its resources and establishes its priorities.

Major challenges are facing us as we enter the new year, with infrastructure and capital maintenance needs being balanced with the operational needs of the City. To that end, it is especially important that the City Council maintain and update regularly its capital plan as well as develop goals and objectives for the future, and utilize every funding avenue it has available.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditor with a general review of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need any additional financial information, contact Gayle L. McPherson, Clerk/Treasurer at 103 East Third Avenue, Big Timber, Montana 59011, phone 406-932-5610, or e-mail at citybtmt@ttc-cmc.net

B. Basic Financial Statements

Government-Wide Financial Statements

CITY OF BIG TIMBER, MONTANA
STATEMENT OF NET POSITION
June 30, 2014

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Cash and investments	\$ 1,158,176	\$ 2,173,622	\$ 3,331,798
Restricted cash and investments	120	201,555	201,675
Receivables, net	32,526	90,438	122,964
Capital assets			
Nondepreciable land	356,321	170,214	526,535
Construction in progress	34,921	-	34,921
Other capital assets, net of depreciation	2,635,907	5,746,574	8,382,481
Total capital assets	<u>3,027,149</u>	<u>5,916,788</u>	<u>8,943,937</u>
Total assets	<u>4,217,971</u>	<u>8,382,403</u>	<u>12,600,374</u>
LIABILITIES			
Compensated absences payable	4,500	5,100	9,600
Current portion long-term notes	19,040	22,000	41,040
Long-term liabilities, due in more than one year			
Compensated absences	22,509	30,830	53,339
Closure and post-closure care costs	-	12,186	12,186
Notes payable	18,948	122,000	140,948
Total liabilities	<u>64,997</u>	<u>192,116</u>	<u>257,113</u>
NET POSITION			
Net investment in capital assets	2,954,240	5,772,788	8,727,028
Restricted for:			
Public safety	32,875	-	32,875
Public works	175,583	-	175,583
Culture and recreation	43,406	-	43,406
Permanent - nonspendable	187,600	-	187,600
Construction and replacement	-	158,218	158,218
Closure and post-closure	-	15,751	15,751
Debt service	-	15,400	15,400
Unrestricted	759,270	2,228,130	2,987,400
Total net position	<u>\$ 4,152,974</u>	<u>\$ 8,190,287</u>	<u>\$ 12,343,261</u>

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

CITY OF BIG TIMBER, MONTANA
STATEMENT OF ACTIVITIES
Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary Government:							
Governmental activities:							
General government	\$ 154,089	\$ 18,408	\$ -	\$ -	\$ (135,681)	\$ -	\$ (135,681)
Public safety	210,987	-	5,225	-	(205,762)	-	(205,762)
Public works	187,273	4,890	42,664	-	(139,719)	-	(139,719)
Public health	78,161	3,801	-	-	(74,360)	-	(74,360)
Culture and recreation	181,087	55,386	11,316	-	(114,385)	-	(114,385)
Other	10,458	-	-	300	(10,158)	-	(10,158)
Interest and fiscal fees	2,559	-	-	-	(2,559)	-	(2,559)
Total governmental activities	<u>824,614</u>	<u>82,485</u>	<u>59,205</u>	<u>300</u>	<u>(682,624)</u>		<u>(682,624)</u>
Business-type activities:							
Water	301,101	279,920	-	-	-	(21,181)	(21,181)
Sewer	356,709	233,275	-	-	-	(123,434)	(123,434)
Solid Waste	475,552	495,318	-	-	-	19,766	19,766
Total business-type activities	<u>1,133,362</u>	<u>1,008,513</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(124,849)</u>	<u>(124,849)</u>
Total primary government	<u>\$ 1,957,976</u>	<u>\$ 1,090,998</u>	<u>\$ 59,205</u>	<u>\$ 300</u>	<u>(682,624)</u>	<u>(124,849)</u>	<u>(807,473)</u>
General revenues:							
Property taxes, levied for general purposes					482,988	-	482,988
Local option taxes					43,231	-	43,231
Grants and contributions not restricted to specific programs					199,651	-	199,651
Unrestricted investment earnings					12,391	23,478	35,869
Miscellaneous					3,694	-	3,694
Total general revenues					<u>741,955</u>	<u>23,478</u>	<u>765,433</u>
Change in net position					59,331	(101,371)	(42,040)
Net position-beginning					<u>4,093,643</u>	<u>8,291,658</u>	<u>12,385,301</u>
Net position-ending					<u>\$ 4,152,974</u>	<u>\$ 8,190,287</u>	<u>\$ 12,343,261</u>

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

Fund Financial Statements

Governmental Fund Financial Statements

CITY OF BIG TIMBER, MONTANA
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2014

	General	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 586,411	\$ 571,765	\$ 1,158,176
Receivables:			
Property taxes	12,768	-	12,768
Other governments	19,758	-	19,758
Restricted cash and cash equivalents	120	-	120
Total assets	\$ 619,057	\$ 571,765	\$ 1,190,822

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

**CITY OF BIG TIMBER, MONTANA
BALANCE SHEET (CONTINUED)
GOVERNMENTAL FUNDS
June 30, 2014**

	General	Other Governmental Funds	Total Governmental Funds
DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Deferred inflows of resources:			
Deferred inflows of tax revenues	\$ 12,768	\$ -	\$ 12,768
Fund balances:			
Nonspendable	-	200,000	200,000
Restricted	-	239,464	239,464
Committed	-	132,301	132,301
Assigned	-	-	-
Unassigned	606,289	-	606,289
Total fund balances	606,289	571,765	1,178,054
Total deferred inflows of resources and fund balances	\$ 619,057	\$ 571,765	\$ 1,190,822

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

CITY OF BIG TIMBER, MONTANA
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION - GOVERNMENTAL FUNDS
June 30, 2014

Fund balances - total governmental funds		\$ 1,178,054
<p>Amounts reported for <i>governmental activities</i> in the statement of net position are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.</p>		
Governmental capital assets	\$ 4,690,740	
Less: accumulated depreciation	<u>(1,663,591)</u>	3,027,149
<p>Advances in the governmental funds are reported on the full accrual method in the entity-wide statements.</p>		
		12,768
<p>Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the governmental funds.</p>		
Notes payable	(37,988)	
Compensated absences	<u>(27,009)</u>	<u>(64,997)</u>
Net position of governmental activities		<u>\$ 4,152,974</u>

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

CITY OF BIG TIMBER, MONTANA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2014

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES			
Taxes	\$ 487,160	-	\$ 487,160
Local option taxes	-	43,231	43,231
Licenses and permits	3,125	-	3,125
Intergovernmental	201,871	57,285	259,156
Charges for services	63,637	-	63,637
Fines and forfeitures	15,723	-	15,723
Interest on investments	11,401	990	12,391
Other	3,694	-	3,694
	<u>786,611</u>	<u>101,506</u>	<u>888,117</u>
Total revenues			
EXPENDITURES			
Current			
General government	142,599	-	142,599
Public safety	183,816	5,364	189,180
Public works	102,942	1,400	104,342
Public health	28,211	-	28,211
Culture and recreation	171,715	9,372	181,087
Other	10,458	-	10,458
Capital outlay	34,921	68,884	103,805
Debt service			
Principal payments	23,361	-	23,361
Interest and fiscal fees	2,559	-	2,559
	<u>700,582</u>	<u>85,020</u>	<u>785,602</u>
Total expenditures			
Net change in fund balances	86,029	16,486	102,515
FUND BALANCE - beginning of year	<u>520,260</u>	<u>555,279</u>	<u>1,075,539</u>
FUND BALANCE - end of year	<u>\$ 606,289</u>	<u>571,765</u>	<u>\$ 1,178,054</u>

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

CITY OF BIG TIMBER, 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, 2014

Net change in fund balances - total governmental funds \$ 102,515

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. In the statement of activities, however, the cost of these assets is depreciated over the asset's useful life.

Expenditures for capital assets	\$ 103,805	
Less: current year depreciation	<u>(165,951)</u>	(62,146)

Repayment of principal is an expenditure in the governmental funds, but this repayment reduces long-term liabilities in the statement of net position.

Principal payments		23,361
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Some revenues reported in the statement of activities do not require the use of current financial resources and therefore are not reported as revenues in governmental funds.

(4,172)

Some expenditures reported in governmental funds are to be collected on a long-term basis and therefore are not reported as expenses in the statement of activities.

(227)

Change in net position of governmental activities		<u>\$ 59,331</u>
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The accompanying notes are an integral part of the financial statements.

Proprietary Fund Financial Statements

CITY OF BIG TIMBER, MONTANA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2014

	Business-type Activities Enterprise Funds			Total
	Water Fund	Sewer Fund	Solid Waste Fund	
ASSETS				
Current assets				
Cash and cash equivalents	\$ 707,197	\$ 866,835	\$ 599,590	\$ 2,173,622
Customers receivables, net	28,861	22,969	38,608	90,438
Total current assets	<u>736,058</u>	<u>889,804</u>	<u>638,198</u>	<u>2,264,060</u>
Other assets				
Restricted cash and investments	-	57,435	144,120	201,555
Total other assets	<u>-</u>	<u>57,435</u>	<u>144,120</u>	<u>201,555</u>
Property, plant and equipment				
Nondepreciable:				
Land	10,089	160,125	-	170,214
Depreciable:				
Source of supply	259,053	-	-	259,053
Pumping plant	93,251	24,706	-	117,957
Transmission and distribution	3,643,799	4,475,881	-	8,119,680
General plant	235,872	205,031	146,471	587,374
Treatment plant	-	502,054	185,782	687,836
Accumulated depreciation	<u>(1,739,642)</u>	<u>(2,025,576)</u>	<u>(260,108)</u>	<u>(4,025,326)</u>
Net property, plant and equipment	<u>2,502,422</u>	<u>3,342,221</u>	<u>72,145</u>	<u>5,916,788</u>
Total assets	<u>\$ 3,238,480</u>	<u>\$ 4,289,460</u>	<u>\$ 854,463</u>	<u>\$ 8,382,403</u>

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

CITY OF BIG TIMBER, MONTANA
STATEMENT OF NET POSITION (CONTINUED)
PROPRIETARY FUNDS
June 30, 2014

	Business-type Activities			Total
	Enterprise Funds			
	Water Fund	Sewer Fund	Solid Waste Fund	
LIABILITIES				
Current liabilities:				
Compensated absences payable	\$ 2,319	\$ 1,944	\$ 837	\$ 5,100
Bonds, notes, and loans payable	-	22,000	-	22,000
Total current liabilities	<u>2,319</u>	<u>23,944</u>	<u>837</u>	<u>27,100</u>
Noncurrent liabilities:				
Compensated absences payable	14,424	12,467	3,939	30,830
Notes and contracts payable	-	122,000	-	122,000
Closure and post-closure care costs	-	-	12,186	12,186
Total noncurrent liabilities	<u>14,424</u>	<u>134,467</u>	<u>16,125</u>	<u>165,016</u>
Total liabilities	<u>16,743</u>	<u>158,411</u>	<u>16,962</u>	<u>192,116</u>
NET POSITION				
Net investment in capital assets	2,502,422	3,198,221	72,145	5,772,788
Restricted for debt service	-	15,400	-	15,400
Restricted for construction and replacement	-	42,035	116,183	158,218
Restricted for closure and post closure	-	-	15,751	15,751
Unrestricted	<u>719,315</u>	<u>875,393</u>	<u>633,422</u>	<u>2,228,130</u>
Total net position	<u>3,221,737</u>	<u>4,131,049</u>	<u>837,501</u>	<u>8,190,287</u>
Total liabilities and net position	<u>\$ 3,238,480</u>	<u>\$ 4,289,460</u>	<u>\$ 854,463</u>	<u>\$ 8,382,403</u>

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

CITY OF BIG TIMBER, MONTANA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
Year Ended June 30, 2014

	Business-type Activities Enterprise Funds			Totals
	Water Fund	Sewer Fund	Solid Waste Fund	
OPERATING REVENUES -				
Charges for services	\$ 279,920	\$ 233,275	\$ 495,318	\$ 1,008,513
OPERATING EXPENSES				
Personal services	91,367	75,589	29,617	196,573
Supplies	24,559	14,165	1,049	39,773
Purchased services	69,541	126,202	437,890	633,633
Fixed charges	825	1,767	971	3,563
Depreciation	114,529	133,963	6,025	254,517
Total operating expenses	300,821	351,686	475,552	1,128,059
Operating income (loss)	(20,901)	(118,411)	19,766	(119,546)
NONOPERATING REVENUES (EXPENSES)				
Interest expense	(280)	(5,023)	-	(5,303)
Interest income	6,634	9,340	7,504	23,478
Grant income	-	-	-	-
Total nonoperating revenues (expenses)	6,354	4,317	7,504	18,175
Change in Net Position	(14,547)	(114,094)	27,270	(101,371)
NET POSITION,				
beginning of year	3,236,284	4,245,143	810,231	8,291,658
NET POSITION,				
end of year	\$ 3,221,737	\$ 4,131,049	\$ 837,501	\$ 8,190,287

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

CITY OF BIG TIMBER, MONTANA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2014

	Business-type Activities			
	Enterprise Funds			
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Solid Waste Fund</u>	<u>Total</u>
Increase (Decrease) in Cash and Cash Equivalents				
Cash Flows from Operations				
Receipts from customers	\$ 275,563	\$ 233,859	\$ 495,115	\$ 1,004,537
Payments to suppliers	(94,925)	(142,134)	(439,910)	(676,969)
Payments to employees	(88,586)	(74,539)	(29,500)	(192,625)
Net Cash Provided by Operating Activities	<u>92,052</u>	<u>17,186</u>	<u>25,705</u>	<u>134,943</u>
Cash Flows from Capital and Related Financing Activities				
Additions to property, plant and equipment	-	(17,618)	-	(17,618)
Principal paid on bonds, interfund loans, loans and leases	(5,026)	(33,026)	-	(38,052)
Interest paid on bonds, interfund loans, loans and leases	(280)	(5,023)	-	(5,303)
Net Cash Used by Capital and Related Financing Activities	<u>(5,306)</u>	<u>(55,667)</u>	<u>-</u>	<u>(60,973)</u>
Cash Flows from Investing Activities				
Interest on investments	6,634	9,340	7,504	23,478
Net Increase (Decrease) in Cash and Cash Equivalents	93,380	(29,141)	33,209	97,448
Cash and Cash Equivalents at Beginning of Year	613,817	953,411	710,501	2,277,729
Cash and Cash Equivalents at End of Year	<u>\$ 707,197</u>	<u>\$ 924,270</u>	<u>\$ 743,710</u>	<u>\$ 2,375,177</u>
Classified As:				
Current Assets	\$ 707,197	\$ 866,835	\$ 599,590	\$ 2,173,622
Restricted Assets	-	57,435	144,120	201,555
Totals	<u>\$ 707,197</u>	<u>\$ 924,270</u>	<u>\$ 743,710</u>	<u>\$ 2,375,177</u>

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

CITY OF BIG TIMBER, MONTANA
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUNDS
Year Ended June 30, 2014

	Business-type Activities			Total
	Enterprise Funds			
	Water Fund	Sewer Fund	Solid Waste Fund	
Operating Income (Loss)	\$ (20,901)	\$ (118,411)	\$ 19,766	\$ (119,546)
Adjustments to reconcile operating income (loss)				
to net cash provided by operating activities				
Depreciation and amortization	114,529	133,963	6,025	254,517
Change in Assets and Liabilities:				
(Increase) Decrease in:				
Accounts receivable	(4,357)	584	(203)	(3,976)
Increase (Decrease) in:				
Accrued employee benefits payable	2,781	1,050	117	3,948
Total adjustments	112,953	135,597	5,939	254,489
Net cash provided by operating activities	\$ 92,052	\$ 17,186	\$ 25,705	\$ 134,943

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

Fiduciary Fund Financial Statements

CITY OF BIG TIMBER, MONTANA
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2014

	<u>Agency Fund</u>
ASSETS	
Cash and cash equivalents	<u>\$ 286,711</u>
Total assets	<u><u>\$ 286,711</u></u>
LIABILITIES	
Warrants payable	<u>\$ 286,711</u>
Total liabilities	<u><u>\$ 286,711</u></u>

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

Notes to Financial Statements

CITY OF BIG TIMBER, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Big Timber, Montana (the City), is an independent political entity established under Montana Law. The City is governed by an elected Mayor and City Council. The City Council, by law, has the authority to adopt budgets, appropriate funds, levy taxes, employ personnel and pass ordinances. The Sweet Grass County Treasurer's office functions in a fiduciary capacity to the extent that it bills and collects taxes and receives certain intergovernmental revenue for the City; however, Sweet Grass County does not function in an oversight capacity with regard to the City.

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*. 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 during the fiscal year ending June 30, 2004. 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 also implemented the following GASB statements in the year ended June 30, 2004: Statement 33 *Accounting and Financial Reporting for Nonexchange Transactions*, Statement 36 *Recipient Reporting for Certain Shared Nonexchange Revenues*, Statement 37 *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus*, and Statement 38 *Certain Financial Statement Note Disclosures*.

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 Footnote 1.

For the year ended June 30, 2013, the City implemented GASB Statement No. 62, *Codification of Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of GASB 62 is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in some FASB and AICPA pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements.

CITY OF BIG TIMBER, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

For the year ended June 30, 2013, the City implemented GASB Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The objective of GASB 63 is to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined deferred outflows of resources and deferred inflows of resources. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Concepts Statement 4 also identifies net position as the residual of all other elements presented in the statement of financial position. Definitions and additional descriptions provided in GASB 63 are discussed in further detail later in Footnote 1.

For the year ended June 30, 2014, the City implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources (expenses or expenditures) or inflows of resources (revenues), certain items that were previously reported as assets and liabilities.

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, 2014, and for the year then ended.

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

Reporting Entity

As required by generally accepted accounting principles, these financial statements present the City (the primary government). In accordance with GASB 39 *Determining Whether Certain Organizations are Component Units*, there are no legally separate entities the City is required to report in these statements as a component unit.

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.

CITY OF BIG TIMBER, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting/Measurement Focus (continued)

Government-Wide Financial Statements

The Government-wide Financial Statements (the Statement of Net Position and the Statement of Activities) report information of all the nonfiduciary 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 Position. The City will not be retroactively including infrastructure in its assets.

The Statement of Activities presents changes in net position. 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 interfund activities, payables and receivables. All internal balances in the Statement of Net Position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. There are no internal service fund transactions to be eliminated.

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 position and changes in net position 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 Sheet. 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. When an asset is recorded in governmental fund financial statements but the revenue is not available, the City reports a deferred inflow of resources until such time as the revenue becomes available. Accordingly, revenues are recorded when received in cash, except 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 tax, intergovernmental revenues, and other taxes. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

CITY OF BIG TIMBER, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting/Measurement Focus (continued)

Proprietary Fund Financial Statements

Proprietary Fund Financial Statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position, and a Statement of Cash Flows for each major proprietary fund. The City has no nonmajor proprietary funds. There is no column representing internal service funds presented in the 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 Position. The Statement of Revenues, Expenses and Changes in Fund Net Position 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.

Fiduciary Fund Financial Statements

Fiduciary Fund Financial Statements include a Statement of Net Position. 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. The Agency Funds do not have a measurement focus.

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 a separate column on the Governmental Fund Financial Statements:

Governmental Funds

1. General Fund: The General Fund is the primary operating unit of the City. It accounts for all financial resources of the City, except those required to be accounted for in another fund.

Proprietary Funds

1. Water Fund: Accounts for the City's water utility operations.
2. Sewer Fund: Accounts for the City's sewer utility operations.
3. Solid Waste Fund: Accounts for the City’s solid waste utility operations.

CITY OF BIG TIMBER, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgets and Budgetary Accounting

An operating budget is adopted each fiscal year for all governmental and proprietary funds. The budgets are prepared in accordance with the basis of accounting used by those funds and on a line item basis. Revenues are budgeted by source and expenditures are budgeted by department and class. This constitutes the legal level of control. Expenditures may not exceed appropriations. The City Council may amend the budget by adopting a budget amendment resolution. The budget for the enterprise funds is adopted under a basis consistent with generally accepted accounting principles, except that depreciation, certain capital expenditures, and nonoperating income and expense items are not considered.

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 Position, net of 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:

Building and structures	10 to 50 years
Improvements	5 to 15 years
Infrastructure	20 to 30 years
Machinery and equipment	5 to 20 years
Water system	3 to 50 years
Sewer system	3 to 50 years
Solid waste system	2 to 40 years

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement 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.

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. The City capitalizes interest costs for business-type activities only, net of related interest earned, from the date of the borrowing until the projects acquired with those funds are ready for their intended use.

CITY OF BIG TIMBER, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assessments

Unpaid special improvement district assessments are reflected as special assessments receivable and deferred inflows of resources in the various funds. Revenue is not recognized until collection of these fees.

Enterprise Accounts Receivable

No reserve for estimated uncollected accounts receivable is maintained as management considers all balances to be fully collectible with respect to materiality.

Inventories

Inventories of materials and supplies are expensed at the time of purchase. Inventories of materials and supplies on hand are not maintained. Inventories were not, however, considered material.

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.

Cash and Cash Equivalents

To facilitate cash management, the operating cash of certain funds is pooled into a cash management pool for the purpose of increasing income through combined investment activities. This cash and investment pool is available for use by all funds. For the purposes of the statement of cash flows, the City considers all unrestricted investments included in its cash management pool to be cash equivalents as these balances are used essentially as demand deposit accounts by the individual funds. In accordance with GASB Statement 31, investments are reported at fair value.

Interfund Transactions

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 interfund loans (noncurrent portion) are reported as “advances to and from other funds”. Interfund receivables and payables between funds are eliminated in the Statement of Net Position.

CITY OF BIG TIMBER, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance/Net Position

Fund Balance

As discussed above in Footnote 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 Council.

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 Council, the Mayor, and the Clerk 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 in a fund, the assumed order of spending is restricted first, next committed, next assigned, and finally unassigned.

Minimum General Fund – Fund Balance

The City does not maintain a stabilization fund.

Net Position

In funds other than governmental, net position represents the difference between assets and liabilities. Net position classified as net investment in capital assets 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 position is 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.

CITY OF BIG TIMBER, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position

As discussed above in Footnote 1, the City has implemented GASB 63. This statement amends the GASB 34 reporting requirements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets, in the Government-Wide, the Proprietary Fund and the Fiduciary Fund financial statements.

Concepts Statement No. 4, Elements of Financial Statements, introduced and defined deferred outflows of resources as a consumption of net assets by the government that is applicable to a future reporting period, and defined deferred inflows of resources as an acquisition of net assets by the government that is applicable to a future reporting period. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Concepts Statement 4 also identifies net position as the residual of all other elements presented in the statement of position.

As discussed above in Footnote 1, the City has implemented GASB 65, which requires when an asset is recorded in Governmental Fund financial statements but the revenue is not available, the City reports a deferred inflow of resources until such time as the revenue becomes available; therefore, the Governmental Fund financial statements include deferred inflows of tax revenues. The City does not have any other items that are required to be reported as deferred outflows and inflows of resources.

2. CASH AND INVESTMENTS

Cash held by the City is pooled and maintained in demand accounts. For the purposes of statement of cash flows, the City considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash. At year end, the carrying amount of the City's deposits was \$3,820,184 and the balance per the bank was \$3,831,424. Of the bank balance, \$250,000 was covered by federal depository insurance. The remaining balance was covered by collateralized securities held by the bank in the City's name in accordance with State law. On June 30, 2014, the book value approximated the fair value of the investments, therefore no unrealized gain or loss was recorded for the year.

The City maintains a cash and investment pool for funds under the control of the City treasurer. In addition, investments are separately held for several of the funds. Cash and investments may include cash and cash items, demand, time, savings and fiscal agent deposits; direct obligations of the United States Government and securities issued by agencies of the United States; and repurchase agreements, as allowed by Montana Statute.

CITY OF BIG TIMBER, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

2. CASH AND INVESTMENTS (Continued)

The composition of cash and investments on June 30, 2014, is as follows:

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Governmental activities	\$ 1,158,176	\$ 120	\$ 1,158,296
Business-type activities	2,173,622	201,555	2,375,177
Fiduciary funds	<u>286,711</u>	<u>-</u>	<u>286,711</u>
	<u>\$ 3,618,509</u>	<u>\$ 201,675</u>	<u>\$ 3,820,184</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 102 percent secured by collateral valued at market value. The City Clerk 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.

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>
Certificates of deposit	N/A	N/A	\$ 3,077,665
Demand deposits	N/A	N/A	742,404
Petty cash	N/A	N/A	<u>115</u>
			<u>\$ 3,820,184</u>

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.

Montana statutes require that the City obtain securities for the uninsured portion of the deposits as follows: (1) Securities equal to 50 percent of such deposits if the institution in which the deposits are made has a net worth to total assets ratio of 6 percent or more, or (2) Securities equal to 100 percent of the uninsured deposits if the institution in which the deposits are made has a net worth to total assets ratio of less than 6 percent. The amount of collateral held for the City's deposits at June 30, 2014 equaled or exceeded the amount required by State statutes.

CITY OF BIG TIMBER, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

3. TAXES AND ASSESSMENTS RECEIVABLE

All property taxes are collected by the Treasurer of Sweet Grass County, Montana, and remitted to the City of Big Timber on a monthly basis. However, the revenues are reduced at year end by the amount of the current delinquent receivables, and are increased by the amount of the delinquent collections from prior fiscal years. Property taxes attach as an enforceable lien on property as of January 1, and are levied on the second Monday in August. They are due in two equal installments on November 30th and May 31st following the levy date.

The City is permitted by state statutes to levy taxes up to certain fixed limits for various purposes. The taxes levied by the City for the year ended June 30, 2014, were within legal limits. The tax levies were based upon a taxable valuation of \$3,464,362.

4. CAPITAL ASSETS

All capital assets of the City are depreciable with the exceptions of land and construction in progress. Capital assets of the City for the year ended June 30, 2014, consisted of the following:

	<u>June 30, 2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers/ Reclassifications</u>	<u>June 30, 2014</u>
Governmental activities:					
Non-depreciable					
Land	\$ 356,321	\$ -	\$ -	\$ -	\$ 356,321
Construction in progress	-	34,921	-	-	34,921
Depreciable					
Buildings and structures	1,726,526	20,944	-	-	1,747,470
Improvements	451,522	14,345	-	-	465,867
Infrastructure	851,171	33,595	-	-	884,766
Intangibles	4,000	-	-	-	4,000
Machinery and equipment	1,197,395	-	-	-	1,197,395
Total	4,586,935	103,805	-	-	4,690,740
Accumulated depreciation	(1,497,640)	(165,951)	-	-	(1,663,591)
Total governmental activities	<u>\$ 3,089,295</u>	<u>\$ (62,146)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,027,149</u>

CITY OF BIG TIMBER, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

4. CAPITAL ASSETS (Continued)

	<u>June 30, 2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers/ Reclassifications</u>	<u>June 30, 2014</u>
Business-type activities:					
Water					
Non-depreciable					
Land	\$ 10,089	\$ -	\$ -	\$ -	\$ 10,089
Depreciable					
General plant	235,872	-	-	-	235,872
Source of supply	259,053	-	-	-	259,053
Pumping plant	93,251	-	-	-	93,251
Transmission and distribution	3,643,799	-	-	-	3,643,799
Total	4,242,064	-	-	-	4,242,064
Accumulated depreciation	(1,625,113)	(114,529)	-	-	(1,739,642)
Total water activities	<u>\$ 2,616,951</u>	<u>\$ (114,529)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,502,422</u>
Sewer					
Non-depreciable					
Land	\$ 160,125	\$ -	\$ -	\$ -	\$ 160,125
Depreciable					
General plant	205,031	-	-	-	205,031
Pumping plant	24,706	-	-	-	24,706
Treatment plant	502,054	-	-	-	502,054
Transmission and distribution	4,458,263	17,618	-	-	4,475,881
Total	5,350,179	17,618	-	-	5,367,797
Accumulated depreciation	(1,891,613)	(133,963)	-	-	(2,025,576)
Total sewer activities	<u>\$ 3,458,566</u>	<u>\$ (116,345)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,342,221</u>

CITY OF BIG TIMBER, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

4. CAPITAL ASSETS (Continued)

	<u>June 30, 2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers/ Reclassifications</u>	<u>June 30, 2014</u>
Business-type activities (cont.):					
Solid Waste					
Depreciable					
General plant	\$ 185,782	-	-	-	\$ 185,782
Treatment plant	146,471	-	-	-	146,471
Total	332,253	-	-	-	332,253
Accumulated depreciation	(254,083)	(6,025)	-	-	(260,108)
Total solid waste activities	<u>\$ 78,170</u>	<u>\$ (6,025)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 72,145</u>
Total business-type activities	<u><u>\$ 6,153,687</u></u>	<u><u>\$ (236,899)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 5,916,788</u></u>

In accordance with GASB 34, the City has reported all capital assets, with the exception of pre-July 1, 2003 infrastructure in the Government-Wide Statement of Net Position. The assets are reported whereby accumulated depreciation and depreciation expense have been recorded. For the year ended June 30, 2014, depreciation expense on capital assets was charged to the governmental functions/programs as follows:

Governmental activities:	
General Government	\$ 11,339
Public Safety	21,731
Public Works	82,931
Culture and Recreation	49,950
Total depreciation expense - governmental activities	<u><u>\$ 165,951</u></u>
Business-type activities:	
Water	\$ 114,529
Sewer	133,963
Solid Waste	6,025
Total depreciation expense - business-type activities	<u><u>\$ 254,517</u></u>

CITY OF BIG TIMBER, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

4. CAPITAL ASSETS (Continued)

Changes in accumulated depreciation are as follows for the year ended June 30, 2014:

	<u>June 30, 2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers/ Reclassifications</u>	<u>June 30, 2014</u>
Governmental activities:					
Buildings and structures	\$ (339,829)	\$ (36,370)	\$ -	\$ -	\$ (376,199)
Improvements	(166,127)	(21,120)	-	-	(187,247)
Infrastructure	(253,522)	(37,164)	-	-	(290,686)
Intangibles	(4,000)	-	-	-	(4,000)
Machinery and equipment	(734,162)	(71,297)	-	-	(805,459)
Total governmental activities	<u>\$ (1,497,640)</u>	<u>\$ (165,951)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,663,591)</u>
Business-type activities:					
General plant	(218,223)	(20,331)	-	-	(238,554)
Source of supply	(163,483)	(4,120)	-	-	(167,603)
Pumping plant	(59,000)	(1,805)	-	-	(60,805)
Treatment plant	(592,669)	(4,209)	-	-	(596,878)
Transmission and distribution	(2,737,434)	(224,052)	-	-	(2,961,486)
Total business-type activities	<u>\$ (3,770,809)</u>	<u>\$ (254,517)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (4,025,326)</u>
Total accumulated depreciation	<u>\$ (5,268,449)</u>	<u>\$ (420,468)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (5,688,917)</u>

CITY OF BIG TIMBER, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

5. COMPENSATED ABSENCES

The City's policy relating to compensated absences is described in Footnote 1. As shown in the table below, the long-term portion of the debt, amounting to \$22,509 for governmental activities and \$30,830 for business-type activities at June 30, 2014, is expected to be paid in future years from future resources. In prior years, compensated absences have been liquidated primarily by the general fund and the proprietary funds. The total amounts outstanding at June 30, 2014, were \$27,009 for governmental activities and \$35,930 for business-type activities.

	Balance June 30, 2013	Incurred	Satisfied	Balance June 30, 2014
Compensated absences				
Governmental activities	\$ 26,782	\$ 4,737	\$ (4,510)	\$ 27,009
Business-type activities	31,982	9,038	(5,090)	35,930
Total compensated absences	\$ 58,764	\$ 13,775	\$ (9,600)	\$ 62,939

	Due within one year	Due after one year	Total
Compensated absences			
Governmental activities	\$ 4,500	\$ 22,509	\$ 27,009
Business-type activities	5,100	30,830	35,930
Total compensated absences	\$ 9,600	\$ 53,339	\$ 62,939

6. LONG-TERM DEBT

The following is a summary of long-term debt transactions of the City's governmental funds for the fiscal year ended June 30, 2014:

	Balance June 30, 2013	Issuances	Repayments	Balance June 30, 2014
Notes payable - Sweeper	\$ 56,323	\$ -	\$ (18,335)	\$ 37,988

CITY OF BIG TIMBER, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

6. LONG-TERM DEBT (Continued)

	Current Portion (Due within one year)	Long-term Portion (Due after one year)	Total Long Term Debt
Notes payable - Sweeper	\$ 19,040	\$ 18,948	\$ 37,988

The annual requirements to amortize long-term debt outstanding in the governmental funds as of June 30, 2014, including interest payments of \$2,192, are as follows:

Note payable to Citizens Bank and Trust annual installments including interest at 3.85% through October 2016

	Principal	Interest	Total
Year ending June 30,			
2015	\$ 19,040	\$ 1,463	\$ 20,503
2016	18,948	729	19,677
	\$ 37,988	\$ 2,192	\$ 40,180

The following is a summary of long-term debt transactions of the City's proprietary funds for the fiscal year ended June 30, 2014:

	Balance June 30, 2013	Issuances	Repayments	Balance June 30, 2014
Sewer Revenue Bonds 2001	\$ 172,000	\$ -	\$ (28,000)	\$ 144,000

Revenue Bonds - Revenue bonds are directly related to and expected to be paid from specific proprietary funds.

SEWER

<u>Purpose</u>	<u>Issue Date</u>	<u>Interest Rate</u>	<u>Term of Bond</u>	<u>Maturity Date</u>	<u>Bonds Issued</u>	<u>Annual Serial Payment</u>	<u>Outstanding June 30, 2014</u>
Wastewater	05/07/01	3.0%	20 years	05/07/21	\$ 389,000	\$21,000	\$144,000

CITY OF BIG TIMBER, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

6. LONG-TERM DEBT (Continued)

Requirements to Amortize Debt

The annual requirements to amortize long-term debt outstanding in the proprietary funds as of June 30, 2014, including interest payments of \$10,140, are as follows:

	Principal	Interest	Total
Year ending June 30,			
2015	\$ 22,000	\$ 2,770	\$ 24,770
2016	22,000	2,330	24,330
2017	22,000	1,890	23,890
2018	22,000	1,450	23,450
2019	22,000	1,010	23,010
2020-2021	34,000	690	34,690
	\$ 144,000	\$ 10,140	\$ 154,140

Bond Covenants

The City received a Sewer System Revenue Bond from DNRC State Revolving Fund Program was received May 7, 2001 for wastewater improvements to the municipal system. The bond is payable solely from the revenues of the wastewater system and does not constitute a debt of the City within the meaning of any constitutional or statutory limitation or provision.

The bond indentures contain significant requirement for annual debt and flow of funds through various restricted accounts. Specifically, the wastewater system bonds require an operating account, a revenue bond reserve account and net revenue requirement. Receipts should be deposited to the operating account and expenses paid from it. Expenses paid from this account should be reasonable and necessary operating expenses.

The bond resolution requires that a revenue bond account shall be used to accumulate from net revenues an amount not less than the sum of one-sixth of the interest due within the next six months plus one twelfth of the principal to become due within the next twelve months.

The bond resolution also requires that the City's sewer fund have net revenues equal to 125% of the maximum amount of principal and interest due on any outstanding bonds in the current or any future fiscal year. The computation of the required amount for the fiscal year ending June 30, 2014 is as follows:

Maximum amount of principal and interest to become due after the fiscal year 6/30/14	\$24,770
Net revenue requirements	\$30,963

The City is in compliance with all significant requirements of the bond covenants.

CITY OF BIG TIMBER, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

7. CAPITAL LEASE OBLIGATION

On March 30, 2009, the City entered into a lease for a backhoe. The lease term is five years payable in five consecutive annual installments of \$15,000 including interest at 5.4%. The total amount capitalized of \$67,824 represents the present value of the future lease payments, \$82,824 less \$15,000 down payment. The lease payable is recorded as one-third in the water enterprise fund, one-third in the sewer enterprise fund, and one-third in the governmental general fund.

The capital lease balance outstanding for governmental activities at June 30, 2014 is as follows:

	Balance	Issuances	Repayments	Balance
	June 30, 2013			June 30, 2014
Backhoe capital lease	\$ 5,026	\$ -	\$ (5,026)	\$ -

The capital lease balance outstanding for proprietary activities at June 30, 2014 is as follows:

Water

	Balance	Issuances	Repayments	Balance
	June 30, 2013			June 30, 2014
Backhoe capital lease	\$ 5,026	\$ -	\$ (5,026)	\$ -

Sewer

	Balance	Issuances	Repayments	Balance
	June 30, 2013			June 30, 2014
Backhoe capital lease	\$ 5,026	\$ -	\$ (5,026)	\$ -

CITY OF BIG TIMBER, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

8. DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, which is 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 Statement No. 32, the City has removed the balances from their financial statements related to the deferred compensation plan, as these amounts represent neither assets nor liabilities to the City, and the plan is administered by an independent third party.

9. SEGMENT INFORMATION FOR ENTERPRISE FUNDS

Because all of the City's enterprise funds are each reported as a major fund in the fund financial statements, segment disclosures herein are not required.

10. EMPLOYEE RETIREMENT PLANS

The Public Employees' Retirement System (PERS) is a statewide retirement plan established in 1945 and governed by Title 19, chapters 2 and 3 of the Montana Code Annotated providing retirement services to substantially all public employees. PERS is a mandatory multiple-employer cost-sharing plan administered by the Public Employees' Retirement Division (PERD). PERS offers retirement, disability, and death benefits to plan members and their beneficiaries. Benefit eligibility is age 60 with at least five years of service; age 65 regardless of service; or 30 years of service regardless of age. Actuarially reduced benefits may be taken with 25 years of service or at age 50 with at least five years of service. Monthly retirement benefits are determined by taking 1/56 times the number of years of service times the final average salary. Members' rights become vested after five years of service. The authority to establish, amend, and provide cost of living adjustments for the plan is assigned to the State legislature. PERS financial information is reported in the Comprehensive Annual Financial Report for the fiscal year end which is published by the Public Employees' Retirement Board. It is available from the PERD at 1712 Ninth Avenue, PO Box 200131, Helena, MT 59620-0131.

Contribution rates for the plan are required and determined by State law. Covered employees are required by State statute to contribute 7.9% of their salary to the plan (6.9% if hired prior to July 1, 2011). The City is required to contribute 7.07% of members' compensation. The State is required to contribute 0.1% of members' compensation, which was \$267 for fiscal year 2014. 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, 2014 and the two previous years is presented in the following table:

<u>Year Ended June 30</u>	<u>Covered Payroll</u>	<u>Employee Contributions</u>	<u>Employer Contributions</u>	<u>Total Contributions</u>
2014	\$ 267,334	\$ 21,119	\$ 21,574	\$ 42,693
2013	230,722	15,920	16,312	32,232
2012	243,970	16,917	17,249	34,166

CITY OF BIG TIMBER, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

11. CLASSIFICATION OF NET POSITION

In the Government-Wide Financial Statements, net position is classified in the following categories:

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

Restricted – This category presents 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.

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

In the Governmental 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 Council and Management and can be increased, reduced or eliminated by similar actions.

12. 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 costs of employees.

A variety of methods is used to provide insurance for these risks. Commercial policies, transferring all risks of loss, except for relatively small deductible amounts, are purchased for property and content damage, employee medical costs, and professional liabilities. The City participates in two state-wide public risk pools operated by the Montana Municipal Insurance Authority, for workers' compensation and for tort liability coverage. And, given the lack of coverage available, the City has no coverage for potential losses from environmental damages.

Coverage limits and the deductibles on the commercial policies have stayed relatively constant for the last several years. The premiums for property and content damage and professional liability are allocated between the City's enterprise funds and the general fund based on total appropriations. The premiums for the non-contributory employee medical plan are similarly allocated between the enterprise funds and the group health insurance fund, a special revenue fund supported by a special purpose tax levy. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

CITY OF BIG TIMBER, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

12. RISK MANAGEMENT (Continued)

In 1986, the City joined together with other Montana cities to form the Montana Municipal Interlocal Authority (MMIA), which established a workers' compensation plan and a tort liability plan, both public entity risk pools currently operating as common risk management and insurance programs for the member governments. The liability limits for damages in tort action are \$750,000 per person and \$1.5 million per accident, except if any one occurrence is not subject to government liability limitations in which case the limits are \$12.5 million per occurrence for any claim that is not subject to the limitations on government 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 a \$1,500 deductible per occurrence. State tort law limits the City's liability to \$1.5 million. The City has no excess policy coverage. The City pays an annual premium for its employee injury insurance coverage, which is allocated to the employer funds based on total budgeted salaries and wages and an annual premium for tort liability. This amount is allocated between the City's enterprise funds and the liability insurance fund based on total appropriations. 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 \$4.41 million and \$6.155 million, respectively, of bonds 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; this debt was retired during 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 \$1,000 (vehicle) or \$2,500 (real and personal property) deductible per occurrence. MMIA reinsures their property insurance with a national municipal pool, Public Entities' Property Insurance.

13. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

In addition to providing a deferred compensation plan, the City provides post-employment health benefits to its retirees. Retirees are 100% responsible for their post-employment health insurance premiums and pay an age-adjusted premium. Therefore, there are no post-employment benefits to accrue and no implicit rate subsidies to be calculated.

14. 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 thirty years after closure. The City has closed the landfill and contracted with a provider for solid waste and disposal services. The \$12,186 reported as landfill closure and post-closure liability at June 30, 2014, represents the cumulative amount reported to date based on the use of the estimated capacity of the landfill. Based on estimates provided through proposals and studies, the estimated liability recorded is sufficient to cover the closing of the landfill. The City has \$27,471 set aside to fund the closing and post-closure care of the landfill.

15. LAW ENFORCEMENT CONTRACT

The City has contracted with Sweet Grass County to provide coordinated law enforcement services. The County provides law enforcement for the City under a city-county department. For the year ended June 30, 2014, the City contributed \$162,020 of the total budget and the County provided the remaining balance.

CITY OF BIG TIMBER, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

16. MAJOR PURPOSE PRESENTATION

The table presented below displays the City's fund balances by major purpose, as displayed on page II-19 of the governmental funds balance sheet. Statement 54 requires the disclosure of the purpose of each Major Special Revenue Fund.

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Nonspendable			
Cemetery perpetual care	\$ -	\$ 200,000	\$ 200,000
Restricted			
General government	-	-	-
Public safety	-	32,849	32,849
Public works	-	183,252	183,252
Public health	-	-	-
Culture and recreation	-	23,363	23,363
Total restricted	<u>-</u>	<u>239,464</u>	<u>239,464</u>
Committed			
General government	-	132,301	132,301
Public safety	-	-	-
Public works	-	-	-
Public health	-	-	-
Culture and recreation	-	-	-
Total committed	<u>-</u>	<u>132,301</u>	<u>132,301</u>
Assigned			
General government	-	-	-
Public safety	-	-	-
Public works	-	-	-
Public health	-	-	-
Culture and recreation	-	-	-
Total assigned	<u>-</u>	<u>-</u>	<u>-</u>
Unassigned	<u>606,289</u>	<u>-</u>	<u>606,289</u>
Total fund balances	<u>\$ 606,289</u>	<u>\$ 571,765</u>	<u>\$ 1,178,054</u>

17. SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 1, 2014, the date on which the financial statements were available to be issued.

**C. Required Supplementary Information
Other than Management Discussion
and Analysis**

CITY OF BIG TIMBER, MONTANA
SCHEDULE OF FUNDING PROGRESS - OTHER POST-EMPLOYMENT HEALTHCARE BENEFITS
Year Ended June 30, 2014

As described in Footnote 13, the City has no post-employment benefits to accrue and no implicit rate subsidies to be calculated. As there is no amount to accrue at June 30, 2014, no Schedule of Funding Progress is presented herein.

**Budget to Actual Comparison – Major Funds
General Fund**

CITY OF BIG TIMBER, MONTANA
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
Year Ended June 30, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
Budgetary fund balance, July 1	\$ 520,260	\$ 520,260	\$ 520,260	\$ -
Resources (inflows):				
Taxes	496,000	496,000	487,160	(8,840)
Licenses and permits	2,675	2,675	3,125	450
Intergovernmental	277,481	277,425	201,871	(75,554)
Charges for services	62,834	62,834	63,637	803
Fines and forfeitures	14,000	14,000	15,723	1,723
Proceeds from long-term debt	-	-	-	-
Sale of assets	-	-	-	-
Interest on investments	15,500	15,500	11,401	(4,099)
Transfers from other funds	-	-	-	-
Other	3,750	3,750	3,694	(56)
Amounts available for appropriation	<u>1,392,500</u>	<u>1,392,444</u>	<u>1,306,871</u>	<u>(85,573)</u>
Charges to appropriations (outflows):				
Current				
General government	160,098	158,178	142,599	15,579
Public safety	199,838	199,838	183,816	16,022
Public works	109,752	109,752	102,942	6,810
Public health	30,819	30,819	28,211	2,608
Culture and recreation	189,772	189,772	171,715	18,057
Other	10,951	10,951	10,458	493
Capital outlay	223,000	223,000	34,921	188,079
Debt service	25,921	25,921	25,920	1
Transfers to other funds	-	-	-	-
Total charges to appropriations	<u>950,151</u>	<u>948,231</u>	<u>700,582</u>	<u>247,649</u>
Budgetary fund balance, June 30	<u>\$ 442,349</u>	<u>\$ 444,213</u>	<u>\$ 606,289</u>	<u>\$ 162,076</u>

See the Independent Auditors' Report.

**CITY OF BIG TIMBER, MONTANA
BUDGETARY COMPARISON SCHEDULE
NOTE A TO RSI**

**Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures
Year Ended June 30, 2014**

	<u>General Fund</u>
Sources/inflows of resources	
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 1,306,871
Differences - budget to GAAP:	
The fund balance at the beginning of the year is a budgetary resource but is not a current-year revenue for financial reporting purposes.	(520,260)
Transfers from other funds are inflows of budgetary resources but are not <i>revenues</i> for financial reporting purposes.	<u>-</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>\$ 786,611</u>
 Uses/outflows of resources	
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 700,582
Differences - budget to GAAP:	
Transfers to other funds are outflows of budgetary resources but are not <i>expenditures</i> for financial reporting purposes.	<u>-</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>\$ 700,582</u>

See the Independent Auditors' Report.

D. Supplemental Information

Combining Financial Statements

Nonmajor Governmental Funds

**CITY OF BIG TIMBER, MONTANA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2014**

	Special Revenue Funds		
	Library Federation	Fire Department	Police Training
ASSETS			
Cash and cash equivalents	\$ 24	\$ 20,021	\$ 12,828
Receivables			
Property taxes	-	-	-
Other governments	-	-	-
Restricted cash and cash equivalents	-	-	-
 Total assets	\$ 24	\$ 20,021	\$ 12,828
 DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Deferred inflows of resources:			
Deferred inflows of tax revenues	\$ -	\$ -	\$ -
 Fund balances:			
Nonspendable	-	-	-
Restricted	24	20,021	12,828
Committed	-	-	-
Assigned	-	-	-
Unassigned	-	-	-
 Total fund balances	24	20,021	12,828
 Total deferred inflows of resources and fund balances	\$ 24	\$ 20,021	\$ 12,828

(continued)

See the Independent Auditors' Report.

CITY OF BIG TIMBER, MONTANA
COMBINING BALANCE SHEET (CONTINUED)
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2014

	Special Revenue Funds		
	Gas Tax	State Library Federation	Total
ASSETS			
Cash and cash equivalents	\$ 183,252	\$ -	\$ 216,125
Receivables			
Property taxes	-	-	-
Other governments	-	-	-
Restricted cash and cash equivalents	-	-	-
Total assets	\$ 183,252	\$ -	\$ 216,125
DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Deferred inflows of resources:			
Deferred inflows of tax revenues	\$ -	\$ -	\$ -
Fund balances:			
Nonspendable	-	-	-
Restricted	183,252	-	216,125
Committed	-	-	-
Assigned	-	-	-
Unassigned	-	-	-
Total fund balances	183,252	-	216,125
Total deferred inflows of resources and fund balances	\$ 183,252	\$ -	\$ 216,125

(continued)

See the Independent Auditors' Report.

CITY OF BIG TIMBER, MONTANA
COMBINING BALANCE SHEET (CONTINUED)
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2014

	Capital Project Fund
ASSETS	
Cash and cash equivalents	\$ 132,301
Receivables	
Property taxes	-
Other governments	-
Restricted cash and cash equivalents	-
Total assets	\$ 132,301
 DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	
Deferred inflows of resources:	
Deferred inflows of tax revenues	\$ -
Fund balances:	
Nonspendable	-
Restricted	-
Committed	132,301
Assigned	-
Unassigned	-
Total fund balances	132,301
Total deferred inflows of resources and fund balances	\$ 132,301

See the Independent Auditors' Report.

CITY OF BIG TIMBER, MONTANA
COMBINING BALANCE SHEET (CONTINUED)
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2014

	<u>Permanent Fund</u>	
	<u>Pool Funds</u>	<u>Total Governmental Funds</u>
ASSETS		
Cash and cash equivalents	\$ 223,339	\$ 571,765
Receivables		
Property taxes	-	-
Other governments	-	-
Restricted cash and cash equivalents	-	-
	<u> </u>	<u> </u>
Total assets	<u>\$ 223,339</u>	<u>\$ 571,765</u>
 DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES		
Deferred inflows of resources:		
Deferred inflows of tax revenues	<u>\$ -</u>	<u>\$ -</u>
Fund balances:		
Nonspendable	200,000	200,000
Restricted	23,339	239,464
Committed	-	132,301
Assigned	-	-
Unassigned	-	-
	<u> </u>	<u> </u>
Total fund balances	<u>223,339</u>	<u>571,765</u>
Total deferred inflows of resources and fund balances	<u>\$ 223,339</u>	<u>\$ 571,765</u>

See the Independent Auditors' Report.

CITY OF BIG TIMBER, MONTANA
NONMAJOR FUNDS - SPECIAL REVENUE
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended June 30, 2014

	<u>Library Federation</u>	<u>Fire Department</u>	<u>Police Training</u>
REVENUES			
Taxes	\$ -	\$ -	\$ -
Local option taxes	-	-	-
Licenses and permits	-	-	-
Intergovernmental	1,389	-	5,225
Charges for services	-	-	-
Fines and forfeitures	-	-	-
Interest on investments	-	113	-
Loan repayment	-	-	-
Other	-	-	-
Total revenues	<u>1,389</u>	<u>113</u>	<u>5,225</u>
EXPENDITURES			
Current			
General government	-	-	-
Public safety	-	599	4,765
Public works	-	-	-
Public health	-	-	-
Culture and recreation	1,365	-	-
Other	-	-	-
Capital outlay	-	-	-
Debt service			
Principal	-	-	-
Interest and fiscal fees	-	-	-
Total expenditures	<u>1,365</u>	<u>599</u>	<u>4,765</u>
Net change in fund balance	24	(486)	460
FUND BALANCES, beginning of year	<u>-</u>	<u>20,507</u>	<u>12,368</u>
FUND BALANCES, end of year	<u>\$ 24</u>	<u>\$ 20,021</u>	<u>\$ 12,828</u>

See the Independent Auditors' Report.

CITY OF BIG TIMBER, MONTANA
NONMAJOR FUNDS - SPECIAL REVENUE (CONTINUED)
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended June 30, 2014

	<u>Gas Tax</u>	<u>State Library Federation</u>	<u>Special Revenue Totals</u>
REVENUES			
Taxes	\$ -	\$ -	\$ -
Local option taxes	-	-	-
Licenses and permits	-	-	-
Intergovernmental	42,664	8,007	57,285
Charges for services	-	-	-
Fines and forfeitures	-	-	-
Interest on investments	-	-	113
Loan repayment	-	-	-
Other	-	-	-
	<u>42,664</u>	<u>8,007</u>	<u>57,398</u>
Total revenues			
EXPENDITURES			
Current			
General government	-	-	-
Public safety	-	-	5,364
Public works	1,400	-	1,400
Public health	-	-	-
Culture and recreation	-	8,007	9,372
Other	-	-	-
Capital outlay	33,595	-	33,595
Debt service			
Principal	-	-	-
Interest and fiscal fees	-	-	-
	<u>34,995</u>	<u>8,007</u>	<u>49,731</u>
Total expenditures			
Net change in fund balance	7,669	-	7,667
FUND BALANCES,			
beginning of year	<u>175,583</u>	<u>-</u>	<u>208,458</u>
FUND BALANCES,			
end of year	<u>\$ 183,252</u>	<u>\$ -</u>	<u>\$ 216,125</u>

See the Independent Auditors' Report.

CITY OF BIG TIMBER, MONTANA
NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended June 30, 2014

	<u>Capital Project Fund</u>	<u>Permanent Pool Funds</u>	<u>Total Nonmajor Governmental Funds</u>
REVENUES			
Taxes	\$ -	\$ -	\$ -
Local option taxes	43,231	-	43,231
Licenses and permits	-	-	-
Intergovernmental	-	-	57,285
Charges for services	-	-	-
Fines and forfeitures	-	-	-
Interest on investments	-	877	990
Loan repayment	-	-	-
Other	-	-	-
	<u>43,231</u>	<u>877</u>	<u>101,506</u>
Total revenues			
EXPENDITURES			
Current			
General government	-	-	-
Public safety	-	-	5,364
Public works	-	-	1,400
Public health	-	-	-
Culture and recreation	-	-	9,372
Other	-	-	-
Capital outlay	14,345	20,944	68,884
Debt service			
Principal	-	-	-
Interest and fiscal fees	-	-	-
	<u>14,345</u>	<u>20,944</u>	<u>85,020</u>
Total expenditures			
Net change in fund balance	28,886	(20,067)	16,486
FUND BALANCES, beginning of year	<u>103,415</u>	<u>243,406</u>	<u>555,279</u>
FUND BALANCES, end of year	<u>\$ 132,301</u>	<u>\$ 223,339</u>	<u>\$ 571,765</u>

See the Independent Auditors' Report.

**Combining Statements of Revenues, Expenditures, and Changes in Fund
Equity Budget (GAAP Basis) and Actual**

**CITY OF BIG TIMBER, MONTANA
SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND EQUITY -
BUDGET (GAAP BASIS) AND ACTUAL
Year Ended June 30, 2014**

	<u>Library Federation</u>			<u>Fire Department</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES						
Taxes	\$ -	-	-	\$ -	-	-
Local option taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	1,389	1,389	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeitures	-	-	-	-	-	-
Interest on investments	-	-	-	75	113	38
Other	-	-	-	-	-	-
Total revenues	<u>1,389</u>	<u>1,389</u>	<u>-</u>	<u>75</u>	<u>113</u>	<u>38</u>
EXPENDITURES - BUDGET UNIT	<u>1,389</u>	<u>1,365</u>	<u>24</u>	<u>670</u>	<u>599</u>	<u>71</u>
Revenues and other sources over (under) expenditures	<u>-</u>	24	<u>24</u>	<u>(595)</u>	(486)	<u>109</u>
FUND BALANCE, beginning of year		<u>-</u>			<u>20,507</u>	
FUND BALANCE, end of year		<u>\$ 24</u>			<u>\$ 20,021</u>	

(continued)

See the Independent Auditors' Report.

**CITY OF BIG TIMBER, MONTANA
SPECIAL REVENUE FUNDS (CONTINUED)
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND EQUITY -
BUDGET (GAAP BASIS) AND ACTUAL
Year Ended June 30, 2014**

	<u>Police Training</u>			<u>Gas Tax</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES						
Taxes	\$ -	-	-	\$ -	-	-
Local option taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	5,225	5,225	-	42,664	42,664	-
Charges for services	-	-	-	-	-	-
Fines and forfeitures	-	-	-	-	-	-
Interest on investments	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total revenues	<u>5,225</u>	<u>5,225</u>	<u>-</u>	<u>42,664</u>	<u>42,664</u>	<u>-</u>
EXPENDITURES - BUDGET UNIT	<u>9,000</u>	<u>4,765</u>	<u>4,235</u>	<u>71,407</u>	<u>34,995</u>	<u>36,412</u>
Revenues and other sources over (under) expenditures	<u>(3,775)</u>	460	<u>4,235</u>	<u>(28,743)</u>	7,669	<u>36,412</u>
FUND BALANCE, beginning of year		<u>12,368</u>			<u>175,583</u>	
FUND BALANCE, end of year		<u>\$ 12,828</u>			<u>\$ 183,252</u>	

(continued)

See the Independent Auditors' Report.

CITY OF BIG TIMBER, MONTANA
SPECIAL REVENUE FUNDS (CONTINUED)
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND EQUITY -
BUDGET (GAAP BASIS) AND ACTUAL
Year Ended June 30, 2014

	<u>State Library Federation</u>			<u>Total</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES						
Taxes	\$ -	-	-	\$ -	-	-
Local option taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	8,056	8,007	(49)	57,334	57,285	(49)
Charges for services	-	-	-	-	-	-
Fines and forfeitures	-	-	-	-	-	-
Interest on investments	-	-	-	75	113	38
Loan repayment	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total revenues	<u>8,056</u>	<u>8,007</u>	<u>(49)</u>	<u>57,409</u>	<u>57,398</u>	<u>(11)</u>
EXPENDITURES - BUDGET UNIT	<u>8,056</u>	<u>8,007</u>	<u>49</u>	<u>90,522</u>	<u>49,731</u>	<u>40,791</u>
Revenues and other sources over (under) expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>(33,113)</u>	<u>7,667</u>	<u>40,780</u>
FUND BALANCE, beginning of year		<u>-</u>			<u>208,458</u>	
FUND BALANCE, end of year		<u>\$ -</u>			<u>\$ 216,125</u>	

See the Independent Auditors' Report.

CITY OF BIG TIMBER, MONTANA
CAPITAL PROJECT FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND EQUITY - BUDGET (GAAP BASIS) AND ACTUAL
Year Ended June 30, 2014

	<u>Capital Projects</u>		Variance Positive (Negative)
	<u>Budget</u>	<u>Actual</u>	
REVENUES			
Taxes	\$ -	-	-
Local option taxes	38,000	43,231	5,231
Intergovernmental	-	-	-
Charges for services	-	-	-
Interest on investments	-	-	-
Other	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Total revenue	<u>38,000</u>	<u>43,231</u>	<u>5,231</u>
EXPENDITURES			
Current - General Government	-	-	-
Capital outlay	25,000	14,345	10,655
Debt service			
Principal	-	-	-
Interest and fiscal fees	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>25,000</u>	<u>14,345</u>	<u>10,655</u>
Revenues and other sources over (under) expenditures and other uses	<u>13,000</u>	28,886	<u>15,886</u>
FUND BALANCE, beginning of year		<u>103,415</u>	
FUND BALANCE, end of year		<u>\$ 132,301</u>	

See the Independent Auditors' Report.

PART III

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS



**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**

The Honorable Mayor and City Council of the
City of Big Timber, Montana:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Big Timber, Montana, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City of Big Timber, Montana's basic financial statements, and have issued our report thereon dated December 1, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Big Timber, Montana's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Big Timber Montana's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Big Timber Montana'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 City's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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



Purpose of this Report

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

Amatics CPA Group

Bozeman, Montana
December 1, 2014

CITY OF BIG TIMBER, MONTANA
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2014

The results of our tests disclosed no instances of noncompliance with certain provisions of laws, regulations, contracts and grant agreements and other matters or any instances of internal control deficiencies considered to be significant deficiencies or material weaknesses, which were required to be reported under *Government Auditing Standards* as of June 30, 2014.

**CITY OF BIG TIMBER, MONTANA
STATUS OF PRIOR YEAR FINDINGS
JUNE 30, 2014**

The results of our tests disclosed one instance of noncompliance with certain provisions of laws, regulations, contracts and grant agreements and other matters but no instances of internal control deficiencies considered to be significant deficiencies or material weaknesses, which were required to be reported under *Government Auditing Standards* as of June 30, 2013.

2013-C1 Criteria: In accordance with **MCA 2-18-617**, annual vacation leave may be accumulated to an amount not to exceed two times the maximum number of days earned annually as of the end of the first pay period of the next calendar year. Excess vacation time is not forfeited if taken within 90 calendar days from the last day of the calendar year in which the excess was accrued.

Condition: Two employees had excess vacation hours which were not used within 90 days of the last day of the calendar year or forfeited.

Effect: The employees have been allowed to accrue more vacation than is allowed.

Cause: The Clerk inadvertently missed notifying the employees of the excess vacation until after March 31 at which point the Council was notified and approved carryover of the excess vacation for both employees with deadlines to use the excess vacation within the next quarter.

Recommendation: At the end of each calendar year, the Clerk should send a letter to each employee with excess vacation stating the number of hours which will be forfeited at March 31 if not used. Unless the employee makes a reasonable request to use the leave and the request is denied, the hours shall then be forfeited.

Status: Only one employee had excess vacation at December 31, 2013, and the excess hours were used within 90 days of the last day of the calendar year.