

TOWN OF CHESTER
LIBERTY COUNTY, MONTANA
Fiscal Year Ended June 30, 2014

AUDIT REPORT

Denning, Downey & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

TOWN OF CHESTER
LIBERTY COUNTY, MONTANA
Fiscal Year Ended June 30, 2014

TABLE OF CONTENTS

Organization	1
Management Discussion and Analysis	2-11
Independent Auditor’s Report	12-14
Financial Statements	
<u>Government-wide Financial Statements</u>	
Statement of Net Position	15
Statement of Activities	16
<u>Fund Financial Statements</u>	
Balance Sheet – Governmental Funds	17
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	18
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds	19
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	20
Statement of Net Position – Proprietary Fund Types	21
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Fund Types	22
Statement of Cash Flows – Proprietary Fund Types	23
Statement of Net Position – Fiduciary Fund Types	24
Notes to Financial Statements	25-44
Required Supplementary Information	
Budgetary Comparison Schedule	45-46
Schedule of Funding Progress – Other Post Employment Benefits Other Than Pensions	47
Independent Auditor’s Report on Compliance and 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	48-52
Report on Prior Audit Recommendations	53

TOWN OF CHESTER
LIBERTY COUNTY, MONTANA

ORGANIZATION

Fiscal Year Ended June 30, 2014

Noel Walston

Mayor

CITY COUNCIL

Brett Earl
Rachel Ghekiere
Adam Standiford
Tina Neer
Darin Scott Ross
James Dahlen

Council President
Council Member
Council Member
Council Member
Council Member
Council Member

CITY OFFICIALS

William Hunt, Jr.
Tonia Wickum
John Kleinsasser

Attorney
Clerk / Treasurer
Water/Sewer/Garbage

Management's Discussion and Analysis

OVERVIEW

As management of the Town of Chester, we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2014. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

Financial Highlights

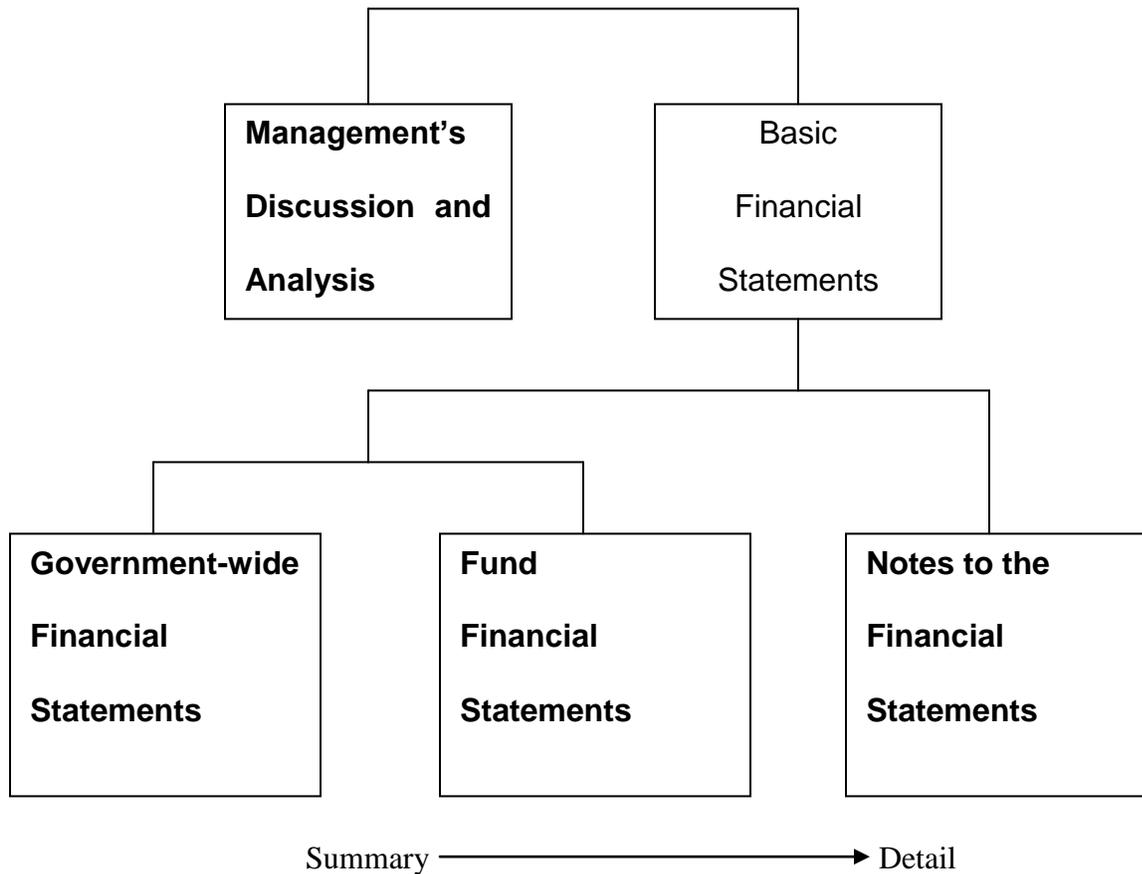
- The assets of the Town of Chester exceeded its liabilities at the close of the fiscal year 2014 by \$7,110,902 (net position).
- The government's total net position increased by \$119,434 (an increase of \$33,929 in governmental activities and an increase of \$85,505 in business-type activities).
- As of the close of the current fiscal year 2014, the Town of Chester's governmental funds reported combined ending fund balances of \$471,981, a decrease of \$2,622 in comparison with the prior year. Approximately \$145,614 or 31 percent of this total amount is unassigned and available for spending at the government's discretion. Approximately 65 percent of the total amount or \$310,971 is restricted for debt obligations, debt reserve, and special projects. Approximately 4 percent of the total amount or \$15,396 is assigned for capital improvement projects.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$145,614, or 49 percent of total general fund expenditures for the fiscal year.
- The Town's total debt decreased by \$79,170 during the current fiscal year. The reduction includes a principal payment of \$72,055 on (SID Street) revenue bonds for the governmental funds and \$25,795 principal payments towards the Water Fund's two revenue bond issues.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Town of Chester's basic financial statements. The Town's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The basic financial statements present two different views of the Town through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the Town of Chester.

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements of the report in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the Town's financial status.

The next statements are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Town's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the proprietary fund statements and 3) fiduciary fund statements.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the Town's individual funds. Budgetary information required by the General Statutes also can be found in this part of the statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the Town's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the Town's financial status as a whole.

The two government-wide statements report the Town's net position and how they have changed. Net position is the difference between the Town's total assets and total liabilities. Measuring net position is one way to gauge the Town's financial condition.

The government-wide statements are divided into two categories: 1) governmental activities; and 2) business-type activities. The governmental activities include most of the Town's basic services such as public safety, public works, culture and recreation, and general administration. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the Town charges customers to provide. These include the water and sewer and solid waste and pest control services offered by the Town of Chester.

Fund Financial Statements

The fund financial statements provide a more detailed look at the Town's most significant activities. 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 Town of Chester like all other governmental entities in Montana uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the Town's budget ordinance. All of the funds of the Town of Chester can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the Town's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called modified accrual accounting that provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Town's programs. The relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

Management Discussion and Analysis
Town of Chester

The Town of Chester adopts an annual budget for its governmental funds, and a budget for its proprietary fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town, and the decisions of the Council about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the council; 2) the final budget as amended by the council; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities may be shown at the end of the budgetary statement.

Proprietary Funds – The Town of Chester has one kind of proprietary fund. Enterprise Funds are used to report its water and sewer and solid waste and pest control services. These funds are the same as those functions shown in the business-type activities in the Statement of Net Position and the Statement of Activities.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements follow the Fund Financial Statements of this report.

Table 1 - Net Position

	Governmental Activities		Change
	<u>FY14</u>	<u>FY13</u>	<u>Inc (Dec)</u>
Current and other assets	\$ 817,665	\$ 889,630	\$ (71,965)
Capital assets	2,906,777	2,860,493	46,284
Total assets	\$ 3,724,442	\$ 3,750,123	\$ (25,681)
Long-term debt outstanding	\$ 320,310	\$ 379,839	\$ (59,529)
Other liabilities	2,854	2,935	(81)
Total liabilities	\$ 323,164	\$ 382,774	\$ (59,610)
Net investment in capital assets	\$ 2,627,868	\$ 2,509,530	\$ 118,338
Restricted	629,946	697,350	(67,404)
Unrestricted (deficit)	143,464	160,469	(17,005)
Total net position	\$ 3,401,278	\$ 3,367,349	\$ 33,929

Table 1 - Net Position

	Business-type Activities		Change
	<u>FY14</u>	<u>FY13</u>	<u>Inc (Dec)</u>
Current and other assets	\$ 540,052	\$ 527,137	\$ 12,915
Capital assets	3,821,166	3,768,258	52,908
Total assets	\$ 4,361,218	\$ 4,295,395	\$ 65,823
Long-term debt outstanding	\$ 611,208	\$ 632,100	\$ (20,892)
Other liabilities	40,386	39,176	1,210
Total liabilities	\$ 651,594	\$ 671,276	\$ (19,682)
Net investment in capital assets	\$ 3,261,968	\$ 3,183,264	\$ 78,704
Restricted	40,424	60,424	(20,000)
Unrestricted (deficit)	407,232	380,431	26,801
Total net position	\$ 3,709,624	\$ 3,624,119	\$ 85,505

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets of the Town of Chester exceeded liabilities by \$7,110,902 as of June 30, 2014. The Town's net position increased by \$40,142 for the fiscal year ended June 30, 2014. However, the largest portion reflects the Town's investment in capital assets (e.g. land, buildings, machinery and equipment and utility infrastructure); less any related debt still outstanding that was issued to acquire those items. The Town of Chester uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Chester's investment in capital assets is reported net of the related outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town of Chester's net position represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$942,800 is unrestricted.

Table 2 - Changes in Net Position

	Governmental Activities		Change Inc (Dec)
	<u>FY14</u>	<u>FY13</u>	
Revenues			
<i>Program revenues (by major source):</i>			
Charges for services	\$ 149,725	\$ 142,774	\$ 6,951
<i>General revenues (by major source):</i>			
Property taxes for general purposes	136,819	133,288	3,531
Unrestricted revenues	16,200	-	16,200
Local option tax	23,151	22,922	229
Miscellaneous	5,515	3,038	2,477
Interest/investment earnings	1,571	8,342	(6,771)
State entitlement	103,294	99,196	4,098
Licenses and permits	2,600	21,865	(19,265)
Total revenues	\$ 438,875	\$ 431,425	\$ 7,450
Program expenses			
General government	\$ 127,241	\$ 94,183	\$ 33,058
Public safety	69,746	69,589	157
Public works	101,307	80,546	20,761
Public health	187	-	187
Culture and recreation	60,959	54,923	6,036
Debt service - interest	16,987	20,543	(3,556)
Miscellaneous	28,519	28,043	476
Total expenses	\$ 404,946	\$ 347,827	\$ 57,119
Increase (decrease) in net position	\$ 33,929	\$ 83,598	\$ (49,669)

Governmental activities: Governmental activities increased the Town's net position by \$33,929. Key elements of this increase are as follows:

- Due in part because of the change in the increase of spending within the Public Works activity levels offset by a greater change in the decrease of spending within the Miscellaneous activities.
- Overall the revenues remained somewhat stable between the two years.

Table 2 - Changes in Net Position

	Business-type Activities		Change Inc (Dec)
	<u>FY14</u>	<u>FY13</u>	
Revenues			
<i>Program revenues (by major source):</i>			
Charges for services	\$ 490,397	\$ 463,197	\$ 27,200
Operating grants and contributions	15,000	-	15,000
<i>General revenues (by major source):</i>			
Miscellaneous	8,693	1,186	7,507
Interest/investment earnings	2,949	1,497	1,452
Total revenues	\$ 517,039	\$ 465,880	\$ 51,159
Program expenses			
Water	\$ 161,791	\$ 173,624	\$ (11,833)
Sewer	144,077	104,599	39,478
Solid Waste	118,622	99,212	19,410
Pest control	7,044	11,209	(4,165)
Total expenses	\$ 431,534	\$ 388,644	\$ 42,890
Increase (decrease) in net position	\$ 85,505	\$ 77,236	\$ 8,269

Business-type activities: Business-type activities increased the Town's net position by \$85,505. Key elements of this increase are as follows:

- Charges for services revenues were more than the prior year amounts by \$27,200 and more in the miscellaneous revenue by \$7,507 and investment earnings increased by \$1,452. Expenditures increased within the Water, Sewer, Solid Waste and Pest Control fund by \$42,890.

Financial Analysis of the Town's Funds

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

Governmental Funds. The focus of the Town of Chester's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Town of Chester's financing requirements. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

Management Discussion and Analysis
Town of Chester

The General Fund is the chief operating fund of the Town of Chester. At the end of the current fiscal year 2014, unreserved fund balance of the General Fund was \$145,614, while total fund balance reached \$471,981. As a measure of the general fund’s liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 56 percent of total General Fund expenditures.

At June 30, 2014, the governmental funds of the Town of Chester reported a combined fund balance of \$773,410, a \$84,409 decrease from last year.

Governmental Fund Budgetary Highlights: During the fiscal year, total final budgeted expenditures for General Fund activities were \$294,762. Actual expenditures totaled \$296,798. Total original budgeted and final revenues for the General Fund were \$275,500. Total General Fund actual revenues of \$285,466 exceeded the budgeted revenue amount \$9,966.

Proprietary Funds. The Town’s proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Water, Sewer, Solid Waste and Pest Control at the end of the fiscal year 2013 amounted to \$380,431. The total net growth in net position for all funds was \$26,801. Other factors concerning the finances of these funds have already been addressed in the discussion of the Town’s business-type activities.

Capital Asset and Debt Administration

Capital assets. The Town of Chester’s investment in capital assets for its governmental and business–type activities as of June 30, 2014, totals \$6,727,943 (net of accumulated depreciation).

Table 3 - Capital Assets

	Governmental Activities		
	<u>FY14</u>	<u>FY13</u>	<u>Change Inc</u> <u>(Dec)</u>
Land	\$ 17,064	\$ 17,064	\$ -
Buildings and systems	130,277	123,526	6,751
Improvements other than buildings	1,128,871	1,128,871	-
Machinery & equipment	537,511	497,978	39,533
Infrastructure	1,093,053	1,093,053	-
Total other Capital assets at cost	<u>\$ 2,906,776</u>	<u>\$ 2,860,492</u>	<u>\$ 46,284</u>
Less accumulated depreciation	-	-	-
Total capital assets	<u>\$ 2,906,776</u>	<u>\$ 2,860,492</u>	<u>\$ 46,284</u>

Table 4 - Capital Assets

	Business Type Activities		
	<u>FY14</u>	<u>FY13</u>	<u>Change Inc</u> <u>(Dec)</u>
Land	\$ 10,221	\$ 10,221	\$ -
Buildings and systems	1,752,851	1,752,851	-
Improvements other than buildings	1,552,184	1,552,184	-
Machinery & equipment	1,291,163	1,238,255	52,908
Infrastructure	448,556	448,556	-
Total other Capital assets at cost	<u>\$ 5,054,974</u>	<u>\$ 5,002,067</u>	<u>\$ 52,908</u>
Less accumulated depreciation	(1,233,809)	(1,233,809)	-
Total capital assets	<u>\$ 3,821,166</u>	<u>\$ 3,768,258</u>	<u>\$ 52,908</u>

Additional information on the Town's capital assets can be found in the Notes to the Basic Financial Statements of this report.

Long-term Debt. As of June 30, 2014, the Town of Chester had total bonded debt outstanding of \$559,198, as shown in Table IV. The bonded debt of the Town debt represents bonds secured solely by specified revenue sources (i.e. revenue bonds, special assessments). Other debt includes the \$38,019 liability of the landfill for closure and post closure costs (to be incurred in the year 2063, when the landfill is expected to be filled to capacity. The \$36,400 total for compensated absences represents the cumulative amount of annual and sick leave liability that has been accrued by employees at June 20, 2014. The \$57,011 total represents the amount of Other Post Employment Benefits other than pensions, which is fully discussed within the notes to the financial statement.

Table 5 - Long-term Debt

	Governmental Activities		
	<u>FY14</u>	<u>FY13</u>	<u>Change</u>
Special assessments bond	\$ 278,908	\$ 350,963	\$ (72,055)
Compensated absences	17,591	10,942	6,649
Other post-employment benefits	23,810	17,934	5,876
Total	<u>\$ 320,309</u>	<u>\$ 379,839</u>	<u>\$ (59,530)</u>

	Business Type Activities		
	<u>FY14</u>	<u>FY13</u>	<u>Change</u>
Revenue bonds	\$ 559,198	\$ 584,994	\$ (25,796)
Compensated absences	18,809	22,098	(3,289)
Landfill	38,018	36,767	1,251
Other post-employment benefits	33,201	25,008	8,193
Total	<u>\$ 649,226</u>	<u>\$ 668,867</u>	<u>\$ (19,641)</u>

Management Discussion and Analysis
Town of Chester

The Town of Chester's total bonded debt decreased by principal payments of \$72,055 for governmental activity assessment debt, and \$25,796 in the business-type activities bonded debt for the year end June 30, 2014. There was a prior period adjustment to increase the business-type activity bonded debt by \$9,535 because of a posting error.

Additional information regarding the Town of Chester's long-term debt can be found in the Notes to the Financial Statements of this report.

Requests for Information

This report is designed to provide an overview of the Town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to:

Town Clerk/Treasurer
Town of Chester
PO Box 644
Chester, Montana 59522
Phone number (406) 759-5635
E-mail address: townofchester@mtintouch.net

Denning, Downey & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

1740 U.S. Hwy 93 South, P.O. Box 1957, Kalispell, MT 59903-1957

INDEPENDENT AUDITOR'S REPORT

Mayor and Town Council
Town of Chester
Liberty County
Chester, Montana

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Town of Chester, Liberty County, Montana, as of and for the year ended June 30, 2014, and the related notes to the financial statements which collectively comprise the Town'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.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion on Governmental Activities, Business Type Activities, the Water, Solid Waste and Non-Major Enterprise Capital Assets and Depreciation

Management has not maintained adequate records related to capital assets. Accordingly, we were not able to satisfy ourselves as to the capital asset balances reported on the Statement of Net Position for governmental activities amounting to \$2,906,777 and for business-type activities of \$3,821,166 as of June 30, 2014. In addition, we were unable to satisfy ourselves as to the capital asset balances on the Proprietary Funds Statement of Net Position for the Water, Solid Waste and non-major enterprise of \$1,818,428, \$358,730 and \$1,552,512, respectively. In addition, depreciation expense has not been calculated and recorded. Accounting principles generally accepted in the United States of America require that all capital assets, net of accumulated depreciation to be recorded on the Statement of Net Position and by major fund and aggregate non-major funds on the Proprietary Statement of Net Position, which by recording accumulated depreciation would decrease the amount of capital assets reported. Accounting principles also require that depreciation expense be recorded, which would increase expense on the Statement of Activities and the Proprietary Funds Statement of Revenues, Expenses, and Changes in Net Position. The amount by which these departures would affect the assets, net position, and expenses of the governmental activities, business-type activities, water, solid waste and non-major enterprise funds has not been determined.

Qualified Opinion

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion on Governmental Activities, Business-Type Activities, Water, Solid Waste and Non-Major Enterprise Funds Capital Assets and Depreciation" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Governmental Activities, Business-Type Activities, Water, Solid Water and Non-Major Enterprise Funds, of the Town of Chester, Liberty County, 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 accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the General, Street Maintenance, SID 02-01 Street Improvements, Other Governmental Funds and Agency Funds of the Town of Chester, Liberty County, Montana, as of June 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 1 to the financial statements, in 2014, the Town of Chester, Liberty County, Montana adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedule of funding for other post employment benefits other than pensions on pages 2 through 11, 45 through 46, and 47 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2015, on our consideration of the Town of Chester, Liberty County, Montana's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Chester, Liberty County, Montana's internal control over financial reporting and compliance.

Derring, Downey and Associates, CPA's, P.C.

June 22, 2015

Town of Chester, Liberty County, Montana
Statement of Net Position
June 30, 2014

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and investments	\$ 448,024	\$ 423,137	\$ 871,161
Taxes and assessments receivable, net	342,830	-	342,830
Accounts receivable - net	-	44,290	44,290
Due from other governments	111	-	111
Total current assets	<u>\$ 790,965</u>	<u>\$ 467,427</u>	<u>\$ 1,258,392</u>
Noncurrent assets			
Restricted cash and investments	\$ 26,700	\$ 72,625	\$ 99,325
Capital assets - land	17,064	10,221	27,285
Capital assets - depreciable, net	2,889,713	3,810,945	6,700,658
Total noncurrent assets	<u>\$ 2,933,477</u>	<u>\$ 3,893,791</u>	<u>\$ 6,827,268</u>
Total assets	<u>\$ 3,724,442</u>	<u>\$ 4,361,218</u>	<u>\$ 8,085,660</u>
LIABILITIES			
Current liabilities			
Accrued interest payable	\$ 2,647	\$ -	\$ 2,647
Accrued payroll	207	2,368	2,575
Current portion of long-term capital liabilities	74,733	26,335	101,068
Current portion of compensated absences payable	10,731	10,823	21,554
Total current liabilities	<u>\$ 88,318</u>	<u>\$ 39,526</u>	<u>\$ 127,844</u>
Noncurrent liabilities			
Landfill closure postclosure liability	\$ -	\$ 38,018	\$ 38,018
Noncurrent portion of long-term liabilities	23,810	33,201	57,011
Noncurrent portion of long-term capital liabilities	204,176	532,863	737,039
Noncurrent portion of compensated absences	6,860	7,986	14,846
Total noncurrent liabilities	<u>\$ 234,846</u>	<u>\$ 612,068</u>	<u>\$ 846,914</u>
Total liabilities	<u>\$ 323,164</u>	<u>\$ 651,594</u>	<u>\$ 974,758</u>
NET POSITION			
Net investment in capital assets	\$ 2,627,868	\$ 3,261,968	\$ 5,889,836
Restricted for special projects	177,172	-	177,172
Restricted for debt service	437,378	71,661	509,039
Restricted for capital projects	15,396	-	15,396
Unrestricted	143,464	375,995	519,459
Total net position	<u>\$ 3,401,278</u>	<u>\$ 3,709,624</u>	<u>\$ 7,110,902</u>

See accompanying Notes to the Financial Statements

Town of Chester, Liberty County, Montana
Statement of Activities
For the Fiscal Year Ended June 30, 2014

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expenses) Revenues and Changes in Net Position</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Primary Government</u>		<u>Total</u>
				<u>Governmental Activities</u>	<u>Business-type Activities</u>	
Primary government:						
Governmental activities:						
General government	\$ 127,241	\$ 1,087	\$ -	\$ (126,154)	\$ -	\$ (126,154)
Public safety	69,746	22,563	-	(47,183)	-	(47,183)
Public works	101,307	25,988	-	(75,319)	-	(75,319)
Public health	187	-	-	(187)	-	(187)
Culture and recreation	60,959	10,282	-	(50,677)	-	(50,677)
Debt service - interest	16,987	89,805	-	72,818	-	72,818
Miscellaneous	28,519	-	-	(28,519)	-	(28,519)
Total governmental activities	\$ <u>404,946</u>	\$ <u>149,725</u>	\$ <u>-</u>	\$ <u>(255,221)</u>	\$ <u>-</u>	\$ <u>(255,221)</u>
Business-type activities:						
Water	\$ 161,791	\$ 245,727	\$ -	\$ -	\$ 83,936	\$ 83,936
Sewer	144,077	109,632	15,000	-	(19,445)	(19,445)
Solid Waste	118,622	124,974	-	-	6,352	6,352
Pest Control	7,044	10,064	-	-	3,020	3,020
Total business-type activities	\$ <u>431,534</u>	\$ <u>490,397</u>	\$ <u>15,000</u>	\$ <u>-</u>	\$ <u>73,863</u>	\$ <u>73,863</u>
Total primary government	\$ <u>836,480</u>	\$ <u>640,122</u>	\$ <u>15,000</u>	\$ <u>(255,221)</u>	\$ <u>73,863</u>	\$ <u>(181,358)</u>
General Revenues:						
Property taxes for general purposes				\$ 136,819	\$ -	\$ 136,819
Local option tax				23,151	-	23,151
Unrestricted revenues				16,200	-	16,200
Miscellaneous				5,515	8,693	14,208
Interest/investment earnings				1,571	2,949	4,520
State entitlement				103,294	-	103,294
Licenses and permits				2,600	-	2,600
Total general revenues, special items and transfers				\$ <u>289,150</u>	\$ <u>11,642</u>	\$ <u>300,792</u>
Change in net position				\$ <u>33,929</u>	\$ <u>85,505</u>	\$ <u>119,434</u>
Net position - beginning				\$ 3,367,349	\$ 3,624,119	\$ 6,991,468
Net position - beginning - restated				\$ <u>3,367,349</u>	\$ <u>3,624,119</u>	\$ <u>6,991,468</u>
Net position - end				\$ <u>3,401,278</u>	\$ <u>3,709,624</u>	\$ <u>7,110,902</u>

See accompanying Notes to the Financial Statements

Town of Chester, Liberty County, Montana
Balance Sheet
Governmental Funds
June 30, 2014

	<u>General</u>	<u>Street Maintenance</u>	<u>SID 02-01 Street Improvements</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Current assets:					
Cash and investments	\$ 147,947	\$ 124,833	\$ 52,441	\$ 122,803	\$ 448,024
Taxes and assessments receivable, net	39,251	946	302,378	255	342,830
Due from other governments	111	-	-	-	111
Total current assets	<u>\$ 187,309</u>	<u>\$ 125,779</u>	<u>\$ 354,819</u>	<u>\$ 123,058</u>	<u>\$ 790,965</u>
Noncurrent assets:					
Restricted cash and investments	\$ -	\$ -	\$ -	\$ 26,700	\$ 26,700
Total noncurrent assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,700</u>	<u>\$ 26,700</u>
Total assets	<u>\$ 187,309</u>	<u>\$ 125,779</u>	<u>\$ 354,819</u>	<u>\$ 149,758</u>	<u>\$ 817,665</u>
Current liabilities:					
Accrued interest payable	\$ 2,444	\$ -	\$ -	\$ 203	\$ 2,647
Accrued payroll	-	207	-	-	207
Total current liabilities	<u>\$ 2,444</u>	<u>\$ 207</u>	<u>\$ -</u>	<u>\$ 203</u>	<u>\$ 2,854</u>
Total liabilities	<u>\$ 2,444</u>	<u>\$ 207</u>	<u>\$ -</u>	<u>\$ 203</u>	<u>\$ 2,854</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows of resources	\$ 39,251	\$ 946	\$ 302,378	\$ 255	\$ 342,830
Total deferred inflows of resources	<u>\$ 39,251</u>	<u>\$ 946</u>	<u>\$ 302,378</u>	<u>\$ 255</u>	<u>\$ 342,830</u>
FUND BALANCES					
Restricted	\$ -	\$ 124,626	\$ 52,441	\$ 133,904	\$ 310,971
Committed	-	-	-	15,396	15,396
Unassigned fund balance	145,614	-	-	-	145,614
Total fund balance	<u>\$ 145,614</u>	<u>\$ 124,626</u>	<u>\$ 52,441</u>	<u>\$ 149,300</u>	<u>\$ 471,981</u>

See accompanying Notes to the Financial Statements

Town of Chester, Liberty County, Montana
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Position
June 30, 2014

Total fund balances - governmental funds	\$ 471,981
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	2,906,777
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.	342,830
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.	(320,310)
Total net position - governmental activities	\$ <u>3,401,278</u>

See accompanying Notes to the Financial Statements

Town of Chester, Liberty County, Montana
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2014

	<u>General</u>	<u>Street Maintenance</u>	<u>SID 02-01 Street Improvements</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES					
Taxes and assessments	\$ 145,710	\$ -	\$ -	\$ -	\$ 145,710
Licenses and permits	125	-	-	-	125
Intergovernmental	121,969	-	-	27,075	149,044
Charges for services	10,282	-	-	-	10,282
Fines and forfeitures	1,414	-	-	-	1,414
Miscellaneous	5,515	83,521	89,805	21,149	199,990
Investment earnings	451	386	-	734	1,571
Total revenues	<u>\$ 285,466</u>	<u>\$ 83,907</u>	<u>\$ 89,805</u>	<u>\$ 48,958</u>	<u>\$ 508,136</u>
EXPENDITURES					
General government	\$ 114,716	\$ -	\$ -	\$ -	\$ 114,716
Public safety	69,746	-	-	-	69,746
Public works	36,673	39,589	-	25,045	101,307
Public health	187	-	-	-	187
Culture and recreation	60,959	-	-	-	60,959
Debt service - principal	-	-	72,054	-	72,054
Debt service - interest	-	-	16,987	-	16,987
Miscellaneous	5,267	-	-	23,252	28,519
Capital outlay	6,750	39,534	-	-	46,284
Total expenditures	<u>\$ 294,298</u>	<u>\$ 79,123</u>	<u>\$ 89,041</u>	<u>\$ 48,297</u>	<u>\$ 510,759</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (8,832)</u>	<u>\$ 4,784</u>	<u>\$ 764</u>	<u>\$ 661</u>	<u>\$ (2,623)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	\$ -	\$ -	\$ -	\$ 2,500	\$ 2,500
Transfers out	<u>(2,500)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,500)</u>
Total other financing sources (uses)	<u>\$ (2,500)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,500</u>	<u>\$ -</u>
Net Change in Fund Balance	<u>\$ (11,332)</u>	<u>\$ 4,784</u>	<u>\$ 764</u>	<u>\$ 3,161</u>	<u>\$ (2,623)</u>
Fund balances - beginning	\$ 156,946	\$ 119,842	\$ 51,677	\$ 146,139	\$ 474,604
Fund balance - ending	<u>\$ 145,614</u>	<u>\$ 124,626</u>	<u>\$ 52,441</u>	<u>\$ 149,300</u>	<u>\$ 471,981</u>

See accompanying Notes to the Financial Statements

Town of Chester, Liberty County, Montana
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Fiscal Year Ended June 30, 2014

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

Net change in fund balances - total governmental funds \$ (2,623)

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:

- Capital assets purchased 46,284

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:

- Long-term receivables (deferred revenue) (69,261)

The change in compensated absences is shown as an expense in the Statement of Activities

(6,649)

Repayment of debt principal is an expenditures in the governmental funds, but the repayment reduces long-term debt in the Statement of Net Position:

- Long-term debt principal payments 72,054

Termination benefits are shown as an expense in the Statement of Activities and not reported on the Statement of Revenues, Expenditures and Changes in Fund Balance:

- Other post-employment benefits changes (5,876)

Change in net position - Statement of Activities \$ 33,929

See accompanying Notes to the Financial Statements

Town of Chester, Liberty County, Montana
Statement of Net Position
Proprietary Funds
June 30, 2014

	Business-Type Activities - Enterprise Funds			
	Water	Solid Waste	Non-major Enterprise	Totals
ASSETS				
Current assets:				
Cash and investments	\$ 181,440	\$ 96,565	\$ 145,132	\$ 423,137
Accounts receivable - net	20,422	11,578	12,290	44,290
Total current assets	<u>\$ 201,862</u>	<u>\$ 108,143</u>	<u>\$ 157,422</u>	<u>\$ 467,427</u>
Noncurrent assets:				
Restricted cash and investments	\$ 41,388	\$ 31,237	\$ -	\$ 72,625
Capital assets - land	4,629	1,821	3,771	10,221
Capital assets - depreciable, net	1,905,295	356,909	1,548,741	3,810,945
Total noncurrent assets	<u>\$ 1,951,312</u>	<u>\$ 389,967</u>	<u>\$ 1,552,512</u>	<u>\$ 3,893,791</u>
Total assets	<u>\$ 2,153,174</u>	<u>\$ 498,110</u>	<u>\$ 1,709,934</u>	<u>\$ 4,361,218</u>
LIABILITIES				
Current liabilities:				
Accrued payroll	\$ 752	\$ 840	\$ 776	\$ 2,368
Current portion of long-term capital liabilities	26,335	-	-	26,335
Current portion of compensated absences payable	897	6,252	3,674	10,823
Total current liabilities	<u>\$ 27,984</u>	<u>\$ 7,092</u>	<u>\$ 4,450</u>	<u>\$ 39,526</u>
Noncurrent liabilities:				
Landfill closure postclosure liability	\$ -	\$ 38,018	\$ -	\$ 38,018
Noncurrent portion of long-term liabilities	13,924	9,644	9,633	33,201
Noncurrent portion of long-term capital liabilities	532,863	-	-	532,863
Noncurrent portion of compensated absences	527	4,981	2,478	7,986
Total noncurrent liabilities	<u>\$ 547,314</u>	<u>\$ 52,643</u>	<u>\$ 12,111</u>	<u>\$ 612,068</u>
Total liabilities	<u>\$ 575,298</u>	<u>\$ 59,735</u>	<u>\$ 16,561</u>	<u>\$ 651,594</u>
NET POSITION				
Net investment in capital assets	\$ 1,350,726	\$ 358,730	\$ 1,552,512	\$ 3,261,968
Restricted for debt service	40,424	31,237	-	71,661
Unrestricted	186,726	48,408	140,861	375,995
Total net position	<u>\$ 1,577,876</u>	<u>\$ 438,375</u>	<u>\$ 1,693,373</u>	<u>\$ 3,709,624</u>
Total liabilities and net position	<u>\$ 2,153,174</u>	<u>\$ 498,110</u>	<u>\$ 1,709,934</u>	<u>\$ 4,361,218</u>

See accompanying Notes to the Financial Statements

Town of Chester, Liberty County, Montana
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Fiscal Year Ended June 30, 2014

	Business-Type Activities - Enterprise Funds			
	Water	Solid Waste	Non-major Enterprise	Totals
OPERATING REVENUES				
Charges for services	\$ 245,728	\$ 124,973	\$ 119,696	\$ 490,397
Miscellaneous revenues	1,694	5,305	1,694	8,693
Total operating revenues	<u>\$ 247,422</u>	<u>\$ 130,278</u>	<u>\$ 121,390</u>	<u>\$ 499,090</u>
OPERATING EXPENSES				
Personal services	\$ 60,672	\$ 76,689	\$ 57,921	\$ 195,282
Supplies	42,037	25,579	23,617	91,233
Purchased services	39,937	11,325	65,806	117,068
Fixed charges	3,777	5,029	3,777	12,583
Total operating expenses	<u>\$ 146,423</u>	<u>\$ 118,622</u>	<u>\$ 151,121</u>	<u>\$ 416,166</u>
Operating income (loss)	<u>\$ 100,999</u>	<u>\$ 11,656</u>	<u>\$ (29,731)</u>	<u>\$ 82,924</u>
NON-OPERATING REVENUES (EXPENSES)				
Intergovernmental revenue	\$ -	\$ -	\$ 15,000	\$ 15,000
Interest revenue	630	1,815	504	2,949
Debt service interest expense	(15,368)	-	-	(15,368)
Total non-operating revenues (expenses)	<u>\$ (14,738)</u>	<u>\$ 1,815</u>	<u>\$ 15,504</u>	<u>\$ 2,581</u>
Income (loss) before contributions and transfers	<u>\$ 86,261</u>	<u>\$ 13,471</u>	<u>\$ (14,227)</u>	<u>\$ 85,505</u>
Change in net position	<u>\$ 86,261</u>	<u>\$ 13,471</u>	<u>\$ (14,227)</u>	<u>\$ 85,505</u>
Net Position - Beginning of the year	\$ 1,491,615	\$ 424,904	\$ 1,707,600	\$ 3,624,119
Net Position - End of the year	<u>\$ 1,577,876</u>	<u>\$ 438,375</u>	<u>\$ 1,693,373</u>	<u>\$ 3,709,624</u>

See accompanying Notes to the Financial Statements

Town of Chester, Liberty County, Montana
Statement of Cash Flows
Proprietary Funds
Fiscal Year Ended June 30, 2014

	Business - Type Activities - Enterprise Funds			
	Water	Sewer	Non-major Enterprise	Totals
Cash flows from operating activities:				
Cash received from providing services	\$ 242,500	\$ 108,055	\$ 133,727	\$ 484,282
Cash received from miscellaneous sources	1,694	1,694	5,305	8,693
Cash payments to suppliers	(45,814)	(23,809)	(32,942)	(102,565)
Cash payments for professional services	(39,937)	(65,685)	(11,446)	(117,068)
Cash payments to employees	(63,194)	(52,921)	(74,297)	(190,412)
Net cash provided (used) by operating activities	<u>\$ 95,249</u>	<u>\$ (32,666)</u>	<u>\$ 20,347</u>	<u>\$ 82,930</u>
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	\$ (45,748)	\$ -	\$ (7,160)	\$ (52,908)
Principal paid on debt	(25,796)	-	-	(25,796)
Interest paid on debt	(15,368)	-	-	(15,368)
Net cash provided (used) by capital and related financing activities	<u>\$ (86,912)</u>	<u>\$ -</u>	<u>\$ (7,160)</u>	<u>\$ (94,072)</u>
Cash flows from non-capital financing activities:				
Cash received from other sources	\$ -	\$ 15,000	\$ -	\$ 15,000
Cash flows from investing activities:				
Interest on investments	\$ 630	\$ 504	\$ 1,815	\$ 2,949
Net increase (decrease) in cash and cash equivalents	\$ 8,967	\$ (17,162)	\$ 15,002	\$ 6,807
Cash and cash equivalents at beginning	213,861	155,547	119,547	488,955
Restatements - Includes beginning restricted cash				-
Cash and cash equivalents at end	<u>\$ 222,828</u>	<u>\$ 138,385</u>	<u>\$ 134,549</u>	<u>\$ 495,762</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 100,999	\$ (32,751)	\$ 14,676	\$ 82,924
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Other post-employment benefits	3,436	2,246	2,511	8,193
Changes in assets and liabilities:				
Change in accounts receivable	(3,228)	(1,577)	(1,310)	(6,115)
Landfill closure postclosure liability	-	-	1,251	1,251
Change in compensated absences and accrued wages	(5,958)	(584)	3,219	(3,323)
Net cash provided (used) by operating activities	<u>\$ 95,249</u>	<u>\$ (32,666)</u>	<u>\$ 20,347</u>	<u>\$ 82,930</u>

See accompanying notes to the financial statements

Town of Chester, Liberty County, Montana
Statement of Net Position
Fiduciary Funds
June 30, 2014

		<u>Agency Funds</u>
ASSETS		
Cash and short-term investments	\$	101,966
Total assets	\$	<u>101,966</u>
LIABILITIES		
Warrants payable	\$	32,500
Due to others		69,466
Total liabilities	\$	<u>101,966</u>

NET POSITION

See accompanying Notes to the Financial Statements

TOWN OF CHESTER
LIBERTY COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements.

GASBS No. 65, *Items Previously Reported as Assets and Liabilities*, 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 or inflows of resources, certain items that were previously reported as assets and liabilities. This standard is effective for fiscal year ending June 30, 2014.

Financial Reporting Entity

In determining the financial reporting entity, the Town complies with the provisions of GASB statement No. 14, *The Financial Reporting Entity*, as amended by GASB statement No. 61, *The Financial Reporting Entity: Omnibus*, and includes all component units of which the Town appointed a voting majority of the component units' board; the Town is either able to impose its' will on the unit or a financial benefit or burden relationship exists. In addition, the Town complies with GASB statement No. 39 *Determining Whether Certain Organizations Are Component Units* which relates to organizations that raise and hold economic resources for the direct benefit of the Town.

Primary Government

The Town is a political subdivision of the State of Montana governed by an elected Mayor and Council duly elected by the registered voters of the Town. The Town is considered a primary government because it is a general purpose local government. Further, it meets the following criteria: (a) It has a separately elected governing body (b) It is legally separate and (c) It is fiscally independent from the State and other local governments.

Basis of Presentation, Measurement Focus and Basis of Accounting.

Government-wide Financial Statements:

Basis of Presentation

The Government-wide Financial Statements (the Statement of Net Position and the Statement of Activities) display information about the reporting government as a whole and its component units. They include all funds of the reporting entity except fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. Eliminations have been made in the consolidation of business-type activities.

TOWN OF CHESTER
LIBERTY COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function. The Town does not charge indirect expenses to programs or functions. The types of transactions reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity and 2) operating grants and contributions, and 3) capital grants and contributions. Revenues that are not classified as program revenues, including all property taxes, are presented as general revenues.

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

Measurement Focus and Basis of Accounting

Government-Wide Financial Statements

On the government-wide Statement of Net Position and the Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred regardless of the timing of the cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The Town generally applies restricted resources to expenses incurred before using unrestricted resources when both restricted and unrestricted net assets are available.

TOWN OF CHESTER
LIBERTY COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

Fund Financial Statements:

Basis of Presentation

Fund financial statements of the reporting Town are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. Funds are organized into three categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. Each major fund is displayed in a separate column in the governmental funds statements. All of the remaining funds are aggregated and reported in a single column as non-major funds. A fund is considered major if it is the primary operating fund of the Town or meets the following criteria:

- a. Total assets combined with deferred outflows of resources, liabilities combined with deferred inflows of resources, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets combined with deferred outflows of resources, liabilities combined with deferred inflows of resources, revenues, or expenditures/expenses of that individual governmental or enterprise funds are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

Measurement Focus and Basis of Accounting

Governmental Funds

Modified Accrual

All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Measurable" means the amount of the transaction can be determined. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

The Town defined the length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements to be upon receipt. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources. General capital asset acquisitions are reported as expenditures in governmental funds and proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

TOWN OF CHESTER
LIBERTY COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

Property taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. All other revenue items are considered to be measurable and available only when cash is received by the government.

Major Funds:

The Town reports the following major governmental funds:

General Fund – This is the Town’s primary operating fund and it accounts for all financial resources of the Town except those required to be accounted for in other funds.

Street Maintenance Fund – This is the Town's Fund for accounting for special assessment funds levied to maintain streets in the Town.

SID02-01 Street Improvements Fund– This is a debt service fund that is used to account for the debt for street improvements.

Proprietary Funds:

All proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Revenues are recognized when earned and expenses are recognized when incurred. Allocations of costs, such as depreciation, are recorded in proprietary funds.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connections with a proprietary fund’s principal ongoing operations. The principal operating revenues for enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the Town’s policy to use restricted resources first, then unrestricted resources as they are needed.

TOWN OF CHESTER
LIBERTY COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

Major Funds:

The Town reports the following major proprietary funds:

Water Fund – An enterprise fund that accounts for the activities of the Town’s water distribution operations.

Solid Waste Fund – An enterprise fund that accounts for the activities of the Town’s solid waste service.

Fiduciary Funds

Fiduciary funds presented using the economic resources measurement focus and the accrual basis of accounting (except for the recognition of certain liabilities of defined benefit pension plans and certain postemployment healthcare plans). The required financial statements are a statement of fiduciary net position and a statement of changes in fiduciary net assets. The fiduciary funds are:

Agency Funds – To report resources held by the reporting government in a purely custodial capacity (assets equal liabilities). This fund primarily consist of assets held by the Town as an agent for individuals, private organizations, other local governmental entities and the Town’s claims and payroll clearing funds

NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash Composition

Composition of cash, deposits and investments at fair value on June 30, 2014, are as follows:

	<u>Primary Government</u>
<u>Cash on hand and deposits:</u>	
Cash on hand	
Petty Cash	\$ 225
Cash in banks:	
Time deposits	393,825
Credit union deposits	224,687
<u>Investments:</u>	
State Short-Term Investment Pool (STIP)	453,715
Total	\$ <u><u>1,072,452</u></u>

TOWN OF CHESTER
LIBERTY COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

Credit Risk

Section 7-6-202, MCA, limits investments of public money of a local government in the following eligible securities:

(a) United States government treasury bills, notes and bonds and in the United States treasury obligations, such as state and local government series (SLGLS), separate trading of registered interest and principal of securities (STRIPS), or similar United States treasury obligations;

(b) United States treasury receipts in a form evidencing the holder's ownership of future interest or principal payments on specific United States treasury obligations that, in the absence of payment default by the United States, are held in a special custody account by an independent trust company in a certificate or book entry form with the federal reserve bank of New York; or

(c) Obligations of the following agencies of the United States, subject to the limitations in subsection 2 (not included):

- (i) federal home loan bank;
- (ii) federal national mortgage association;
- (iii) federal home mortgage corporation; and
- (iv) federal farm credit bank.

With the exception of the assets of a local government group self-insurance program, investments may not have a maturity date exceeding 5 years except when the investment is used in an escrow account to refund an outstanding bond issue in advance.

Section 7-6-205 and Section 7-6-206, MCA, state that demand deposits may be placed only in banks and Public money not necessary for immediate use by a county, city, or town that is not invested as authorize in Section 7-6-202 may be placed in time or savings deposits with a bank, savings and loan association, or credit union in the state or place in repurchase agreements as authorized in Section 7-6-213.

Section 7-6-202, MCA, as amended, now limits authorized investments in certain securities that previously were permissible investments. The amendment does not apply to and does not require the sale of securities that were legal investments before the effective date of this act. However, the investments reported as collateralized mortgage obligations above are not authorized investments at the current time.

The government has no investment policy that would further limit its investment choices.

TOWN OF CHESTER
LIBERTY COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

Short Term Investment Pool (STIP) Credit Quality ratings by the S&P's rating services as of June 30, 2014:

<u>Security Investment Type</u>	<u>Amortized Cost</u>	<u>Credit Quality Rating</u>	<u>Weighted Average Maturity</u>
Asset Backed Commercial Paper	\$ 777,417,680	A1	30
Corporate Commercial Paper	138,958,389	A1	39
Corporate Variable-Rate	658,894,083	A1	38
Certificates of Deposit Fixed Rate	100,000,000	A1	219
Certificates of Deposit Variable-Rate	391,996,239	A1+	32
Other Asset Backed	38,440,281	NR	NA
U.S. Government Agency Fixed	75,003,275	A1+	194
U.S. Government Agency Variable -Rate	200,003,406	A1+	31
Money Market Funds (Unrated)	133,439,814	NR	1
Money Market Funds (Rated)	21,000,000	A1+	1
 Total Investments	 <u>\$ 2,535,153,167</u>	 A1	 <u>43</u>
 Securities Lending Collateral Investment Pool	 <u>\$ 1,861,748</u>	 NR	 *

“*As of June 30, 2014, the Securities Lending Quality Trust liquidity pool had an average duration of 41 days and an average weighted final maturity of 114 days for U.S. dollar collateral. The duration pool had an average duration of 33 days and an average weighted final maturity of 548 days for U.S. dollar collateral.”

Audited financial statements for the State of Montana's Board of Investments are available at 555 Fuller Avenue in Helena, Montana.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. All deposits are carried at cost plus accrued interest. As of June 30, 2014 the government's bank balance was exposed to custodial credit risk as follows:

<u>Depository Account</u>	June 30, 2014 <u>Balance</u>
Insured	\$ 544,880
- Collateral held by the pledging bank's trust department but not in the Town's name.	76,585
Total deposits and investments	<u>\$ 621,465</u>

TOWN OF CHESTER
LIBERTY COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

Cash equivalents

For purposes of the statement of cash flows, the enterprise funds consider all funds including restricted assets held in the Town's cash management pool to be cash equivalents.

NOTE 3. RESTRICTED CASH/INVESTMENTS

The following restricted cash/investments were held by the Town as of June 30, 2014. These amounts are reported within the cash/investment account on the Statement of Net Position.

<u>Description</u>	<u>Amount</u>
Future Debt Service	68,088
Landfill closure/postclosure	<u>31,237</u>
	<u>\$ 99,325</u>

NOTE 4. DEFERRED SPECIAL ASSESSMENTS RECEIVABLE

The Town has Special Improvement District (SID) bonds that are payable from the collection of special assessments levied against benefited property owners.

The SID 02-01 Street Improvement Bonds was incurred in October 2002 and has terms of 15 years at 5.1% interest. The bond is paid from income that the Town receives from special assessments from the tax payers. In fiscal year 2014, there are seventeen tax payers that have paid their portion of the debt. Below is a summary of the net assets in relation to the outstanding debt for the SID Bond.

<u>Name</u>	<u>Cash</u>	<u>Taxes and Assessments Receivable, Net</u>	<u>Deferred Assessment Receivable</u>	<u>Total Assets</u>	<u>Total Debt</u>
SID 02-01 Street Improvements	\$ <u>79,141</u>	\$ <u>8,332</u>	\$ <u>294,046</u>	\$ <u>381,519</u>	\$ <u>278,909</u>

The Town is aware that at the end of fiscal year 2014, they potentially will over assess by \$102,610. They will continue to reevaluate the SID and determine if they should reduce the number of years the assessment occurs.

NOTE 5. RECEIVABLES

An allowance for uncollectible accounts was not maintained for real and personal property taxes receivable. The direct write-off method is used for these accounts.

TOWN OF CHESTER
LIBERTY COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

Property tax levies are set in August, after the County Assessor delivers the taxable valuation information to the County, in connection with the budget process and are based on taxable values listed as of January 1 for all property located in the Entity. Taxable values are established by the Montana Department of Revenue, and a revaluation of all property is required to be completed on a periodic basis. Taxable value is defined by Montana statute as a fixed percentage of market value.

Real property (and certain attached personal property) taxes are billed within ten days after the third Monday in October and are due in equal installments on November 30 and the following May 31. After those dates, they become delinquent (and a lien upon the property). After three years, the County may exercise the lien and take title to the property. Special assessments are either billed in one installment due November 30 or two equal installments due November 30 and the following May 31. Personal property taxes (other than those billed with real estate) are generally billed no later than the second Monday in July (normally in May or June), based on the prior November's levies. Personal property taxes, other than mobile homes, are due thirty days after billing. Mobile home taxes are billed in two halves, the first due thirty days after billing; the second due September 30. The tax billings are considered past due after the respective due dates and are subject to penalty and interest charges.

Taxes that become delinquent are charged interest at the rate of 5/6 of 1% a month plus a penalty of 2%. Real property on which taxes remain delinquent and unpaid may be sold at tax sales. In the case of personal property, the property is to be seized and sold after the taxes become delinquent.

NOTE 6. INVENTORIES

The cost of inventories are recorded as an expenditure when purchased.

NOTE 7. CAPITAL ASSETS

The Town's assets are capitalized at historical cost or estimated historical cost. Town 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. The costs of normal maintenance and repairs are charged to operations as incurred. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable. Depreciation is recorded on a straight-line basis over the useful lives of the assets.

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 which requires the inclusion of infrastructure capital assets in local governments' basic financial statements. In accordance with Statement No. 34, the Town has included the value of all infrastructure into the 2014 Basic Financial Statements. The government has elected not to retroactively report general infrastructure assets.

TOWN OF CHESTER
LIBERTY COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

A summary of changes in governmental capital assets was as follows:

Governmental activities:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Balance</u> <u>June 30, 2014</u>
Capital assets not being depreciated:			
Land	\$ 17,064	\$ -	\$ 17,064
Other capital assets:			
Buildings	\$ 123,527	\$ 6,750	\$ 130,277
Improvements other than buildings	1,128,871	-	1,128,871
Machinery and equipment	497,978	39,534	537,512
Infrastructure	1,093,053	-	1,093,053
Total other capital assets at historical cost	<u>\$ 2,843,429</u>	<u>\$ 46,284</u>	<u>\$ 2,889,713</u>
Total	<u>\$ 2,860,493</u>	<u>\$ 46,284</u>	<u>\$ 2,906,777</u>

A summary of changes in business-type capital assets was as follows:

Business-type activities:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Balance</u> <u>June 30, 2014</u>
Capital assets not being depreciated:			
Land	\$ 10,221	\$ -	\$ 10,221
Other capital assets:			
Buildings	\$ 1,752,851	\$ -	\$ 1,752,851
Improvements other than buildings	1,552,184	-	1,552,184
Machinery and equipment	1,238,255	52,908	1,291,163
Source of supply	447,331	-	447,331
Treatment plan	1,225	-	1,225
Total other capital assets at historical cost	<u>\$ 4,991,846</u>	<u>\$ 52,908</u>	<u>\$ 5,044,754</u>
Less: accumulated depreciation	<u>\$ (1,233,809)</u>	<u>\$ -</u>	<u>\$ (1,233,809)</u>
Total	<u>\$ 3,768,258</u>	<u>\$ 52,908</u>	<u>\$ 3,821,166</u>

NOTE 8. LONG TERM DEBT OBLIGATIONS

In the governmental-wide and proprietary financial statements, outstanding debt is reported as liabilities. Bond issuance costs, bond discounts or premiums, are expensed at the date of sale.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

Changes in Long-Term Debt Liabilities - During the year ended June 30, 2014, the following changes occurred in liabilities reported in long-term debt:

TOWN OF CHESTER
LIBERTY COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

Governmental Activities:

	Balance				Balance	Due Within
	July 1, 2013	Additions	Deletions	Restatements		
Special assessment bond	\$ 350,963	\$ -	\$ (72,054)	\$ -	\$ 278,909	\$ 74,733
Compensated absences	10,942	6,649	-	-	17,591	10,731
Other post-employment benefits*	17,934	5,658	-	218	23,810	-
Total	\$ 379,839	\$ 12,307	\$ (72,054)	\$ 218	\$ 320,310	\$ 85,464

*See Note 9

In prior years the general fund was used to liquidate compensated absences and claims and judgments.

Business-type Activities:

	Balance				Balance	Due Within
	July 1, 2013	Additions	Deletions	Restatements		
Revenue bonds	\$ 584,994	\$ -	\$ (25,796)	\$ -	\$ 559,198	\$ 26,335
Compensated absences	22,098	2,083	(5,372)	-	18,809	10,823
Landfill **	36,767	1,251	-	-	38,018	-
Other post-employment benefits*	25,008	7,890	-	303	33,201	-
Total	\$ 668,867	\$ 11,224	\$ (31,168)	\$ 303	\$ 649,226	\$ 37,158

*See Note 9

**See Note 10

Special Assessment Debt - Special assessment bonds are payable from the collection of special assessments levied against benefited property owners within defined special improvement districts. The bonds are issued with specific maturity dates, but must be called and repaid earlier, at par plus accrued interest, if the related special assessments are collected. Rural special improvement districts bonds were issued with revolving fund backing. The Town is obligated to levy and collect a general property tax on all taxable property in the Entity to provide additional funding for the debt service payments. The cash balance in the Revolving Fund must equal at least 5% of the principal amount of bonds outstanding. Special assessment bonds outstanding as of June 30, 2014 were as follows:

<u>Purpose</u>	<u>Origination Date</u>	<u>Interest Rate</u>	<u>Bond Term</u>	<u>Maturity Date</u>	<u>Bonds Amount</u>	<u>Annual Payment</u>	<u>Balance June 30, 2014</u>
SID 02-01 Street Improvements	10/1/02	5.10%	15 yrs	7/1/17	\$ 890,000	Varies	\$ 278,909

Annual requirement to amortize debt:

TOWN OF CHESTER
LIBERTY COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

For Fiscal <u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 74,733	\$ 13,291
2016	79,127	9,404
2017	83,214	5,317
2018	41,835	1,067
Total	<u>\$ 278,909</u>	<u>\$ 29,079</u>

Revenue Bonds - The Town also issues bonds where the Town pledges income derived from the acquired or constructed assets to pay debt service. Revenue bonds outstanding, at year-end were as follows:

<u>Purpose</u>	<u>Origination Date</u>	<u>Interest Rate</u>	<u>Bond Term</u>	<u>Maturity Date</u>	<u>Bonds Amount</u>	<u>Annual Payment</u>	<u>Balance June 30, 2014</u>
2009 A Water DNRC Drinking water state revolving loan program	10/7/09	0.75%	40 yrs	7/10/29	\$ 199,400	Varies	\$ 155,000
2013 First Security bank loan - refunding bond	1/24/13	3.35%	15 yrs	7/1/33	<u>436,000</u>	Varies	<u>404,198</u>
					<u>\$ 635,400</u>		<u>\$ 559,198</u>

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

TOWN OF CHESTER
LIBERTY COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

Annual requirement to amortize debt:

<u>For Fiscal</u> <u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 26,335	\$ 2,508
2016	26,855	14,159
2017	27,462	13,477
2018	28,057	12,807
2019	28,668	12,121
2020	29,278	11,436
2021	29,962	10,677
2022	30,640	9,924
2023	31,343	9,146
2024	32,046	8,368
2025	32,818	7,521
2026	33,596	6,668
2027	34,399	5,790
2028	35,217	4,897
2029	36,085	3,954
2030	31,972	2,992
2031	27,891	2,054
2032	28,836	1,109
2033	7,738	194
Total	\$ <u>559,198</u>	\$ <u>139,802</u>

Compensated Absences

Compensated absences are absences for which employees will be paid for time off earned for time during employment, such as earned vacation and sick leave. It is the Town's policy and state law to permit employees to accumulate a limited amount of earned but unused vacation benefits, which will be paid to employees upon separation from Town service. Employees are allowed to accumulate and carry over a maximum of two times their annual accumulation of vacation, but no more than 90 days into the new calendar year. There is no restriction on the amount of sick leave that may be accumulated. Upon separation, employees are paid 100 percent of accumulated vacation and 25 percent of accumulated sick leave. The liability associated with governmental fund-type employees is reported in the governmental activities, while the liability associated with proprietary fund-type employees is recorded in the business-type activities/respective proprietary fund.

TOWN OF CHESTER
LIBERTY COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

Advance Refunding of Long-Term Debt

In prior years, the Town defeased certain revenue bonds. Accordingly, the liability for the defeased bonds are not included in the Town's financial statements. At June 30, 2014, \$404,198 of bonds outstanding are considered defeased.

NOTE 9. POSTEMPLOYMENT HEALTHCARE PLAN

Plan Description. The healthcare plan provides for, and Montana State Law (2-18-704) requires local governments to allow employees with at least 5 years of service and who are at least age 50 along with surviving spouses and dependents to stay on the government's health care plan as long as they pay the same premium. Since retirees are usually older than the average age of the plan participants they receive a benefit of lower insurance rates. This benefit is reported as the Other Post Employment Benefits (OPEB) liability. The government has less than 100 plan members and thus qualifies to use the "Alternative Measurement Method" for calculating the liability. The above described OPEB plan does not provide a stand-alone financial report.

Funding Policy. The government pays OPEB liability costs on a pay-as-you-go basis. A trust fund for future liabilities has not been established.

Funding Status and funding Progress. The funded status of the plan as of June 30, 2014, was as follows:

Actuarial Accrued Liability (AAL)	\$	95,174
Actuarial value of plan assets	\$	-
Unfunded Actuarial Accrued Liability (UAAL)	\$	95,174
Funded ratio (actuarial value of plan assets/AAL)		0%
Covered payroll (active plan members)	\$	175,570
UAAL as a percentage of covered payroll		54.21%

Annual OPEB Cost and Net OPEB Obligation. The government's annual other post employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount determined in accordance with the parameter of GASB statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty (30) years. The following table shows the components of the government's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the government's net OPEB obligation.

TOWN OF CHESTER
LIBERTY COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

Annual Required Contribution (ARC)	\$	13,548
Interest on net OPEB obligation	\$	-
Adjustment to ARC	\$	-
Annual OPEB cost (expense)	\$	13,548
Contributions made	\$	-
Increase in net OPEB obligation	\$	13,548
Net OPEB obligation - beginning of year	\$	42,942
Restatement	\$	521
 Net OPEB obligation - end of year	 \$	 57,011

Actuarial Methods and Assumptions. The following actuarial methods and assumptions were used:

Actuarial cost method		Unit Credit Cost Method
Average age of retirement (based on historical data)		62
Discount rate (average anticipated rate)		0.5%
Average salary increase (Consumer Price Index)		2.8%
<u>Health care cost rate trend (Federal Office of the Actuary)</u>		
<u>Year</u>		<u>% Increase</u>
2014		7.8%
2015		6.4%
2016		6.2%
2017		6.0%
2018		6.4%
2019		6.8%
2020		6.9%
2021		6.7%
2022 and after		6.9%

TOWN OF CHESTER
LIBERTY COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 10. LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

State and Federal laws and regulations require that the Town of Chester place a final cover on its landfill when it stops accepting waste and perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date the landfill stops accepting waste, the landfill reports a portion of these closure and postclosure care costs as an operating expense each period. The costs expensed during a period are based on landfill capacity used as of each balance sheet date. The \$38,018 reported as landfill closure and postclosure liability at June 30, 2014, represents the cumulative amount reported to date based on the use of 50.91% of the estimated capacity of the landfill. The Town will recognize the remaining estimated cost of closure and postclosure care of \$72,531 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure in 2014. The Town expects to close the landfill in the year 2055. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

The Town is required by State and Federal laws and regulations to demonstrate financial assurance for the costs of closure and postclosure care costs by April 9, 1996. For the fiscal year ended June 30, 2014, the Town of Chester demonstrated its ability to handle closure and postclosure care costs by passing the local government financial test.

NOTE 11. INTERFUND RECEIVABLES AND PAYABLES

Interfund Transfers

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

<u>Purpose</u>	<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Capital outlay	Capital Improvements – Nonmajor Governmental	General – Major Governmental	\$ <u>2,500</u>

NOTE 12. STATE-WIDE RETIREMENT PLANS

All full-time Town employees are covered under Montana Public Employees Retirement System (PERS). The plan is established by State law and administered by the State of Montana. The plan is cost-sharing multiple-employer defined benefit plan that provide retirement, disability and death benefits to plan members and beneficiaries, with amounts determined by the State. However, PERS members may have chosen the defined contribution retirement plan. Under this plan it puts the employee in control of investments options and their retirement is based upon the cash in their investment account.

Contribution rates are required and determined by State law. The contribution rates, expressed as a percentage of covered payroll for the fiscal year ended June 30, 2014 for the defined benefit plans, were:

TOWN OF CHESTER
LIBERTY COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

PERS**

Employer	8.07%
Employee	7.90%*
State	0.10%

* For PERS members hired before 7/1/2011 that rate is 6.9%

** For the defined contribution plan all rates are the same except only 4.19% of the employer amount is added to the individuals account.

The State contribution qualifies as an on-behalf payment. These amounts have not been recorded in the Town's financial statements and were considered immaterial.

Publicly available financial reports that include financial statements and required supplementary information may be obtained for the plans by writing or calling: Montana Public Employee Retirement Administration, P.O. Box 200131, Helena, Montana 59620-0131 Phone: 1-406-444-3154.

The Town's contributions for the years ended June 30, 2012, 2013, and 2014, as listed below, were equal to the required contributions for each year.

	<u>PERS</u>
2012	\$ 15,357
2013	\$ 16,379
2014	\$ 19,696

NOTE 13. LOCAL RETIREMENT PLANS

Fire Department Relief Association Disability and Pension Fund

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

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

TOWN OF CHESTER
LIBERTY COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 14. FUND BALANCE CLASSIFICATION POLICIES AND PROCEDURES

The government considers restricted amounts to have been spent first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available.

The government considers that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Restricted Fund Balance

<u>Major Fund</u>	<u>Amount</u>	<u>Purpose of Restriction</u>
Street Maintenance	\$ 124,626	Public works
SID 02-01 Street Maintenance	52,441	Debt service
All other aggregate:		
	15,813	Miscellaneous
	8,632	Public safety
	26,900	Public works
	<u>82,559</u>	Debt Service
	<u>\$ 310,971</u>	

Committed Fund Balance

<u>Major Fund</u>	<u>Amount</u>	<u>Purpose of Commitment</u>
All other aggregate:	\$ <u>15,396</u>	Capital outlay

NOTE 15. JOINT VENTURES

Joint ventures are independently constituted entities generally created by two or more governments for a specific purpose which are subject to joint control, in which the participating governments retain 1) an ongoing financial interest or 2) an ongoing financial responsibility.

Law Enforcement Services

The Town participated in a law enforcement service agreement with Liberty County for the fiscal year ended June 30, 2014. Liberty County was paid \$60,000 by the Town of Chester for providing law enforcement for the fiscal year ended June 30, 2014.

TOWN OF CHESTER
LIBERTY COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

Fire Protection Services

The Town participated in an interlocal agreement with Liberty County West Rural Fire District and Liberty County Volunteer Ambulance Department. The purpose of this agreement is to provide for the operation and maintenance of the fire protection system and emergency services serving the Town of Chester and the Liberty County West Rural Fire District. The funding for this agreement shall be pursuant of certain costs, equipment and structures associated with fire protection and emergency services. This agreement is valid for a period of 25 years.

NOTE 16. SERVICES PROVIDED BY OTHER GOVERNMENTS

County Provided Services

The Town is provided various financial services by Liberty County. The County also serves as cashier and treasurer for the Town for tax and assessment collections and other revenues received by the County which are subject to distribution to the various taxing jurisdictions located in the County. The collections made by the County on behalf of the Town are accounted for in an agency fund in the Town's name and are periodically remitted to the Town by the County Treasurer. No service charges have been recorded by the Town or the County.

NOTE 17. RISK MANAGEMENT

The Town faces 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. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Insurance Policies:

Commercial policies transferring all risks of loss, except for relatively small deductible amounts are purchased for property and content damage, employees torts, and professional liabilities. Employee medical insurance is provided for by a commercial carrier. And, given the lack of coverage available, the Town has no coverage for potential losses from environmental damages.

Insurance Pools:

The Town participates in the state-wide public safety risk pool, Montana Municipal Insurance Authority for workers' compensation.

TOWN OF CHESTER
LIBERTY COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

In 1986, the Town joined together with other Montana cities to form the Montana Municipal Insurance Authority which established a workers' compensation plan and a tort liability plan. Both public entity risk pools currently operate as common risk management and insurance programs for the member governments. The liability limits for damages in tort action are \$750,000 per claim and \$1.5 million per occurrence with a \$3.750 deductible per occurrence. State tort law limits the City's liability to \$1.5 million. The Town pays an annual premium for its employee injury insurance coverage, which is allocated to the employer funds based on total salaries and wages. The agreements for formation of the pools provide that they will be self-sustaining through member premiums.

The Town of Chester is responsible for the following items: fire phone and siren system; supply water, sewer, and garbage for fire hall; supply water for use in fire trucks for rural and town fires; assist with snow removal to area on an as needed basis; furnish annual fire control budget with adequate funds; provide liability insurance; insure contents of Town Building; and maintain owned equipment.

**REQUIRED SUPPLEMENTAL
INFORMATION**

Town of Chester, Liberty County, Montana
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2014

	General			
	BUDGETED AMOUNTS		ACTUAL AMOUNTS (BUDGETARY BASIS) See Note A	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL		
RESOURCES (INFLOWS):				
Taxes and assessments	\$ 137,000	\$ 137,000	\$ 145,710	\$ 8,710
Licenses and permits	500	500	125	(375)
Intergovernmental	123,000	123,000	121,969	(1,031)
Charges for services	8,000	8,000	10,282	2,282
Fines and forfeitures	1,500	1,500	1,414	(86)
Miscellaneous	5,500	5,500	5,515	15
Investment earnings	-	-	451	451
Amounts available for appropriation	\$ 275,500	\$ 275,500	\$ 285,466	\$ 9,966
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
General government	\$ 115,247	\$ 115,247	\$ 114,716	\$ 531
Public safety	70,000	70,000	69,746	254
Public works	30,400	30,400	36,673	(6,273)
Public health	75	75	187	(112)
Culture and recreation	58,273	58,273	60,959	(2,686)
Debt service - principal	-	-	-	-
Debt service - interest	-	-	-	-
Miscellaneous	5,267	5,267	5,267	-
Capital outlay	13,000	13,000	6,750	6,250
Total charges to appropriations	\$ 292,262	\$ 292,262	\$ 294,298	\$ (2,036)
OTHER FINANCING SOURCES (USES)				
Transfers out	\$ (2,500)	\$ (2,500)	\$ (2,500)	\$ -
Net change in fund balance			\$ (11,332)	
Fund balance - beginning of the year			\$ 156,946	
Fund balance - end of the year			\$ 145,614	

Town of Chester, Liberty County, Montana
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2014

Street Maintenance				
	BUDGETED AMOUNTS		ACTUAL	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL	AMOUNTS (BUDGETARY BASIS) See Note A	
RESOURCES (INFLOWS):				
Taxes and assessments	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-
Intergovernmental	-	-	-	-
Charges for services	-	-	-	-
Fines and forfeitures	-	-	-	-
Miscellaneous	79,000	79,000	83,521	4,521
Investment earnings	-	-	386	386
Amounts available for appropriation	\$ 79,000	\$ 79,000	\$ 83,907	\$ 4,907
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
General government	\$ -	\$ -	\$ -	\$ -
Public safety	-	-	-	-
Public works	142,000	142,000	39,589	102,411
Public health	-	-	-	-
Culture and recreation	-	-	-	-
Debt service - principal	-	-	-	-
Debt service - interest	-	-	-	-
Miscellaneous	-	-	-	-
Capital outlay	57,000	57,000	39,534	17,466
Total charges to appropriations	\$ 199,000	\$ 199,000	\$ 79,123	\$ 119,877
OTHER FINANCING SOURCES (USES)				
Transfers out	\$ -	\$ -	\$ -	\$ -
Net change in fund balance			\$ 4,784	
Fund balance - beginning of the year			\$ 119,842	
Fund balance - end of the year			\$ 124,626	

Town of Chester, Liberty County, Montana
REQUIRED SUPPLEMENTAL INFORMATION
Schedule of Funding Progress
For the Fiscal Year Ended June 30, 2014

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Unit Credit Cost Method (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/(c))
July 1, 2009	\$ -	\$ 73,988	\$ 73,988	0%	\$ 161,331	46%
July 1, 2012	\$ -	\$ 95,174	\$ 95,174	0%	\$ 175,570	54%

Denning, Downey & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

1740 U.S. Hwy 93 South, P.O. Box 1957, Kalispell, MT 59903-1957

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

Mayor and Town Council
Town of Chester
Liberty County
Chester, 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, business-type activities, each major fund, and the aggregate remaining fund information of Town of Chester, Liberty County, Montana, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town of Chester's basic financial statements and have issued our report thereon dated June 22, 2015, which was qualified because the Town has not maintained adequate records relating to capital assets, accumulated depreciation and depreciation expense for the governmental activities, business-type activities, water, solid waste and non-major enterprise funds.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Town of Chester, Liberty County, 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 Town of Chester, Liberty County, Montana's internal control. Accordingly, we do not express an opinion on the effectiveness of Town of Chester's internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described below to be a material weakness as identified as item 2014-001.

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. We consider the deficiencies described below to be significant deficiencies as identified as items 2014-002 and 2014-003.

2014-001 Capital Assets (Repeat of prior year finding 13-1)

Condition:

1. The Town has not developed an adequate system to account for its capital assets. Detailed perpetual capital assets inventory records containing all the necessary information were not maintained and the Town did not perform periodic physical inventories of Town owned assets.
2. We were therefore unable to determine if the amounts reported for capital assets are fairly stated due to incomplete subsidiary records related to those asset classifications.
3. The Town has not recorded all depreciation, current year nor accumulated, on capital assets.

Context:

Capital assets were not reported in the prior year and through inquiry with client we gained knowledge that they are still not reported.

Criteria:

Generally Accepted Accounting Policies (GAAP) require that capital assets are reported on the Statement of Net Position and Proprietary Fund Statement of Net Position; and related depreciation is reported on the Statement of Activities and the Proprietary Funds Statement of Revenues, Expenses, and Changes in Net Position and accurately reflect the value of the assets owned by the Town.

Effect:

1. The failure to maintain complete and accurate property inventory records can result in the loss or misuse of Town property. Adequate records may enhance efforts to obtain optimum insurance levels and provide important proof-of-loss evidence when insurance claims are filed.
2. &3. The quantitative effect is undetermined.

Cause:

The Town has not completed an adequate physical inventory to ensure that all assets are being reported in accordance with GAAP.

Recommendation:

To improve internal controls and proper reporting over the Town's capital assets we recommend the following:

1. The Town should formally adopt a comprehensive capitalization policy setting forth not only a minimum cost (currently greater than \$5,000) but should also establish the depreciable life for each class of capital asset, i.e. Building, Machinery and Equipment, etc.
2. A physical inventory of the entire Town owned capital assets meeting the capitalization criteria should then be performed.
3. The results of the physical inventory should be utilized to establish complete capital asset inventory records. The records should include a description of the assets with any model and/or serial numbers, the location of the assets, the cost and determination of cost, the date of acquisition, the source of funding, and the date and method of disposal, if applicable. Documentation should be maintained on file to support the recorded cost. If the actual cost is unknown, an estimate should be recorded. Estimated costs can be supported by information in the minutes, schedules showing the current cost of similar assets reduced by inflation factor back to the year of acquisition, or information from old bond issuances, catalogs, price lists, etc.
4. The general ledger capital asset accounts should then be adjusted accordingly to agree with the capital assets inventory records.
5. The Town should implement procedures to ensure that the capital assets inventory records and the general ledger capital assets accounts are updated in a timely manner to reflect additions and disposals. Periodic reconciliations should be performed to agree the inventory records to the general ledger.
6. A physical inventory should be performed by someone other than the person directly responsible for the assets. The results of this physical inventory should be compared to the capital assets inventory records and adjustments made if necessary.
7. Depreciation schedules should be prepared and maintained.

Auditee Response:

We are still working to implement this requirement. We hope to make strides toward this goal during FY2015.

2014-002 Special Assessments Receivable – Deferred (repeat of prior year finding 13-2)**Condition:**

As of June 30, 2014, the Town of Chester expects to collect \$102,610 more in assessments for the SID 02-01 Street Improvements bond than will be required to pay the additional remaining debt. Total assets collected and expected to be collected for principal payments are \$381,519 with remaining principal outstanding on the debt of \$278,909.

Context:

We compared the total assets collected and expected to the remaining principal outstanding.

Criteria:

The SID 02-01 was established to assess taxpayers the principal and interest payments for the debt each year until the debt is paid off. Excess collections indicate that too many collections are being done on a yearly basis.

Effect:

The Town is projected to have \$102,610 in excess collections by fiscal year 2018 when the final debt is paid.

Cause:

The Town is assessing taxpayers each year based on an assessment evaluation of 5.6% each year. The actual bond payments are 5.1% resulting in a 0.5% excess interest collection each year over what is needed to pay for the bond.

Recommendation:

We recommend that the Town re-evaluate the amount of collections and interest rate being collected for the long-term collections on the debt. We also recommend that for the short term the Town evaluate the amount of cash on hand and future bond payments and call bonds as able to reduce the debt for all prepayments collected so far.

Auditee Response:

The Town of Chester will continue to monitor the assessments and may have to discontinue the assessments early if the indication is there.

2014-003 Segregation of Duties (repeat of prior year finding 13-3)

Condition:

As noted in the prior year, the Town Clerk receipts all cash, makes entries into the accounting system, prepares and makes the deposits and reconciles the bank statements.

Context:

During the course of our audit we inquired about the duties the Town Clerk is responsible for.

Criteria:

Strong internal controls require that asset custody is segregated for asset accounting.

Effect:

When asset custody and accounting are handled by one person opportunity exists to bypass internal controls.

Cause:

The Town has a single employee in charge of asset custody and accounting.

Recommendation:

We recommend that the Town continue to evaluate internal controls where segregation of duties is not possible to strengthen these controls as necessary.

Auditee Response:

This recommendation is difficult to implement. The Town of Chester has a very limited number of employees. Every precaution has been taken to have checks and balances in place. We feel we have taken extra steps to avoid misappropriations or fraud.

Compliance and Other Matters

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

Town of Chester's Response to Findings

Town of Chester's response to the findings identified in our audit is described above. Town of Chester's response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Denning, Downey and Associates, CPA's, P.C.

June 22, 2015

Denning, Downey & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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REPORT ON PRIOR AUDIT REPORT RECOMMENDATIONS

Mayor and Town Council
Town of Chester
Liberty County
Chester, Montana

The prior audit report contained three recommendations. The action taken on each recommendation is as follows:

<u>Recommendation</u>	<u>Action Taken</u>
Capital Assets	Repeated
Special Assessments Receivable Deferred	Repeated
Segregation of Duties	Repeated

Denning, Downey and Associates, CPA's, P.C.

June 22, 2015