

**The accompanying financial statements and report are intended for the original recipient. They must be presented in their entirety and may not be modified in any manner.**



**CITY OF CONRAD**

**FINANCIAL REPORT**

**June 30, 2014**



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CITY OF CONRAD, MONTANA

2013 - 2014

ORGANIZATION

MAYOR

Wendy Judisch

CITY COUNCIL

Ron Widhalm

Karla Breeding

Drew Lesnik

Daniel Jones

OFFICERS/CLERKS

Attorney

Justin Lee

City Judge

V.A. Farmstrom

Finance Officer

Agnes Fowler

Chief of Police

Gary Dent

Water/Sewer/Garbage  
Collection

Richard Anderson

## INDEPENDENT AUDITOR'S REPORT

To the City Council  
City of Conrad  
Conrad, Montana

**Report on the Financial Statements**

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

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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.

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Conrad, 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.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the 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 January 26, 2015, on our consideration of the City of Conrad, 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 City of Conrad, Montana's internal control over financial reporting and compliance.



Great Falls, Montana  
January 26, 2015

**CITY OF CONRAD**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
Year Ended June 30, 2014

Our discussion and analysis of the City of Conrad's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2014. Please read it in conjunction with the financial statements.

**FINANCIAL HIGHLIGHTS**

- The total assets of the City of Conrad exceeded its liabilities at the close of the year by \$17,163,981.
- The Wastewater SRF loan of \$751,000 was closed out at \$650,019 in FY 13-14 following the completion of the I & I study conducted by Stahly Engineering. The Conrad East Industrial Park had no lot sales in FY 13/14, however the MTDOT installed and donated the sewer lift station valued at \$156,000 and Pondera County installed and donated a road with a value of \$45,481. A TSEP grant in the amount of \$625,000 and an SRF loan in the amount of \$793,000 were approved for upgrades to the Water system with the project being awarded in June of 2014. A CTEP grant project was approved for the installation of historic, pedestrian lighting in three of the downtown blocks of Conrad. Total CTEP funding of \$205,392 is allocated for this project which consists of City of Conrad CTEP funds in the amount of \$45,115, Pondera County authorized transfer of their CTEP funds for a total of \$95,975, and the City of Glasgow's transfer of their CTEP funds for \$64,302. The actual construction on this project will start in FY 14-15. A CTEP/SRTS grant for \$64,370, for infrastructure in the construction of sidewalk improvements, started in FY 13-14 with engineering and construction beginning in FY 14-15. As with both CTEP projects, there are required matching funds from the City. The Economic Revolving Loan fund outstanding loan to Moritz Four was written off the City financials in the amount of \$9,780, per the Bad Debt Policy, due to their filing for bankruptcy.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The City of Conrad's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

The statement of net position presents information on all of the City's assets and liabilities. The difference between assets and liabilities is reported as net position. Over time, increases and decreases in net position may provide an indication of whether the City's financial position is improving or deteriorating. There was an increase from FY 12-13 by \$200,883. This is down from the overall comparison of FY 12-13 to FY 13-14.

The statement of activities presents information reflecting how the City's net position has changed during the fiscal year just ended. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenue and expenses are reported in this statement for some items that will only result in cash flows in a future period.

CITY OF CONRAD  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
Year Ended June 30, 2014

## **OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

The government wide financial statements distinguish functions into business-type activities and governmental activities.

### **Business-Type Activities**

Business-type activities include water, wastewater and solid waste collection. Consumers are billed on a monthly basis for these services. The rates for the water and solid waste remained as they were in FY 12-13 without an increase. Wastewater rates did increase in October of 2013 along with the implementation of a system development fee for both water and wastewater.

Delinquent water and wastewater users continue to be turned over and placed on the county real estate tax bills for collection. Drawdowns on the \$751,000 SRF loan were made throughout FY 13-14 for the Wastewater sludge removal. The loan was closed out at \$650,019 as not all funds were required to be expended.

### **Governmental Activities**

Most of the City's basic services are reported here including, but not limited to, the financial office, Mayor, Council, roads and streets, animal control, police, fire, parks and recreation, judicial system and facilities administration. Property taxes, House Bill 124 reimbursement, licenses, franchise fees, intergovernmental revenue, fines and forfeitures and miscellaneous interest and investment earnings finance the majority of these activities. The decline in interest revenues has resulted in lower earnings. With the laddering of the investments, over the legal terms of not more than five years, it has resulted in a less noticeable impact.

### **Fund Financial Statements**

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

### **Government Funds**

Governmental funds are used to report those same functions reported as government activities in the government-wide financial statements. However, unlike the government-wide statements, the fund financial statements are prepared on the modified accrual basis. Under the modified accrual basis of accounting, revenues are recognized when they become measurable and available, and expenditures are recognized when the related fund liability is incurred, with the exception of long-term debt and similar long-term items which are recorded when due. Therefore, the focus of the governmental fund financial statements is on near-term inflows and outflows of spendable resources as well as on the balance of spendable resources available at the end of the fiscal year.

CITY OF CONRAD  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
Year Ended June 30, 2014

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

**Government Funds (Continued)**

The City adopts an annual appropriated budget for all its governmental funds. In FY 13-14 there was one budget amendment that included the receipt of unanticipated TSEP Planning Grant revenue in the amount of \$7,500 for our water system as well as the related expenditures affiliated with the grant for the matching funds in the amount of \$5,000; more State Aid funding was received for the library in the amount of \$1,415, again related expenditures were recognized; additional unanticipated expenditures due to work on the front entryway of City Hall were incurred which resulted in additional unanticipated expenditures for water, sewer and solid waste at \$1,148 per fund; an adjustment to health insurance budgeted expenditures for the sewer fund were necessary in the amount of \$2,610; and then a correction between two object codes for expenditures in the solid waste fund for \$9,076.

Some of the accounts within the General fund show a final account balance of percent committed being low compared to what was budgeted. This is due to the future Capital Improvement set aside budgeted for but not expended until the year of the actual expenditure. This in effect is a savings account for that portion of the City's operations. With certain expenditures so unpredictable, based on the volatile utility and fuel costs, the City has taken a pro-active approach and is budgeting for worst case scenario. We have been fortunate that the expenses have not been as high or exceeded what we budgeted for. The City feels it is better to have an excess budgeted for, especially in these line items than to fall short.

**Proprietary Funds**

The City charges customers for services it provides. The City of Conrad has three major services it provides to consumers. These services are for water, wastewater and solid waste. The solid waste fund, per the major fund calculations, is not considered to be a major fund. However, the City of Conrad chooses to report it as a major fund on its financials. The City adopts an annual appropriated budget based on projected revenue and expenditures for all its proprietary funds.

**Fiduciary Funds**

The City is the trustee, or fiduciary, for the firemen's pension plan. Due to the trust arrangement these funds can only be used for the trust beneficiaries. The City levied 10.31 mills in FY 13-14 as compared to 5 mills to fund this pension plan in FY 12-13. This increase in funding allows the revenue to go directly to the fire relief pension fund as collected to meet governmental accounting standards. Funding from the City towards this pension plan continues to decrease due to the declining value of the mill and the reduced insurance reimbursement from the State. The monthly pension amount to the retirees increased, through Council approval, by \$25/month in July of 2014 with approved monthly increases annually until it reaches the maximum. The City is cognizant that the fire pension fund must be kept solvent and are working with the fire department to develop a plan for additional funding due to the increased number of retirees and the increased monthly pension.

CITY OF CONRAD  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
Year Ended June 30, 2014

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

**Fiduciary Funds (Continued)**

The thought is being entertained of taking it to the voters as an additional public safety mill levy to fund the portion paid to the fire department through the general fund as well as increasing the Capital Improvement for the fire department for a future truck purchase. This, if passed, would free up the funds allocated currently through the general fund and allow that money to be placed in the fire pension fund. The City will continue researching other revenue sources for this fund to bring it into compliance with the State mandated requirements. The City may have to float additional mills to fund the fire pension either all at once or gradually to build the fund up with an established plan depending on the results of legislature. They continue to seek help legislatively to alter the law to make it affordable to comply with this mandated requirement. This plan would support the funding of such for auditing purposes.

The MD & A Comparisons for the Governmental & Business-Type Activities is attached at the end of this report.

**Financial Position**

The overall financial position of the City of Conrad remains stable. The Cash Report at FYE showed an increase in FY 13-14 when compared to FY 12-13 of \$151,085. This cements the philosophy of the council, through good fiscal management, even though the value of the mill continues to decline you can operate the City effectively. This increase is declining as revenues decrease and expenses increase overall. There were no major changes in the overall financial position of the City in FY 13-14.

**Capital Assets and Debt Administration**

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2014 totals \$17,526,648 (net of accumulated depreciation). There was a decrease from FY 12-13 of \$163,993 overall. The City's capital investment includes land, buildings, improvements, machinery and equipment, infrastructure and construction in progress. The current year depreciation expense of capital assets is reported on the Statement of Activities in the various governmental and business-type expense functions.

Major additions to the capital assets for the governmental activities included the backroom remodel at the library, donated siding at Blue Sky Villa, a new mower, a new dump truck, and donated street construction in the East Industrial Park. A vehicle was also junked that had a fully depreciated value.

Major additions to the capital assets for the business-type activities included construction in progress relating to the water upgrades, computer remote access, waterline to the East Industrial Park, a 2002 dump truck, a 2014 pickup, central lift station upgrade, and the East Industrial Park lift station, of which \$156,000 was donated by MTDOT.

For an analysis of the activity in capital assets in FY 13-14, see Note 6 to the basic financial statements beginning on page 36.

CITY OF CONRAD  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
Year Ended June 30, 2014

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

**Capital Assets and Debt Administration (Continued)**

The City refinanced a current Rural Development loan for \$495,270 with an SRF loan in the amount of \$473,583 for water, this will be a substantial savings in interest costs over the remainder of the loan. The City also made the final draw on a previous SRF sewer loan in the amount of \$7,992. Principal reductions for both governmental and business-type activities totaled \$781,519 which included the payoff of the Rural Development loan that was refinanced as described above.

For an analysis of the activity in long-term debt in FY 13-14, see Note 7 to the basic financial statements beginning on page 38.

**Economic Factors and Next Year's Budget and Rates**

Some of the challenges that the City of Conrad has dealt with over the last several years are lessening, or at least not worsening. The City will continue to face these challenges until the local economy gains its footing and the state budget rebounds. The population, per the 2010 census, continues to decline. However, the lack of rental property has resulted in more homes being sold along with a greater transient population coming in and out of the City. Business closures have slowed but residents still travel out of town for numerous reasons. Our mill levy values continue to decrease while the cost of operating the City continues to increase. The City is very conscious of their fiscal and financial obligation to the taxpayers and reflects this through their ongoing diligence to seek alternative financing for projects and investments of City funds. The budget for FY 14-15 is very much in line with the previous year's budget, but does include increased capital outlay for future expenditures as well as the CTEP, TSEP, and SRF projects.

The City continues to adjust the previously implemented Capital Improvement Plan to keep their assets up to date and establish a savings plan for major purchases. The City will continue to examine their rates and charges annually to ensure they are meeting the reserve requirements of the lenders.

Water rate restructure and increases were last implemented in FY 11-12. The wastewater rates were increased in FY 13-14 along with the implementation of system development fees for both water and wastewater to ensure adequate coverage of the daily costs and loan requirements. Rate increases for wastewater and solid waste are being considered in the upcoming fiscal year to comply with the loan coverage requirements in the wastewater and the purchase of a new solid waste collection truck. The unfunded mandates for improvements to our water and wastewater systems are taking a serious toll on our ratepayers and community as a whole. The City along with numerous communities in the same situation have banded together in an attempt to persuade EPA that their regulations make it financially impossible to comply. To date, these efforts have been beneficial. The Mayor is actively working with the Montana League of Cities and Towns in this effort which portrays to the public the City's efforts to be fiscally responsible to the rate payers.

CITY OF CONRAD  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
Year Ended June 30, 2014

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

**Prior Year Comparisons**

The City of Conrad is providing current year's comparative analysis to the prior year. These are reflected on the MD&A comparison sheet as attached. Overall the Net Position decreased in the governmental activities but increased in the business-type activities.

The revenues are down in the Governmental Activities from FY 12-13. There was a decrease in swimming pool user fees and lower court collections for fines which affected the charges for services when compared to FY 12-13. The HB124 revenues and HB758 revenues were up by \$21,000 for unrestricted Federal and State shared revenues over FY 12-13. No lots were sold in FY 13-14 in the East Industrial Park, thus there is a decrease of \$119,692 for the gain on sale of capital assets. The capital grants and contributions increase of \$80,605 is attributed mainly to 2 items; the donation from Pondera County of \$45,481 for the construction of Vermont Street and the CTEP grant funds for the Historic/Period lighting of \$36,000.

In the business-type activities revenues are also down even though charges for services are up due to a sewer rate increase implemented in FY 13-14. There was a significant decrease in Capital Grants and Contributions in FY 13-14 by \$515,574. The East Industrial Park lift station was donated by MTDOT in FY 13-14 at a value of \$156,000. The TSEP grant, as of FYE in the amount of \$90,106, is also included in the total for the business-type activities for Capital Grants and Contribution.

Over all expenses in governmental and business-type activities are up, but only minimally when compared to the prior year.

One of the major decreases in expenses for FY 13-14 was in Housing and Community Development. The City of Conrad paid for the installation of the electrical through NW Energy at a cost of \$36,000 and had a feasibility study done for \$7,500, both at the East Industrial Park, which was significantly less than the gas line paid for in FY 12/13, thus the decrease of \$42,203 from the prior year. The increase of \$46,392 in Public Works can be attributed to increases in wages, fuel increases, repairs to equipment, and the purchase of chips for road sealing that were installed early in FY 14-15.

Even with increases in salaries, health insurance premiums and inflation due to higher operating and maintenance costs, the City of Conrad has held the line on expenses while continuing to provide services to our public in a manner they have become accustomed to. The goal is to find ways to increase the revenues at a rate to offset any increased expenditures.

**CITY OF CONRAD**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
Year Ended June 30, 2014

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

**Prior Year Comparisons (Continued)**

The City continues to provide services to our public in a manner they have become accustomed to. The goal is to keep the revenues increasing at a rate to offset any increased expenditures.

**Table 1 – Net Position**

	Governmental Activities			Business-type Activities		
	2014	2013	Change Inc (Dec)	2014	2013	Change Inc (Dec)
<b>ASSETS</b>						
Current and other assets	\$ 844,497	\$ 993,650	\$ (149,153)	\$ 4,719,060	\$ 4,471,783	\$ 247,277
Capital assets	<u>5,185,850</u>	<u>5,245,488</u>	<u>(59,638)</u>	<u>12,340,798</u>	<u>12,445,153</u>	<u>(104,355)</u>
Total assets	<u>6,030,347</u>	<u>6,239,138</u>	<u>(208,791)</u>	<u>17,059,858</u>	<u>16,916,936</u>	<u>142,922</u>
<b>LIABILITIES</b>						
Long-term debt						
outstanding	83,230	92,515	(9,285)	5,623,505	5,914,164	(290,659)
Other liabilities	<u>107,106</u>	<u>83,894</u>	<u>23,212</u>	<u>112,383</u>	<u>102,403</u>	<u>9,980</u>
Total liabilities	<u>190,336</u>	<u>176,409</u>	<u>13,927</u>	<u>5,735,888</u>	<u>6,016,567</u>	<u>(280,679)</u>
<b>NET POSITION</b>						
Invested in capital assets, net of related debt	5,102,620	5,152,973	(50,353)	6,717,293	6,530,989	186,304
Restricted	167,548	245,605	(78,057)	746,335	709,925	36,410
Unrestricted	<u>569,843</u>	<u>664,151</u>	<u>(94,308)</u>	<u>3,860,342</u>	<u>3,659,455</u>	<u>200,887</u>
Total net position	<u>\$ 5,840,011</u>	<u>\$ 6,062,729</u>	<u>\$ (222,718)</u>	<u>\$ 11,323,970</u>	<u>\$ 10,900,369</u>	<u>\$ 423,601</u>

**CITY OF CONRAD**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
Year Ended June 30, 2014

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

**Table 2 – Change in Net Position**

	Governmental Activities			Business-type Activities		
	2014	2013	Change Inc (Dec)	2014	2013	Change Inc (Dec)
<b>REVENUES</b>						
Program revenues:						
Charges for services	\$ 156,904	\$ 193,766	\$ (36,862)	\$ 1,602,074	\$ 1,599,225	\$ 2,849
Operating grants/contributions	174,117	168,914	5,203	29,055	32,277	(3,222)
Capital grants/contributions	81,549	944	80,605	246,106	761,680	(515,574)
General revenues:						
Property taxes	375,967	374,800	1,167	-	-	-
Local option taxes	59,295	59,668	(373)	-	-	-
Licenses and permits	11,519	11,537	(18)	-	-	-
Unrestricted Federal/State shared revenues	327,495	306,465	21,030	-	-	-
Unrestricted investment earnings	11,077	12,508	(1,431)	59,831	44,332	15,499
Contributions and donations	5,672	5,558	114	-	-	-
Miscellaneous	1,989	6,006	(4,017)	-	-	-
Gain on sale of capital asset	-	119,692	(119,692)	-	-	-
Rents and leases	30,038	28,038	2,000	-	-	-
Total revenues	<u>1,235,622</u>	<u>1,287,896</u>	<u>(52,274)</u>	<u>1,937,066</u>	<u>2,437,514</u>	<u>(500,448)</u>
<b>EXPENSES</b>						
General government	141,715	138,227	3,488	-	-	-
Public safety	440,821	447,066	(6,245)	-	-	-
Public works	348,211	301,819	46,392	-	-	-
Public health	13,744	15,703	(1,959)	-	-	-
Social and economic services	1,007	1,007	-	-	-	-
Culture and recreation	287,664	268,823	18,841	-	-	-
Housing and community development	177,400	219,603	(42,203)	-	-	-
Debt service - interest	868	423	445	-	-	-
Miscellaneous	46,910	53,580	(6,670)	-	-	-
Water	-	-	-	781,110	773,904	7,206
Sewer	-	-	-	612,505	580,271	32,234
Solid waste	-	-	-	119,850	158,946	(39,096)
Total expenses	<u>1,458,340</u>	<u>1,446,251</u>	<u>12,089</u>	<u>1,513,465</u>	<u>1,513,121</u>	<u>344</u>
Change in net position before special items and transfers	(222,718)	(158,355)	(64,363)	423,601	924,393	(500,792)
Transfers in (out)	-	(42,000)	42,000	-	42,000	(42,000)
Change in net position	<u>\$ (222,718)</u>	<u>\$ (200,355)</u>	<u>\$ (22,363)</u>	<u>\$ 423,601</u>	<u>\$ 966,393</u>	<u>\$ (542,792)</u>

**Contacting the City's Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the City's finances and to show the City's accountability for the funds and assets it receives. If you have questions about this report, or should you need additional financial information, contact City Hall at 413 S. Main, Conrad, MT 59425, or phone (406) 271-3623.

FINANCIAL STATEMENTS

**CITY OF CONRAD**  
**STATEMENT OF NET POSITION**  
June 30, 2014

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and investments	\$ 757,985	\$ 3,697,472	\$ 4,455,457
Taxes and assessments receivable, net	71,773	8,772	80,545
Accounts receivable	-	149,423	149,423
Due from other governments	11,644	12,169	23,813
Cafeteria plan advance receivable	2,241	-	2,241
Accrued interest on investments	<u>854</u>	<u>5,411</u>	<u>6,265</u>
Total current assets	<u>844,497</u>	<u>3,873,247</u>	<u>4,717,744</u>
<b>NON-CURRENT ASSETS</b>			
Restricted cash and investments	-	746,335	746,335
Investment in joint ventures	-	99,478	99,478
Land	205,697	31,500	237,197
Construction in progress	49,766	103,070	152,836
Depreciable capital assets, net	<u>4,930,387</u>	<u>12,206,228</u>	<u>17,136,615</u>
Total noncurrent assets	<u>5,185,850</u>	<u>13,186,611</u>	<u>18,372,461</u>
Total assets	<u>\$ 6,030,347</u>	<u>\$ 17,059,858</u>	<u>\$ 23,090,205</u>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable	\$ 14,567	5,943	20,510
Accrued interest payable	-	56,186	56,186
Current portion of bonds and notes payable	9,340	312,192	321,532
Current portion of compensated absences	<u>38,014</u>	<u>20,505</u>	<u>58,519</u>
Total current liabilities	<u>61,921</u>	<u>394,826</u>	<u>456,747</u>
<b>NON-CURRENT LIABILITIES</b>			
Deposits payable	300	-	300
Bonds and notes payable, net of current portion	73,890	5,311,313	5,385,203
Compensated absences, net of current portion	38,013	20,505	58,518
OPEB liability	<u>16,212</u>	<u>9,244</u>	<u>25,456</u>
Total noncurrent liabilities	<u>128,415</u>	<u>5,341,062</u>	<u>5,469,477</u>
Total liabilities	<u>190,336</u>	<u>5,735,888</u>	<u>5,926,224</u>
<b>NET POSITION</b>			
Net investment in capital assets	5,102,620	6,717,293	11,819,913
Restricted for:			
Replacement and depreciation	-	108,876	108,876
Debt service	-	637,459	637,459
General government	665	-	665
Public safety	1,347	-	1,347
Public works	12,470	-	12,470
Culture and recreation	153,066	-	153,066
Unrestricted	<u>569,843</u>	<u>3,860,342</u>	<u>4,430,185</u>
Total net position	<u>5,840,011</u>	<u>11,323,970</u>	<u>17,163,981</u>
Total liabilities and net position	<u>\$ 6,030,347</u>	<u>\$ 17,059,858</u>	<u>\$ 23,090,205</u>

The Notes to the Financial Statements are an integral part of this statement.

**CITY OF CONRAD**  
**STATEMENT OF ACTIVITIES**  
Year Ended June 30, 2014

FUNCTIONS/PROGRAMS	Expenses	Program Revenues			Net (Expense) Revenues and Changes In Net Position		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
<b>GOVERNMENTAL ACTIVITIES</b>							
General government	\$ 141,715	\$ 25,664	\$ -	\$ -	\$ (116,051)	\$ -	\$ (116,051)
Public safety	440,821	19,538	4,773	8,789	(407,721)	-	(407,721)
Public works	348,211	89,368	59,786	56,665	(142,392)	-	(142,392)
Public health	13,744	2,845	-	-	(10,899)	-	(10,899)
Social and economic services	1,007	-	-	-	(1,007)	-	(1,007)
Culture and recreation	287,664	18,259	98,300	-	(171,105)	-	(171,105)
Housing and community development	177,400	1,230	11,258	15,396	(149,516)	-	(149,516)
Debt service - interest	868	-	-	-	(868)	-	(868)
Miscellaneous	46,910	-	-	699	(46,211)	-	(46,211)
Total governmental activities	<u>1,458,340</u>	<u>156,904</u>	<u>174,117</u>	<u>81,549</u>	<u>(1,045,770)</u>	<u>-</u>	<u>(1,045,770)</u>
<b>BUSINESS-TYPE ACTIVITIES</b>							
Water	781,110	876,013	-	90,106	-	185,009	185,009
Sewer	612,505	570,104	29,055	156,000	-	142,654	142,654
Solid waste	119,850	155,957	-	-	-	36,107	36,107
Total business-type activities	<u>1,513,465</u>	<u>1,602,074</u>	<u>29,055</u>	<u>246,106</u>	<u>-</u>	<u>363,770</u>	<u>363,770</u>
Total government	<u>\$ 2,971,805</u>	<u>\$ 1,758,978</u>	<u>\$ 203,172</u>	<u>\$ 327,655</u>	<u>(1,045,770)</u>	<u>363,770</u>	<u>(682,000)</u>
<b>GENERAL REVENUES:</b>							
Property taxes					375,967	-	375,967
Local option taxes					59,295	-	59,295
Licenses and permits					11,519	-	11,519
Federal/State shared revenues					327,495	-	327,495
Investment earnings					11,077	59,831	70,908
Contributions and donations					5,672	-	5,672
Miscellaneous					1,989	-	1,989
Rents and leases					30,038	-	30,038
Total general revenues					<u>823,052</u>	<u>59,831</u>	<u>882,883</u>
Changes in net position					(222,718)	423,601	200,883
Net position at July 1					<u>6,062,729</u>	<u>10,900,369</u>	<u>16,963,098</u>
Net position at June 30					<u>\$ 5,840,011</u>	<u>\$ 11,323,970</u>	<u>\$ 17,163,981</u>

The Notes to the Financial Statements are an integral part of this statement.

**CITY OF CONRAD**  
**BALANCE SHEET – GOVERNMENTAL FUNDS**  
June 30, 2014

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash and investments	\$ 586,668	\$ 171,317	\$ 757,985
Taxes and assessments receivable, net	50,149	21,624	71,773
Due from other governments	460	11,184	11,644
Cafeteria plan advance receivable	2,241	-	2,241
Accrued interest on investments	854	-	854
Total assets	<u>\$ 640,372</u>	<u>\$ 204,125</u>	<u>\$ 844,497</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 1,650	12,917	14,567
Deposits payable	300	-	300
Total liabilities	<u>1,950</u>	<u>12,917</u>	<u>14,867</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unearned revenue for taxes and assessments receivable	<u>50,149</u>	<u>21,624</u>	<u>71,773</u>
Total deferred inflows of resources	<u>50,149</u>	<u>21,624</u>	<u>71,773</u>
<b>FUND BALANCES</b>			
Restricted	-	167,548	167,548
Committed	-	2,036	2,036
Assigned	530,884	-	530,884
Unassigned	<u>57,389</u>	<u>-</u>	<u>57,389</u>
Total fund balances	<u>588,273</u>	<u>169,584</u>	<u>757,857</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 640,372</u>	<u>\$ 204,125</u>	<u>\$ 844,497</u>

The Notes to the Financial Statements are an integral part of this statement.

CITY OF CONRAD  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION  
As of June 30, 2014

Total fund balances - governmental funds	\$ 757,857
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$8,782,891 and the accumulated depreciation is \$3,597,041.	5,185,850
Property tax revenue is recognized when earned (and the claim to resources is established) rather than when "available." All of the unearned property tax revenue reported in the governmental funds is not available.	71,773
Long-term liabilities, including bonds payable and compensated absences, and other post employment benefits are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(175,469)</u>
Total net position - governmental activities	<u>\$ 5,840,011</u>

The Notes to the Financial Statements are an integral part of this statement.

**CITY OF CONRAD**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCES – GOVERNMENTAL FUNDS**  
Year Ended June 30, 2014

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>			
Taxes and assessments	\$ 325,783	\$ 183,764	\$ 509,547
Licenses and permits	18,659	16,956	35,615
Intergovernmental	323,453	188,939	512,392
Charges for services	25,219	1,534	26,753
Fines and forfeitures	15,332	-	15,332
Miscellaneous	41,769	13,193	54,962
Investment earnings	<u>11,077</u>	<u>-</u>	<u>11,077</u>
Total revenues	<u>761,292</u>	<u>404,386</u>	<u>1,165,678</u>
<b>EXPENDITURES</b>			
Current:			
General government	127,799	6,823	134,622
Public safety	336,426	74,594	411,020
Public works	121,288	171,391	292,679
Public health	12,201	607	12,808
Culture and recreation	99,868	140,799	240,667
Housing and community development	44,046	23,154	67,200
Capital outlay	78,792	42,916	121,708
Miscellaneous	21,030	25,880	46,910
Debt Service:			
Principal	9,285	-	9,285
Interest	<u>868</u>	<u>-</u>	<u>868</u>
Total expenditures	<u>851,603</u>	<u>486,164</u>	<u>1,337,767</u>
Deficiency of revenues under expenditures	<u>(90,311)</u>	<u>(81,778)</u>	<u>(172,089)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in (out)	<u>(1,500)</u>	<u>1,500</u>	<u>-</u>
Total other financing sources (uses)	<u>(1,500)</u>	<u>1,500</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>(91,811)</u>	<u>(80,278)</u>	<u>(172,089)</u>
Fund balances at July 1	<u>680,084</u>	<u>249,862</u>	<u>929,946</u>
Fund balances at June 30	<u>\$ 588,273</u>	<u>\$ 169,584</u>	<u>\$ 757,857</u>

The Notes to the Financial Statements are an integral part of this statement.

CITY OF CONRAD  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 Year Ended June 30, 2014

Total net change in fund balances - governmental funds	\$ (172,089)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.	(121,213)
In the statement of activities, the fair market value of capital asset donations is recognized as revenue. The fund financial statements do not recognize these revenues.	61,575
Tax and assessment revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	8,369
The change in compensated absences is shown as an expense in the statement of activities, but are not reported as an expenditure on the statement of revenues, expenditures and changes in fund balance.	(4,448)
The governmental funds report repayment of debt principal as an expenditure and proceeds from issuing debt as other financing sources. These payments and proceeds have no effect on net position and are, therefore, not shown on the statement of activities.	9,285
The change in other post-employment benefits is reported as an expense on the statement of activities, but is not reported as an expenditure in the funds.	<u>(4,197)</u>
Total net change in net position - governmental activities	<u>\$ (222,718)</u>

The Notes to the Financial Statements are an integral part of this statement.

**CITY OF CONRAD**  
**STATEMENT OF NET POSITION**  
**ENTERPRISE FUNDS**  
June 30, 2014

	Business-Type Activities			Total
	Water Fund	Sewer Fund	Solid Waste Fund	
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and investments	\$ 2,350,011	\$ 1,077,026	\$ 270,435	\$ 3,697,472
Assessments receivable, net	4,205	4,567	-	8,772
Accounts receivable	78,881	56,455	14,087	149,423
Due from other government	12,169	-	-	12,169
Accrued interest on investments	<u>3,212</u>	<u>1,869</u>	<u>330</u>	<u>5,411</u>
Total current assets	<u>2,448,478</u>	<u>1,139,917</u>	<u>284,852</u>	<u>3,873,247</u>
Noncurrent assets				
Restricted cash and investments	300,430	445,905	-	746,335
Investment in joint ventures	61,201	29,529	8,748	99,478
Land	6,867	12,412	12,221	31,500
Construction in progress	103,070	-	-	103,070
Depreciable assets, net of accumulated depreciation	<u>5,521,050</u>	<u>6,516,355</u>	<u>168,823</u>	<u>12,206,228</u>
Total noncurrent assets	<u>5,992,618</u>	<u>7,004,201</u>	<u>189,792</u>	<u>13,186,611</u>
Total assets	<u>\$ 8,441,096</u>	<u>\$ 8,144,118</u>	<u>\$ 474,644</u>	<u>\$ 17,059,858</u>
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable	\$ -	\$ 5,943	\$ -	\$ 5,943
Accrued interest payable	12,353	43,833	-	56,186
Current portion of bonds and notes payable	169,923	132,929	9,340	312,192
Current portion of compensated absences	<u>12,175</u>	<u>6,306</u>	<u>2,024</u>	<u>20,505</u>
Total current liabilities	<u>194,451</u>	<u>189,011</u>	<u>11,364</u>	<u>394,826</u>
<b>NON-CURRENT LIABILITIES</b>				
Bonds and notes payable, net of current portion	1,378,890	3,858,533	73,890	5,311,313
Compensated absences, net of current portion	12,175	6,305	2,025	20,505
OPEB liability	<u>5,198</u>	<u>2,693</u>	<u>1,353</u>	<u>9,244</u>
Total noncurrent liabilities	<u>1,396,263</u>	<u>3,867,531</u>	<u>77,268</u>	<u>5,341,062</u>
Total liabilities	<u>1,590,714</u>	<u>4,056,542</u>	<u>88,632</u>	<u>5,735,888</u>
<b>NET POSITION</b>				
Net investment in capital assets	4,082,174	2,537,305	97,814	6,717,293
Restricted for replacement and depreciation	13,889	94,987	-	108,876
Restricted for debt service	286,542	350,917	-	637,459
Unrestricted	<u>2,467,777</u>	<u>1,104,367</u>	<u>288,198</u>	<u>3,860,342</u>
Total net position	<u>6,850,382</u>	<u>4,087,576</u>	<u>386,012</u>	<u>11,323,970</u>
Total liabilities and net position	<u>\$ 8,441,096</u>	<u>\$ 8,144,118</u>	<u>\$ 474,644</u>	<u>\$ 17,059,858</u>

The Notes to the Financial Statements are an integral part of this statement.

CITY OF CONRAD  
STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN FUND NET POSITION  
ENTERPRISE FUNDS  
Year Ended June 30, 2014

	Business-Type Activities			Total
	Water Fund	Sewer Fund	Solid Waste Fund	
<b>OPERATING REVENUES</b>				
Charges for services	\$ 875,934	\$ 570,051	\$ 155,929	\$ 1,601,914
Miscellaneous	<u>79</u>	<u>53</u>	<u>28</u>	<u>160</u>
Total operating revenues	<u>876,013</u>	<u>570,104</u>	<u>155,957</u>	<u>1,602,074</u>
<b>OPERATING EXPENSES</b>				
Personnel services	223,229	118,143	52,608	393,980
Supplies and materials	52,348	27,457	21,114	100,919
Purchased services	117,481	126,980	23,059	267,520
Fixed charges	53,887	7,804	4,024	65,715
Depreciation	<u>293,325</u>	<u>212,186</u>	<u>18,177</u>	<u>523,688</u>
Total operating expenses	<u>740,270</u>	<u>492,570</u>	<u>118,982</u>	<u>1,351,822</u>
Operating income	<u>135,743</u>	<u>77,534</u>	<u>36,975</u>	<u>250,252</u>
<b>NON-OPERATING REVENUE (EXPENSE)</b>				
Intergovernmental revenue	90,106	29,055	-	119,161
Interest revenue	36,003	19,871	3,957	59,831
Interest expense	<u>(40,840)</u>	<u>(119,935)</u>	<u>(868)</u>	<u>(161,643)</u>
Total non-operating revenue (expense)	<u>85,269</u>	<u>(71,009)</u>	<u>3,089</u>	<u>17,349</u>
Income before contributions, transfers and special items	<u>221,012</u>	<u>6,525</u>	<u>40,064</u>	<u>267,601</u>
Capital contributions	<u>-</u>	<u>156,000</u>	<u>-</u>	<u>156,000</u>
Change in net position	<u>221,012</u>	<u>162,525</u>	<u>40,064</u>	<u>423,601</u>
Net position at July 1	<u>6,629,370</u>	<u>3,925,051</u>	<u>345,948</u>	<u>10,900,369</u>
Net position at June 30	<u>\$ 6,850,382</u>	<u>\$ 4,087,576</u>	<u>\$ 386,012</u>	<u>\$ 11,323,970</u>

The Notes to the Financial Statements are an integral part of this statement.

**CITY OF CONRAD**  
**STATEMENT OF CASH FLOWS**  
**ENTERPRISE FUNDS**  
**Year Ended June 30, 2014**

	Business-Type Activities			Total
	Water Fund	Sewer Fund	Solid Waste Fund	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers	\$ 876,113	\$ 564,061	\$ 156,078	\$ 1,596,252
Payments to suppliers	(223,716)	(156,298)	(48,197)	(428,211)
Payments to employees	(219,675)	(116,520)	(53,781)	(389,976)
Net cash flows from operating activities	<u>432,722</u>	<u>291,243</u>	<u>54,100</u>	<u>778,065</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>				
Intergovernmental operating grants	77,937	29,055	-	106,992
Net cash flows from non-capital financing activities	<u>77,937</u>	<u>29,055</u>	<u>-</u>	<u>106,992</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Proceeds from debt	473,583	7,992	-	481,575
Purchases of capital assets	(216,127)	(44,476)	(2,730)	(263,333)
Principal paid on debt	(629,555)	(133,394)	(9,285)	(772,234)
Interest paid on debt	(39,657)	(121,085)	(868)	(161,610)
Net cash flows from capital and related financing activities	<u>(411,756)</u>	<u>(290,963)</u>	<u>(12,883)</u>	<u>(715,602)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest revenue	33,831	19,482	3,260	56,573
Net cash flows from investing activities	<u>33,831</u>	<u>19,482</u>	<u>3,260</u>	<u>56,573</u>
Net change in cash and cash equivalents	132,734	48,817	44,477	226,028
Cash and cash equivalents, beginning of year	2,517,707	1,474,114	225,958	4,217,779
Cash and cash equivalents, end of year	<u>\$ 2,650,441</u>	<u>\$ 1,522,931</u>	<u>\$ 270,435</u>	<u>\$ 4,443,807</u>
Cash and cash equivalents on Statement of Net Position:				
Unrestricted cash	\$ 2,350,011	\$ 1,077,026	\$ 270,435	\$ 3,697,472
Restricted cash	300,430	445,905	-	746,335
	<u>\$ 2,650,441</u>	<u>\$ 1,522,931</u>	<u>\$ 270,435</u>	<u>\$ 4,443,807</u>
Reconciliation of operating income (loss) to net cash flows from operating activities:				
Operating income	\$ 135,743	\$ 77,534	\$ 36,975	\$ 250,252
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:				
Depreciation expense	293,325	212,186	18,177	523,688
Change in assessment receivables	(2,004)	(1,323)	-	(3,327)
Change in accounts receivable	2,104	(4,720)	121	(2,495)
Change in accounts payable	-	5,943	-	5,943
Change in compensated absences	2,217	928	(1,524)	1,621
Change in OPEB liability	1,337	695	351	2,383
Net cash flows from operating activities	<u>\$ 432,722</u>	<u>\$ 291,243</u>	<u>\$ 54,100</u>	<u>\$ 778,065</u>
<b>NON-CASH CAPITAL AND FINANCING ACTIVITIES</b>				
Donated water and sewer lines	<u>\$ -</u>	<u>\$ 156,000</u>	<u>\$ -</u>	<u>\$ 156,000</u>

The Notes to the Financial Statements are an integral part of this statement.

CITY OF CONRAD  
STATEMENT OF NET POSITION  
FIDUCIARY FUNDS  
June 30, 2014

	Agency Funds
ASSETS	
Taxes and assessments receivable	\$ 3,250
Contracts receivable	<u>7,481</u>
Total assets	<u>\$ 10,731</u>
LIABILITIES	
Due to other governments	<u>\$ 10,731</u>
Total liabilities	<u>\$ 10,731</u>

The Notes to the Financial Statements are an integral part of this statement.

CITY OF CONRAD  
 STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
 Year Ended June 30, 2014

	Private-Purpose <u>Trust Funds</u>
ADDITIONS	
City court fines	\$ <u>1,273</u>
Total additions	<u>1,273</u>
DEDUCTIONS	
Distribution from investment trust fund	<u>1,273</u>
Total deductions	<u>1,273</u>
CHANGE IN NET POSITION	-
Net position at July 1	<u>-</u>
Net position at June 30	<u><u>\$ -</u></u>

The Notes to the Financial Statements are an integral part of this statement.

CITY OF CONRAD  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2014

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the City of Conrad (the City) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as set forth by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

**Reporting Entity**

The City is a political subdivision of the State of Montana governed by an elected Mayor and City Council. The City provides a wide range of municipal services that include police, fire, and other services. Water, sewer, and garbage collection services are provided by the City and are accounted for as enterprise funds.

The financial statements include all operations controlled by the City. A reporting entity consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of the relationship are such that exclusion would cause the reporting entity's financial statements to be misleading. Based on the criteria for determining the reporting entity, the City is considered to be an independent reporting entity and has no component units. The agency funds are controlled by independent governing boards and are not considered component units of the City.

The City is provided various financial services by Pondera County. The County also serves as cashier and treasurer for the City 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 City are accounted for in a County agency fund in the City's name and are periodically remitted to the City by the County Treasurer. No service charges have been recorded by the City or the County.

**Measurement Focus, Basis of Presentation and Basis of Accounting**

*Government-wide Financial Statements*

The statement of net position and the statement of activities show information about the overall financial position and activities of the City. Any interfund activity has been eliminated to minimize any possible double-counting of such internal activities. Fiduciary funds are not included in these statements.

These statements are reported using the economic resources measurement focus and the accrual basis of accounting. The activities of the City are generally financed through property taxes, assessments, charges for services, licenses and permits, fines, and federal and state grants. Revenues are recorded when earned and expenses are recorded at the time the liability is incurred, regardless of when the related cash flows take place.

CITY OF CONRAD  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2014

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Measurement Focus, Basis of Presentation and Basis of Accounting (Continued)**

*Government-wide Financial Statements (Continued)*

On the accrual basis, revenues from property taxes are recognized in the fiscal year for which the taxes are levied. Revenues from grants are recognized in the fiscal year in which eligibility requirements have been met. The City's business-type activities are financed by the charges for services to users.

The statement of net position presents information on all of the City's assets and liabilities as of year-end, with the difference between the two presented as net position.

The statement of activities presents a comparison between the direct expenses and program revenues for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function. The City does not charge indirect expenses to programs or functions; however, the general fund is reimbursed for administrative costs incurred for other functions including business-type activities. Program revenues include charges for services (primarily user fees, assessments, permits, fines, and grants that are restricted to a particular function). Generally, restricted revenues are used first to pay expenses incurred when both restricted and unrestricted funds are available.

Revenues that are not received for a specific purpose and classified as program revenues are reported as general revenues. These include all property taxes, entitlement revenue, investment earnings, permits, and licenses (i.e., local business licenses and alcoholic beverage licenses and permits).

*Fund Financial Statements*

These statements provide information about the City's governmental and enterprise funds. The emphasis of fund financial statements is on major funds. Each major fund is displayed in a separate column. All of the remaining funds are aggregated and reported in a single column as other governmental funds.

*Governmental funds* - are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Revenues applicable to the current fiscal year and collected soon after year-end are recognized as revenue.

Property tax revenue in the governmental fund statements is recognized as revenue when collected. The City considers property taxes as available if they are collected within 30 days after the date the taxes become delinquent. Uncollected property taxes become delinquent each May 31. Therefore, property tax levies collected through June 30 are reported as revenue in the fiscal year ended June 30. Amounts not collected by June 30 are reported as unearned revenue.

CITY OF CONRAD  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2014

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Measurement Focus, Basis of Presentation and Basis of Accounting (Continued)**

*Fund Financial Statements (Continued)*

*Governmental Funds (Continued)*

Expenditures are recorded when the related fund liability is incurred, except for expenditure recognition of principal and interest on general long-term debt coming due within the next fiscal year, and payments for compensated absences, which are recognized as expenditures in governmental funds when paid.

*Enterprise funds (business-type activities)* - are reported using the economic resources measurement focus and the accrual basis of accounting similar to the basis used for the government-wide financial statements. Revenues are recorded when earned and expenses are recorded at the time the liability is incurred, regardless of when the related cash flows take place. Charges for services are reported as operating revenues; investment earnings and grants are reported as non-operating revenues. All assets and liabilities are recorded in the enterprise funds financial statements including capital assets and long-term liabilities.

*Major funds* – GAAP requires that the general fund be reported as a major fund. In addition, major funds include all other governmental funds whose total assets, liabilities, revenues, or expenditures are at least 10% or more of the total for all governmental funds or, for enterprise funds, at least 10% or more of the total for all enterprise funds. In addition, the assets, liabilities, revenues, or expenditures of these individual governmental or enterprise funds should be at least 5% or more of the total for all governmental and enterprise funds. Accordingly, the City reports the following major governmental fund:

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

The City also reports the following major enterprise funds:

*Water Fund* – This fund is used to account for the operating and non-operating revenues and expenses of the public water utility system.

*Sewer Fund* – This fund is used to account for the operating and non-operating revenues and expenses of the public sewer utility system.

*Solid Waste Fund* – This fund is used to account for the operating and non-operating revenues and expenses of the public solid waste utility system. The solid waste fund, per the major fund calculations, is not considered to be a major fund. However, the City of Conrad has elected to report it as a major fund as well.

CITY OF CONRAD  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2014

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Measurement Focus, Basis of Presentation and Basis of Accounting (Continued)**

The City also reports the following fiduciary funds, which are reported on the accrual basis of accounting:

*Fire Department Relief Association Disability and Pension Fund (agency fund)* – to account for cash collected by the City for volunteer firefighter retirement benefits.

*Blue Sky Villa Fund (agency fund)* – to account for the split of the Blue Sky Villa lease payments between the City and Pondera County.

*Payroll Clearing and Claims Clearing Funds (agency funds)* - This accounts for the administrative clearing funds for payroll and claims. Cash remaining in these funds at year-end represents warrants issued but not yet presented by the payee for payment. The total of the outstanding warrants are netted against the cash balance of the funds on the basic financial statements.

*Crime Victims Compensation and Assistance Fund (private purpose trust fund)* – to account for city court fines collected and remitted to the County and Hi Line Help per state requirements.

**New Accounting Pronouncements**

The City has adopted the provisions of the following GASB pronouncement for fiscal year 2014:

- Statement No. 65 *Items Previously Reported as Assets and Liabilities*. This statement defines new financial statement items called deferred inflows of resources and deferred outflows of resources, and reclassifies certain items previously classified as asset or liabilities as deferred outflows or deferred inflows, respectively.

**Accounting Standards Effective in a Future Period**

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers. This Statement establishes standards for measuring and recognizing net pension liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. This Statement is effective for fiscal years beginning after June 15, 2014. The effect of adopting the Standard cannot be determined at this time.

**Budgets**

Budgets are adopted for the general and special revenue funds. The annual budget is a plan of financial operation with an estimate of expenditures and means of financing them. A preliminary budget is prepared in July, budget hearings are held, and the final budget is adopted by the third Tuesday in August.

CITY OF CONRAD  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2014

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Budgets (Continued)**

The adopted budget constitutes the appropriations for the City and is the maximum limit of expenditures in each budgeted fund. The adopted budget may be amended for emergencies and other matters as provided by state law. The budget is prepared on the basis of accounting described for its governmental funds. Tax levies are set by expenditure requirements but are authorized and limited by state law.

Transfers of budget authority within a fund are permitted. Appropriations lapse at June 30, except for encumbrances, which represent commitments to expend funds under current budget appropriations. There were no encumbrances in fiscal year 2014. State law requires only that a fund's total expenditures not exceed total budgeted expenditures. The level of budgetary control is the fund level.

**Cost Allocation Plan**

The City allocates the administrative service costs to each of the funds based on a percentage of the budgeted salary or use of MMIA rates. Administrative cost allocation percentages are listed below:

General Fund	40%
Water Fund	30%
Sewer Fund	20%
Garbage Fund	10%

**Cash and Investments**

The City's cash is invested as permitted by law. State law restricts investments to certificates of deposit, repurchase agreements, or direct obligations of the U.S. Government. Investments are reported at fair value, which is based primarily on quoted market prices. The City has no investment policies that would further limit its investment choices. The difference between cost and fair value is immaterial. Restricted cash is cash restricted for debt service and capital projects under debt agreements and is reported as non-current.

For purposes of the statement of cash flows, the City considers all highly liquid investments (including restricted cash), with a maturity of three months or less when purchased, to be cash equivalents.

**Taxes and Assessments Receivable**

Property tax and special assessment receivables are recorded in the appropriate funds. Property tax levies are set in August of each year, at the time the City budget is approved. Taxes are billed in October and are payable 50% on November 30 and 50% on May 31. Special assessments are billed in full in October and are payable in November. After those dates, they become delinquent and a lien is placed upon the property. Protested taxes are also included as receivable in an amount equal to the original assessment billed by the county treasurer as the City is not entitled to receive any of the protested amounts until the protest is settled. Property taxes are accounted for and collected by the county treasurer.

CITY OF CONRAD  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2014

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Taxes and Assessments Receivable (Continued)**

Uncollected property taxes and special assessments are attached as an enforceable lien on the underlying property. After a period of three years, Pondera County, the collecting agent, may begin foreclosure proceedings and sell the property at auction. The City receives its share of the sale proceeds from Pondera County. No allowance for uncollectible property taxes is reflected in the basic financial statements as the City assumes the proceeds from the sale of any tax deed property will meet or exceed the lien amount.

**Inventories**

Cost of inventories is recorded as an expenditure at the time individual inventory items are purchased. Inventories on hand at year-end are not considered material.

**Capital Assets**

All capital assets are recorded at cost or estimated historical cost. Infrastructure assets with a cost of \$25,000 or more and other assets with a cost of \$5,000 or more are capitalized; smaller purchases are expensed when purchased. Gifts or contributions of capital assets are recorded at fair value when received. The City is a Phase 3 government; it is encouraged but not required to report major infrastructure assets retroactively. The City has elected not to record infrastructure assets retroactively for the governmental type funds.

Capital assets are depreciated under the straight-line method over estimated useful lives as follows:

Buildings	20 to 50 years
Improvements	10 to 50 years
Equipment	5 to 20 years
Infrastructure	5 to 50 years

**Compensated Absences**

All City employees are permitted to accumulate vacation and sick leave. On termination of employment, an employee is paid for all accumulated vacation and for 25% of accumulated sick pay based on the current hourly rate of pay. In the governmental funds, expenditures for these compensated absences are recorded when paid because the amounts expected to be liquidated from current resources do not vary materially from year to year. 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.

**Interfund Transactions**

During the course of its operations, the City has transactions between funds to finance operations, provide services, and service debt. These transactions are generally recorded as charges for services revenue and operations expenditures or interfund transfers in and out.

CITY OF CONRAD  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2014

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Interfund Transactions (Continued)**

To the extent that certain transactions between funds had not been paid or received at year-end, the balances of short-term interfund amount receivable or payable are reported as due to and due from other funds in the fund financial statements. These transactions are eliminated in the government-wide financial statements.

**Fund Balance**

The City has implemented the provisions of GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement requires presentation of governmental fund balances by specific purpose. In the basic financial statements, the fund balance classifications are presented in the aggregate for the following fund balance classifications:

*Non-spendable*

Represents the portion of fund balances that cannot be spent either because it is not spendable form such as inventories, the long-term portion of notes and loans receivable, land held for resale of which the future proceeds are not committed, and pre-paid expenses, or because of legal or contractual constraints such as the corpus of a permanent fund. There were no non-spendable fund balances as of June 30, 2014.

*Restricted*

Includes amounts that can be spent only for specific purposes which are externally imposed either by:

- a) Providers such as creditors (such as through debt covenants), grantors, contributors, and laws and regulations of other governments; or
- b) Imposed by law through constitutional provisions or enabling legislation.

*Committed*

Includes amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision-making authority, the City Council, through resolution and does not lapse at year-end.

*Assigned*

Includes amounts that are intended to be used by the government for a specific purpose that do not meet the criteria to be classified as restricted or committed. Assignments of fund balance may be created, in conjunction, by the City Council, the Mayor, and the Finance Officer.

*Unassigned*

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

CITY OF CONRAD  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2014

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Fund Balance (Continued)**

The requirements of GASB Statement No. 54 include the restatement of fund balances for reporting on the fund financial statements if a substantial portion of inflows into a special revenue fund are not derived from restricted or committed revenue sources. Of the inflows into the Industrial Park Fund, a substantial portion is not derived from restricted or committed revenue sources.

When both restricted and unrestricted funds are available for use, it is the City's policy to use restricted fund balances first, then unrestricted fund balances. Furthermore, committed fund balances are 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 can be used.

**Net Position**

Net position represents the difference between assets and liabilities. In the government-wide financial statements, net position is classified into the following categories:

*Net investment in capital assets* – consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets.

*Restricted net position* – presents external restrictions imposed by creditors, grantors, or contributors, or laws and regulations of other governments and restrictions imposed by law through constitutional provision or enabling legislation. Additionally, this category represents restrictions placed on the categories of capital projects and debt service established by the City Council.

*Unrestricted net position* – represents the net position of the City that is not restricted for any project or other purpose.

**Estimates**

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

CITY OF CONRAD  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2014

**NOTE 2. CASH AND INVESTMENTS**

Cash and investments may include cash and cash items; demand, time, and savings. The City's total composition of cash, deposits, and investments at June 30, 2014 are as follows:

Petty cash:	\$ 330
Cash in bank:	
Demand deposits	186,026
Savings deposits	292
Time deposits	3,603,147
Money market	712,190
Credit Union deposits	25
Investments:	
State short-term investment pool (STIP)	1,272
U.S. Government securities	<u>698,510</u>
Total	<u>\$ 5,201,792</u>

**Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City does have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The City follows Montana State law as it pertains to the type of investments in the City portfolio. Interest rates at June 30, 2014, ranged from 0.0-2.37%. Future maturities on investments range from August 2014 to April 2019.

**Credit Risk**

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. Obligations of or guaranteed by the U.S. government do not require disclosure of credit quality. Investments within S.T.I.P. have credit risk as measured by major credit rating services. This risk is that the issuer of a S.T.I.P. investment may default in making timely principal and interest payments. The Montana Board of Investment's policy requires that S.T.I.P. investments have the highest investment grade rating in the short-term category by at least one Nationally Recognized Statistical Rating Organization (NRSRO). The three NRSRO's recognized by S.T.I.P. include Standard and Poor's (S&P), Moody's, and Fitch.

The short-term credit ratings presented below for S.T.I.P. in total are provided by S&P's rating services. An A1+ rating is the highest short-term rating by the S&P rating service. If a S.T.I.P. investment received a long-term rating, such as AAA, this rating was converted to a short-term rating. If an S&P rating is not available, a Moody's rating has been used.

CITY OF CONRAD  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2014

**NOTE 2. CASH AND INVESTMENTS (CONTINUED)**

**Credit Risk (Continued)**

Credit Quality Ratings for S.T.I.P. in total as of June 30, 2014:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>
Asset Backed Commercial Paper	\$ 777,417,680	A1
Corporate Commercial Paper	138,958,389	A1
Corporate Variable-Rate	658,894,083	A1
Certificates of Deposit Fixed	100,000,000	A1
Certificates of Deposit Variable	391,996,239	A1+
Other Asset Backed	38,440,281	NR
U.S. Government Agency Fixed	75,003,275	A1+
U.S. Government Agency Variable	200,003,406	A1+
Money Market Funds (Unrated)	133,439,814	NR
Money Market Funds (Rated)	<u>21,000,000</u>	<u>A1+</u>
	<u>\$ 2,535,153,167</u>	<u>A1</u>

**Custodial Credit Risk**

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does have a deposit policy for custodial credit risk, which indicates the City should limit total deposits in any one financial institution not to exceed the current FDIC or NCUA limits, unless that institution is insuring the full deposit by obtaining pledged securities. As of June 30, 2014, the City has deposits (bank balance) that are exposed to custodial credit risk as follows:

Insured	\$ 2,062,921
Collateralized	
Collateral held by the pledging bank's trust department in the City's name	3,303,944
Uninsured and uncollateralized	<u>1,602</u>
Total deposits	<u>\$ 5,368,467</u>

Montana statutes require that the City obtain securities for the uninsured portion of the deposits as follows: 1) securities equal to 50% of such deposits if the institution in which the deposits are made has a net worth to total assets ratio of 6% or more or 2) securities equal to 100% of the uninsured deposits if the institution in which the deposits are made has a net worth to total assets ratio of less than 6%. State statutes do not specify in whose custody or name the collateral is to be held. The amount of collateral held for City deposits at June 30, 2014, equaled or exceeded the amount required by state statutes.

CITY OF CONRAD  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2014

**NOTE 2. CASH AND INVESTMENTS (CONTINUED)**

**Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City does have a formal investment policy limiting the amount the City may invest in any one issuer. As there is minimal credit risk associated with investments issued or guaranteed by the U.S. Government, no disclosure of concentration of credit risk is required for these investments. The S.T.I.P. investment policy adopted by the Montana Board of Investments specifies concentration of credit risk exposure by limiting portfolio investment types by 2% per issuer or 3% if the amount is greater than 2% and matures within seven days. Investments explicitly guaranteed by the U.S. Government are excluded from the concentration of credit risk requirement. In October 2008, the U.S. Government extended the explicit guarantee to certain government agencies such as Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (FHLMC-Freddie Mac). Given the explicit guarantee extension, the Board had no concentration of credit risk exposure to Fannie Mae and Freddie Mac in S.T.I.P.

Investments of the S.T.I.P. include certain derivative-type investments, such as asset-backed securities and variable-rate securities.

The asset-backed securities are collateralized by non-mortgage assets pledged by the issuer, and have one or more forms of credit enhancement to raise the quality of the security. Asset-backed securities have less credit risk than do securities not backed by pledged assets, while market risk for asset-backed securities is the same as market risk for similar nonasset-backed securities. Asset-backed securities make up 32.19% of the total S.T.I.P. assets at June 30, 2014.

The variable-rate securities are designed to minimize the investor's interest rate risk by periodically resetting the interest rate to either the prime rate or the London Interbank Offering Rate. Variable-rate securities have credit risk identical to similar fixed-rate securities, while their market risk is less volatile than fixed-rate securities because their value will usually remain at or near par as a result of their interest rates being periodically reset to maintain a current market yield. Variable-rate securities make up 49.34% of the total S.T.I.P. assets at June 30, 2014.

CITY OF CONRAD  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2014

**NOTE 3. ACCOUNTS RECEIVABLE**

Utility billings are recorded as receivable when they are billed by the City. Amounts not collected by June 30, but expected to be received in the future, are reported as revenue in the fund financial statements when billed. An allowance for uncollectible utility billing accounts receivable was not maintained as the direct write-off method is used for these accounts. Use of this method does not result in a material difference from the allowance method required by GAAP. A summary of the City's utility billing accounts receivable by service as of June 30, 2014 follows:

	<u>Amount</u>
Service	
Water	\$ 69,687
Sewer	56,455
Solid waste	14,087
Miscellaneous	38
Late fee	4,486
Rural contract	1,863
Turn on fee	120
Pump station fee	7,969
Overpayment	(5,282)
	<u>\$ 149,423</u>

**NOTE 4. RESTRICTED CASH/INVESTMENTS**

The following restricted cash/investments were held by the City as of June 30, 2014:

<u>Fund</u>	<u>Description</u>	<u>Amount</u>
Water	SRF Sinking and interest	\$ 93,457
Water	SRF Loan	193,085
Water	Replacement and depreciation	13,888
Sewer	SRF Sinking and interest	46,563
Sewer	RD Loan (current)	64,292
Sewer	SRF Loan	85,763
Sewer	RD Loan (future)	154,300
Sewer	Replacement and depreciation	94,987
		<u>\$ 746,335</u>

CITY OF CONRAD  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2014

**NOTE 5. JOINT VENTURES**

Joint ventures are independently constituted entities generally created by two or more governments for a specific purpose that are subject to joint control, in which the participating governments retain 1) an ongoing financial interest or 2) an ongoing financial responsibility. As of June 30, 2014, the City has entered into two joint venture arrangements, as described below:

*City-County Library*

The operations of the City-County Library are included in the financial statements of the Special Revenue Funds, which are included in the Other Governmental Funds total. The City-County Library is operated under an interlocal agreement between the City of Conrad and Pondera County. The Library operates under the supervision and control of the City-Country Library Board. The Board consists of five members who are appointed by the City Council. The Library is financed through the Library District, which can levy up to seven mills.

*Tri-City Equipment Pool*

The cities of Conrad, Cut Bank, and Shelby entered into a joint venture agreement for the purpose of acquiring, maintaining, and operating major items of equipment which each city could not individually afford. The joint venture is administered by a nine-member board. Each city appoints three members to the Board, once of which is to be the Mayor. Annually, each city contributes an amount agreed upon by all parties, but not less than \$20,000. The board prepares an operating budget each year, and presents the budget to each of the cities. Monies approved by the cities are deposited in a fund controlled by the Board. The fund is held in a bank account separate from the accounts of any participating cities, and is accounted for within the records of the City of Conrad as an investment in joint venture that is reported in the proprietary funds. The title to the equipment purchased by the joint venture vests in the cities in direct proportion to their contributions. If any equipment is sold during the course of the joint venture, the proceeds realized from the sale will be distributed to the cities in direct proportion to their contributions.

The following is a summary of the Conrad/Cut Bank/Shelby Equipment Joint Venture (Tri-City Interlocal) operating for the fiscal year ended June 30, 2014:

	<u>Total</u>	<u>City of Conrad's share</u>
Total assets	\$ 568,551	\$ 189,517
Total liabilities	143,125	47,708
Total net position	425,426	141,109
Total revenues	77,381	25,794
Total expenditures	109,286	36,429
Total change in fund balance	(31,905)	(10,635)

**CITY OF CONRAD**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
June 30, 2014

**NOTE 5. JOINT VENTURES (CONTINUED)**

As required by GAAP, the equity method of accounting has been adopted by the City for the enterprise fund's involvement in the joint venture. At June 30, 2014 on the Statement of Net Position, an investment in Tri-City Interlocal (equipment) of \$41,631 was included in the governmental activities depreciable capital assets, net, and \$99,478 was included in the business-type activities under investment in joint ventures.

**NOTE 6. CAPITAL ASSETS**

The changes in capital assets in governmental activities during 2014 were as follows:

	Balance July 01, 2013	Additions	Deletions	Adjustments/ Transfers	Balance June 30, 2014
Capital assets not being depreciated:					
Land	\$ 203,826	\$ -	\$ -	\$ 1,871	\$ 205,697
Construction in process	<u>5,993</u>	<u>43,773</u>	<u>-</u>	<u>-</u>	<u>49,766</u>
Total capital assets not being depreciated	<u>209,819</u>	<u>43,773</u>	<u>-</u>	<u>1,871</u>	<u>255,463</u>
Capital assets being depreciated:					
Buildings and improvements	7,274,669	22,193	-	(1,871)	7,294,991
Improvements other than buildings	154,741	-	-	-	154,741
Machinery and equipment	812,703	69,237	(9,752)	-	872,188
Infrastructure	115,797	48,080	-	-	163,877
Tri-City Interlocal	<u>41,631</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>41,631</u>
Total capital assets being depreciated	<u>8,399,541</u>	<u>139,510</u>	<u>(9,752)</u>	<u>(1,871)</u>	<u>8,527,428</u>
Less accumulated depreciation:					
Buildings and improvements	(2,709,481)	(151,506)	-	-	(2,860,987)
Improvements other than buildings	(58,678)	(12,627)	-	-	(71,305)
Machinery and equipment	(561,166)	(67,427)	9,752	-	(618,841)
Infrastructure	<u>(34,547)</u>	<u>(11,361)</u>	<u>-</u>	<u>-</u>	<u>(45,908)</u>
Total accumulated depreciation	<u>(3,363,872)</u>	<u>(242,921)</u>	<u>9,752</u>	<u>-</u>	<u>(3,597,041)</u>
Capital assets being depreciated, net	<u>5,035,669</u>	<u>(103,411)</u>	<u>-</u>	<u>(1,871)</u>	<u>4,930,387</u>
Governmental activities capital assets, net	<u>\$ 5,245,488</u>	<u>\$ (59,638)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,185,850</u>

Depreciation expense was charged to functions as follows:

General government	\$ 6,118
Public safety	25,969
Public works	53,895
Public health	837
Culture and recreation	45,902
Housing and community development	<u>110,200</u>
	<u>\$ 242,921</u>

**CITY OF CONRAD**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
June 30, 2014

**NOTE 6. CAPITAL ASSETS (CONTINUED)**

The changes in capital assets in business-type activities during 2014 were as follows:

	<u>Balance</u> <u>July 01, 2013</u>	<u>Additions</u>	<u>Transfers</u>	<u>Balance</u> <u>June 30, 2014</u>
Capital assets not being depreciated:				
Land	\$ 25,887	\$ -	\$ 5,613	\$ 31,500
Construction in process	<u>-</u>	<u>103,070</u>	<u>-</u>	<u>103,070</u>
Total capital assets not being depreciated	<u>25,887</u>	<u>103,070</u>	<u>5,613</u>	<u>134,570</u>
Capital assets being depreciated:				
Buildings and improvements	370,966	3,441	(5,613)	368,794
Machinery and equipment	400,796	1,583	-	402,379
Pumping plant	4,529,101	-	-	4,529,101
Treatment plant	9,627,446	39,844	-	9,667,290
Transmission and distribution	3,577,534	237,157	-	3,814,691
General plant	<u>279,075</u>	<u>34,238</u>	<u>-</u>	<u>313,313</u>
Total capital assets being depreciated	<u>18,784,918</u>	<u>316,263</u>	<u>(5,613)</u>	<u>19,095,568</u>
Less accumulated depreciation:				
Buildings and improvements	(7,420)	(7,264)	-	(14,684)
Machinery and equipment	(335,837)	(15,756)	-	(351,593)
Pumping plant	(1,162,634)	(150,970)	-	(1,313,604)
Treatment plant	(2,685,612)	(232,409)	-	(2,918,021)
Transmission and distribution	(2,010,652)	(88,007)	-	(2,098,659)
General plant	<u>(163,497)</u>	<u>(29,282)</u>	<u>-</u>	<u>(192,779)</u>
Total accumulated depreciation	<u>(6,365,652)</u>	<u>(523,688)</u>	<u>-</u>	<u>(6,889,340)</u>
Capital assets being depreciated, net	<u>12,419,266</u>	<u>(207,425)</u>	<u>(5,613)</u>	<u>12,206,228</u>
Business-type activities capital assets, net	<u>\$ 12,445,153</u>	<u>\$ (104,355)</u>	<u>\$ -</u>	<u>\$ 12,340,798</u>

**CITY OF CONRAD**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
June 30, 2014

**NOTE 7. LONG-TERM DEBT**

Changes in long-term debt during 2014 are as follows:

	<u>Balance</u> <u>July 01, 2013</u>	<u>Additions</u>	<u>Payments/ Adjustments</u>	<u>Balance</u> <u>June 30, 2014</u>	<u>Due Within</u> <u>One Year</u>
<b>Government activities</b>					
Notes payable	\$ 92,515	\$ -	\$ (9,285)	\$ 83,230	\$ 9,340
Compensated absences	71,579	4,448 *	-	76,027	38,014
OPEB liability	<u>12,015</u>	<u>4,197</u>	<u>-</u>	<u>16,212</u>	<u>-</u>
Total government activities	<u>176,109</u>	<u>8,645</u>	<u>(9,285)</u>	<u>175,469</u>	<u>47,354</u>
<b>Business-type activities</b>					
Notes payable:					
Water fund	587,785	-	(504,555)	83,230	9,340
Sewer fund	2,883,837	-	(73,394)	2,810,443	75,910
Solid waste fund	<u>92,515</u>	<u>-</u>	<u>(9,285)</u>	<u>83,230</u>	<u>9,340</u>
Total notes payable	3,564,137	-	(587,234)	2,976,903	94,590
Revenue bonds:					
Water fund	1,117,000	473,583	(125,000)	1,465,583	160,583
Sewer fund	<u>1,233,027</u>	<u>7,992</u>	<u>(60,000)</u>	<u>1,181,019</u>	<u>57,019</u>
Total revenue bonds	2,350,027	481,575	(185,000)	2,646,602	217,602
Compensated absences					
Water fund	22,133	2,217 *	-	24,350	12,175
Sewer fund	11,683	928 *	-	12,611	6,306
Solid waste fund	<u>5,573</u>	<u>-</u>	<u>(1,524) *</u>	<u>4,049</u>	<u>2,024</u>
Total compensated absences	39,389	3,145	(1,524)	41,010	20,505
OPEB liability					
Water fund	3,861	1,337	-	5,198	-
Sewer fund	1,998	695	-	2,693	-
Solid waste fund	<u>1,002</u>	<u>351</u>	<u>-</u>	<u>1,353</u>	<u>-</u>
Total OPEB liability	<u>6,861</u>	<u>2,383</u>	<u>-</u>	<u>9,244</u>	<u>-</u>
Total business-type activities	<u>5,960,414</u>	<u>487,103</u>	<u>(773,758)</u>	<u>5,673,759</u>	<u>332,697</u>
Total	<u>\$ 6,136,523</u>	<u>\$ 495,748</u>	<u>\$ (783,043)</u>	<u>\$ 5,849,228</u>	<u>\$ 380,051</u>

\* This is the net increase (decrease) to compensated absences payable.

**Notes Payable**

In February 2013, the City began drawing from an Intercap Revolving Program to fund the City Hall expansion & remodel. The total amount allowed to be drawn down was \$384,000, and was split at 25% per fund for General, Water, Sewer & Solid Waste (\$96,000 per fund). Interest was computed at 1.0% through February 15, 2014 and was adjusted to 0.0% upon the final drawdown.

**CITY OF CONRAD**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
 June 30, 2014

**NOTE 7. LONG-TERM DEBT (CONTINUED)**

Annual debt service principal and interest payment requirements to maturity on government activities notes payable are as follows:

Intercap Notes Payable			
Fiscal Year Ended June 30,	Principal	Interest	Total
2015	9,340	\$ -	\$ 9,340
2016	9,569	-	9,569
2017	9,684	-	9,684
2018	9,801	-	9,801
2019	9,920	-	9,920
2019-2023	34,916	-	34,916
	83,230	\$ -	\$ 83,230
Less current portion	(9,340)		
	\$ 73,890		

Business-type notes payable outstanding as of June 30, 2014 were as follows:

Purpose	Origination Date	Interest Rate	Note Term	Maturity Date	Original Principal Amount	Annual Payment	Balance June 30, 2014	Current Portion
Sewer RD Loan	8/18/2010	3.25%	30 years	8/18/2040	\$ 2,942,000	\$ 64,109	\$ 2,877,891	\$ 66,571
Intercap Loan	7/27/2012	0.00%	10 years	8/15/2022	277,544	Varies	249,690	28,019
							\$ 3,127,581	\$ 94,590

**Revenue Bonds**

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

Purpose	Origination Date	Interest Rate	Bond Term	Maturity Date	Original Bond Amount	Revised Bond Amount	Annual Payment	Balance June 30, 2014	Current Portion
Drinking Water	3/1/2001	2.00% *	20 years	1/1/2021	\$ 650,000	\$ 339,000 *	Varies	\$ 283,000	\$ 38,000
Drinking Water 2001A	9/4/2001	2.00% *	20 years	9/4/2021	1,543,172	838,000 *	Varies	709,000	88,000
Sewer SRF "B" 2009	9/24/2009	0.75%	20 years	7/1/2029	359,300	N/A	Varies	283,000	18,000
Sewer SRF "C"	6/25/2010	3.00% *	20 years	7/1/2030	585,000	309,780 *	Varies	290,000	14,000
Sewer SRF "D"	9/20/2012	3.00%	20 years	7/1/2032	751,000	N/A	Varies	608,019	25,019
Water Series 2014	4/17/2014	2.50%	11 years	7/1/2025	473,583	N/A	Varies	473,583	34,583
								\$ 2,646,602	\$ 217,602

\* The Drinking Water, Drinking Water 2001A and Sewer SRF "C" bonds qualified for interest rate reductions and were amended and re-stated effective November 2012 as noted above. The interest rate on the water bonds was reduced from 4.0% to 2.0%, and the interest rate on the sewer bond was reduced from 3.75% to 3.0%. The total savings to the water and sewer funds is estimated to be \$106,945 and \$22,119, respectively, over the remaining years of the refinanced loans.

CITY OF CONRAD  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2014

**NOTE 7. LONG-TERM DEBT (CONTINUED)**

**Revenue Bonds (Continued)**

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 registrar. The City was in compliance with applicable covenants as of June 30, 2014.

Annual debt service principal and interest payment requirements to maturity on business-type activities, including interest payments of \$1,723,005 are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2015	\$ 312,192	\$ 124,482	\$ 436,674
2016	321,073	121,742	442,815
2017	327,660	111,366	439,026
2018	335,325	110,894	446,219
2019	344,069	105,250	449,319
2020-2024	1,396,964	441,233	1,838,197
2025-2029	928,846	320,294	1,249,140
2030-2034	760,175	204,842	965,017
2035-2039	673,431	98,069	771,500
2040-2041	223,770	84,833	308,603
	<u>5,623,505</u>	<u>\$ 1,723,005</u>	<u>\$ 7,346,510</u>
Less current portion	<u>(312,192)</u>		
	<u>\$ 5,311,313</u>		

**NOTE 8. OTHER POST EMPLOYMENT BENEFITS**

As required by GASB Statement No. 45 *Other Postemployment Benefits*, the City has calculated a postemployment benefit liability for the fiscal year ended June 30, 2014.

**Plan Description**

The City of Conrad is a member of the Montana Municipal Interlocal Authority (MMIA), a local government risk retention pool that administers the City's group health insurance plan, an agent multiple-employer defined benefit plan. As required by State law (MCA 2-18-704), the City provides its employees who retire, along with their eligible spouses and dependents, the option to continue to participate in the City's group health insurance plan until the retiree becomes eligible for Medicare coverage. To continue this health insurance coverage, the retirees are required to pay the full amount of their premium. The plan currently provides defined healthcare insurance benefits for eligible employees, retirees, spouses, and dependents. Participation is elected by the retiree at the time of retirement. Benefit provisions are set annually by the City Council and may be revoked or altered at any time.

CITY OF CONRAD  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2014

**NOTE 8. OTHER POST EMPLOYMENT BENEFITS (CONTINUED)**

**Annual OPEB Cost Obligation and Net OPEB Obligation**

The City's annual other postemployment benefit (OPEB) cost (expense) was calculated using the alternative method based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation:

	<u>2014</u>	<u>2013</u>
Annual required contribution (ARC)	\$ 6,498	\$ 6,498
Interest on net OPEB obligation	492	492
Adjustment to annual required contribution	<u>(410)</u>	<u>(410)</u>
Annual OPEB cost	6,580	6,580
Contributions made	<u>-</u>	<u>-</u>
Change in net OPEB obligation	6,580	6,580
Net OPEB obligation - beginning of year	<u>18,876</u>	<u>12,296</u>
Net OPEB obligation - end of year	<u>\$ 25,456</u>	<u>\$ 18,876</u>

**Funded Status and Funding Progress**

As of July 1, 2013, the most recent actuarial valuation date, the Plan was 0% funded. The actuarial accrued liability (AAL) for benefits was \$32,809, and the actuarial value of assets was \$-0-, resulting in an unfunded actuarial accrued liability (UAAL) of \$32,809.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. GASB 45 requires that the schedule of funding progress, presented as required additional information following the notes to the financial statements, presents multi-year trend information that shows whether the actuarial value of Health Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The actuarial funding method used to determine the cost of the City of Conrad Employee Group Benefits plan is the projected National Health Claim Expenditures Projections. The objective under this method is to fund each participant's benefits under the plan as they accrue. Thus, the total benefit to which each participant is expected to become entitled at retirement is broken down into units, each associated with a year of past or future credited service.

CITY OF CONRAD  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2014

**NOTE 8. OTHER POST EMPLOYMENT BENEFITS (CONTINUED)**

**Funded Status and Funding Progress (Continued)**

Typically, when this method is introduced, there will be an initial liability for benefits credited for service prior to that date, and to the extent that the liability is not covered by assets of the plan, there is an unfunded liability to be funded over a stipulated period in accordance with an amortization schedule.

The actuarial assumptions included:

62	Average age of retirement
4.00%	Investment/discount rate
3.00%	Projected payroll increases

Health care cost rate trend (Federal Office of the Actuary)	
Year	% Increase
2015	6.60%
2016	6.70%
2017	7.00%
2018	6.80%

**NOTE 9. INTERFUND TRANSACTIONS**

An analysis of interfund transfers in and out from operations during fiscal year 2014 follows:

GENERAL FUND	
Transfer out	\$ (1,500)
OTHER GOVERNMENTAL FUNDS	
Transfer in	35,332
Transfer out	(33,832)
	\$ -

CITY OF CONRAD  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2014

**NOTE 10. FUND BALANCE**

As of June 30, 2014, fund balances are comprised of the following:

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
	<u>          </u>	<u>          </u>	<u>          </u>
RESTRICTED			
General government	\$ -	\$ 665	\$ 665
Public safety	-	1,347	1,347
Public works	-	12,470	12,470
Culture and recreation	-	153,066	153,066
COMMITTED			
General government	-	2,036	2,036
ASSIGNED			
General government	67,958	-	67,958
Public works	278,689	-	278,689
Public health	19,939	-	19,939
Culture and recreation	159,298	-	159,298
Housing and community development	5,000	-	5,000
UNASSIGNED	<u>57,389</u>	<u>-</u>	<u>57,389</u>
Total fund balances	<u>\$ 588,273</u>	<u>\$ 169,584</u>	<u>\$ 757,857</u>

**NOTE 11. RETIREMENT AND PENSION PLANS**

The City participates in the Montana Public Employees' Retirement System (PERS). PERS is a statewide retirement plan established in 1945 and is governed by Title 19, Chapters 2 and 3 of the Montana Code Annotated providing retirement services for substantially all public employees. PERS is a mandatory multiple-employer, cost sharing plan administered by the Montana Public Employees' Retirement Administration (MPERA).

PERS offers retirement, disability, and death benefits to plan members and their beneficiaries. Benefit eligibility is age 60 with at least five years of service; age 65 regardless of service; or 30 years of service regardless of age. Actuarial reduced benefits may be taken with 25 years of service or at age 50 with at least five years of service. Monthly retirement benefits are determined by taking 1/56 times the number of years of service times the highest average salary for employees with less than 25 years of service, or 1/50 times the number of years of service times the highest average salary for those employees with at least 25 years of service.

A guaranteed annual benefit adjustment (GABA) of 1.5% is provided each January for benefit recipients if they have been receiving a benefit for at least 36 months. Members' rights become vested after five years of service. The authority to establish, amend, and provide cost of living adjustments for the plan is assigned to the State legislature.

CITY OF CONRAD  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2014

**NOTE 11. RETIREMENT AND PENSION PLANS (CONTINUED)**

Contributions by plan members and the City are mandatory and are determined by state law. Contribution rates, expressed as a percentage of covered payroll for each of the fiscal years, were as follows:

Employer	8.07%
Employee	7.90%
State (on behalf)	0.10%

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

2012	\$ 48,253
2013	54,094
2014	61,900

The state's contribution to the plan in 2014 was approximately \$875. The plan issues a publicly available financial report that includes financial statements and required supplementary information for the plan. The report may be obtained from the following:

Montana Public Employees Retirement Administration  
P.O. Box 200131  
100 N Park Avenue Suite 200  
Helena, Montana 59620-0131  
Telephone: (406) 444-3154

**Fire Department Relief Association Disability and Pension Fund**

Volunteer firemen are covered by the Fire Department Relief Association Disability and Pension Fund, which is established by state law, is governed by an independent board, and is accounted for as an agency fund of the City.

A member of a volunteer fire department who has served 20 years or more is entitled to benefits regardless of age. A volunteer serving less than 20 years but more than 10 years may receive benefits. Although this is a single-employer pension plan, the defined benefits and employer contribution levels are governed by the Association's Board of Trustees.

As of June 30, 2014, plan membership consisted of 27 retirees entitled to and currently receiving benefits. The pension plan does not issue a separate report. State statute requires that this fund be funded to at least .21% of the total assessed (Market) value of taxable property for the City or have an actuarial to be sufficient to keep the fund actuarially sound. To satisfy this requirement, the City levied 10.31 mills, plus budgeted additional revenue which includes the insurance payment from the State Auditor, totaling \$22,501 in fiscal year 2014.

CITY OF CONRAD  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2014

**NOTE 12. RISK MANAGEMENT**

The City faces a number of risks of loss including damage to and loss of property and contents, employee torts, professional liability (i.e., errors and omissions, environmental damage), workers' compensation (i.e., employee injuries), and 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, employee torts, and professional liabilities. Employee medical insurance is provided for by a commercial carrier. The City has coverage for potential losses from environmental damages through the Montana Municipal Insurance Authority.

**Insurance Pools**

In 1986, the City joined together with other Montana cities to form the Montana Municipal Insurance Authority which established a workers' compensation plan and a tort liability plan. Both public City risk pools currently operate as a common risk management and insurance programs for the member governments. The liability limits for damages in tort action are \$750,000 per claim and \$1,500,000 per occurrence with a \$7,500 deductible per occurrence. State tort law limits the City's liability to \$1,500,000.

The City pays an annual premium for its employee injury insurance coverage, which is allocated to the employer funds based on total salaries and wages. The agreements for formation of the pools provide that they will be self-sustaining through member premiums.

**NOTE 13. PENDING LITIGATION**

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the City's legal counsel that these matters will not have a material adverse effect on the basic financial statements of the City.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CONRAD  
 BUDGETARY COMPARISON SCHEDULE  
 GENERAL FUND  
 Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>				
Property taxes and assessments	\$ 334,167	\$ 334,167	\$ 325,783	\$ (8,384)
Licenses and permits	25,250	25,250	18,659	(6,591)
Intergovernmental	379,662	379,662	323,453	(56,209)
Charges for services	34,750	34,750	25,219	(9,531)
Fines and forfeitures	22,400	22,400	15,332	(7,068)
Miscellaneous	40,508	40,508	35,769	(4,739)
Investment earnings	<u>19,000</u>	<u>19,000</u>	<u>11,077</u>	<u>(7,923)</u>
Total revenues	<u>855,737</u>	<u>855,737</u>	<u>755,292</u>	<u>(100,445)</u>
<b>EXPENDITURES</b>				
Current				
General government	159,496	159,496	127,799	31,697
Public safety	373,988	373,988	336,426	37,562
Public works	212,881	212,881	121,288	91,593
Public health	18,365	18,365	12,201	6,164
Culture and recreation	128,833	128,833	99,868	28,965
Housing and community development	5,000	5,000	190	4,810
Capital outlay	418,573	418,573	76,193	342,380
Miscellaneous	22,980	22,980	21,030	1,950
Debt Service:				
Principal	9,344	9,344	9,285	59
Interest	<u>873</u>	<u>873</u>	<u>868</u>	<u>5</u>
Total expenditures	<u>1,350,333</u>	<u>1,350,333</u>	<u>805,148</u>	<u>545,185</u>
Excess of revenues over (under) expenditures	(494,596)	(494,596)	(49,856)	444,740
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	(9,500)	(9,500)	(1,500)	8,000
Sale of capital assets	<u>10,000</u>	<u>10,000</u>	<u>-</u>	<u>(10,000)</u>
Total other financing sources (uses)	<u>500</u>	<u>500</u>	<u>(1,500)</u>	<u>(2,000)</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ (494,096)</u>	<u>\$ (494,096)</u>	(51,356)	<u>\$ 442,740</u>
Fund balances at July 1			<u>663,379</u>	
Fund balances at June 30			<u>\$ 612,023</u>	

See Accompanying Notes to Budgetary Comparison Schedule.

CITY OF CONRAD  
 NOTES TO BUDGETARY COMPARISON SCHEDULE  
 GENERAL FUND  
 Year Ended June 30, 2014

**NOTE 1. BUDGETARY BASIS OF ACCOUNTING**

The "actual" results of operations as presented in the Budgetary Comparison Schedule - General Fund are in accordance with the legally enacted budgetary basis to provide a meaningful comparison of actual results with budget. They do not, however, include the activity of the City's Industrial Park Fund which is required under GASB Statement No. 54 to be included with the activity of the General Fund on the Statement of Revenues, Expenditures, and Changes in Fund Balances.

Adjustments necessary to convert the results of operations as of June 30, 2014 on the modified accrual basis for the General Fund to the budgetary basis are as follows:

<u>General Fund</u>	
Deficiency of revenue under expenditures (GAAP)	\$ (91,811)
Due to implementation of GASB Statement No. 54:	
Industrial Park Fund net activity for 6/30/14	<u>40,455</u>
Deficiency of revenue under expenditures (budget)	<u>\$ (51,356)</u>

Adjustments necessary to convert fund balance as of June 30, 2014 on the modified accrual basis for the general fund to the budgetary basis are as follows:

<u>General Fund</u>	
Fund balance, 6/30/14 (GAAP)	\$ 588,273
Due to implementation of GASB Statement No. 54:	
Industrial Park Fund fund balance, 6/30/14	<u>23,750</u>
Fund balance, 6/30/14 (budget)	<u>\$ 612,023</u>

CITY OF CONRAD  
 SCHEDULE OF FUNDING PROGRESS FOR THE HEALTH PLAN  
 Year Ended June 30, 2014

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Unit Credit (b)	Unfunded Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll ( c )	Percentage of Covered Payroll ((b-a)/c)
7/1/2013	\$ -	\$ 32,809	\$ 32,809	0%	\$906,559	3.6%

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*

To the City Council, Mayor,  
Members and the Finance Officer  
City of Conrad, Montana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Conrad, Montana (the City), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 26, 2015.

**Internal Control over Financial Reporting**

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

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

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

**Compliance and Other Matters**

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

**Purpose of this Report**

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

A handwritten signature in cursive script that reads "Anderson Zurmuehlen & Co., P.C." The signature is written in dark ink and is positioned above the typed date and location.

Great Falls, Montana  
January 26, 2015

CITY OF CONRAD  
SCHEDULE OF FINDINGS  
Year Ended June 30, 2014

**Current Status of Prior Year Audit Findings**

No findings in prior year.



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