

CITY OF DILLON, MONTANA
ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2014



AMATICS
CPA GROUP

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ANNUAL FINANCIAL REPORT
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PART I

INTRODUCTORY SECTION

**CITY OF DILLON, MONTANA
ORGANIZATION OF ENTITY
June 30, 2014**

CITY COUNCIL

Robert Cottom
Dick Achter
Lynn Westad
Dan Nye
Bill Shafer
David Spehar
Nils "Swede" Troedsson
Derek Gore

CITY OFFICIALS

Michael Klakken, Mayor

Jim Dolan, Attorney

Jani Olsen, Clerk

Neal Straus, Treasurer

Paul L. Craft, Chief of Police

J.S. Turner, Director of Operations

PART II

FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Dillon, 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 Discussion and Analysis, the Schedule of Funding Progress – Other Post-Employment Healthcare Benefits, and Budget to Actual Comparison – Major Funds on pages II-3 through II-10, II-53, and II-54 through II-55 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City’s basic financial statements. The accompanying introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 18, 2015, on our consideration of the City of Dillon, Montana’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Dillon, Montana’s internal control over financial reporting and compliance.

Amatics CPA Group

Bozeman, Montana
February 18, 2015

A. Management Discussion and Analysis

**CITY OF DILLON, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Our discussion and analysis of the City of Dillon'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 City's financial statements, which begin on page II-11.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities (on pages II-11 and II-12) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page II-13. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

Reporting the City as a Whole

The Statement of Net Position and the Statement of Activities

Our analysis of the City as a whole begins on page II-4. One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

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

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

Reporting the City's Most Significant Funds

Fund Financial Statements

Our analysis of the City's funds begins on page II-8. The fund financial statements begin on page II-13 and provide detailed information about the most significant funds, not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City Council establishes many other funds to help it control and manage money for particular purposes (like Street Maintenance District Funds) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (like grants received from the Environmental Protection Agency). The City's two kinds of funds, governmental and proprietary, use different accounting approaches.

**CITY OF DILLON, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

USING THIS ANNUAL REPORT (Continued)

Reporting the City's Most Significant Funds (continued)

Fund Financial Statements (continued)

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

Proprietary funds--When the City charges customers for the services it provides, whether to outside customers or to other units of the City, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the City's enterprise funds (a component of the proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

The City as Trustee

Reporting the City's Fiduciary Responsibilities

The City is the trustee, or fiduciary, for other funds, including the Municipal Court Fund and Library Endowment Funds. The guidelines for the administration of these funds are contained in applicable financial agreements and/or City ordinances. These documents contain the rules governing the receipt, expenditure, and management of the City's fiduciary funds. All of the City's fiduciary activities are reported in separate Statements of Fiduciary Net Position on page II-23. As the statements reflect, the financial activity during the year for these funds is nominal. We exclude these activities from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

THE CITY AS A WHOLE

The following analysis focuses on the net position and changes in net position of the City's governmental and business-type activities.

Net position of the City's governmental activities are \$2,721,960. *Unrestricted net position* – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements total \$115,201 at the end of this year. The net position of our business-type activities totaled \$5,932,115 and unrestricted net position totaled \$159,519. This net position cannot be used to make up for deficits reported by governmental activities in the event any such deficits were reported. The City generally can only use the net position of business-type activities to finance the continuing operations of the water and sewer operations.

**CITY OF DILLON, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

THE CITY AS A WHOLE (Continued)

An analysis of the City's revenues (excluding special items) for Fiscal Years 2013 and 2014 is shown below. The City was able to cover this year's costs in both governmental activities and business-type activities.

	<u>FY 2013</u>	<u>FY 2014</u>	<u>Change</u>	<u>% Change</u>
Total General Revenues	\$ 1,985,656	\$ 1,648,786	\$ (336,870)	-16.97%
Program Revenues				
Charges for Services	2,825,403	2,836,816	11,413	0.40%
Operating Grants & Contributions	204,843	347,084	142,241	69.44%
Total Program Revenues	3,030,246	3,183,900	153,654	5.07%
Total General & Program Revenues	5,015,902	4,832,686	(183,216)	-3.65%
Cost of all Programs	4,037,366	4,584,410	547,044	13.55%
Change in Net Position	\$ 978,536	\$ 248,276	\$ (730,260)	-74.63%

Total General Revenues decreased in fiscal year 2014 by (\$336,870) primarily due to no new bond issuances, and reclassification of \$143,000 of general revenues to program revenues per auditor recommendations. Total program revenues increased \$153,654 primarily because of the reclassification.

The Cost of all Programs increased by \$547,044, mainly due to the new GASB 65 requirement to write-off all bond issuance costs of approximately \$407,000 and an approximately \$65,000 required accrual for Other Post-Employment Benefits.

Despite the lower revenues and higher expenses, revenues exceeded costs and the net position of the City increased \$248,276.

Our analysis below separately considers the operations of governmental and business-type activities.

Governmental Activities

Revenues for the fiscal year 2014 for governmental activities were General Revenues \$1,601,784. Program Revenues \$1,228,288 while total expenses were \$2,665,410. The increase in net position was \$164,662.

**CITY OF DILLON, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

THE CITY AS A WHOLE (Continued)

Governmental Activities (continued)

	<u>FY 2013</u>	<u>FY 2014</u>	<u>Change</u>	<u>% Change</u>
Total General Revenues	\$ 1,927,431	\$ 1,601,784	\$ (325,647)	-16.90%
Program Revenues				
Charges for Services	853,616	881,204	27,588	3.23%
Operating Grants & Contributions	204,843	347,084	142,241	69.44%
Total Program Revenues	1,058,459	1,228,288	169,829	16.04%
Total General & Program Revenues	2,985,890	2,830,072	(155,818)	-5.22%
Cost of all Programs	2,473,976	2,665,410	191,434	7.74%
Change in Net Position	\$ 511,914	\$ 164,662	\$ (347,252)	-67.83%

Total General Governmental Revenues decreased by (\$325,647) in FY 2014. The cost to provide services increased by \$191,434 or 7.74%, Net position increased by \$164,662.

Charges for Services include a number of community and public works projects which were of benefit: new police cars, safe routes to schools funding, the resurfacing of Glendale Street with sidewalks and drainage, the improvements made to Cottom, Vigilante, and Walnut streets.

Unrestricted Interest on Investments - Interest rates on the City's money market account increased to 0.60% during the Fiscal Year from 0.43%.

Debt Service expenditures for principal and interest for fiscal year 2014 were \$351,766 and \$171,281, respectively. This includes debt service on the General Obligation bond issue for the Police Retirement Transfer of \$145,936 and on the Special Improvement District Bonds of \$343,618.

The cost of all *governmental activities* this year was \$2,665,410. However, as shown in the Statement of Activities, the amount financed through general revenues was \$1,437,122 which includes \$1,010,538 of taxes and \$546,970 of unrestricted grants, because some of the cost was paid by those who directly benefited from the programs (Charges for Services \$881,204) or by other governments and organizations that subsidized certain programs with grants and contributions (Operating Grants \$347,084).

**CITY OF DILLON, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

THE CITY AS A WHOLE (Continued)

Governmental Activities (continued)

	<u>FY 2013</u>	<u>FY 2014</u>	<u>Change</u>	<u>% Change</u>
Total Cost of Government Services	\$ 2,473,976	\$ 2,665,410	\$ 191,434	7.74%
Charges for Services	853,616	881,204	27,588	3.23%
Operating Grants & Contributions	204,843	347,084	142,241	69.44%
Amounts financed through general revenues	<u>\$ 1,415,517</u>	<u>\$ 1,437,122</u>	<u>\$ 21,605</u>	<u>1.53%</u>

Business-type Activities

	<u>FY 2013</u>	<u>FY 2014</u>	<u>Change</u>	<u>% Change</u>
Charges for Services				
Water	846,477	836,424	(10,053)	-1.19%
Sewer	1,125,310	1,119,188	(6,122)	-0.54%
Total	<u>1,971,787</u>	<u>1,955,612</u>	<u>(16,175)</u>	<u>-0.82%</u>
Expenses				
Water	609,794	754,623	144,829	23.75%
Sewer	953,596	1,164,377	210,781	22.10%
Total	<u>1,563,390</u>	<u>1,919,000</u>	<u>355,610</u>	<u>22.75%</u>
Interest income	58,225	47,362	(10,863)	-18.66%
Operating transfers	-	(360)	(360)	100.00%
Change in Net Position	<u>\$ 466,622</u>	<u>\$ 83,614</u>	<u>\$ (383,008)</u>	<u>-82.08%</u>

**CITY OF DILLON, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

THE CITY AS A WHOLE (Continued)

Business-type Activities (continued)

Revenues of the City's business-type activities for fiscal year 2014 were \$1,955,612. Expenses were \$1,919,000. The factors driving these results include:

- The City's water system revenues decreased 1% in fiscal year 2014 due to lower usage. Operating costs of chemicals, maintenance, labor, and testing continue to rise. Additionally, unamortized bond issuance costs of \$39,819 were written off.
- The City's sewer system revenues were the same as last year. Sewer rates are based on water usage during the three winter months so sewer revenues do not fluctuate according to rainfall like the water revenues. No capital grants for sewer were received this Fiscal Year. Operating expenses increased \$32,849 from personnel costs and purchased services. Interest expense increased \$145,083, entirely from the one-time write-off of unamortized bond issuance costs

THE CITY'S FUNDS

Significant changes in fund balances that should be noted are highlighted below.

- General Fund 1000 – Closed the year with a fund balance of \$240,521. Expenditures outside of the customary included a number of street improvement projects. Additionally, the City purchased and outfitted a new police vehicle.
- Library Fund (2220, 4004, 7050, & 8030) – The City has assumed responsibility for the financial accounting of the library. In addition to the operating account, accounts have been established for building reserves and endowments and gifts.
- Wastewater Construction (5340) – The new wastewater treatment plant began operation in July 2014 after year-end. The project, though not complete is expected to come in significantly under budget. The cash balance at the end of the year was \$3.6 million.

General fund budgetary highlights

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

**CITY OF DILLON, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

CAPITAL ASSET AND DEBT ADMINISTRATION

City Wide Statement of Net Position

	<u>FY 2013</u>	<u>FY 2014</u>	<u>Change</u>
Other Assets	\$ 16,331,515	\$ 11,394,980	\$ (4,936,535)
Capital Assets	9,960,270	14,934,649	4,974,379
Total City Wide Assets	<u>26,291,785</u>	<u>26,329,629</u>	<u>37,844</u>
Liabilities	1,363,684	1,382,641	18,957
Long-Term Liabilities	16,522,302	16,292,913	(229,389)
Total City Wide Liabilities	<u>17,885,986</u>	<u>17,675,554</u>	<u>(210,432)</u>
Net investment in capital assets	1,961,338	2,200,241	238,903
Restricted for General Government	408,095	446,975	38,880
Restricted for Public Safety	92,951	126,437	33,486
Restricted for Public Works	1,473,935	1,442,214	(31,721)
Restricted for Public Health	598	363	(235)
Restricted for Social and Economic Services	119,966	114,588	(5,378)
Restricted for Culture and Recreation	114,101	115,274	1,173
Restricted for Housing and Community Development	401	401	-
Restricted for Other Purposes	142,603	98,264	(44,339)
Restricted for Capital Projects	7,887,289	3,698,654	(4,188,635)
Restricted for Debt Service	125,397	135,944	10,547
Unrestricted Net Position	(3,920,875)	274,720	4,195,595
Total Net Position	<u>\$ 8,405,799</u>	<u>\$ 8,654,075</u>	<u>\$ 248,276</u>

Capital Assets

At the end of fiscal year 2014 the City had \$3,496,972 invested in capital assets in the governmental funds and \$11,437,677 in the water and sewer funds for a total of \$14,934,649. This was an increase of \$4,974,379 from fiscal year 2013, primarily associated with the construction of the wastewater treatment plant. Capital is invested in a broad range of capital assets, including police and fire equipment, buildings, roads, storm drainage, and water and sewer systems.

Other additions to Capital assets in 2014 include the Cottom Street Project, the purchase of a small parcel of land near the wastewater treatment plant, and replacement of sewer manholes. Equipment purchases included a tractor and a police vehicle.

**CITY OF DILLON, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)

Debt

Long-Term Debt decreased in the current fiscal year from pay down of debt, offset by the issuance of a \$400,000 Special Improvement District #37 Bond, for Cottom Street, and associated curb, gutter and sidewalk improvements; all for School District 10.

At year-end, the City had \$16,604,639 in bonds and notes outstanding, including \$1,422,419 in taxable general obligation debt for the transfer of the police retirement pension plan to the State in fiscal year 2010, and \$1,591,733 for the Glendale Street improvement bond issued in 2012.

In December, 2012 the City issued \$3,410,000 of Water and Sewer System Refunding Bonds, Series 2012. The issue had a true interest cost of 1.468% for its remaining ten year term. It retired the Series 2003 issue. The \$9,000,000 Water and Sewer Revenue Bonds, Series 2011 were designed to provide a level payment over its term by containing interest only amortization until the Series 2003, now the Series 2012 was retired.

The City is committed to maintaining satisfactory reserve levels. The City's General Fund balance increased by \$8,731 in 2014 to \$240,521.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City officials considered many factors when setting the fiscal year 2014-2015 budget such as tax rates, and fees that will be charged for the business-type activities. Some of these factors includes: capital improvements; inflation rates, the local economy, and the citizen's ability to pay.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the City's Treasurer or Mayor at City of Dillon, 125 N Idaho St., Dillon, Montana 59725, (406) 683-4245.

B. Basic Financial Statements

Government-Wide Financial Statements

CITY OF DILLON, MONTANA
STATEMENT OF NET POSITION
June 30, 2014

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	\$ 2,448,532	\$ 3,097,311	\$ 5,545,843
Restricted cash and investments	5,106	3,894,411	3,899,517
Receivables, net	1,773,031	176,589	1,949,620
Internal balances	(98,887)	98,887	-
Nondepreciable land	250,112	50,000	300,112
Construction in progress	4,910	6,315,821	6,320,731
Other capital assets, net of depreciation	3,241,950	5,071,856	8,313,806
Total capital assets	3,496,972	11,437,677	14,934,649
Total assets	7,624,754	18,704,875	26,329,629
LIABILITIES			
Accounts payable and accrued expenses	-	240,496	240,496
Compensated absences payable	94,977	19,744	114,721
Unamortized bond premium	-	336,692	336,692
Current portion long-term notes	368,492	310,000	678,492
Current portion capital leases	12,240	-	12,240
Long-term liabilities, due in more than one year			
Compensated absences	40,704	12,102	52,806
Capital leases	47,008	-	47,008
Other post employment benefits	208,226	58,726	266,952
Notes and bonds payable	4,131,147	11,795,000	15,926,147
Total liabilities	4,902,794	12,772,760	17,675,554
NET POSITION			
Net investment in capital assets	360,507	1,839,734	2,200,241
Restricted for:			
General government	446,975	-	446,975
Public safety	126,437	-	126,437
Public works	1,442,214	-	1,442,214
Public health	363	-	363
Social and economic services	114,588	-	114,588
Culture and recreation	115,274	-	115,274
Housing and community development	401	-	401
Debt service	-	135,944	135,944
Construction and replacement	-	3,698,654	3,698,654
Other	-	98,264	98,264
Unrestricted	115,201	159,519	274,720
Total net position	\$ 2,721,960	\$ 5,932,115	\$ 8,654,075

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

CITY OF DILLON, MONTANA
STATEMENT OF ACTIVITIES
Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Primary Government:							
Governmental activities:							
General government	\$ 519,897	\$ 188,097	\$ 41,457	\$ -	\$ (290,343)	\$ -	\$ (290,343)
Public safety	980,153	43,283	96,841	-	(840,029)	-	(840,029)
Public works	476,790	639,069	83,131	-	245,410	-	245,410
Public health	16,702	1,790	-	-	(14,912)	-	(14,912)
Social and economic services	5,133	1,370	80,628	-	76,865	-	76,865
Culture and recreation	50,071	7,595	45,027	-	2,551	-	2,551
Other	398,157	-	-	-	(398,157)	-	(398,157)
Interest and fiscal fees	218,507	-	-	-	(218,507)	-	(218,507)
Total governmental activities	<u>2,665,410</u>	<u>881,204</u>	<u>347,084</u>	<u>-</u>	<u>(1,437,122)</u>	<u>-</u>	<u>(1,437,122)</u>
Business-type activities:							
Water	754,623	836,424	-	-	-	81,801	81,801
Sewer	1,164,377	1,119,188	-	-	-	(45,189)	(45,189)
Total business-type activities	<u>1,919,000</u>	<u>1,955,612</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>36,612</u>	<u>36,612</u>
Total primary government	<u>\$ 4,584,410</u>	<u>\$ 2,836,816</u>	<u>\$ 347,084</u>	<u>\$ -</u>	<u>(1,437,122)</u>	<u>36,612</u>	<u>(1,400,510)</u>
General revenues:							
Property taxes, levied for general purposes					887,538	-	887,538
Local option taxes					123,000	-	123,000
Grants and contributions not restricted to specific programs					546,970	-	546,970
Unrestricted investment earnings					11,170	47,362	58,532
Miscellaneous					37,626	-	37,626
Loss on disposal of assets					(4,880)	-	(4,880)
Transfers					360	(360)	-
Total general revenues					<u>1,601,784</u>	<u>47,002</u>	<u>1,648,786</u>
Change in net position					164,662	83,614	248,276
Net position-beginning					<u>2,557,298</u>	<u>5,848,501</u>	<u>8,405,799</u>
Net position-ending					<u>\$ 2,721,960</u>	<u>\$ 5,932,115</u>	<u>\$ 8,654,075</u>

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

Fund Financial Statements

Governmental Fund Financial Statements

**CITY OF DILLON, MONTANA
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2014**

	<u>General</u>	<u>SID #34 - Dew Area Paving</u>	<u>SID #37 District 10 Capital Project</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and cash equivalents	\$ 256,631	87,352	76,286	2,028,263	\$ 2,448,532
Investments	-	-	-	-	-
Receivables:					
Property taxes	59,446	-	-	85,259	144,705
Customers, net	40,949	-	-	-	40,949
Special assessments	-	790,066	-	710,418	1,500,484
Other governments	33,657	-	-	53,236	86,893
Restricted cash and cash equivalents	5,106	-	-	-	5,106
Total assets	<u>\$ 395,789</u>	<u>877,418</u>	<u>76,286</u>	<u>2,877,176</u>	<u>\$ 4,226,669</u>

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

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

	<u>General</u>	<u>SID #34 - Dew Area Paving</u>	<u>SID #37 District 10 Capital Project</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities:					
Advances payable	\$ 54,873	-	-	44,014	\$ 98,887
Deferred inflows of resources:					
Deferred inflows of tax revenues	59,446	-	-	91,982	151,428
Deferred inflows of court revenues	40,949	-	-	-	40,949
Deferred inflows of special assessments	-	790,066	-	703,695	1,493,761
Total deferred inflows of resources	<u>100,395</u>	<u>790,066</u>	<u>-</u>	<u>795,677</u>	<u>1,686,138</u>
Fund balances:					
Restricted	-	87,352	76,286	2,082,614	2,246,252
Unassigned	240,521	-	-	(45,129)	195,392
Total fund balances	<u>240,521</u>	<u>87,352</u>	<u>76,286</u>	<u>2,037,485</u>	<u>2,441,644</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 395,789</u>	<u>877,418</u>	<u>76,286</u>	<u>2,877,176</u>	<u>\$ 4,226,669</u>

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

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

Fund balances - total governmental funds		\$ 2,441,644
<p>Amounts reported for <i>governmental activities</i> in the statement of net position are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.</p>		
Governmental capital assets	\$ 5,842,787	
Less: accumulated depreciation	<u>(2,345,815)</u>	3,496,972
<p>Deferred inflows of resources in the governmental funds are reported on the full accrual method in the entity-wide statements.</p>		
		1,686,138
<p>Bond issuance costs are expensed in the governmental funds, they are deferred charges for the entity-wide statements and amortized over the life of the issuance.</p>		
Bond issuance costs	47,226	
Less: amortization	<u>(47,226)</u>	-
<p>Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the governmental funds.</p>		
Capital leases	(59,248)	
Notes payable	(4,499,639)	
Other post employment benefits	(208,226)	
Compensated absences	<u>(135,681)</u>	
		<u>(4,902,794)</u>
Net position of governmental activities		<u><u>\$ 2,721,960</u></u>

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

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

	<u>General</u>	<u>SID #34 - Dew Area Paving</u>	<u>SID #37 District 10 Capital Project</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES					
Taxes and assessments	\$ 386,656	84,774	-	1,038,892	\$ 1,510,322
Licenses and permits	32,187	-	-	-	32,187
Intergovernmental	645,190	-	-	248,864	894,054
Charges for services	15,487	-	-	64,063	79,550
Fines and forfeitures	79,858	-	-	-	79,858
Interest on investments	4,334	100	-	6,736	11,170
Other	34,579	-	-	116,134	150,713
Total revenues	<u>1,198,291</u>	<u>84,874</u>	<u>-</u>	<u>1,474,689</u>	<u>2,757,854</u>
EXPENDITURES					
Current					
General government	307,356	-	-	193,451	500,807
Public safety	708,903	-	-	204,707	913,610
Public works	144	-	63,603	217,001	280,748
Public health	15,662	-	-	-	15,662
Culture and recreation	33,746	-	-	-	33,746
Other	-	635	-	397,522	398,157
Capital outlay	56,332	-	386,111	7,125	449,568
Debt service					
Principal payments	5,822	73,417	-	272,527	351,766
Interest and fiscal fees	2,243	18,191	-	150,847	171,281
Total expenditures	<u>1,130,208</u>	<u>92,243</u>	<u>449,714</u>	<u>1,443,180</u>	<u>3,115,345</u>
Excess (deficiency) of revenues over expenditures	<u>68,083</u>	<u>(7,369)</u>	<u>(449,714)</u>	<u>31,509</u>	<u>(357,491)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	960	-	150,000	635,773	786,733
Transfers out	(60,312)	-	(24,000)	(702,061)	(786,373)
Proceeds from long-term debt	-	-	400,000	-	400,000
Total other financing sources (uses)	<u>(59,352)</u>	<u>-</u>	<u>526,000</u>	<u>(66,288)</u>	<u>400,360</u>
Net change in fund balances	8,731	(7,369)	76,286	(34,779)	42,869
FUND BALANCE - beginning of year	<u>231,790</u>	<u>94,721</u>	<u>-</u>	<u>2,072,264</u>	<u>2,398,775</u>
FUND BALANCE - end of year	<u>\$ 240,521</u>	<u>87,352</u>	<u>76,286</u>	<u>2,037,485</u>	<u>\$ 2,441,644</u>

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

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

Net change in fund balances - total governmental funds	\$	42,869
<p>Amounts reported for <i>governmental activities</i> in the statement of activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures. In the statement of activities, however, the cost of these assets is depreciated over the asset's useful life.</p>		
Expenditures for capital assets	\$ 449,568	
Less: current year depreciation	<u>(239,206)</u>	210,362
<p>Repayment of principal is an expenditure in the governmental funds, but this repayment reduces long-term liabilities in the statement of net position.</p>		
Loan proceeds	(400,000)	
Bond issuance costs	(47,226)	
Principal payments	<u>351,766</u>	(95,460)
<p>Some revenues reported in the statement of activities do not require the use of current financial resources and therefore are not reported as revenues in governmental funds.</p>		
Property taxes	65,896	
Municipal court customer receivables	<u>10,842</u>	76,738
<p>Some expenditures reported in governmental funds are to be collected on a long-term basis and therefore are not reported as expenses in the statement of activities.</p>		
Compensated absences	(14,221)	
Other post employment benefits	<u>(50,746)</u>	<u>(64,967)</u>
<p>In the Statement of Activities, the loss or gain on the sale or disposal of capital assets is recognized. The fund financials recognize only the proceeds.</p>		
Gain (loss) on disposal of fixed capital assets		<u>(4,880)</u>
Change in net position of governmental activities	\$	<u><u>164,662</u></u>

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

Proprietary Fund Financial Statements

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

	Business-type Activities		
	Enterprise Funds		
	Water Fund	Sewer Fund	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 71,572	2,206	\$ 73,778
Investments	2,466,075	557,458	3,023,533
Customers receivables, net	78,417	98,172	176,589
Total current assets	2,616,064	657,836	3,273,900
Other assets			
Advances to other funds	116,825	-	116,825
Restricted cash and investments	98,264	3,796,147	3,894,411
Total other assets	215,089	3,796,147	4,011,236
Property, plant and equipment			
Nondepreciable:			
Construction work in process	51,387	6,264,434	6,315,821
Land	40,000	10,000	50,000
Depreciable:			
Machinery and equipment	70,301	171,989	242,290
Pumping plant	340,048	-	340,048
Source of supply	832,305	-	832,305
Transmission and distribution	2,977,069	1,632,211	4,609,280
Treatment plant	5,482	3,322,633	3,328,115
Accumulated depreciation	(1,396,747)	(2,883,435)	(4,280,182)
Net property, plant and equipment	2,919,845	8,517,832	11,437,677
Total assets	\$ 5,750,998	12,971,815	\$ 18,722,813

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

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

	Business-type Activities		
	Enterprise Funds		
	Water Fund	Sewer Fund	Total
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 767	-	\$ 767
Compensated absences payable	9,872	9,872	19,744
Accrued interest	12,569	159,740	172,309
Unamortized bond premium	120,752	215,940	336,692
Deposits payable	67,420	-	67,420
Bonds, notes, and loans payable	153,760	156,240	310,000
	<u>365,140</u>	<u>541,792</u>	<u>906,932</u>
Total current liabilities			
Noncurrent liabilities			
Compensated absences payable	6,051	6,051	12,102
Advance from other funds	-	17,938	17,938
Bonds payable	1,385,812	10,409,188	11,795,000
OPEB liability	29,363	29,363	58,726
	<u>1,421,226</u>	<u>10,462,540</u>	<u>11,883,766</u>
Total noncurrent liabilities			
	<u>1,786,366</u>	<u>11,004,332</u>	<u>12,790,698</u>
Total liabilities			
NET POSITION			
Net investment in capital assets	1,367,704	472,030	1,839,734
Restricted for debt service	38,450	97,494	135,944
Restricted for construction and replacement	-	3,698,654	3,698,654
Restricted for other	98,264	-	98,264
Unrestricted	2,460,214	(2,300,695)	159,519
	<u>3,964,632</u>	<u>1,967,483</u>	<u>5,932,115</u>
Total net position			
Total liabilities and net position	<u>\$ 5,750,998</u>	<u>12,971,815</u>	<u>\$ 18,722,813</u>

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

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

	Business-type Activities Enterprise Funds		
	Water Fund	Sewer Fund	Totals
OPERATING REVENUES			
Charges for services	\$ 835,698	1,119,188	\$ 1,954,886
Miscellaneous	726	-	726
	836,424	1,119,188	1,955,612
OPERATING EXPENSES			
Personal services	232,436	229,000	461,436
Supplies	79,006	5,172	84,178
Purchased services	169,446	79,463	248,909
Fixed charges	42,863	40,000	82,863
Depreciation	107,570	166,889	274,459
	631,321	520,524	1,151,845
Total operating expenses	631,321	520,524	1,151,845
Operating income	205,103	598,664	803,767
NONOPERATING REVENUES (EXPENSES)			
Transfers in	301,830	-	301,830
Transfers out	-	(302,190)	(302,190)
Interest expense	(123,302)	(643,853)	(767,155)
Interest income	14,058	33,304	47,362
	192,586	(912,739)	(720,153)
Total nonoperating revenues (expenses)	192,586	(912,739)	(720,153)
Change in Net Position	397,689	(314,075)	83,614
NET POSITION, beginning of year	3,566,943	2,281,558	5,848,501
NET POSITION, end of year	\$ 3,964,632	1,967,483	\$ 5,932,115

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

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

	Business-type Activities		
	Enterprise Funds		
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Increase (Decrease) in Cash and Cash Equivalents			
Cash Flows from Operations:			
Receipts from customers	\$ 829,770	1,117,052	\$ 1,946,822
Receipts from others	726	-	726
Repayment of loans to other City funds	6,647	(11,641)	(4,994)
Payments to suppliers	(291,368)	(124,635)	(416,003)
Payments to employees	(221,020)	(217,584)	(438,604)
Net Cash Flows Provided by Operating Activities	<u>324,755</u>	<u>763,192</u>	<u>1,087,947</u>
Cash Flows from Capital and Related Financing Activities			
Additions to property, plant and equipment	(58,308)	(4,985,048)	(5,043,356)
Principal paid on bonds, interfund loans, loans and leases	(151,280)	(153,720)	(305,000)
Interest paid on bonds, interfund loans, loans and leases	(33,592)	(415,923)	(449,515)
Transfers for capital acquisitions	301,830	(302,190)	(360)
Net Cash Flows Provided (Used) by Capital and Related Financing Activities	<u>58,650</u>	<u>(5,856,881)</u>	<u>(5,798,231)</u>
Cash Flows from Investing Activities			
Interest on investments	14,058	33,304	47,362
Net Increase (Decrease) in Cash and Cash Equivalents	397,463	(5,060,385)	(4,662,922)
Cash and Cash Equivalents at Beginning of Year	<u>2,238,448</u>	<u>9,416,196</u>	<u>11,654,644</u>
Cash and Cash Equivalents at End of Year	<u>\$ 2,635,911</u>	<u>4,355,811</u>	<u>\$ 6,991,722</u>
Classified As:			
Current Assets	\$ 2,537,647	559,664	\$ 3,097,311
Restricted Assets	<u>98,264</u>	<u>3,796,147</u>	<u>3,894,411</u>
Totals	<u>\$ 2,635,911</u>	<u>4,355,811</u>	<u>\$ 6,991,722</u>

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

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

	Business-type Activities		
	Enterprise Funds		
	Water Fund	Sewer Fund	Total
Operating Income	\$ 205,103	598,664	\$ 803,767
Adjustments to reconcile operating income			
to net cash provided by operating activities			
Depreciation and amortization	107,570	166,889	274,459
Changes in other post employment benefits	7,156	7,156	14,312
Change in Assets and Liabilities:			
(Increase) Decrease in:			
Accounts receivable	(7,135)	(2,136)	(9,271)
Loans to other City funds	6,647	-	6,647
Increase (Decrease) in:			
Accounts payable	(53)	-	(53)
Deposits payable	1,207	-	1,207
Repayment of loans from other City funds	-	(11,641)	(11,641)
Accrued employee benefits payable	4,260	4,260	8,520
Total adjustments	119,652	164,528	284,180
Net cash provided by operating activities	\$ 324,755	763,192	\$ 1,087,947

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

Fiduciary Fund Financial Statements

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

	Private Purpose Trust Funds	Agency Funds
ASSETS		
Cash and cash equivalents	\$ 68,669	\$ 439,322
Total assets	\$ 68,669	\$ 439,322
LIABILITIES		
Warrants payable	\$ -	\$ 439,322
Total liabilities	-	\$ 439,322
NET POSITION		
Assets held in trust	\$ 68,669	

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

CITY OF DILLON, MONTANA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2014

	Private Purpose Trust Funds
ADDITIONS	
Investment earnings:	
Interest and change in fair value of investments	\$ 864
Change in net position	864
NET POSITION, beginning of year	67,805
NET POSITION, end of year	\$ 68,669

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

Notes to Financial Statements

CITY OF DILLON, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The City adopted the provisions of GASB 34 during the fiscal year ending June 30, 2004. With the implementation of GASB 34, the City has prepared required supplementary information titled *Management Discussion and Analysis* which precedes the basic financial statements.

Other GASB statements are required to be implemented in conjunction with GASB Statement 34. Therefore, the City also implemented the following GASB statements in the year ended June 30, 2004: Statement 33 *Accounting and Financial Reporting for Nonexchange Transactions*, Statement 36 *Recipient Reporting for Certain Shared Nonexchange Revenues*, Statement 37 *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus*, and Statement 38 *Certain Financial Statement Note Disclosures*.

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

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

CITY OF DILLON, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

The accompanying financial statements present the financial position of the City and the various funds and fund types, the results of operations of the City and the various funds and fund types, and the cash flows of the proprietary funds. The financial statements are presented as of June 30, 2014, and for the year then ended.

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

Reporting Entity

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

Basis of Accounting/Measurement Focus

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

CITY OF DILLON, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting/Measurement Focus (continued)

Government-Wide Financial Statements

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

These statements are presented on an “*economic resources*” measurement focus and the accrual basis of accounting. Accordingly, all of the City’s assets and liabilities, including capital assets and long-term liabilities, are included in the accompanying Statement of Net Position. The City will not be retroactively including infrastructure in its assets.

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

Certain eliminations have been made as prescribed by GASB 34 in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. There are no internal service fund transactions to be eliminated.

Governmental Fund Financial Statements

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

All governmental funds are accounted for on a spending or “*current financial resources*” measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available. When an asset is recorded in governmental fund financial statements but the revenue is not available, the City reports a deferred inflow of resources until such time as the revenue becomes available. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources which have been treated as susceptible to accrual by the City are property tax, intergovernmental revenues, and other taxes. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

CITY OF DILLON, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting/Measurement Focus (continued)

Proprietary Fund Financial Statements

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

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

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

Fiduciary Fund Financial Statements

Fiduciary Fund Financial Statements include a Statement of Net Position and a Statement of Changes in Fiduciary Net Position. The City’s Fiduciary Funds represent Agency Funds, which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Agency Funds do not have a measurement focus.

Funds

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

Governmental Funds

1. General Fund: The General Fund is the primary operating unit of the City. It accounts for all financial resources of the City, except those required to be accounted for in another fund.
2. SID # 34 Dew Area Paving: This fund accounts for the special assessments accumulated and for the payment of special improvement district bonds for the Dew Paving District.
3. SID #37 District 10 Capital Project: This fund accounts for the capital project authorized by the City Council Resolution #1134, which provides for the completion of public improvements for the benefit of Dillon School District No. 10.

CITY OF DILLON, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Funds (continued)

Proprietary Funds

1. Water Fund: Accounts for the City's water utility operations.
2. Sewer Fund: Accounts for the City's sewer utility operations.

Budgets and Budgetary Accounting

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

Capital Assets

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

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

Building and structures	60 years
Building improvements	10 to 25 years
Equipment other than vehicles	10 to 20 years
System infrastructure	50 to 65 years
Public domain infrastructure	30 to 60 years
Vehicles	3 to 10 years
Office equipment	5 years
Computer equipment	5 years

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement 34 which requires the inclusion of infrastructure capital assets in local governments' basic financial statements. According to GASB 34, the City must record infrastructure assets prospectively from the date of implementation.

CITY OF DILLON, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets (continued)

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable. The City capitalizes interest costs for business-type activities only, net of related interest earned, from the date of the borrowing until the projects acquired with those funds are ready for their intended use.

Assessments

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

Enterprise Accounts Receivable

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

Inventories

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

Compensated Absences Payable

Earned but unpaid vacation and sick pay is included as a liability in the proprietary fund types and Government-Wide Financial Statements. The portion relating to the governmental fund types not expected to be paid with expendable and available resources is not reported in the governmental fund statements.

Cash and Cash Equivalents

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

CITY OF DILLON, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interfund Transactions

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

Fund Balance/Net Position

Fund Balance

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

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

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

The committed fund balance category includes amounts that can be used only for the specific purposes determined by a formal action of the government’s highest level of decision-making authority, the City Council.

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

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

When both restricted and unrestricted resources are available in a fund, the assumed order of spending is restricted first, next committed, next assigned, and finally unassigned.

Minimum General Fund – Fund Balance

The City does not maintain a stabilization fund.

CITY OF DILLON, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance/Net Position (continued)

Net Position

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

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

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

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

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

2. CASH AND INVESTMENTS

Cash and investments may include cash, demand, time, savings, and fiscal agent deposits; investments in the State Short-Term Investment Pool (STIP); direct obligations of the United States governments and securities issued by the agencies of the United States; repurchase agreements; and registered warrants.

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

	Unrestricted	Restricted	Total
Governmental activities	\$ 2,448,532	\$ 5,106	\$ 2,453,638
Business-type activities	3,097,311	3,894,411	6,991,722
Fiduciary funds	507,991	-	507,991
	<u>\$ 6,053,834</u>	<u>\$ 3,899,517</u>	<u>\$ 9,953,351</u>

CITY OF DILLON, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

2. CASH AND INVESTMENTS (Continued)

The total carrying value of cash, cash equivalents and investments as of June 30, 2014, consisted of the following:

	<u>Cash/Cash Equivalents</u>	<u>Investments</u>	<u>Total</u>
Petty cash	\$ 220	\$ -	\$ 220
Cash in banks:			
Demand deposits	1,932,575	-	1,932,575
Saving deposits	-	7,068,862	7,068,862
Time deposits	-	950,974	950,974
State Short-Term Investment Pool (STIP)	-	720	720
	<u>\$ 1,932,795</u>	<u>\$ 8,020,556</u>	<u>\$ 9,953,351</u>

Custodial Credit Risk - Deposits. Custodial credit risk for deposits is the risk that in the event of a financial institution failure, the City's deposits may not be returned or the City will not be able to recover the collateral securities in the possession of the outside party. The City does not have a deposit policy for custodial credit risk. Of the bank balances, the balances are insured up to \$250,000 at each institution covered by the Federal Deposit Insurance Corporation (FDIC). As of June 30, 2014, the uninsured amount was \$8,952,140. This uninsured portion was secured by pledged securities held by financial institutions or by the trust departments or agents but not in the City's name (class 3 collateral).

The City minimizes custodial credit risk by restrictions set forth in City policy and state law. The City's policy requires deposits to be 102 percent secured by collateral valued at market value. The City Treasurer maintains a listing of financial institutions, which are approved for investment purposes. Types of securities that may be pledged as collateral are detailed in Section 17-6-103 of the Montana Code Annotated (MCA). City policy requires that specific safeguards against risk of loss be evidenced when the City does not physically hold the securities.

The following table provides information about the interest rate risks associated with the City's deposits and investments.

<u>Investment</u>	<u>Maturities</u>	<u>Credit Risk Rating</u>	<u>Fair Value</u>
Petty cash	N/A	N/A	\$ 220
Demand deposits	N/A	N/A	1,932,575
Certificates of deposit	N/A	N/A	950,974
Savings	N/A	N/A	7,068,862
State Short-Term Investment Pool (STIP)	N/A	N/A	720
			<u>\$ 9,953,351</u>

CITY OF DILLON, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

2. CASH AND INVESTMENTS (Continued)

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

Credit Risk. As noted above, statutes authorize the City to invest in direct obligations of the United States Government and securities issued by agencies of the United States, repurchase agreements, and the State Short-Term Investment Pool (STIP). STIP is classified as a 2a7-like pool, and as such uses amortized cost to report unit values. The City has no investment policy that would further limit its investment choices. The STIP maintained by the State of Montana has certain investments in derivatives. GASB requires the nature of underlying securities and market, credit and legal risks be disclosed. Reference to the audit of the State of Montana would identify the level of risk associated with STIP. The City's investments as of June 30, 2014, consisted almost entirely of savings and money market accounts with effective annual interest rate of .05% to .70%. They also have several certificates of deposit with maturities of 6 months or less and effective interest rates of .35% to .50%. These investments are recorded at cost, which approximates the market value at June 30, 2014.

3. TAXES AND ASSESSMENTS RECEIVABLE

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

The City is permitted by state statutes to levy taxes up to certain fixed limits for various purposes. The taxes levied by the City for the year ended June 30, 2014, were within legal limits. The tax levies were based upon a taxable valuation of \$4,846,653.

CITY OF DILLON, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

4. CAPITAL ASSETS

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

	<u>June 30, 2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers/ Reclassifications</u>	<u>June 30, 2014</u>
Governmental Activities:					
Non-depreciable					
Land	\$ 250,112	\$ -	\$ -	\$ -	\$ 250,112
Construction in progress	-	4,910	-	-	4,910
Depreciable					
Buildings	709,199	-	-	-	709,199
Improvements	154,906	-	-	-	154,906
Infrastructure	3,208,891	386,112	-	-	3,595,003
Machinery and equipment	<u>1,074,991</u>	<u>58,546</u>	<u>(4,880)</u>	<u>-</u>	<u>1,128,657</u>
Total	5,398,099	449,568	(4,880)	-	5,842,787
Accumulated depreciation	<u>(2,106,609)</u>	<u>(239,206)</u>	<u>-</u>	<u>-</u>	<u>(2,345,815)</u>
Total governmental activities	<u>\$ 3,291,490</u>	<u>\$ 210,362</u>	<u>\$ (4,880)</u>	<u>\$ -</u>	<u>\$ 3,496,972</u>

CITY OF DILLON, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

4. CAPITAL ASSETS (Continued)

	<u>June 30, 2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers/ Reclassifications</u>	<u>June 30, 2014</u>
Business-type Activities:					
Non-depreciable					
Land	\$ -	\$ 50,000	\$ -	\$ -	\$ 50,000
Construction in progress	1,342,077	4,973,744	-	-	6,315,821
Depreciable					
Machinery and equipment	228,040	14,250	-	-	242,290
Source of supply	832,305	-	-	-	832,305
Pumping plant	340,048	-	-	-	340,048
Treatment plant	3,328,115	-	-	-	3,328,115
Transmission and distribution	4,603,918	5,362	-	-	4,609,280
Total	10,674,503	5,043,356	-	-	15,717,859
Accumulated depreciation	(4,005,723)	(274,459)	-	-	(4,280,182)
Total business-type activities	<u>\$ 6,668,780</u>	<u>\$ 4,768,897</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,437,677</u>
Total capital assets	<u>\$ 9,960,270</u>	<u>\$ 4,979,259</u>	<u>\$ (4,880)</u>	<u>\$ -</u>	<u>\$ 14,934,649</u>

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

	<u>June 30, 2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers/ Reclassifications</u>	<u>June 30, 2014</u>
Governmental Activities:					
Buildings	\$ (413,168)	\$ (10,788)	\$ -	\$ -	\$ (423,956)
Improvements	(122,448)	(4,122)	-	-	(126,570)
Infrastructure	(850,333)	(172,118)	-	-	(1,022,451)
Machinery and equipment	(720,660)	(52,178)	-	-	(772,838)
Total governmental activities	<u>\$ (2,106,609)</u>	<u>\$ (239,206)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2,345,815)</u>

CITY OF DILLON, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

4. CAPITAL ASSETS (Continued)

	<u>June 30, 2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers/ Reclassifications</u>	<u>June 30, 2014</u>
Business-type Activities:					
Machinery and equipment	\$ (107,729)	\$ (17,179)	\$ -	\$ -	\$ (124,908)
Source of supply	(288,487)	(19,456)	-	-	(307,943)
Pumping plant	(109,216)	(8,881)	-	-	(118,097)
Treatment plant	(2,434,760)	(106,018)	-	-	(2,540,778)
Transmission and distribution	(1,065,531)	(122,925)	-	-	(1,188,456)
	<u>\$ (4,005,723)</u>	<u>\$ (274,459)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (4,280,182)</u>
 Total accumulated depreciation	 <u>\$ (6,112,332)</u>	 <u>\$ (513,665)</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ (6,625,997)</u>

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

Governmental Activities:

General Government	\$ 9,345
Public Safety	34,970
Public Works	183,178
Social and Economic	2,794
Culture and Recreation	8,919
Total depreciation expense - governmental activities	<u>\$ 239,206</u>

Business-type Activities:

Water	\$ 107,570
Sewer	166,889
Total depreciation expense - business-type activities	<u>\$ 274,459</u>

CITY OF DILLON, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

5. COMPENSATED ABSENCES

The City's policy relating to compensated absences is described in Note 1. As shown in the table below, the long-term portion of the debt, amounting to \$40,704 for governmental activities and \$12,102 for business-type activities at June 30, 2014, is expected to be paid in future years from future resources. In prior years, compensated absences have been liquidated primarily by the general fund and the proprietary funds. The total amounts outstanding at June 30, 2014, were \$135,681 for governmental activities and \$31,846 for business-type activities.

	Balance June 30, 2013	Incurred	Satisfied	Balance June 30, 2014
Compensated absences				
Governmental Activities	\$ 121,460	\$ 37,030	\$ (22,809)	\$ 135,681
Business-type Activities	23,326	15,417	(6,897)	31,846
Total compensated absences	<u>\$ 144,786</u>	<u>\$ 52,447</u>	<u>\$ (29,706)</u>	<u>\$ 167,527</u>

	Due within one year	Due after one year	Total
Compensated absences			
Governmental Activities	\$ 94,977	\$ 40,704	\$ 135,681
Business-type Activities	19,744	12,102	31,846
Total compensated absences	<u>\$ 114,721</u>	<u>\$ 52,806</u>	<u>\$ 167,527</u>

6. LONG-TERM DEBT

Governmental Activities Long-Term Debt

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

	Balance June 30, 2013	Issuances	Repayments	Balance June 30, 2014
General obligation bonds	\$ 1,474,933	\$ -	\$ (52,514)	\$ 1,422,419
Special assessment debt	2,970,650	400,000	(293,430)	3,077,220
Totals	<u>\$ 4,445,583</u>	<u>\$ 400,000</u>	<u>\$ (345,944)</u>	<u>\$ 4,499,639</u>

**CITY OF DILLON, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

6. LONG-TERM DEBT (Continued)

Governmental Activities Long-Term Debt (Continued)

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

	Current Portion (Due within one year)	Long-term Portion (Due after one year)	Total Long Term Debt
General obligation bonds	\$ 55,923	\$ 1,366,496	\$ 1,422,419
Special assessment debt	312,569	2,764,651	3,077,220
	<u>\$ 368,492</u>	<u>\$ 4,131,147</u>	<u>\$ 4,499,639</u>

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

Purpose	Origination Date	Interest Rate	Term	Maturity Date	Principal Amount	Annual Payment	Balance June 30, 2014
Police Pension Project	11/25/2009	6.00%	19.5 yrs	6/30/2029	<u>\$ 1,600,000</u>	\$ 145,937	<u>\$ 1,422,419</u>

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

	Principal	Interest	Total
Year ending June 30,			
2015	\$ 55,923	\$ 90,013	\$ 145,936
2016	59,554	86,383	145,937
2017	63,420	82,517	145,937
2018	67,537	78,399	145,936
2019	71,922	74,014	145,936
2020-2024	436,015	293,668	729,683
2025-2029	668,048	134,603	802,651
	<u>\$ 1,422,419</u>	<u>\$ 839,597</u>	<u>\$ 2,262,016</u>

CITY OF DILLON, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

6. LONG-TERM DEBT (Continued)

Governmental Activities Long-Term Debt (Continued)

Special Assessment Debt – Special assessment bonds are payable from the collection of special assessments levied against benefited property owners within the special improvement district. To the extent that such special assessment collections are not sufficient to make the required debt service payments, the City is obligated to levy and collect a general property tax on all taxable property in the City to provide additional funding for the debt service payments. The cash balance in the SID Revolving Fund must equal at least 5% of the principal amount of bonds outstanding. If the cash balance is less than 5%, a levy is required to bring the cash balance to the required minimum. Special assessment bonds outstanding as of June 30, 2014, are as follows:

<u>Purpose</u>	<u>Origination Date</u>	<u>Interest Rate</u>	<u>Term</u>	<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Annual Payment</u>	<u>Balance June 30, 2014</u>
SID Streets #1	11/25/2009	2.43%	10 yrs	7/15/2023	\$ 1,800,000	\$ 188,751	\$ 1,591,733
SID Refunding - 2013	2/26/2013	2.47%	13 yrs	7/15/2025	1,230,790	Varies	1,102,063
SID #37	7/2/2013	3.32%	10 yrs	7/15/2023	400,000	\$ 47,391	383,424
					<u>\$ 3,430,790</u>		<u>\$ 3,077,220</u>

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

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 312,569	\$ 76,646	\$ 389,215
2016	315,280	68,669	383,949
2017	327,814	60,557	388,371
2018	315,099	52,190	367,289
2019	307,972	44,310	352,282
2020-2024	1,485,371	98,475	1,583,846
2025-2026	13,115	324	13,439
	<u>\$ 3,077,220</u>	<u>\$ 401,171</u>	<u>\$ 3,478,391</u>

During the fiscal year ending June 30, 2013, the City issued \$1,230,790 of Special Assessment Refunding Bonds for an advance refunding of \$1,230,790 of SID 33, 34, 35 and SID 36. The refunding was undertaken to reduce total future debt service payments. The transaction resulted in an economic gain of \$107,287 and a reduction of \$132,386 in future debt service payments.

**CITY OF DILLON, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

6. LONG-TERM DEBT (Continued)

Business-Type Activities Long-Term Debt

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

	Balance June 30, 2013	Issuances	Repayments	Balance June 30, 2014
Revenue bonds	\$ 12,410,000	\$ -	\$ (305,000)	\$ 12,105,000

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

	Current Portion (Due within one year)	Long-term Portion (Due after one year)	Total Long Term Debt
Revenue bonds	\$ 310,000	\$ 11,795,000	\$ 12,105,000

Revenue Bonds – The City issues revenue bonds, where the City pledges income derived from the acquired or constructed assets to pay the debt service requirements.

Water

Water revenue bonds outstanding as of June 30, 2014, are as follows:

Purpose	Origination Date	Interest Rate	Term	Maturity Date	Principal Amount	Annual Payment	Balance June 30, 2014
Water Refunding - 2012	12/13/2012	2.0 - 3.0%	10 yrs	8/1/2022	\$ 1,690,852	Varies	\$ 1,593,572

**CITY OF DILLON, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

6. LONG-TERM DEBT (Continued)

Business-Type Activities Long-Term Debt (Continued)

Revenue Bonds (continued)

Water (continued)

Annual debt service requirements to maturity for water revenue bonds are as follows:

	Principal	Interest	Total
Year ending June 30,			
2015	\$ 153,760	\$ 39,953	\$ 193,713
2016	156,240	36,853	193,093
2017	161,200	33,678	194,878
2018	163,680	29,611	193,291
2019	176,080	24,515	200,595
2020-2023	728,612	44,640	773,252
	\$ 1,539,572	\$ 209,250	\$ 1,748,822

Sewer

Sewer revenue bonds outstanding as of June 30, 2014, are as follows:

Purpose	Origination Date	Interest Rate	Term	Maturity Date	Principal Amount	Annual Payment	Balance June 30, 2014
Sewer, 2011 Series	11/15/2011	3.5 - 4.25%	30 yrs	7/1/2042	\$ 9,000,000	Varies	\$ 9,000,000
Sewer Refunding - 2012	12/13/2012	2.0 - 3.0%	10 yrs	8/1/2022	1,719,148	Varies	1,565,428
					\$ 10,719,148		\$ 10,565,428

CITY OF DILLON, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

6. LONG-TERM DEBT (Continued)

Business-Type Activities Long-Term Debt (Continued)

Revenue Bonds (continued)

Sewer (continued)

Annual debt service requirements to maturity for sewer revenue bonds are as follows:

Year ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 156,240	\$ 400,263	\$ 556,503
2016	158,760	397,113	555,873
2017	163,800	393,888	557,688
2018	166,320	389,755	556,075
2019	178,920	384,576	563,496
2020-2024	1,066,388	1,837,191	2,903,579
2025-2029	1,830,000	1,557,731	3,387,731
2026-2034	2,215,000	1,173,464	3,388,464
2035-2039	2,720,000	665,575	3,385,575
2040-2042	1,910,000	116,800	2,026,800
	<u>\$ 10,565,428</u>	<u>\$ 7,316,356</u>	<u>\$ 17,881,784</u>

During the fiscal year ending June 30, 2013, the City issued \$3,410,000 of Water and Sewer Revenue Refunding Bonds for an advance refunding of \$3,185,000 of Water and Sewer Revenue Bonds, Series 2003. The refunding was undertaken to reduce total future debt service payments. The transaction resulted in an economic gain of \$252,320 and a reduction of \$268,263 in future debt service payments.

The significant compliance provisions of the water and sewer system revenue bonds require 1) a debt service account will be established and credited monthly with one-sixth of the interest and principal due within the next six months with respect to all outstanding bonds payable from that accounts, 2) establish a reserve account equal to the maximum principal and interest due in any fiscal year; this account will be established from net revenues and 3) produce net revenues not less than 125% of maximum principal and interest due in any subsequent fiscal year. The City is in substantial compliance with the provisions of the water and sewer system revenue bonds.

CITY OF DILLON, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

7. CAPITAL LEASE OBLIGATION

On April 6, 2006, the City entered into a lease for a fire truck. The lease term is ten years payable in ten consecutive annual installments of \$14,981, including interest at 5%. The total amount capitalized of \$139,000 represents the present value of the future lease payments. The lease payable is recorded in the governmental general fund.

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

	Balance	Issuances	Repayments	Balance
	June 30, 2013			June 30, 2014
Fire truck capital lease	\$ 65,070	\$ -	\$ (5,822)	\$ 59,248

The following is a schedule, by year, of future minimum lease payments under capital lease for governmental activities, together with the present value of minimum lease payments at June 30, 2014:

	Principal	Interest	Total
Year ending June 30,			
2015	\$ 12,240	\$ 2,741	\$ 14,981
2016	12,844	2,137	14,981
2017	34,164	1,503	35,667
	\$ 59,248	\$ 6,381	\$ 65,629

8. INTERFUND TRANSFERS AND ASSETS/LIABILITIES

A summary of interfund transfers reported in the fund financial statements for the year ended June 30, 2014, follows:

	Transfers From						
	Governmental Funds			Proprietary Funds			
	General Fund	SID #37 District 10 Capital	Nonmajor Governmental	Water	Sewer	Total	
Transfers To	General Fund	\$ -	\$ -	\$ 600	\$ -	\$ 360	\$ 960
	SID #37 District 10 Capital	-	-	150,000	-	-	150,000
	Nonmajor Governmental	60,312	24,000	551,461	-	-	635,773
	Water Enterprise	-	-	-	-	301,830	301,830
		\$ 60,312	\$ 24,000	\$ 702,061	\$ -	\$ 302,190	\$ 1,088,563

CITY OF DILLON, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

8. INTERFUND TRANSFERS AND ASSETS/LIABILITIES (Continued)

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

A summary of advances from/to other funds at June 30, 2014, is as follows:

	<u>Advance To (Payable)</u>	<u>Advance From (Receivable)</u>	<u>Internal Balances</u>
Governmental activities:			
General fund	\$ (54,873)	\$ -	\$ (54,873)
Nonmajor governmental funds	(44,014)	-	(44,014)
Total governmental activities	<u>\$ (98,887)</u>	<u>\$ -</u>	<u>\$ (98,887)</u>
Business-type activities:			
Water	\$ -	\$ 116,825	\$ 116,825
Sewer	(17,938)	-	(17,938)
Total business-type activities	<u>\$ (17,938)</u>	<u>\$ 116,825</u>	<u>\$ 98,887</u>
	<u>\$ (116,825)</u>	<u>\$ 116,825</u>	<u>\$ -</u>

Interfund balances reported as Advances From or Advances To funds were interfund loans for the purpose of specific purchases. Loan documents with state rates of interest and amortization tables are kept and applied as loans are repaid.

9. EMPLOYEE RETIREMENT PLANS

Public Employees' Retirement System (PERS)

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

CITY OF DILLON, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

9. EMPLOYEE RETIREMENT PLANS (Continued)

Public Employees' Retirement System (PERS) (continued)

Contribution rates for the plan are required and determined by State law. Covered employees are required by State statute to contribute 7.9% of their salary to the plan. The City is required to contribute 8.07% of members' compensation. The State is required to contribute 0.1% of members' compensation (on behalf of the City), which was \$733 for fiscal year 2014. Whether the State of Montana or the local government employers are ultimately responsible for any underfunding of PERS is unclear in State law.

Total covered payroll for the City and total contributions to the plan by the employees and by the City for the year ended June 30, 2014 and the two previous years is presented in the following table:

<u>Year Ended June 30</u>	<u>Covered Payroll</u>	<u>Employee Contributions</u>	<u>Employer Contributions</u>	<u>Total Contributions</u>
2014	\$ 732,618	\$ 57,877	\$ 59,122	\$ 116,999
2013	585,194	40,199	41,189	81,388
2012	630,300	43,491	44,562	88,053

Municipal Police Officers' Retirement System (MPORS)

Funding is provided by local units of government, their covered employees, and the State of Montana. Participants are eligible for retirement benefits after 20 years of service and age 50. The minimum age requirement does not apply to participants first employed prior to July 1, 1975. The benefit is 1/2 of average monthly salary during the highest 36 consecutive months of earnings plus 1% of average monthly salary for each additional year of service in excess of 20 years, to a maximum of 60%. Benefits are paid as a modified cash refund annuity. Rights become vested after 5 years of service. Plan members are required to contribute 9% of their compensation. The City is required to contribute 14.41% of members' compensation. The State is required to contribute 29.37% of members' compensation (on behalf of the City), which was \$96,841 for fiscal year 2014.

Total covered payroll for the City and total contributions to the plan by the employees and by the City for the year ended June 30, 2014 and the two previous years is presented in the following table:

<u>Year Ended June 30</u>	<u>Covered Payroll</u>	<u>Employee Contributions</u>	<u>Employer Contributions</u>	<u>Total Contributions</u>
2014	\$ 329,726	\$ 29,391	\$ 47,058	\$ 76,449
2013	323,698	29,133	46,645	75,778
2012	317,891	28,610	45,808	74,418

CITY OF DILLON, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

10. CLASSIFICATION OF NET POSITION

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

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

Restricted – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provision or enabling legislation.

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

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

11. RISK MANAGEMENT

The City faces a considerable number of risks of loss, including: a) damage to and loss of property and contents, b) employee torts, c) professional liability, i.e., errors and omissions, d) environmental damage, e) workers' compensation, i.e., employee injuries, and f) medical insurance costs of employees.

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

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

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

CITY OF DILLON, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

11. RISK MANAGEMENT (Continued)

In 1986, the City joined together with other Montana cities to form the Montana Municipal Interlocal Authority (MMIA), which established a workers' compensation plan and a tort liability plan, both public entity risk pools currently operating as common risk management and insurance programs for the member governments. The liability limits are \$750,000 per person and \$1.5 million per accident, except if any one occurrence is not subject to government liability limitations in which case the limits are \$12.5 million per occurrence for any claim that is not subject to the limitations on government liability, as described in Montana Code Annotated Section 2-9-108 (the Statute) or any successor statute, either as matter of law, by operation of the Statute, or by a judicial determination that the Statute is inapplicable or is otherwise invalid, with a \$1,500 deductible per occurrence. State tort law limits the City's liability to \$1.5 million. The City has no excess policy coverage. The City pays an annual premium for its employee injury insurance coverage, which is allocated to the employer funds based on total budgeted salaries and wages and an annual premium for tort liability. This amount is allocated between the City's enterprise funds and the liability insurance fund based on total appropriations. The agreements for formation of the pools provide that they will be self-sustaining through member premiums. The tort liability plan and workers' compensation program issued \$4.41 million and \$6.155 million, respectively, of bonds to immediately finance the necessary insurance reserves. All members signed a contingent note for a pro rata share of this liability in case operating revenues were insufficient to cover the debt service; this debt was retired during 2011.

The City also owns a policy with MMIA for loss or damage to property. This is an all risk policy, essentially all property owned by the City being insured for 100% of replacement cost, subject to a \$1,000 (vehicle) or \$1,000 (real and personal property) deductible per occurrence. MMIA reinsures their property insurance with a national municipal pool, Public Entities' Property Insurance.

12. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

In addition to providing a deferred compensation plan, the City provides other post-employment benefits (OPEB) allowing its retired employees to continue their medical, dental and vision care coverage through the City's group health plan until death (Retiree Health Plan). The plan allows retirees to participate, as a group, at a rate that does not cover all of the related costs. This results in the reporting of an implied rate subsidy in the financial statements and footnotes. The City's contract with Allegiance Benefits details the plan eligibility. MMIA is the administrator of the benefit plan which covers both active and retired members. In accordance with MCA 2-18-704, the City's retirees may continue coverage for themselves and their covered eligible dependents if they are eligible for public employees' retirement by virtue of their employment with the City of Dillon. The City's current labor contracts do not include any obligations for payments to retirees. The City also allows terminated employees to continue their health care coverage for 18 months past the date of termination as required by the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA).

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

Funding Policy. The City pays the costs for plan members receiving benefits on a pay-as-you-go basis. A trust fund for future liabilities has not been established.

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

CITY OF DILLON, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

12. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

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

Annual required contribution	\$ 63,712
Interest on net OPEB obligation	8,076
Adjustment to annual required contribution	<u>(6,730)</u>
Annual OPEB cost (expense)	65,058
Contributions made	<u>-</u>
Increase in net OPEB obligation	65,058
Net OPEB obligation - beginning of year	<u>201,894</u>
Net OPEB obligation - end of year	<u><u>\$ 266,952</u></u>

The June 30, 2014, year-end OPEB obligation is reported in the City's funds as follows:

Functions/Programs	FY 2014 Expense	Net OPEB Obligation at Year End
Primary Government:		
Governmental activities:		
General government	\$ 7,612	\$ 32,747
Public safety	24,662	102,602
Public works	10,048	37,281
Public health	812	3,283
Social and economic	1,827	8,018
Culture and recreation	<u>5,785</u>	<u>24,295</u>
Total governmental activities	<u>50,746</u>	<u>208,226</u>
Business-type activities:		
Water	7,156	29,363
Sewer	<u>7,156</u>	<u>29,363</u>
Total business-type activities	<u>14,312</u>	<u>58,726</u>
Total primary government	<u><u>\$ 65,058</u></u>	<u><u>\$ 266,952</u></u>

CITY OF DILLON, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

12. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

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

Actuarial Methods and Assumptions. The following key assumptions were chosen by the City:

1. Average age of retirement (based on historical data): 62
2. Discount Rate: 4.0%
3. Average Salary Increase: 2.0%
4. Healthcare Cost Increases (based on Federal Office of the Actuary data): 3.8% for 2013, 5.3% for 2014, 5.3% for 2015, 6.0% for 2016, 6.4% for 2017, 6.6% for 2018, 6.6% for 2019 and thereafter.

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

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

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

13. FIRE DEPARTMENT RELIEF ASSOCIATION DISABILITY AND PENSION FUND

City volunteer fire fighters are covered by the Fire Department Relief Association Disability and Pension Fund, which is established by state law. The Association is managed by a Board of Trustees made up of members of the fire department and is accounted for as a pension trust 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. Volunteers serving less than 20 years but more than 10 years may receive reduced benefits. The amount of the pension benefits are set by the Association's Board of Trustees.

CITY OF DILLON, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

13. FIRE DEPARTMENT RELIEF ASSOCIATION DISABILITY AND PENSION FUND (Continued)

The City is required to soundly fund the Volunteer Fire Department pension plan. The plan is considered to be funded soundly if: (a) assets in the fund are maintained at a level equal to at least 0.21% but no more than 0.52% of the total assessed value of taxable property, determined as provided in 15-8-111, within the limits of the city or town; or (b) funding is maintained at a level determined by an actuarial valuation to be sufficient to keep the fund actuarially sound. Accordingly, the City has funded the plan by maintaining assets in excess of the 0.21% of the total assessed value of taxable property. Consequently, the City did not contribute to the fund during the year ended June 30, 2014.

14. DEFICIT FUND BALANCE

At June 30, 2014, the funds listed below had fund balance deficits. The deficit balances do not represent any type of legal violation, and it is the City management's opinion that the deficits will be eliminated by additional grant funding, collection of long-term receivables, or transfers from other funds.

Debt Service Funds		
Judgment Debt Service - Williams	\$	1,115
Special Revenue Funds		
Gas Tax		44,014

15. MAJOR PURPOSE PRESENTATION

The table presented below displays the City's fund balances by major purpose, as displayed on page II-14 of the governmental funds balance sheet. Statement 54 requires the disclosure of the purpose of each Major Special Revenue Fund.

	General Fund	SID #34 - Dew Area Paving	SID #37 - District 10 Capital Project	Nonmajor Governmental Funds	Total Governmental Funds
Restricted					
General government	\$ -	\$ -	\$ -	\$ 446,975	\$ 446,975
Public safety	-	-	-	126,437	126,437
Public works	-	87,352	76,286	1,278,576	1,442,214
Public health	-	-	-	363	363
Social and economic	-	-	-	114,588	114,588
Culture and recreation	-	-	-	115,274	115,274
Housing and community development	-	-	-	401	401
Total restricted	-	87,352	76,286	2,082,614	2,246,252
Unassigned	240,521	-	-	(45,129)	195,392
Total fund balances	\$ 240,521	\$ 87,352	\$ 76,286	\$ 2,037,485	\$ 2,441,644

CITY OF DILLON, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

16. PENDING LITIGATION

Estate of Peggy Salvo v. City of Dillon

The Estate of Peggy Salvo has filed an alleged claim of negligence against the City Water and Sewer department and seeks damages of approximately \$15,000. At this time, the City is intends to vigorously defend against this claim and believes it will be successful in the outcome of the case, but there is a risk in the outcome of any lawsuit.

17. SUBSEQUENT EVENTS

Date of Management Evaluation

Management has evaluated subsequent events through February 18, 2015, the date on which the financial statements were available to be issued.

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

CITY OF DILLON, MONTANA
SCHEDULE OF FUNDING PROGRESS - OTHER POST-EMPLOYMENT HEALTHCARE BENEFITS
For the Year Ended June 30, 2014

The annual OPEB costs, the percentage of OPEB cost contributed to the plan, and the net OPEB obligation for June 30, 2014 for the Retiree Health Plan are as follows:

ANNUAL OPEB COST				
	Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
Retiree Health Plan	6/30/2012	\$ 46,567	0.00%	\$ 139,701
	6/30/2013	\$ 62,193	0.00%	\$ 201,894
	6/30/2014	\$ 65,058	0.00%	\$ 266,952

The funded status of the plan was as follows:

FUNDED STATUS	
(a) Actuarial accrued liability (AAL)	\$ 297,113
(b) Actuarial value of plan assets (UAAL)	-
Unfunded actuarial accrued liability (funding excess) [(a) - (b)]	\$ 297,113
Funded ratio (b) / (a)	0.0%
(c) Covered payroll	\$ 1,150,789
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll ((a) - (b)) / (c)	26%

SCHEDULE OF FUNDING PROGRESS							
	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
Retiree Medical Plan	7/1/2009	\$ -	\$ 304,692	\$ 304,692	0%	\$ 1,090,827	28%
	7/1/2012	\$ -	\$ 297,113	\$ 297,113	0%	\$ 1,150,789	26%

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

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
Budgetary fund balance, July 1	\$ 231,790	\$ 231,790	\$ 231,790	\$ -
Resources (inflows):				
Taxes	391,653	416,680	386,656	(30,024)
Licenses and permits	29,600	30,100	32,187	2,087
Intergovernmental	520,861	538,961	645,190	106,229
Charges for services	4,650	16,550	15,487	(1,063)
Fines and forfeitures	63,700	63,990	79,858	15,868
Interest on investments	10,000	10,000	4,334	(5,666)
Transfers from other funds	48,709	48,709	960	(47,749)
Other	28,500	32,400	34,579	2,179
	<u>1,329,463</u>	<u>1,389,180</u>	<u>1,431,041</u>	<u>41,861</u>
Amounts available for appropriation				
Charges to appropriations (outflows):				
Current				
General government	293,545	362,367	307,356	55,011
Public safety	647,879	651,406	708,903	(57,497)
Public works	17,392	17,392	144	17,248
Public health	16,635	16,860	15,662	1,198
Culture and recreation	46,682	48,482	33,746	14,736
Housing and community development	10,000	10,000	-	10,000
Other	-	-	-	-
Capital outlay	1,000	54,700	56,332	(1,632)
Debt service	43,976	43,976	8,065	35,911
Transfers to other funds	8,000	8,000	60,312	(52,312)
	<u>1,085,109</u>	<u>1,213,183</u>	<u>1,190,520</u>	<u>22,663</u>
Total charges to appropriations				
Budgetary fund balance, June 30	<u>\$ 244,354</u>	<u>\$ 175,997</u>	<u>\$ 240,521</u>	<u>\$ 64,524</u>

See the Independent Auditors' Report.

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

Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

Year Ended June 30, 2014

	<u>General Fund</u>
Sources/inflows of resources	
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 1,431,041
Differences - budget to GAAP:	
The fund balance at the beginning of the year is a budgetary resource but is not a current-year revenue for financial reporting purposes.	(231,790)
Transfers from other funds are inflows of budgetary resources but are not <i>revenues</i> for financial reporting purposes.	<u>(960)</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u><u>\$ 1,198,291</u></u>
 Uses/outflows of resources	
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 1,190,520
Differences - budget to GAAP:	
Transfers to other funds are outflows of budgetary resources but are not <i>expenditures</i> for financial reporting purposes.	<u>(60,312)</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u><u>\$ 1,130,208</u></u>

See the Independent Auditors' Report.

PART III

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



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

The Honorable Mayor and City Council of the
City of Dillon, 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 Dillon, Montana, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City of Dillon, Montana's basic financial statements, and have issued our report thereon dated February 18, 2015.

Internal Control over Financial Reporting

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

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2014-I1 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2014-I2 and 2014-I3 to be significant deficiencies.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Dillon Montana's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompany Schedule of Findings and Responses as items 2014-C1 and 2014-C2.

City of Dillon, Montana's Response to Findings

City of Dillon, Montana's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. City of Dillon, Montana's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

Amatics CPA Group

Bozeman, Montana
February 18, 2015

**CITY OF DILLON, MONTANA
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2014**

The results of our tests disclosed two instances of noncompliance with certain provisions of laws, regulations, contracts and grant agreements and other matters, one internal control deficiency considered to be material weaknesses, and two internal control deficiencies considered to be significant deficiencies, which were required to be reported under *Government Auditing Standards* as of June 30, 2014.

2014-C1 Criteria: In accordance with Montana Code Annotated (MCA) 7-6-207(2), the governing body shall accept and approve and make a complete minute entry of the acceptance and approval of pledged securities at least quarterly.

Condition: Based on our inquiry and review of the meeting minutes, it appears the City Council has not been accepting and approving the pledged securities on at least a quarterly basis.

Effect: The City is out of compliance with the MCA pledged securities requirements.

Cause: The City Council was provided with the documentation related to the pledged securities but was not recording a complete minute entry of the acceptance and approval of the pledged securities.

Recommendation: The City Council should record a complete minute entry of the acceptance and approval of the pledged securities at least quarterly.

Response: With the change in the Treasurer position, the presentation of the pledged collateral reports from the Treasurer was neglected during the transition period. The fact that the report should be presented on a quarterly basis will be corrected in the future.

2014-C2 Criteria: According to MCA 7-6-4003, the local government's final budget must be submitted with a statement of tax levies to the Department of Administration by the later of October 1 or 60 days after receipt of taxable values from the Department of Revenue.

Condition: The City did not submit the final budget for the year ending June 30, 2014, to the Department of Administration.

Effect: The City is out of compliance with State requirements.

Cause: The budget was prepared and approved by the City; however, the final budget was not submitted to the Department of Administration.

Recommendation: The City needs to provide the final approved budget to the Department of Administration as required by MCA 7-6-4003.

Response: The City has sent the final 2013-2014 budget to the Department of Revenue at their request after self-reporting our omission. There are no penalties associated with the late filing to the State, and we are in compliance for the current 2014-2015 fiscal year.

CITY OF DILLON, MONTANA
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
JUNE 30, 2014

We noted the following material weakness in internal control for the year ended June 30, 2014.

- 2014-I1** Criteria: Enterprise funds should be accounted for using the accrual basis of accounting.
- Condition: The City's year-end balances for its water and sewer funds were not fully adjusted in accordance with the accrual basis of accounting.
- Effect: The City has a material weakness over financial reporting as material adjusting journal entries were required to correct accrual-related misstatements in the City's financial statements.
- Cause: The City failed to correctly adjust its year-end balances for accrual items such as accrued interest, amortization of bond premiums, bond issuance costs, and fixed assets.
- Recommendation: The City staff should review its internally generated financial statements against the Annual Financial Report prepared by the outside third party to determine that their balances agree with those reported on the Annual Financial report, and the City should review all enterprise balances to determine that appropriate year-end accrual adjustments have been made.
- Response: Near the end of the fiscal year, a new Treasurer was appointed to the City Treasurer position. The City knew that a training period was required so an outside accountant was hired to help with the financial statements. The City will review all enterprise balances to determine that appropriate year-end accrual adjustments have been made. The City wants it known that at no time were there insufficient fund balances to pay the principal and interest on any of the enterprise debt issues.

We noted the following significant deficiencies in internal control for the year ended June 30, 2014.

- 2014-I2** Criteria: There is an inadequate segregation of duties with regard to the City Court cash disbursements.
- Condition: The City Judge writes checks, has signing authority, and is the only person who receives a copy of the Court's bank statement.
- Effect: A misstatement, including one due to theft or error, could go undetected.
- Cause: Due to limited staff size adequate segregation of duties (authorization, recording and custody of assets) is difficult to achieve.
- Recommendation: Another staff person, such as the Treasurer or City Clerk, should receive a copy of the Court's bank statement to review.
- Response: The bank statement will be mailed directly to the City Clerk who will provide a photocopy of it to the Court. After the Court completes its monthly reconciliation it will provide a photocopy of the reconciliation report to the Clerk to compare with the bank statement.

CITY OF DILLON, MONTANA
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
JUNE 30, 2014

2014-I3

Criteria: There is an inadequate segregation of duties with regard to the City Court cash receipts.

Condition: The City Court Clerk enters the fines, receives the cash and has the ability to create adjustments in Full Court.

Effect: A misstatement, including one due to theft or error, could go undetected.

Cause: Due to limited staff size adequate segregation of duties (authorization, recording and custody of assets) is difficult to achieve.

Recommendation: Another staff person, such as the Judge, could review a monthly adjustments report.

Response: The Judge will review an adjustments report and sign off on all adjustments at the end of each month. A photocopy of the adjustments report will be provided to the Clerk.

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

The results of our tests disclosed two instances of noncompliance with certain provisions of laws, regulations, contracts and grant agreements and other matters and one internal control deficiency considered to be a material weaknesses, which were required to be reported under *Government Auditing Standards* as of June 30, 2013.

2013-C1 Criteria: In accordance with Montana Code Annotated (MCA) 7-6-207(2), the governing body shall accept and approve and make a complete minute entry of the acceptance and approval of pledged securities at least quarterly.

Condition: Based on our inquiry and review of the meeting minutes, it appears the City Council has not been accepting and approving the pledged securities on at least a quarterly basis.

Effect: The City is out of compliance with the MCA pledged securities requirements.

Cause: The City Council was provided with the documentation related to the pledged securities but was not recording a complete minute entry of the acceptance and approval of the pledged securities.

Recommendation: The City Council should record a complete minute entry of the acceptance and approval of the pledged securities at least quarterly.

Status: See current year finding 2014-C1.

2013-C2 Criteria: In accordance with MCA 2-18-617, annual vacation leave may be accumulated to an amount not to exceed two times the maximum number of days earned annually as of the end of the first pay period of the next calendar year. Excess vacation time is not forfeited if taken within 90 calendar days from the last day of the calendar year in which the excess was accrued.

Condition: We noted one employee who had annual vacation leave exceeding the maximum allowed per the above criteria.

Effect: The employees did not use the excess leave by the 90 day deadline nor was it forfeited.

Cause: The City was aware of the MCA requirements; however, with the change in the Clerk position during the current year, review of vacation accruals and notification to the employees of any excess vacation was inadvertently missed.

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

Status: This was resolved during the fiscal year ending June 30, 2014, as no employees had excess vacation.

CITY OF DILLON, MONTANA
STATUS OF PRIOR YEAR FINDINGS (CONTINUED)
JUNE 30, 2014

2013-II

Criteria: Enterprise funds are accounted for using the accrual basis of accounting.

Condition: The City's year-end balances for its water and sewer funds were not fully adjusted for the accrual basis of accounting.

Effect: The City has a material weakness over financial reporting as material adjusting journal entries were required to correct accrual-related misstatements in the City's financial statements.

Cause: The City failed to correctly adjust its year-end balances for accrual items such as accrued interest, bond issuance costs, and fixed assets.

Recommendation: The City staff should review its internally generated financial statements against the Annual Financial Report prepared by the outside third party to determine that their balances agree with those reported on the Annual Financial report, and the City should review all enterprise balances to determine that appropriate year-end accrual adjustments have been made.

Status: See current year finding 2014-II.



February 18, 2015

To the Honorable Mayor, Clerk, and the City Commissioners of
City of Dillon, Montana:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Dillon, Montana for the year ended June 30, 2014. Professional standards require that we communicate to you the following information related to our audit.

Our Responsibilities under U.S. Generally Accepted Auditing Standards and Governmental Auditing Standards

As stated in our engagement letter dated August 7, 2014, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the City of Dillon, Montana. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the City of Dillon, Montana's compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with those provisions is not an objective of our audit.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on December 9, 2014.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Dillon are described in Note 1 to the financial statements. The City implemented GASB statement 65 during the year ended June 30, 2014. This statement did not have a material effect on the City's financials. The application of existing policies was not changed during the year ended June 30, 2014. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.



Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was management's estimate of capital assets as the useful lives, potential impairments, and depreciation are estimates the calculation of the other post-employment benefits (OPEB) liability, which is based on assumptions provided by the City's benefit provider. We evaluated the key factors and assumptions used to develop the estimates in determining that the capital asset balances are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were the disclosure of the summary of significant accounting policies in Note 1 and the disclosure of capital assets in Note 4.

The disclosures in the financial statements are neutral, consistent and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The attached schedule summarizes all misstatements detected as a result of audit procedures and corrected by management. The adjustment to adjust accrued interest for the enterprise funds to actual, the adjustment to correct the amortization of bond premiums, the adjustment to write-off bond issuances costs pursuant to GASB 65, and the adjustment for the enterprise fund bond accounts are considered to be aggregately material to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 18, 2015.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or, a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and audit standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

The intent of the following information is to communicate to you other recommendations based on our observations during the audit. The summaries below are suggestions of importance that we believe warrant your attention.

Current Year Observations and Recommendations

- I. *Observation:* During our testing of payroll transactions, we noted that written record of the employees pay rates was not being maintained in personnel files.
- Recommendation:* The City should maintain written documentation of not only current pay rates but also prior pay rates.
- Response:* The City did not know of the requirement of storing a written payroll record of each personnel in their files, but it is in the process of adding the current pay rates into each employee's file and any changes that may occur.
- II. *Observation:* During our testing of payroll transactions, we noted several instances where the employee's time cards show no evidence of supervisor approval, which is one of the controls in place.
- Recommendation:* The City should makes sure that supervisors are approving employee time cards as part of their internal control process.
- Response:* The City is in the process of changing their payroll control system to verify, among other reasons, that all employees' time cards are approved by their supervisor or the Mayor.
- III. *Observation:* Pursuant to MCA 7-6-4005, a local government should not expend money in excess of appropriations for the fund. We noted three funds, PERS Employer Contribution Special Revenue, Lighting District #33 Special Revenue, and SID #33 Paving Debt Service Fund with actual expenditures that exceeded budgeted by amounts not considered to be material to the opinion unit.
- Recommendation:* The City should review expenditures in comparison to budget to make sure appropriations are not exceeded.
- Response:* The City is in the process of implementing a purchase order and project numbering control systems to control the amount and type of spending. This should allow a much tighter control over spending beyond the budgeted amounts in all funds.
- IV. *Observation:* The Gas Tax Fund is currently carrying a deficit fund balance, and for the fiscal year ending June 30, 2014, the fund was budgeted for a loss, and actual expenditures exceeded revenues to the extent that as of June 30, 2014, the fund currently has a \$0 cash balance with an amount owed to another fund of \$44,014.
- Recommendation:* As part of the budgeting process and financial review throughout the year, the City should attempt to maintain cash reserves to help pay for the next fiscal year's payment due on the advance.
- Response:* We have budgeted revenues to exceed expenditures in the Gas Tax Fund for 2014-2015, which will increase the fund's cash balance at the end of the fiscal year. Budgeted expenditures includes the inter-fund loan payment on the 2012 loan to purchase a property to join two Walnut Street sections.

Prior Year Observations and Recommendations

- I. *Observation:* All employees are required to have a Form W-4, *Employee's Withholding Allowance Certificate*, and all employees hired after November 6, 1986 are required to have a completed Form I-9, *Employment Eligibility Verification*, on file. A review of a sample of payroll files noted one instance where no Form W-4 was in the employee's file and two instances where the Form I-9 was completed by the employees; however, the employer portion of the Form I-9 was not completed.
- Recommendation:* The City should review its personnel files to determine that the appropriate forms are present and completed in their entirety.
- Status:* The City has reviewed its files and corrected the any missing documents or information.

Other Matters

We applied certain limited procedures to the Management Discussion and Analysis, the Schedule of Funding Progress – Other Post-Employment Healthcare Benefits, and Budgetary Comparison – General Fund, which are required supplementary information (RSI) that supplement the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit RSI and do not express an opinion or provide any assurance on the RSI.

We were not engaged to report on the introductory section, which accompanies the financial statements but is not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

This information is intended solely for the use of management and City Council of the City of Dillon and the Montana Department of Administration and is not intended to be, and should not be, used for any other purpose.

Sincerely,

Amatics CPA Group

Attachment

CITY OF DILLON
JUNE 30, 2014 AUDIT
PROPOSED ADJUSTING JOURNAL ENTRIES

Fund	Account	Debit	Credit
5210 206100	Accrued payable	23,384.00	
5210 490200-620	Interest expense		23,384.00
5230 206100	Accrued payable	11,086.00	
5230 205200	Accrued bond interest payable		1,653.29
5230 490200-620	Interest expense		9,432.71
5231 206100	Accrued payable	14,142.00	
5231 205200	Accrued bond interest payable	5,881.67	
5231 490200-620	Interest expense		20,023.67
5330 206100	Accrued payable	15,627.00	
5330 205200	Accrued bond interest payable	5,275.89	
5330 490200-620	Interest expense		20,902.89
5340 205200	Accrued bond interest payable	2,902.00	
5340 490200-620	Interest expense		2,902.00
<i>[To adjust accrued interest to actual.]</i>			
5210 222000	Premium on Bonds Issued		879.93
5210 490200-620	Interest expense	879.93	
5230 222000	Premium on Bonds Issued	516.39	
5230 232200	Premium on Bonds Issued		29,332.60
5230 490200-620	Interest expense	28,816.21	
5231 222000	Premium on Bonds Issued	686.43	
5231 232200	Premium on Bonds Issued		16,358.47
5231 490200-620	Interest expense	15,672.04	
5330 222000	Premium on Bonds Issued	1,599.88	
5330 232200	Premium on Bonds Issued		25,419.85
5330 490200-620	Interest expense	23,819.97	
5340 232200	Premium on Bonds Issued		9,436.44
5340 490200-620	Interest expense	9,436.44	
<i>[To adjust bond premiums to actual.]</i>			
5230 490200-620	Interest expense	17,260.43	
5230 176100	Unamortized bond costs		17,260.43
5231 490200-620	Interest expense	22,558.98	
5231 176100	Unamortized bond costs		22,558.98
5330 490200-620	Interest expense	40,461.67	
5330 176100	Unamortized bond costs		40,461.67
5340 490200-620	Interest expense	176,254.13	
5340 176000	Unamortized bond costs		176,254.13
<i>[To write off bond issuance costs per GASB 65.]</i>			

CITY OF DILLON
JUNE 30, 2014 AUDIT
PROPOSED ADJUSTING JOURNAL ENTRIES

Fund	Account	Debit	Credit
5230 204000	Current portion notes		157,092.00
5230 231000	Bonds payable	718,218.20	
5230 231300	Bonds payable - revenue bonds		558,694.92
5230 490200-620	Interest expense		2,431.28
5231 204000	Current portion notes		142,018.00
5231 231000	Bonds payable	950,271.86	
5231 231300	Bonds payable - revenue bonds		804,755.20
5231 490200-620	Interest expense		3,498.66
5330 204000	Current portion notes		295,890.00
5330 231000	Bonds payable	1,696,509.94	
5330 231300	Bonds payable - revenue bonds		1,386,549.88
5330 490200-620	Interest expense		14,070.06
	<i>[To adjust revenue bonds to actual.]</i>		
1000 120000	Customer Receivables	10,842.00	
1000 220000	Deferred Revenue		10,842.00
	<i>[To record court receivable and deferred revenue.]</i>		
5210 430500-300	Water OPEB Expense	7,156.00	
5210 238000	OPEB Payable		7,156.00
5310 430600-300	Sewer OPEB Expense	7,156.00	
5310 238000	OPEB Payable		7,156.00
9500 174300	Amt to be provided - other	50,746.00	
9500 238000	OPEB Payable		50,746.00
	<i>[To adjust OPEB for change in calculation.]</i>		
1000 420000	Public Safety Expense		95,070.00
1000 330000	Intergovernmental Revenue	95,070.00	
	<i>[To reverse prior year MPORS state contribution recorded in current year.]</i>		
3500 119000	Special Assessments Receivable - Deferred	269.43	
3500 223300	Deferred Revenue - Special Assessment		269.43
3510 119000	Special Assessments Receivable - Deferred	15,563.51	
3510 223300	Deferred Revenue - Special Assessment		15,563.51
3520 119000	Special Assessments Receivable - Deferred		4,707.86
3520 223300	Deferred Revenue - Special Assessment	4,707.86	
	<i>[To adjust deferred SID receivables to actual.]</i>		

CITY OF DILLON
STATEMENT OF NET POSITION - CONVERSION WORKSHEET
JUNE 30, 2014

	<u>Total Governmental Funds</u>	<u>Dr. (Cr) Adjustments</u>	<u>Dr. (Cr) Reclassifications</u>	<u>Total Governmental Activities</u>
ASSETS				
Cash and investments	2,448,532	-	(1)	2,448,532
Restricted cash and investments	5,106			5,106
Receivables, net	1,773,031		(12)	1,773,031
Prepaid expenses	-			-
Deferred charges	-	-	(12)	-
Internal balances	-	-	(1)	-
Unamortized bond issuance costs	-	-	(5)	-
Capital assets (Note 1):				
Land	-	250,112	(2)	250,112
Construction in progress	-	4,910	(2)	4,910
Other capital assets, net of depreciation	-	-	(12)	3,241,950
		3,481,156	(2)	
		(239,206)	(8)	
	-			
Total assets	<u>4,226,669</u>			<u>7,723,641</u>
LIABILITIES				
Accounts payable and accrued expenses	-	-	(3)	-
Advances payable	98,887			98,887
Compensated absences payable	-		(94,977) (C)	94,977
Due to other governments	-			-
Deferred inflows of resources	1,686,138	1,645,189	(4)	-
		40,949	(12)	
Current portion long-term debt	-		(368,492) (A)	368,492
Current portion capital lease	-		(12,240) (A)	12,240
Long-term liabilities (Note 2)				-
OPEB	-	(50,746)		208,226
		(157,480)	(3)	
		-	(13)	
Compensated absences	-	(1)		40,704
		(121,460)	(3)	
		(14,221)	(11)	
Capital liabilities	-	(65,070)	12,240	47,008
		5,822		
Due in more than one year	-	(4,445,583)	(3)	4,131,147
		(54,056)	(10)	
				-
Total liabilities	<u>1,785,025</u>			<u>5,001,681</u>
NET POSITION				
Net investment in capital assets	-		(360,507) (F)	360,507
Nonspendable	-		-	-
Restricted	2,246,252		-	2,246,252
Committed	-		-	-
Assigned	-	-	-	-
Unassigned	195,392		195,392 (F)	-
Unrestricted	-	(280,316)	165,115 (F)	115,201
Total net position	<u>2,441,644</u>			<u>2,721,960</u>
Total liabilities and net position	<u>4,226,669</u>			<u>7,723,641</u>

CITY OF DILLON
STATEMENT OF ACTIVITIES - CONVERSION WORKSHEET
JUNE 30, 2014

	<u>Total Governmental Funds</u>	<u>Dr. (Cr) Adjustments</u>	<u>Dr. (Cr) Reclassifications</u>	<u>Total Governmental Activities</u>
REVENUES				
Taxes	\$ 1,510,322	(65,896) (4)	565,680 (E) 123,000 (H)	887,538
Local option taxes	-		(123,000) (H)	123,000
Licenses and permits	32,187		32,187 (E)	-
Intergovernmental	894,054		894,054 (G)	-
Grants and cont - unrestricted			(546,970) (G)	546,970
Operating grants and cont			(347,084) (G)	347,084
Capital grants and cont		-	-	-
Charges for services	79,550		(801,654) (E)	881,204
Fines and forfeitures	79,858	(10,842) (12)	90,700 (E)	-
Interest on investments	11,170	-	-	11,170
Other	150,713		113,087 (G)	37,626
Total revenues	<u>2,757,854</u>			<u>2,834,592</u>
EXPENDITURES				
Current				
General government	500,807	9,345 (8) 2,133 (11) 7,612 (13)		519,897
Public safety	913,610	34,970 (8) 6,911 (11) 24,662 (13)		980,153
Public works	280,748	183,178 (8) 2,816 (11) 10,048 (13) -		476,790
Public health	15,662	228 (11) 812 (13) -		16,702
Social and economic services	-	2,794 (8) 512 (11) 1,827 (13)		5,133
Housing and community	-			-
Culture and recreation	33,746	8,919 (8) 1,621 (11) 5,785 (13)		50,071
Other	398,157	-		398,157
Capital outlay	449,568	(449,568) (2)		-
Debt service				
Principal payments	351,766	(351,766) (10)		-
Interest and fiscal fees	171,281	47,226 (5)		218,507
Total expenditures	<u>3,115,345</u>			<u>2,665,410</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	786,733	-	786,373 (D)	360
Operating transfers out	(786,373)	-	(786,373) (D)	-
Bond issuance costs	-	-		-
Proceeds of long-term debt	400,000	400,000 (10)		-
Gain (loss) sale of fixed assets	-	4,880 (2)		(4,880)
Total other financing sources (uses)	<u>400,360</u>			<u>(4,520)</u>
Net change in fund balances	42,869			164,662
FUND BALANCE -				
beginning of year	2,398,775	(158,523)		2,557,298
Prior Period Adjustment	<u>-</u>	-	(3)	<u>-</u>
FUND BALANCE -				
end of year	<u>\$ 2,441,644</u>			<u>\$ 2,721,960</u>

CITY OF DILLON
ADJUSTING JOURNAL ENTRIES - CONVERSION WORKSHEET
JUNE 30, 2014

Adjusting Entry Number	Account	Debit	Credit
(2)	Land	250,112	
	Construction in progress	4,910	
	Other capital assets, net of depreciation	3,481,156	
	Donated capital assets	-	
	Loss on sale of capital assets	4,880	
	Capital asset expenditures		449,568
	Net position - beginning		3,291,490
	To record capital assets and to capitalize capital asset expenditures.		
(3)	Net position - beginning	4,789,593	
	OPEB		157,480
	Long-term debt - capital leases		65,070
	Long-term debt - Due in more than one year		4,445,583
	Long-term compensated absences		121,460
	To record beginning balance in long-term liabilities.		
(4)	Deferred inflows of tax revenues & special assessments	1,645,189	
	Net position - beginning		1,579,293
	Property tax revenue	(65,896)	
	To adjust revenue based on modified accrual accounting in the fund financial statements to the accrual basis for the government-wide financial statements for property taxes.		
(5)	Debt service - interest expense	47,226	
	Bond issuance costs	-	
	Net assets -beginning		47,226
	To adjust for write-off of bond issuance costs per GASB 65		
(8)	General government expenditure	9,345	
	Public safety expenditure	34,970	
	Public works expenditure	183,178	
	Social and economic expenditures	2,794	
	Culture and recreation expenditure	8,919	
	Other capital assets, net		239,206
		To record depreciation expense and allocate to governmental activities.	
(10)	Capital debt issued other financing source	400,000	
	Debt service - principal expenditure		351,766
	Capital lease	5,822	
	Long-term liabilities more than one year	(54,056)	
	To adjust debt related other financing source and uses to zero and to adjust effect on long-tem liabilities.		

(11)	General Government Expenditures	2,133	
	Public Safety Expenditures	6,911	
	Public Works Expenditures	2,816	
	Public Health Expenditures	228	
	Social & Economic	512	
	Culture and Recreation	1,621	
	Long-term compensated absences		14,221

To adjust for change in compensated absences in current year.

(12)	Deferred inflows of court revenues	40,949	
	Fines and forfeitures		10,842
	Net position - beginning		30,107

To adjust revenue based on modified accrual accounting in the fund financial statements to the accrual basis for the government-wide financial statements for Municipal Court fine receivable.

(13)	General Government Expenditures	7,612	
	Public Safety Expenditures	24,662	
	Public Works Expenditures	10,048	
	Public Health Expenditures	812	
	Social & Economic	1,827	
	Culture and Recreation	5,785	
	OPEB		50,746

To adjust for change in OPEB in current year.

CITY OF DILLON
RECLASSIFICATION JOURNAL ENTRIES - CONVERSION WORKSHEET
JUNE 30, 2014

Reclassification			Debit	Credit
Entry	Account			
(A)	Long-term debt		368,492	
	Current Portion of Long-Term Debt			368,492
	Capital lease		12,240	
	Current Portion of Capital Lease			12,240
	To reclassify current portion of long-term debt.			
(C)	Long-term compensated absences payable		94,977	
	Compensated absences payable			94,977
	To reclass current portion of long-term compensated absences payable.			
(D)	Transfers in		786,373	
	Transfers out			786,373
	To offset transfers and correct internal service transfers.			
(E)	Fines and forfeitures revenues		90,700	
	Licenses and permits revenues		32,187	
	Special assessment revenues		565,680	
	Miscellaneous revenues		113,087	
	Charges for services revenues			801,654
	Reclass certain revenues into charges for services for reporting purposes.			
(F)	Net investment in capital assets			360,507
	Nonspendable		-	
	Restricted		-	
	Committed		-	
	Assigned		-	
	Unassigned		195,392	
Unrestricted net position		165,115		-
	To reclass to proper net position categories.			
(G)	Intergovernmental revenues		894,054	
	Unrestricted grants and contributions			546,970
	Capital grants and contributions			-
Operating grants and contributions			347,084	
	To reclass grants to those restricted for operations and capital purchases.			
(H)	Property taxes		123,000	
	Local option taxes			123,000
	To reclass local option taxes			