

TOWN OF EUREKA  
LINCOLN COUNTY, MONTANA  
Fiscal Year Ended June 30, 2014

**AUDIT REPORT**

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

TOWN OF EUREKA  
LINCOLN COUNTY, MONTANA

Fiscal Year Ended June 30, 2014

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TOWN OF EUREKA  
LINCOLN COUNTY, MONTANA

**ORGANIZATION**

Fiscal Year Ended June 30, 2014

**COUNTY OFFICIALS**

Lee Ann Schermerhorn

Mayor

**CITY COUNCIL**

Jennifer Hannay  
Ron McDole  
Rosalie Adatao  
Bill Savage

Council President  
Council Member  
Council Member  
Council Member

**CITY OFFICIALS**

Clif Hayden  
Stormy Langston  
Lisa Flynn  
Ian Jeffcock  
Roger Butler

Attorney  
City Judge  
Clerk / Treasurer  
Chief of Police  
Director of Public Works

TOWN OF EUREKA  
LINCOLN COUNTY, MONTANA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FISCAL YEAR ENDED JUNE 30, 2014

Our discussion and analysis of the Town of Eureka, Montana, offers readers of the Town of Eureka's financial statements this narrative overview of the financial activities of the Town of Eureka for the fiscal year ended June 30, 2014. We encourage our readers to consider the information presented as well as the additional information that we have furnished in our letter of transmittal, the basic financial statements, and the notes to those financial statements.

#### FINANCIAL HIGHLIGHTS

The Town's assets exceeded its liabilities as of June 30, 2014 by \$4,652,048 (net assets). This includes governmental funds and utility funds. The unreserved net assets may be used to meet the government's ongoing obligations to citizens and creditors.

The Town of Eureka's total net assets increased by \$22,622. As of June 30, 2014, the Town of Eureka's governmental funds reported combined ending fund balances of \$568,477, a decrease of \$49,126 in comparison with the prior year.

The Town of Eureka's total debt on June 30, 2014, is \$2,628,171. The Town got water system bonds from State Revolving Fund (SRF) for \$619,000 in 2002 and the principal balance is now \$287,000; wastewater bonds from Rural Development (RD) for \$1.03 million in 2003 with a current principal balance of \$887,290; a new water loan last year that became a Rural Development bond for \$964,000 with a loan balance of \$939,020. The wastewater project is finished; the final water project has been wrapped up and extended the water main two miles north of Town and constructed another water tank on the other side of town that has equalized the water pressures in town and has increased the fire flows.

#### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Town of Eureka's basic financial statements. These basic financial statements are comprised of three components: (1) the government-wide financial statements, (2) the fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information which will assist the reader in considering the financial state of the Town of Eureka.

#### GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to provide readers with a broad overview of the Town of Eureka's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the Town of Eureka's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town of Eureka is improving or deteriorating.

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LINCOLN COUNTY, MONTANA  
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FISCAL YEAR ENDED JUNE 30, 2014

The statement of activities presents information showing how the Town of Eureka's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses reported in this statement for some items will result in cash flows in future fiscal periods such as uncollected taxes and earned but unused vacation time.

Both of the government-wide financial statements include only the activities of the Town of Eureka. The Town does not have any component units. The government-wide financial statements are included in this report.

### FUND FINANCIAL STATEMENTS

A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Some funds are required to be established by State law and bond covenants; however, Town Council establishes other funds to help control and manage money for particular purposes. The Town of Eureka uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the Town's funds can be divided into three categories: government funds, proprietary funds, and fiduciary funds.

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

Because the focus of government funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term finance decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Town of Eureka maintains eleven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the Street Fund, which are considered to be major funds. The Street Fund does not always meet major fund criteria, but The Town has chosen to present this fund as a major Fund. Data from the remaining ten governmental funds are combined in a single, aggregated presentation. Individual fund data for each of the nine non-major governmental funds is provided in the form of combining statements later in this report.

The Town of Eureka does not have any Debt Service funds, Permanent funds, or Internal Service funds in fiscal year 2013-2014. The basic governmental fund financial statements are included in this report.

TOWN OF EUREKA  
LINCOLN COUNTY, MONTANA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FISCAL YEAR ENDED JUNE 30, 2014

PROPRIETARY FUNDS

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town of Eureka uses enterprise funds to account for Eureka Municipal Water and Wastewater utilities.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Eureka Municipal Water and Wastewater Utility, which are considered to be major funds of the Town of Eureka. Combining reports for the water and wastewater are included in the financial reports. The basic proprietary fund financial statements are included in this report.

FIDUCIARY FUNDS

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are excluded from the Town's other financial statements because the Town cannot use these assets to finance its operations. The fiduciary fund supported partially by the Town of Eureka is the Eureka Volunteer Firemen's Relief Association Fund, which pays pensions to retired volunteer firemen of the Town of Eureka. The basic fiduciary fund financial statements are included in this report.

NOTES TO FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found in the Annual Financial Report.

OTHER INFORMATION

In addition to the basic financial statements and notes that are included, required supplementary information presents a budgetary comparison schedule for the General Fund to demonstrate compliance with the budget.

The combining statements referred to earlier in connection with non-major governmental funds and other information related to the individual funds are presented immediately following the required supplementary information.

TOWN OF EUREKA  
LINCOLN COUNTY, MONTANA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FISCAL YEAR ENDED JUNE 30, 2014

**Table 1 - Net Position**

	Governmental Activities			Business-type Activities		
	<u>FY14</u>	<u>FY13</u>	<u>Change Inc (Dec)</u>	<u>FY14</u>	<u>FY13</u>	<u>Change Inc (Dec)</u>
Current and other assets	\$ 626,312	\$ 653,895	\$ (27,583)	\$ 440,142	\$ 381,135	\$ 59,007
Capital assets	605,607	543,465	62,142	5,608,158	5,721,309	(113,151)
Total assets	\$ 1,231,919	\$ 1,197,360	\$ 34,559	\$ 6,048,300	\$ 6,102,444	\$ (54,144)
Long-term debt outstanding	\$ 64,378	\$ 52,126	\$ 12,252	\$ 2,207,248	\$ 2,252,958	\$ (45,710)
Other liabilities	340,353	364,542	(24,189)	16,192	9,708	6,484
Total liabilities	\$ 404,731	\$ 416,668	\$ (11,937)	\$ 2,223,440	\$ 2,262,666	\$ (39,226)
Net investment in capital assets	\$ 605,607	\$ 543,465	\$ 62,142	\$ 3,494,848	\$ 3,544,928	\$ (50,080)
Restricted	426,921	437,175	(10,254)	109,567	107,666	1,901
Unrestricted (deficit)	(205,340)	(199,948)	(5,392)	220,445	187,184	33,261
Total net position	\$ 827,188	\$ 780,692	\$ 46,496	\$ 3,824,860	\$ 3,839,778	\$ (14,918)

**Table 2 - Changes in Net Position**

	Governmental Activities			Business-type Activities		
	<u>FY14</u>	<u>FY13</u>	<u>Change Inc (Dec)</u>	<u>FY14</u>	<u>FY13</u>	<u>Change Inc (Dec)</u>
<b>Revenues</b>						
<i>Program revenues (by major source):</i>						
Charges for services	\$ 145,379	\$ 329,209	\$ (183,830)	\$ 594,257	\$ 604,978	\$ (10,721)
Operating grants and contributions	73,376	33,117	40,259	36,054	12,653	23,401
<i>General revenues (by major source):</i>						
Property taxes for general purposes	213,984	163,477	50,507	-	-	-
Miscellaneous	935	1,457	(522)	-	-	-
Interest/investment earnings	2,594	1,768	826	279	-	279
Grants and entitlements not restricted to specific programs	112,631	108,822	3,809	-	-	-
Total revenues	\$ 548,899	\$ 637,850	\$ (88,951)	\$ 630,590	\$ 617,631	\$ 12,959
<b>Program expenses</b>						
General government	\$ 130,524	\$ 108,442	\$ 22,082			
Public safety	230,115	188,368	41,747			
Public works	88,344	79,691	8,653			
Public health	4,680	4,684	(4)			
Culture and recreation	23,765	170,058	(146,293)			
Housing and community development	10,530	17,189	(6,659)			
Miscellaneous	9,445	15,488	(6,043)			
Water				\$ 324,752	\$ 298,600	\$ 26,152
Sewer				320,756	313,900	6,856
Total expenses	\$ 497,403	\$ 583,920	\$ (86,517)	\$ 645,508	\$ 612,500	\$ 33,008
<b>Increase (decrease) in net position</b>	\$ 51,496	\$ 53,930	\$ (2,434)	\$ (14,918)	\$ 5,131	\$ (20,049)

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town of Eureka, assets exceeded liabilities by \$4,652,048 at year ended June 30, 2014.

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FISCAL YEAR ENDED JUNE 30, 2014

The Town of Eureka's investment in capital assets (e.g. land, buildings, equipment, water and wastewater infrastructure), less any related debt used to acquire those assets that is still outstanding is a large portion of the Town's net assets. The Town of Eureka uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Eureka's investment in its capital is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The Town does not capitalize the current streets as they were constructed prior to 1980. The Town plans to capitalize new streets, sidewalks, curbs, gutters, and storm drains at the time of construction or reconstruction of the existing streets, sidewalks, curbs, gutters, and storm drains. Unrestricted assets may be used to meet the government's ongoing obligations to citizens and creditors.

Current and other assets include cash, cash equivalents, taxes receivables, accounts receivables, and other receivables. The Town of Eureka does not have any outstanding debt, such as general obligation bonds, loans, contracts, in the governmental activities.

The governmental funds have total net assets of \$617,779. Included within the total net assets for all government funds are fund balances totaling \$171,138 for the year ended June 30, 2014, which is available for future spending. In comparison, total net assets as of June 30, 2013 totaled \$617,603. The unrestricted fund balances may be used to meet the government's ongoing obligations to citizens and creditors.

The total net assets of the Town of Eureka Municipal Water and Wastewater Utility, reported as business-type activities, decreased by \$14,918. The total unrestricted net assets are \$3,824,860 for the business activities.

#### GOVERNMENTAL ACTIVITIES

Governmental activities increased the Town of Eureka's net assets by \$22,622 accounting for less than 1% of the total \$4,652,048 in the net assets of the Town of Eureka. The Town's total revenues of \$432,739 were exceeded by total expenditures of \$497,403 for a decrease in governmental net assets of \$64,664 for the year ended June 30, 2014.

The cost of all governmental activities this year was \$497,403. Property taxes and federal and state shared revenue of \$399,991 accounted for sixty-five percent (73%) of the revenues used to finance governmental activities.

The Town's programs include General Government, Public Safety, Public Works, Public Health (animal control), Culture & Recreation, Housing & Community Development, and Miscellaneous. The net cost shows the financial burden that was placed on the Town's taxpayers by each of these functions. Program revenues (charges for services) are paid by those who directly benefit from the programs or by other sources such as fuel tax for streets.

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The sources of revenue are property taxes for general purposes, Grants and entitlement not restricted to specific program, investment earnings, charges for services, operating grants and contributions. Property taxes and assessments account for \$213,984 (or 39% of the total revenues), grants and entitlements not restricted account for \$112,631 (or 21%), , investment earnings account for \$2873 (1%); charges for services account for \$145,379 (26% of the total revenues), Operating grants and contributions account for \$73,376 (13%)

Public safety accounts for \$230,115 (or 46% of the total expenses), general government accounts for \$130,524 (or 26%), public works accounted for \$88,344 (or 18%), public health accounts for \$4,680 (or 1%), culture and recreation account for \$23,765 (or 5% of the total), housing and community development accounted for \$10,530 (or 2%), and miscellaneous accounted for \$9,445 (or 2%) of the total general expenditures of \$497,403 for the 2014 fiscal year.

#### BUSINESS-TYPE ACTIVITIES

Business-type activities (water and sewer) decreased the Town of Eureka's net assets by \$14,918.

Water utility revenues exceeded the expenditures by \$30,140. The current rates for the water utility were established by resolution dated July 11, 2011, and increase each year beginning February 2013 by the CPI. All water customers have been metered, and we bill for water used. On March 1, 2014, the water rates increased by the CPI to the current rate of \$33.40 flat rate; for metered customers, the rates are \$23.40, \$41.68, \$52.68, and \$166.51 for a ¾", 1", 1-1/2", and 2" respectively, plus \$2.00 per 1,000 gallons. Those rates increase each year by the cost price index per the resolution.

Wastewater or sewer operating utility expenditures exceeded revenues by \$45,058. The rates for the wastewater or sewer utility were established by Resolution on November 13, 2007, with hefty 14% annual increases for two years. The wastewater rates are a flat rate of \$42.48, \$69.70, \$163.99, and \$286.96 for ¾", 1", 1-1/2", and 2" respectively, plus 72 cents per 1000 gallons of water used after the first 5,000 gallons.

The revenues of the water utility included charges for services (operating revenues) and investment income. Charges for services are 90% of the revenues received for the water utility. The revenues of the sewer utility included charges for services (operating revenues) and investment income. Charges for services are 99.9% of the revenues received for the sewer utility.

#### FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

TOWN OF EUREKA  
LINCOLN COUNTY, MONTANA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FISCAL YEAR ENDED JUNE 30, 2014

## GOVERNMENTAL FUNDS

The focus of the Town of Eureka's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town of Eureka's financing requirements.

As of June 30, 2014, the Town of Eureka's governmental funds reported combined fund balances of \$568,477, a decrease of \$15,458 in comparison with the prior year. Some monies are restricted for insurance, streetlighting, street oiling and maintenance, and water and sewer reserves for loan payments.

The General Fund is the chief operating fund of the Town of Eureka. As of June 30, 2014, the cash available in the general fund was \$171,138. This unreserved balance is budgeted as cash available in 2014-2015 and represents approximately 47% of the total budgeted requirements of the general fund expenditures. The cash available decreased by \$15,638 in the fiscal year 2013-2014. Actual expenses in the general fund were less than budgeted by approximately 18% and actual general fund revenues were more than budgeted by 6%. Actual total revenues were less than budgeted revenues by 58% and total expenditures were less than budgeted by 66%; that is because we budgeted to receive and expend money for the water filtration system that did not begin in FY2014.

The Town of Eureka does not have a debt service fund. The Town of Eureka does not have any general obligation bonds outstanding (which would be paid by property taxes) at the present time. The Town of Eureka does not have Internal Service Funds or Permanent Funds.

The Town of Eureka maintains one Fiduciary Fund for the Firemen's Relief Association of the Town of Eureka. This fund receives revenue from property taxes and intergovernmental funds. The funds are disbursed to the Eureka Volunteer Firemen's Relief Association on a quarterly basis. The Association has their own governing board.

## PROPRIETARY FUND

The Town of Eureka's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. No property tax revenue was used to support business-type activities.

Net assets of the Water and Wastewater (Sewer) utilities as of June 30, 2014, were \$3,824,860. The Sewer utility net assets were \$1,602,772, a decrease of \$45,058 over the previous year. The Water utility net assets were \$2,222,088, an increase of \$30,140 over the previous year. The financial statements and a statement of cash flows for the enterprise funds can be found in this report.

## GENERAL FUND BUDGETARY HIGHLIGHTS

\*\*\*\* Budgets are adopted at the department level of expenditures. Differences between the original budget and the final budget were relatively minor.

TOWN OF EUREKA  
LINCOLN COUNTY, MONTANA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FISCAL YEAR ENDED JUNE 30, 2014

## CAPITAL ASSETS

The Town of Eureka's investment in capital assets for its governmental and business-type activities as of June 30, 2014 amounts to a cost of \$4,100,455 net value after deducting accumulated depreciation. This investment in capital assets includes land, buildings, improvements other than buildings, machinery and equipment, infrastructure, construction in progress, source of supply, transmission and distribution and general plant. Land is not depreciated. The Town of Eureka's FY14 depreciation for business enterprises (water and sewer) is \$160,500.

As mentioned earlier, the Town does not capitalize the current streets as they were constructed prior to 1980. The Town plans to capitalize new streets, sidewalks, curbs, gutters, and storm drains at the time of construction or reconstruction of the existing streets, sidewalks, curbs, gutters, and storm drains.

The major addition to the Town of Eureka's capital assets in governmental fund activities include a Mig Welder for the shop, in-car camera systems for the police cars, a sander for one of the trucks, two sidewalk repairs, a jackhammer for the shop, Tobacco Road engineering and repair at the railroad crossing, and engineering for the new town hall plans.

The major additions to the Town of Eureka Water and Wastewater (sewer) utility capital assets included the completion of a two-mile extension to our water main and an additional water reservoir tank. We were also able to reimburse two residents \$1,000 each for sidewalk repair.

## LONG-TERM DEBT

At the end of the current fiscal year, the Town of Eureka has a total bonded debt outstanding of \$2.05 million, entirely backed by the revenues of the Water and Sewer utility. The Town of Eureka did not issue any new bonds during the 2013-2014 fiscal year.

The Town of Eureka does not have any general obligation bonds as of June 30, 2014. The Town of Eureka does not have any outstanding debt in the governmental activities. Other obligations include accrued vacation leave and sick leave. Additional information of the Town of Eureka's long term debt can be found in the Notes to the Basic Financial Statements.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATE

\*\* The water rates were set by Resolution in July 2011 and will be increased again in March 2015 and annually thereafter by the Cost Price Index. Sewer rates were increased in December 2007, with 14% increases each year for three years, to get our revenues up to 125% of our operating expenses.

\*\* The Town of Eureka's taxable value for 2013-2014 is \$1,008,070, a decrease of less than one percent from the previous year. The taxable valuation has fluctuated both up and down over the past twenty years, with the highest being 1,102,696 in FY 1996 and the lowest being 893,215 in FY 2001.

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\*\* The Town of Eureka had one annexation this past year. The town annexed along the trailer court to be able to extend the water line to them last fiscal year. This past year the town annexed an area called "Midvale Water & Sewer District" to be able to extend water service and to at some point be able to extend the wastewater system; this annexation was protested and several residents filed a lawsuit over the annexation. The District Court found that the Town had followed all the correct steps to annex the area. A Midvale resident then appealed to the State Supreme Court which upheld our annexation although for several months we were not certain whether our annexation was complete or not. The Town also must go through some major applications for water rights in order to straighten out water rights that we have had for nearly 100 years but unfortunately were not applied for correctly according to DNRC and now we need more water rights to provide the amount of water we do for the municipal area.

\*\* The Town of Eureka now contracts with the Rural Fire Department for fire protection.

\*\* The Town of Eureka, in conjunction with Lincoln County, has a river access walk near the south end of the Historic Village. This Riverwalk allows recreational walkers to have a pleasant paved walkway along the river. The Town of Eureka is in charge of some of the maintenance of the County owned Riverwalk. The RiverWalk Board is going through some re-construction and repair with grant funds.

\*\* The Town of Eureka has an UltraViolet water treatment plant. This project was funded with DNRC grant monies of 400,000, local funds, and \$619,000 of new debt (revenue bonds) issued by the State Revolving Fund. Replacement bulbs for it are very expensive. The Town has completed a two-mile extension to our water main and an additional water tank which holds 400,000 gallons on the hill by the Mountain View Manor which provides better fire flow and provides better service for our customers by having a tank on the east hill and one on the west hill. The Town is under orders to find funding and build a filtration system – because EPA and Montana DEQ feel that our water source protection area is so large and could become polluted – that project is currently underway.

#### REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Town of Eureka's finances for all those with an interest in the government's finances and to demonstrate the Town's accountability for the money it receives. If you have questions about this report or need additional information, please contact the Town of Eureka, 108 Dewey Avenue, PO Box 313, Eureka, Montana 59917.

LEE ANN SCHERMERHORN  
Mayor

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

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

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**INDEPENDENT AUDITOR'S REPORT**

Mayor and Town Council  
Town of Eureka  
Lincoln County  
Eureka, Montana

**Report on the Financial Statements**

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

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

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

**Auditor's Responsibility**

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

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

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

## **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 Town of Eureka, Lincoln County, Montana, as of and for the year ended June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedule of funding for other post employment benefits other than pensions on pages 2 through 9, 41 through 42, and 43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 17, 2015, on our consideration of the Town of Eureka, Lincoln County, Montana's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Eureka, Lincoln County, Montana's internal control over financial reporting and compliance.

*Derring, Downey and Associates, CPAs, P.C.*

April 17, 2015

**Town of Eureka, Lincoln County, Montana**  
**Statement of Net Position**  
**June 30, 2014**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>
<b>ASSETS</b>		
Current assets:		
Cash and investments	\$ 537,010	\$ 288,768
Taxes and assessments receivable, net	49,302	-
Internal balances	40,000	(40,000)
Accounts receivable - net	-	72,976
Notes and loans receivable	-	8,810
Interest receivable	-	21
Total current assets	\$ 626,312	\$ 330,575
Noncurrent assets		
Restricted cash and investments	\$ -	\$ 109,567
Capital assets - land	1,900	56,411
Capital assets - construction in progress	9,184	37,849
Capital assets - depreciable, net	594,523	5,513,898
Total noncurrent assets	\$ 605,607	\$ 5,717,725
Total assets	\$ 1,231,919	\$ 6,048,300
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable	\$ 6,250	\$ -
Accrued payables	2,283	15,555
Current portion of long-term capital liabilities	-	64,388
Current portion of compensated absences payable	10,616	25,200
Current portion of police retirement benefit liability	20,892	-
Total current liabilities	\$ 40,041	\$ 105,143
Noncurrent liabilities		
Deposits payable	\$ -	\$ 637
Noncurrent portion of long-term liabilities	46,120	64,910
Noncurrent portion of long-term capital liabilities	-	2,048,922
Noncurrent portion of compensated absences	7,642	3,828
Noncurrent portion of police retirement benefit liability	310,928	-
Total noncurrent liabilities	\$ 364,690	\$ 2,118,297
Total liabilities	\$ 404,731	\$ 2,223,440
<b>NET POSITION</b>		
Net investment in capital assets	\$ 605,607	\$ 3,494,848
Restricted for debt service	6,983	-
Restricted for bond indenture requirements	-	109,567
Restricted for general government	70,053	-
Restricted for public safety	7,072	-
Restricted for public works	259,509	-
Restricted for housing and community development	66,040	-
Restricted for miscellaneous	17,264	-
Unrestricted	(205,340)	220,445
Total net position	\$ 827,188	\$ 3,824,860

See accompanying Notes to the Financial Statements

**Town of Eureka, Lincoln County, Montana**  
**Statement of Activities**  
**For the Fiscal Year Ended June 30, 2014**

<u>Functions/Programs</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Position</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Primary Government</u>		
				<u>Governmental Activities</u>	<u>Business- type Activities</u>	<u>Total</u>
<b>Primary government:</b>						
Governmental activities:						
General government	\$ 130,524	\$ 25,054	\$ 6,922	\$ (98,548)		\$ (98,548)
Public safety	230,115	175	41,015	(188,925)		(188,925)
Public works	88,344	120,150	25,439	57,245		57,245
Public health	4,680	-	-	(4,680)		(4,680)
Culture and recreation	23,765	-	-	(23,765)		(23,765)
Housing and community development	10,530	-	-	(10,530)		(10,530)
Miscellaneous	9,445	-	-	(9,445)		(9,445)
Total governmental activities	\$ 497,403	\$ 145,379	\$ 73,376	\$ (278,648)	\$ -	\$ (278,648)
Business-type activities:						
Water	\$ 324,752	\$ 318,838	\$ 36,054		\$ 30,140	\$ 30,140
Sewer	320,756	275,419	-		(45,337)	(45,337)
Total business-type activities	\$ 645,508	\$ 594,257	\$ 36,054	\$ -	\$ (15,197)	\$ (15,197)
Total primary government	\$ 1,142,911	\$ 739,636	\$ 109,430	\$ (278,648)	\$ (15,197)	\$ (293,845)
General Revenues:						
Property taxes for general purposes				\$ 213,984	\$ -	\$ 213,984
Miscellaneous				935	-	935
Interest/investment earnings				2,594	279	2,873
Grants and entitlements not restricted to specific programs				112,631	-	112,631
Total general revenues, special items and transfers				\$ 330,144	\$ 279	\$ 330,423
Change in net position				\$ 51,496	\$ (14,918)	\$ 36,578
Net position - beginning				\$ 780,692	\$ 3,839,778	\$ 4,620,470
Restatements				(5,000)	-	(5,000)
Net position - beginning - restated				\$ 775,692	\$ 3,839,778	\$ 4,615,470
Net position - end				\$ 827,188	\$ 3,824,860	\$ 4,652,048

See accompanying Notes to the Financial Statements

**Town of Eureka, Lincoln County, Montana**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2014**

	<b>General</b>	<b>Tax Increment</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>				
Current assets:				
Cash and investments	\$ 172,150	\$ 151,440	\$ 213,420	\$ 537,010
Taxes and assessments receivable, net	19,720	13,055	16,527	49,302
Total current assets	\$ 191,870	\$ 164,495	\$ 229,947	\$ 586,312
Noncurrent assets:				
Advances to other funds	\$ -	\$ -	\$ 40,000	\$ 40,000
Total noncurrent assets	\$ -	\$ -	\$ 40,000	\$ 40,000
Total assets	\$ 191,870	\$ 164,495	\$ 269,947	\$ 626,312
Current liabilities:				
Accounts payable	\$ -	\$ -	\$ 6,250	\$ 6,250
Accrued payables	1,012	-	1,271	2,283
Total liabilities	\$ 1,012	\$ -	\$ 7,521	\$ 8,533
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred inflows of resources	\$ 19,720	\$ 13,055	\$ 16,527	\$ 49,302
<b>FUND BALANCES</b>				
Restricted	\$ -	\$ 151,440	\$ 184,135	\$ 335,575
Committed	-	-	61,764	61,764
Unassigned fund balance	171,138	-	-	171,138
Total fund balance	\$ 171,138	\$ 151,440	\$ 245,899	\$ 568,477

See accompanying Notes to the Financial Statements

**Town of Eureka, Lincoln County, Montana**  
**Reconciliation of the Governmental Funds Balance Sheet to the**  
**Statement of Net Position**  
**June 30, 2014**

<b>Total fund balances - governmental funds</b>	\$ 568,477
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	605,607
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.	49,302
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.	(396,198)
<b>Total net position - governmental activities</b>	<u>\$ 827,188</u>

See accompanying Notes to the Financial Statements

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

	<u>General</u>	<u>Tax Increment</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>				
Taxes and assessments	\$ 144,137	\$ 59,069	\$ 104,588	\$ 307,794
Licenses and permits	4,181	-	45	4,226
Intergovernmental	120,230	-	66,454	186,684
Charges for services	186	-	600	786
Fines and forfeitures	14,184	-	-	14,184
Miscellaneous	6,172	935	-	7,107
Investment earnings	1,416	117	166	1,699
Internal services	2,158	-	-	2,158
Total revenues	<u>\$ 292,664</u>	<u>\$ 60,121</u>	<u>\$ 171,853</u>	<u>\$ 524,638</u>
<b>EXPENDITURES</b>				
General government	\$ 104,898	\$ -	\$ 6,104	\$ 111,002
Public safety	177,059	-	47,081	224,140
Public works	-	-	71,381	71,381
Public health	4,680	-	-	4,680
Culture and recreation	21,665	-	1,756	23,421
Housing and community development	-	-	10,530	10,530
Debt service - principal	-	-	21,471	21,471
Miscellaneous	-	-	9,445	9,445
Capital outlay	-	92,000	5,694	97,694
Total expenditures	<u>\$ 308,302</u>	<u>\$ 92,000</u>	<u>\$ 173,462</u>	<u>\$ 573,764</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (15,638)</u>	<u>\$ (31,879)</u>	<u>\$ (1,609)</u>	<u>\$ (49,126)</u>
Net Change in Fund Balance	<u>\$ (15,638)</u>	<u>\$ (31,879)</u>	<u>\$ (1,609)</u>	<u>\$ (49,126)</u>
Fund balances - beginning	\$ 186,776	\$ 183,319	\$ 247,508	\$ 617,603
Fund balance - ending	<u>\$ 171,138</u>	<u>\$ 151,440</u>	<u>\$ 245,899</u>	<u>\$ 568,477</u>

See accompanying Notes to the Financial Statements

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

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

**Net change in fund balances - total governmental funds** \$ (49,126)

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

- Capital assets purchased	97,694
- Depreciation expense	(30,552)

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

- Long-term receivables (deferred revenue)	24,261
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The change in compensated absences is shown as an expense in the Statement of Activities

3,119

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

- Long-term debt principal payments	21,471
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Termination benefits are shown as an expense in the Statement of Activities and not reported on the Statement of Revenues, Expenditures and Changes in Fund Balance:

- Post-employment benefits other than retirement liability	(15,371)
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**Change in net position - Statement of Activities** \$ 51,496

See accompanying Notes to the Financial Statements

**Town of Eureka, Lincoln County, Montana**  
**Statement of Net Position**  
**Proprietary Funds**  
**June 30, 2014**

**Business-Type Activities - Enterprise Funds**

	<b>Water</b>	<b>Sewer</b>	<b>Totals</b>
<b>ASSETS</b>			
Current assets:			
Cash and investments	\$ 120,354	\$ 168,414	\$ 288,768
Accounts receivable - net	39,001	33,975	72,976
Notes and loans receivable	-	8,810	8,810
Interest receivable	-	21	21
Total current assets	\$ 159,355	\$ 211,220	\$ 370,575
Noncurrent assets:			
Restricted cash and investments	\$ 51,463	\$ 58,104	\$ 109,567
Capital assets - land	50,500	5,911	56,411
Capital assets - construction in progress	37,849	-	37,849
Capital assets - depreciable, net	3,204,078	2,309,820	5,513,898
Total noncurrent assets	\$ 3,343,890	\$ 2,373,835	\$ 5,717,725
Total assets	\$ 3,503,245	\$ 2,585,055	\$ 6,088,300
<b>LIABILITIES</b>			
Current liabilities:			
Accrued payables	\$ 7,641	\$ 7,914	\$ 15,555
Current portion of long-term capital liabilities	48,158	16,230	64,388
Current portion of compensated absences payable	12,352	12,848	25,200
Total current liabilities	\$ 68,151	\$ 36,992	\$ 105,143
Noncurrent liabilities:			
Deposits payable	\$ 605	\$ 32	\$ 637
Advances payable	-	40,000	40,000
Noncurrent portion of long-term liabilities	32,626	32,284	64,910
Noncurrent portion of long-term capital liabilities	1,177,862	871,060	2,048,922
Noncurrent portion of compensated absences	1,913	1,915	3,828
Total noncurrent liabilities	\$ 1,213,006	\$ 945,291	\$ 2,158,297
Total liabilities	\$ 1,281,157	\$ 982,283	\$ 2,263,440
<b>NET POSITION</b>			
Net investment in capital assets	\$ 2,066,407	\$ 1,428,441	\$ 3,494,848
Restricted for bond indenture requirements	51,463	58,104	109,567
Unrestricted	104,218	116,227	220,445
Total net position	\$ 2,222,088	\$ 1,602,772	\$ 3,824,860
Total liabilities and net position	\$ 3,503,245	\$ 2,585,055	\$ 6,088,300

See accompanying Notes to the Financial Statements

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

**Business-Type Activities - Enterprise Funds**

	<u>Water</u>	<u>Sewer</u>	<u>Totals</u>
<b>OPERATING REVENUES</b>			
Charges for services	\$ 318,838	\$ 275,419	\$ 594,257
Total operating revenues	<u>\$ 318,838</u>	<u>\$ 275,419</u>	<u>\$ 594,257</u>
<b>OPERATING EXPENSES</b>			
Personal services	\$ 126,419	\$ 130,881	\$ 257,300
Supplies	29,445	25,172	54,617
Purchased services	53,990	28,136	82,126
Fixed charges	8,557	7,501	16,058
Depreciation	74,242	86,258	160,500
Total operating expenses	<u>\$ 292,653</u>	<u>\$ 277,948</u>	<u>\$ 570,601</u>
Operating income (loss)	<u>\$ 26,185</u>	<u>\$ (2,529)</u>	<u>\$ 23,656</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Intergovernmental revenue	\$ 36,054	\$ -	\$ 36,054
Interest revenue	-	279	279
Debt service interest expense	<u>(32,099)</u>	<u>(42,808)</u>	<u>(74,907)</u>
Total non-operating revenues (expenses)	<u>\$ 3,955</u>	<u>\$ (42,529)</u>	<u>\$ (38,574)</u>
Income (loss) before contributions and transfers	<u>\$ 30,140</u>	<u>\$ (45,058)</u>	<u>\$ (14,918)</u>
Change in net position	<u>\$ 30,140</u>	<u>\$ (45,058)</u>	<u>\$ (14,918)</u>
Net Position - Beginning of the year	\$ 2,191,948	\$ 1,647,830	\$ 3,839,778
Net Position - End of the year	<u>\$ 2,222,088</u>	<u>\$ 1,602,772</u>	<u>\$ 3,824,860</u>

See accompanying Notes to the Financial Statements

**Town of Eureka, Lincoln County, Montana**  
**Combined Statement of Cash Flows**  
**All Proprietary Fund Types**  
**Fiscal Year Ended June 30, 2014**

	<b>Business - Type Activities</b>		
	<b>Enterprise Funds</b>		
	<b>Water</b>	<b>Sewer</b>	<b>Totals</b>
<b>Cash flows from operating activities:</b>			
Cash received from providing services	\$ 316,491	\$ 275,896	\$ 592,387
Cash payments to suppliers	(38,002)	(32,673)	(70,675)
Cash payments for professional services	(53,990)	(28,136)	(82,126)
Cash payments to employees	(114,507)	(118,947)	(233,454)
Net cash provided (used) by operating activities	\$ 109,992	\$ 96,140	\$ 206,132
<b>Cash flows from capital and related financing activities:</b>			
Acquisition and construction of capital assets	\$ (42,599)	\$ (4,750)	\$ (47,349)
Principal paid on debt	(47,775)	(15,296)	(63,071)
Interest paid on debt	(32,099)	(42,808)	(74,907)
Net cash provided (used) by capital and related financing activities	\$ (122,473)	\$ (62,854)	\$ (185,327)
<b>Cash flows from non-capital financing activities:</b>			
Intergovernmental revenues	\$ 36,054	\$ -	36,054
Net cash provided (used) from non-capital financing activities	\$ 36,054	\$ -	\$ 36,054
<b>Cash flows from investing activities:</b>			
Interest on investments	\$ -	\$ 279	\$ 279
Net cash provided (used) by investing activities	\$ -	\$ 279	\$ 279
<b>Net increase (decrease) in cash and cash equivalents</b>	\$ 23,573	\$ 33,565	\$ 57,138
<b>Cash and cash equivalents at beginning</b>	\$ 148,244	\$ 192,953	\$ 341,197
<b>Cash and cash equivalents at end</b>	\$ 171,817	\$ 226,518	\$ 398,335
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>			
Operating income (loss)	\$ 26,185	\$ (2,529)	\$ 23,656
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation	\$ 74,242	\$ 86,258	\$ 160,500
Other post-employment benefits	11,528	11,528	23,056
Changes in assets and liabilities:			
Accounts receivable	(2,347)	477	(1,870)
Compensated absences payable	(2,819)	(2,876)	(5,695)
Accrued payroll payable	3,203	3,282	6,485
Net cash provided (used) by operating activities	\$ 109,992	\$ 96,140	\$ 206,132

See accompanying notes to the financial statements

**Town of Eureka, Lincoln County, Montana**  
**Statement of Net Position**  
**Fiduciary Funds**  
**June 30, 2014**

		<b>Agency Funds</b>
<b>ASSETS</b>		
Cash and short-term investments	\$	27,487
Taxes receivable		337
Total assets	\$	27,824
<b>LIABILITIES</b>		
Warrants payable	\$	25,643
Due to others		2,181
Total liabilities	\$	27,824

See accompanying Notes to the Financial Statements

TOWN OF EUREKA  
LINCOLN COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2014

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

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

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

**Financial Reporting Entity**

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

*Primary Government*

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

*Related Organizations*

Related organizations are separate legal entities that are related to the primary government because the primary government officials appoint a voting majority of the board members. However, the primary government is not financially accountable because it does not have the ability to impose its will and there is not a potential financial benefit or burden relationship. The Town has the following related organizations:

TOWN OF EUREKA  
LINCOLN COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2014

The Town entered into an agreement with the Eureka Rural Volunteer Fire Department, Inc. The Town agreed to pay to the Fire Department, for use of its fire protection and suppression equipment and fire hall, the same amount per structure as the Fire Department charged during the previous fiscal year for structures located outside the Town limits, which amount is \$28.70 per residential structure. The Town shall be entitled to a yearly credit in the amount of \$7.70 per structure to compensate it for providing hydrants and fire flow throughout the Town. In future years, if this agreement is renewed, the Fire Department shall charge the Town no more than the per-structure rate that it charges for similar structures located outside the Town boundaries. The Town shall pay such amount in four equal quarterly installments.

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

***Government-wide Financial Statements:***

*Basis of Presentation*

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

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

Certain eliminations have been made as prescribed by GASB 34 in regards to inter-fund activities, payables and receivables. All internal balances in the Statement of Net Position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column.

TOWN OF EUREKA  
LINCOLN COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2014

*Measurement Focus and Basis of Accounting*

**Government-Wide Financial Statements**

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

**Fund Financial Statements:**

*Basis of Presentation*

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

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

TOWN OF EUREKA  
LINCOLN COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2014

*Measurement Focus and Basis of Accounting*

***Governmental Funds***

Modified Accrual

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

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

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

Major Funds:

The Town reports the following major governmental funds:

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

*Tax Increment Fund* – A special revenue fund that was established in 2001 to account for the formation of an urban renewal district and plan, as permitted by MCA 7-15-4210.

TOWN OF EUREKA  
LINCOLN COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2014

***Proprietary Funds:***

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

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

**Major Funds:**

The Town reports the following major proprietary funds:

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

*Sewer Fund* – An enterprise fund that accounts for the activities of the Town's sewer collection and treatment operations and includes the storm sewer system.

***Fiduciary Funds***

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

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

TOWN OF EUREKA  
LINCOLN COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 2. CHANGE IN ENTITY**

**Midvale Community**

In December 2012, the Town of Eureka passed an ordinance of annexation to encompass the Midvale Community. This ordinance became effective July 1, 2013, and extended the corporate limits of the Town to include Midvale. A petition was filed by local residents in the Midvale Community, and was opposed by the Town. A Supreme Court decision ruled in favor of the Town. The annexation added nearly 400 properties to the Town of Eureka, and also included the Midvale Water and Sewer district. Currently, the Water and Sewer District remains its own entity, but billing operations and receipting are performed by the Town. The Town looks to extend its current Water and Sewer system to provide these services to the newly annexed community in the future.

**NOTE 3. CASH, CASH EQUIVALENTS, AND INVESTMENTS**

**Cash Composition**

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

	<u>Primary Government</u>
<u>Cash on hand and deposits:</u>	
Petty Cash	\$ 100
Cash in banks:	
Demand deposits	554,497
Savings deposits	407,840
<u>Investments:</u>	
State Short-Term Investment Pool (STIP)	395
Total	\$ 962,832

**Credit Risk**

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

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

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

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

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

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

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

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

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

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

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

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

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

**Custodial Credit Risk**

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

<u>Depository Account</u>	<u>June 30, 2014</u> <u>Balance</u>
Insured	\$ 500,000
- Collateral held by the pledging bank's trust department but not in the Town's name.	462,830
Total deposits and investments	\$ <u><u>962,830</u></u>

Deposit Security

Section 7-6-207, MCA, states (1) The local governing body may require security only for that portion of the deposits which is not guaranteed or insured according to law and, as to such unguaranteed or uninsured portion, to the extent of:

- (a) 50% of such deposits if the institution in which the deposit is made has a net worth of total assets ratio of 6% or more; or
- (b) 100% if the institution in which the deposit is made has a net worth of total assets ratio of less than 6%.

The amount of collateral held for Town deposits at June 30, 2014, equaled or exceeded the amount required by State statutes.

**Cash equivalents**

For purposes of the statement of cash flows, the enterprise and internal services funds consider all funds (including restricted assets) held in the Town’s cash management pool to be cash equivalents.

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**NOTE 4. RESTRICTED CASH/INVESTMENTS**

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

<u>Description</u>	<u>Amount</u>
Water Fund Revenue Bond Requirement	\$ 51,463
Sewer Fund Revenue Bond Requirement	<u>58,104</u>
	<u>\$ 109,567</u>

**NOTE 5. RECEIVABLES**

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

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

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

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

**NOTE 6. INVENTORIES**

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

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**NOTE 7. CAPITAL ASSETS**

The Town's assets are capitalized at historical cost or estimated historical cost. Town policy has set the capitalization threshold for reporting capital assets at \$5,000. Gifts or contributions of capital assets are recorded at fair market value when received. The costs of normal maintenance and repairs are charged to operations as incurred. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable. Depreciation is recorded on a straight-line basis over the useful lives of the assets as follows:

Buildings	30 – 60 years
Improvements	30 – 60 years
Equipment	5 – 60 years
Infrastructure	50 – 65 years

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

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

Governmental activities:

	Balance <u>July 1, 2013</u>	<u>Additions</u>	<u>Restatements</u>	Balance <u>June 30, 2014</u>
Capital assets not being depreciated:				
Land	\$ 1,900	\$ -	\$ -	\$ 1,900
Construction in progress	5,000	9,184	(5,000)	9,184
Total capital assets not being depreciated	<u>\$ 6,900</u>	<u>\$ 9,184</u>	<u>\$ (5,000)</u>	<u>\$ 11,084</u>
Other capital assets:				
Buildings	\$ 225,400	\$ -	\$ -	\$ 225,400
Improvements other than buildings	457,242	82,815	-	540,057
Machinery and equipment	222,757	5,695	-	228,452
Total other capital assets at historical cost	\$ 905,399	\$ 88,510	\$ -	\$ 993,909
Less: accumulated depreciation	\$ (368,834)	\$ (30,552)	\$ -	\$ (399,386)
Total	<u>\$ 543,465</u>	<u>\$ 67,142</u>	<u>\$ (5,000)</u>	<u>\$ 605,607</u>

Governmental activities depreciation expense was charged to functions as follows:

Governmental Activities:	
General government	\$ 7,271
Public safety	5,975
Public works	16,963
Culture and recreation	344
Total governmental activities depreciation expense	<u>\$ 30,552</u>

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

Business-type activities:

	Balance <u>July 1, 2013</u>	<u>Additions</u>	Balance <u>June 30, 2014</u>
Capital assets not being depreciated:			
Land	\$ 56,411	\$ -	\$ 56,411
Construction in progress	1,809,662	37,849	1,847,511
Total capital assets not being depreciated	<u>\$ 1,866,073</u>	<u>\$ 37,849</u>	<u>\$ 1,903,922</u>
Other capital assets:			
Buildings	\$ 900,228	\$ -	\$ 900,228
Improvements other than buildings	40,512	-	40,512
Machinery and equipment	155,427	9,500	164,927
Pumping Plant	259,664	-	259,664
Treatment Plant	1,106,733	-	1,106,733
Transmission and distribution	3,280,142	-	3,280,142
Total other capital assets at historical cost	\$ 5,742,706	\$ 9,500	\$ 5,752,206
Less: accumulated depreciation	\$ (1,887,470)	\$ (160,500)	\$ (2,047,970)
Total	<u>\$ 5,721,309</u>	<u>\$ (113,151)</u>	<u>\$ 5,608,158</u>

**NOTE 8. LONG TERM DEBT OBLIGATIONS**

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

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

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

Governmental Activities:

	Balance <u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2014</u>	Due Within <u>One Year</u>
Polic retirement liability	\$ 353,291	\$ -	\$ (21,471)	\$ 331,820	\$ 20,892
Compensated absences	21,377	-	(3,119)	18,258	10,616
Other post-employment benefits*	30,749	15,371	-	46,120	-
Total	<u>\$ 405,417</u>	<u>\$ 15,371</u>	<u>\$ (24,590)</u>	<u>\$ 396,198</u>	<u>\$ 31,508</u>

\*See Note 9

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

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Business-type Activities:

	Balance <u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2014</u>	Due Within <u>One Year</u>
Revenue bonds	\$ 2,176,381	\$ -	\$ (63,071)	\$ 2,113,310	\$ 64,388
Compensated absences	34,722	-	(5,695)	29,027	25,200
Other post-employment benefits*	21,098	-	-	21,098	-
Total	<u>\$ 2,232,201</u>	<u>\$ -</u>	<u>\$ (68,766)</u>	<u>\$ 2,163,435</u>	<u>\$ 89,588</u>

\*See Note 9

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

<u>Purpose</u>	<u>Origination Date</u>	<u>Interest Rate</u>	<u>Bond Term</u>	<u>Maturity Date</u>	<u>Bonds Amount</u>	<u>Annual Payment</u>	<u>Balance June 30, 2014</u>
2002 Water System Revenue Bond	5/9/02	2.25%	20 yrs	1/1/22	\$ 619,000	Varies	\$ 287,000
USDA Revenue Bond, Series 2012	8/28/12	2.75%	40 yrs	8/28/52	964,000	Varies	939,020
2002 Sewer System Revenue Bond	6/1/02	4.75%	40 yrs	6/1/42	1,030,100	\$ 58,104	887,290
					<u>\$ 2,343,100</u>		<u>\$ 2,113,310</u>

*Reported in Business Type Activities*

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

Annual requirement to amortize debt:

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For Fiscal <u>Year Ended</u>		<u>Principal</u>		<u>Interest</u>
2015	\$	64,388	\$	73,786
2016		66,457		71,952
2017		69,797		69,814
2018		72,079		67,688
2019		75,415		65,486
2020		77,705		63,296
2021		81,254		60,813
2022		58,765		58,357
2023		41,341		56,567
2024		42,891		55,017
2025		44,690		53,218
2026		46,474		51,434
2027		48,333		49,575
2028		50,195		47,713
2029		52,290		45,618
2030		54,398		43,510
2031		56,596		41,312
2032		58,830		39,078
2033		61,278		36,630
2034		63,773		34,135
2035		66,374		31,534
2036		69,051		28,857
2037		71,920		25,988
2038		74,875		23,033
2039		77,959		19,949
2040		81,165		16,743
2041		84,535		13,373
2042		50,102		11,048
2043		30,551		9,253
2044		31,402		8,402
2045		32,277		7,527
2046		33,176		6,628
2047		34,100		5,704
2048		35,049		4,755
2049		36,025		3,779
2050		37,029		2,775
2051		38,060		1,744
2052		39,120		684
2053		3,591		10
Total	\$	<u>2,113,310</u>	\$	<u>1,306,785</u>

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**Compensated Absences**

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

**Police Retirement Benefit Agreement**

A police officer retired June 30, 2012 after 31 ½ years of employment with the Town of Eureka. Approximately 9 years prior to the officer's retirement, the Town began contributing PERS. The contributions made by the Town during the time will result in PERS distribution of approximately \$509 per month. The agreement between both parties indicates that the beginning total retirement benefit payment per month, under the combined plans would be \$2,250. Therefore, the Town is required to make monthly payments of \$1,741 to the officer. Monthly payments began on August 1, 2012. The benefit amount will be eligible for an annual benefit increase not to exceed 3% as of January 1, 2012. The agreement shall terminate on the death of the officer.

**NOTE 9. POSTEMPLOYMENT HEALTHCARE PLAN**

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

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

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

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Actuarial Accrued Liability (AAL)	\$	202,561
Actuarial value of plan assets	\$	-
Unfunded Actuarial Accrued Liability (UAAL)	\$	202,561
Funded ratio (actuarial value of plan assets/AAL)		0%
Covered payroll (active plan members)	\$	310,000
UAAL as a percentage of covered payroll		65.34%

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

Annual Required Contribution (ARC)	\$	38,427
Interest on net OPEB obligation	\$	-
Adjustment to ARC	\$	-
Annual OPEB cost (expense)	\$	38,427
Contributions made	\$	-
Increase in net OPEB obligation	\$	38,427
Net OPEB obligation - beginning of year	\$	72,603
Net OPEB obligation - end of year	\$	111,030

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

	Unit Credit Cost Method
Actuarial cost method	
Average age of retirement (based on historical data)	62
Discount rate (average anticipated rate)	1.50%
Average salary increase (Consumer Price Index)	2.80%

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Health care cost rate trend (Federal Office of the Actuary)

<u>Year</u>	<u>% Increase</u>
2015	6.40%
2016	6.20%
2017	6.00%
2018	6.40%
2019	6.80%
2020	6.90%
2021	6.70%
2022 and after	6.90%

**NOTE 10. INTERFUND RECEIVABLES AND PAYABLES**

The composition of interfund balances as of June 30, 2014, was as follows:

Advances to/from other funds:			
<u>Purpose</u>	<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Sewer Project	Sewer Utility – Nonmajor Proprietary	Economic Development – Nonmajor Governmental	\$ <u>40,000</u>

**NOTE 11. STATE-WIDE RETIREMENT PLANS**

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

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

<u>PERS**</u>	
Employer	8.07%
Employee	7.90%*
State	0.10%

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

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

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

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

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

	<u>PERS</u>
2012	\$ 21,146
2013	\$ 22,665
2014	\$ 26,214

**NOTE 12. LOCAL RETIREMENT PLANS**

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

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

A member of a volunteer fire department who has served 20 years or more is entitled to benefits regardless of age. Volunteer serving less 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.

**NOTE 13. FUND BALANCE CLASSIFICATION POLICIES AND PROCEDURES**

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

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

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**Restricted Fund Balance**

<u>Major Fund</u>	<u>Amount</u>	<u>Purpose of Restriction</u>
Tax Increment	\$ 151,140	Public Works
All Other Aggregate:		
	84,362	Public Works
	66,040	Housing and Community Development
	16,814	Miscellaneous
	6,983	Debt Service
	5,163	General Government
	<u>4,773</u>	Public Safety
Total Restricted Balance	\$ <u>335,275</u>	

**Committed Fund Balance**

<u>Major Fund</u>	<u>Amount</u>	<u>Purpose of Commitment</u>
All Other Aggregate	\$ <u>61,764</u>	Capital Improvements

**NOTE 14. RESTATEMENTS**

During the current fiscal year, the following adjustments relating to prior years' transactions were made to fund balance and net position.

<u>Fund</u>	<u>Amount</u>	<u>Reason for Adjustment</u>
Government-wide	\$ 5,000	Adjust beginning CIP balance

**NOTE 15. SERVICES PROVIDED TO OTHER GOVERNMENTS**

**County Provided Services**

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

**NOTE 16. RISK MANAGEMENT**

The Town faces considerable number of risks of loss, including (a) damage to and loss of property and contents, (b) employee torts, (c) professional liability, i.e., errors and omissions, (d) environmental damage, (e) workers' compensation, i.e., employee injuries, and (f) medical insurance costs of employees. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

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Insurance Policies:

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

Insurance Pools:

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

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

Separate audited financial statements are available from the Montana Municipal Insurance Authority.

**NOTE 17. PENDING LITIGATION**

The following is a list of litigation pending against the Town and the amount of damages claimed by the Plaintiff.

<u>Case</u>	<u>Damages Requested</u>	<u>Potential of Loss</u>
<i>Axelsen vs Town of Eureka</i>	Not Stated	Not Stated

**REQUIRED SUPPLEMENTAL  
INFORMATION**

**Town of Eureka, Lincoln County, Montana**  
**Budgetary Comparison Schedule**  
**For the Fiscal Year Ended June 30, 2014**

	<b>General</b>			
	<b>BUDGETED AMOUNTS</b>		<b>ACTUAL AMOUNTS (BUDGETARY BASIS) See Note A</b>	<b>VARIANCE WITH FINAL BUDGET</b>
	<b>ORIGINAL</b>	<b>FINAL</b>		
<b>RESOURCES (INFLOWS):</b>				
Taxes and assessments	\$ 139,160	\$ 139,160	\$ 144,137	\$ 4,977
Licenses and permits	4,550	4,550	4,181	(369)
Intergovernmental	111,950	111,950	120,230	8,280
Charges for services	810	810	186	(624)
Fines and forfeitures	15,000	15,000	14,184	(816)
Miscellaneous	4,100	4,100	6,172	2,072
Investment earnings	1,000	1,000	1,416	416
Internal services	664	664	2,158	1,494
Amounts available for appropriation	\$ 277,234	\$ 277,234	\$ 292,664	\$ 15,430
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>				
General government	\$ 108,300	\$ 108,300	\$ 104,898	\$ 3,402
Public safety	197,530	197,530	177,059	20,471
Public works	4,000	4,000	-	4,000
Public health	4,650	4,650	4,680	(30)
Culture and recreation	19,000	19,000	21,665	(2,665)
Capital outlay	29,080	29,080	-	29,080
Total charges to appropriations	\$ 362,560	\$ 362,560	\$ 308,302	\$ 54,258
Net change in fund balance			\$ (15,638)	
Fund balance - beginning of the year			\$ 80,900	
Fund balance - beginning of the year - restated			\$ 80,900	
<b>Fund balance - end of the year</b>			<b>\$ 65,262</b>	

**Town of Eureka, Lincoln County, Montana**  
**Budgetary Comparison Schedule**  
**For the Fiscal Year Ended June 30, 2014**

	<b>Tax Increment</b>			
	<b>BUDGETED AMOUNTS</b>		<b>ACTUAL</b>	<b>VARIANCE</b>
	<b>ORIGINAL</b>	<b>FINAL</b>	<b>(BUDGETARY BASIS) See Note A</b>	<b>WITH FINAL BUDGET</b>
<b>RESOURCES (INFLOWS):</b>				
Taxes and assessments	\$ 50,800	\$ 50,800	\$ 47,758	\$ (3,042)
Licenses and permits	-	-	-	-
Intergovernmental	-	-	-	-
Charges for services	-	-	-	-
Fines and forfeitures	-	-	-	-
Miscellaneous	-	-	12,246	12,246
Investment earnings	100	100	117	17
Internal services	-	-	-	-
Amounts available for appropriation	<u>\$ 50,900</u>	<u>\$ 50,900</u>	<u>\$ 60,121</u>	<u>\$ 9,221</u>
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>				
General government	\$ -	\$ -	\$ -	\$ -
Public safety	-	-	-	-
Public works	-	-	-	-
Public health	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	160,000	160,000	92,000	68,000
Total charges to appropriations	<u>\$ 160,000</u>	<u>\$ 160,000</u>	<u>\$ 92,000</u>	<u>\$ 68,000</u>
Net change in fund balance			<u>\$ (31,879)</u>	
Fund balance - beginning of the year			<u>\$ 183,319</u>	
Fund balance - beginning of the year - restated			<u>\$ 183,319</u>	
<b>Fund balance - end of the year</b>			<u><u>\$ 151,440</u></u>	

**Town of Eureka**  
**REQUIRED SUPPLEMENTAL INFORMATION**  
**Schedule of Funding Progress**  
**For the Fiscal Year Ended June 30, 2014**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Unit Credit Cost Method (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/(c))
July 1, 2009	\$ -	\$ 76,849	\$ 76,849	0%	\$ 384,428	20.0%
July 1, 2012	\$ -	\$ 202,561	\$ 202,561	0%	\$ 310,000	65.3%

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

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

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

Mayor and Town Council  
Town of Eureka  
Lincoln County  
Eureka, Montana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Town of Eureka, Lincoln County, Montana, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town of Eureka's basic financial statements and have issued our report thereon dated April 17, 2015.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described below that we consider to be significant deficiencies listed as items 2014-001 and 2014-002.

**2014-001      Non-repayment of an Advance**

**Condition:**

The Town failed to make the payment on an advance from the Economic Development Fund to the Sewer Fund. This is a repeated finding from the prior year due to no activity since June 2012.

**Context:**

During our testing of long-term debt, we noted that the balance of the advance had not changed and no principal payments from the Sewer fund had been recorded.

**Criteria:**

Resolution #2004-585 adopted on May 10, 2004 approved an advance of \$82,000 from the Economic Development Fund to the Sewer Fund. The Governmental Accounting Standards Board Statement #34 requires that if repayment is not made within a reasonable time, the Interfund balance should be reduced and the amounts reported as transfers instead of advances.

**Effect:**

Not in compliance with the advance requirements.

**Cause:**

The Town does not have controls in place to ensure the advance is correctly repaid.

**Recommendation:**

We recommend the town implement controls to ensure payments are properly made and recorded.

**Auditee Response:**

The Town has budgeted for the payment in fiscal year 2015, and plans to implement controls to ensure the payments are made and recorded timely.

**2014-002      Town Court Internal Controls**

**Condition:**

The following control deficiencies were noted in the review of the operating controls of the Town Court:

- (1) The procedures for handling cash and recording transactions in the Full Court System are not segregated, and only performed by the Judge
- (2) Only one signature is required for making disbursements on the trust account.
- (3) The Full Court System does not reconcile to the separate check register or bank statements.

**Context:**

The auditor completed an internal control review of the Town Court by inquiry, observation, and documentation.

**Criteria:**

- (1) An adequate internal control system requires the functions of authorizing, recording, and custody of cash to remain separate. This would aid in reducing the risk of misappropriation of assets or errors.
- (2) An adequate internal control system requires two signatures on all disbursements. Requiring two signatures will create stronger controls as the disbursements needing review and authorization by more than one individual.
- (3) A monthly reconciliation of the Full Court System should be prepared to ensure all transactions have been recorded properly and to discover any potential errors in the entries to the system.

**Effect:**

The effects of the factors listed above create internal control deficiencies within the Town Court. These control deficiencies could cause errors in the accounting records that may not be identified timely.

**Cause:**

The Town has a small office staff and has not established another signer on the court trust account. The Full Court System is not reconciled because the Town uses a separate check register.

**Recommendation:**

We recommend the following changes to the Town Court:

- (1) The Town should ensure the duties in the Town Court are adequately segregated to the extent possible.
- (2) The Town should implement internal control procedures to include two signatures required on all disbursements with both signers verifying the purpose of the disbursement.
- (3) A monthly reconciliation of the Full Court System should be performed and reviewed for accuracy.

**Auditee Response:**

The Town plans to implement control procedures to the extent possible for an acceptable segregation of duties in the Town Court. A policy has been added requiring two signatures on disbursements. The Town will also require that the Full Court System be reconciled to the bank statements.

### **Compliance and Other Matters**

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

### **Town of Eureka's Response to Findings**

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

### **Purpose of this Report**

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

*Denning, Downey and Associates, CPAs, P.C.*

April 17, 2015

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

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

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**REPORT ON PRIOR AUDIT REPORT RECOMMENDATIONS**

Mayor and Town Council  
Town of Eureka  
Lincoln County  
Eureka, Montana

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

<u>Recommendation</u>	<u>Action Taken</u>
Town Court Internal Controls	Repeated
Non-Repayment of Advance	Repeated
Budget Authority Exceeded	Implemented
Cash Reserve	Implemented

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

April 17, 2015