

**CITY OF FORT BENTON  
CHOUTEAU COUNTY  
FORT BENTON, MONTANA**

**FINANCIAL AND COMPLIANCE REPORT**

**Fiscal year Ended June 30, 2014**

**Strom & Associates, P. C.**  
PO BOX 1980  
Billings, Montana 59103

City of Fort Benton  
Chouteau County  
Fort Benton, Montana 59442

TABLE OF CONTENTS

	Page No
TABLE OF CONTENTS	1
ORGANIZATION - BOARD OF TRUSTEES AND OFFICIALS	2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3 - 10
INDEPENDENT AUDITOR'S REPORT	11 - 12
BASIC FINANCIAL STATEMENTS:	
Statement of Net Position	13
Statement of Activities	14
Balance Sheet -- Governmental Funds and a Reconciliation of the Balance Sheet Governmental Funds to the Statement of Net Position	15
Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds	16
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities	17
Statement of Fund Net Position - Proprietary Funds	18
Statement of Revenues, Expenses, and Changes in Fund Net Position -- Proprietary Funds	19
Statement of Cash Flow - Proprietary Funds	20
Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position	21
Notes to the Financial Statements	22 - 35
REQUIRED SUPPLEMENTAL INFORMATION:	
Schedule of Revenues, Expenditures, and Changes in Fund Balance (Budget and Actual) -- All Budgeted Major Funds	36 - 37
Notes to the Budget and Actual Schedule	38
INDEPENDENT AUDITOR'S REPORTS:	
Report on Internal Control over Financial Reporting and on Compliance and other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	39 - 40
SCHEDULE OF FINDINGS AND RESPONSES	41
RESPONSE TO AUDIT COMMENTS	42

City of Fort Benton  
Chouteau County  
Fort Benton, Montana 59442

ORGANIZATION

Richard D. Morris Mayor

TOWN COUNCIL

Roger Atman Member

Barbara Thomas Member

Terri Baker Member

Donald Hazen Member

John Cloepfi Member

Merlyn Scott Member

OFFICIALS

Mary A. Heydon City Clerk/Treasurer

Cindy S. Farwick Deputy Clerk/Treasurer

Susan Spencer City Judge

CITY OF FORT BENTON  
MANAGEMENT'S DISCUSSION & ANALYSIS

As financial management of the City of Fort Benton, a political subdivision of the state of Montana, I offer readers of the attached City of Fort Benton financial statements this narrative. Reading this narrative in conjunction with the City's financial statements should give you a complete overview of the activities and financial status of the City of Fort Benton.

*Financial Highlights*

Assets of the City of Fort Benton exceeded its liabilities by \$4,632,556. Of that amount, \$1,535,864 may be used to meet the City's ongoing operational needs. \$2,468,496 is invested in capital assets, net of related debt, and \$444,724 is restricted to Bond Indenture Requirements.

The City's net position for governmental activities showed a slight decrease, and the net position for business-type activities increased by over 3% over the prior year.

Debt obligations of the City governmental funds increased in FY 2014 with the issuance of \$175,000 of TIFD #1 bonds, leaving an outstanding debt obligation of \$396,373. This balance includes \$60,000 of General Obligation Bonds used for Swim Pool Improvement, a \$126,000 General Obligation Fire Truck Inter-cap loan, an Inter-cap loan for a Dura Patcher with a balance of \$10,543, The TIFD #1 bond for sidewalk improvements for \$170,591, and lastly a General Fund loan from the TIFD Fund for \$29,239 for the City Hall Improvement Project.

Debt obligations of the Proprietary Funds include revenue bonds for Water and Storm Drain Funds. Total outstanding balance is \$954,494.

Governmental fund expenditures were \$52,784 in excess of revenues.

Using This Annual Report

This Annual Report consists of a series of financial statements of the City of Fort Benton. The statements are categorized in the following components:

Government-wide Financial Statements  
Fund Financial Statements  
Notes to Basic Financial Statements  
Required Supplemental Information

Government-wide Financial Statements

The government-wide financial statements, described below, are intended to provide readers with a broad overview of the City of Fort Benton's finances.

The **Statement of Net Position** provides an overall view of the City's assets and liabilities. The difference is reported as net position, and can be found on page 13.

The **Statement of Activities** presents information showing how the City's net position changed during the fiscal year, giving an overall view of the origination of revenues and destination of expenses. The Statement of Activities is on page 14.

Both of the financial statements above distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that derive their revenue from charges and fees (business-type activities). Governmental activities of the City include general government, public safety (police and fire), public works (streets, alleys, street lighting, garbage collection) public health (mosquito control), culture and recreation (parks and pool), and community economic development. The City's business activities are the Water, Storm Drain and Sewer Utilities.

### Fund Financial Statements

The fund financial statements give more detailed information about the City's activities. Funds are set up to manage resources that have been separated for specific activities or objectives. Some funds are required to be set up by law; other funds are established by the City to help manage funding and expenses for specific purposes. All of the City's funds are divided into three categories: Governmental Funds, Proprietary Funds and Fiduciary funds.

#### Governmental Funds

This category includes the General Fund and other levied funds for which the City adopts an annual appropriation. It also includes various capital improvement funds. The governmental fund statements provide a detailed short-term view of cash and fund operations.

#### Proprietary Funds

The City's utility funds are reported in Proprietary Funds. The City charges customers for the water, storm drain and sewer services provided. Proprietary Funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities.

#### Fiduciary Funds

The City's Fiduciary Funds are reported in separate statements of Fiduciary net assets and changes in fiduciary net position. Fiduciary activities are excluded from the City's other financial statements because the City cannot use these assets to finance its operations, but is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

#### Notes to Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data and reports presented in the government-wide and fund financial statements. The notes to the financial statements begin on page 22.

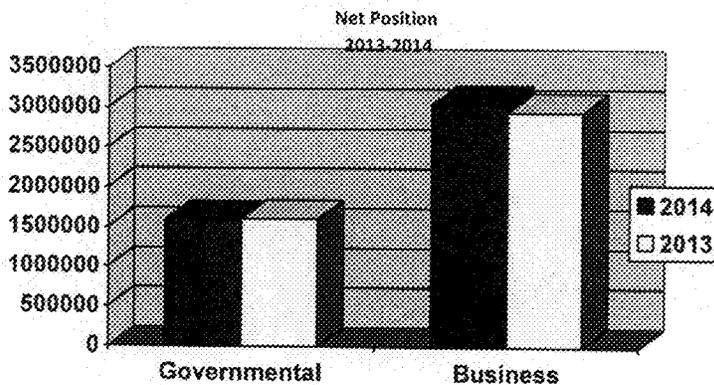
#### Required Supplemental Information

This section provides detailed information concerning revenues, expenditures and changes in fund balances, comparing budget to actual for the General Fund and the one major Special Revenue Fund, the Solid Waste Fund.

## FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

The following Statement provides summaries of the City's Net Position

	Governmental activities		Business activities		Totals	
<i>NET POSITION</i>	<i>2013</i>	<i>2014</i>	<i>2013</i>	<i>2014</i>	<i>2013</i>	<i>2014</i>
Current Assets	965,906	1,100,696	1,117,040	1,199,369	2,082,946	2,300,065
Capital assets	1,001,490	952,526	2,934,532	2,866,837	3,936,022	3,819,363
<b>Total Assets</b>	<b>1,967,396</b>	<b>2,053,222</b>	<b>4,051,572</b>	<b>4,066,206</b>	<b>6,018,968</b>	<b>6,119,428</b>
Other Liabilities	99,901	97,442	139,079	113,135	238,980	210,577
Long Term	260,150	368,318	960,194	907,977	1,220,644	1,276,295
<b>Total Liabilities</b>	<b>360,051</b>	<b>465,760</b>	<b>1,099,273</b>	<b>1,021,112</b>	<b>1,459,624</b>	<b>1,486,872</b>
Net Position						
Invested in Cap assets, Net of related debt	724,345	556,153	1,899,138	1,912,343	2,623,483	2,468,496
Restricted	208,547	183,472	415,287	444,724	623,834	628,196
Unrestricted	674,453	847,837	637,574	688,027	1,312,027	1,535,864
<b>Total Net position</b>	<b>\$1,607,345</b>	<b>1,587,462</b>	<b>2,951,999</b>	<b>3,045,094</b>	<b>4,559,344</b>	<b>4,632,556</b>



Net Position of governmental activities decreased by a little more than 1.2% in 2014, while business activities increased by more than 3%. Governmental funds' revenues increased by over \$10,000 from the previous year; while in the Business-type funds, charges for services increased by \$26,564.

CHANGE IN NET POSITION	Governmental Activities		Business type Activities		Totals	
	2013	2014	2013	2014	2013	2014
Revenues						
Program Revenues						
Taxes - Specials	224,862	221,766			224,862	221,766
Charges for Services	12,991	13,583	783,760	810,324	796,751	823,907
Operating Grants						
Capital Grants	0	0		0	0	0
General Revenues						
Taxes	412,317	430,167			412,317	430,167
Licenses & Permits	19,147	14,002			19,147	14,002
Intergovernmental	281,346	263,984	15,000		276,346	263,984
Interest	23,581	28,801	9,943	10,025	33,524	38,826
Miscellaneous	42,239	57,868			42,239	57,868
Total Revenues	996,483	1,030,171	808,703	820,349	1,805,186	1,850,520
Expenses						
General Gov	122,837	143,861			122,837	143,861
Public Safety	268,118	272,937			268,118	272,937
Public Works	333,644	337,130			333,644	337,130
Public Health	1,128	6,567			1,128	6,567
Culture & Rec	145,803	176,680			145,803	176,680
Comm Dev	14,360	5,000			14,360	5,000
Interest on LTD	6,817	8,755			6,817	8,755
Miscellaneous	103,232	99,123			103,232	99,123
Water SD Sewer			723,503	727,253	723,503	727,253
Total Expenses	995,939	1,050,053	723,503	727,253	1,719,442	1,777,306
Transfers	0	0		0	0	0
Changes in Net Position	544	-19,882	85,200	93,096	85,744	73,214
Net Position, Beginning	1,606,801	1,607,344	2,866,799	2,951,998	4,4559,344	4,559,342
Prior Period Adj				0	0	0
Net Position Ending	1,607,345	1,587,462	2,951,999	3,045,094	4,559,344	4,632,556

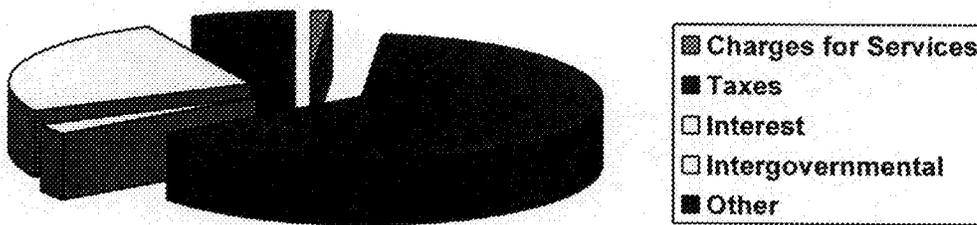
## GOVERNMENTAL ACTIVITIES

The cost of all City of Fort Benton Governmental activities for the year ending June 30, 2014 was \$1,050,053. For the period ending June 30, 2013, the costs totaled \$995,939, showing an increase of over 5 per cent.

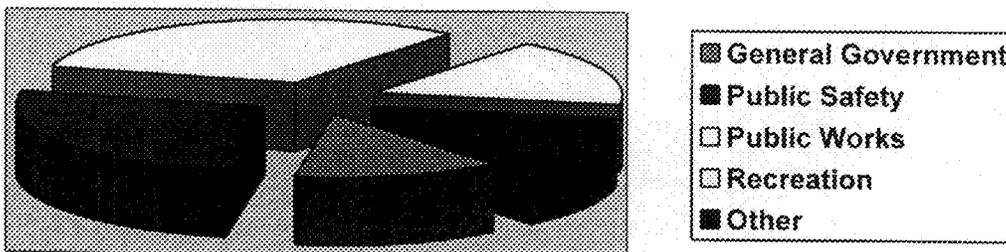
Taxpayers were charged \$651,933 through property, special assessments and local option taxes to fund approximately 62% of the governmental expenses of \$1,050,053. The balance was funded by those who directly benefited from the programs and by other government programs such as the State Entitlement and Gas Tax allocation.

The following graphs demonstrate sources of revenue for governmental activities and categories of expense for governmental activities.

### 2014 Governmental Revenues

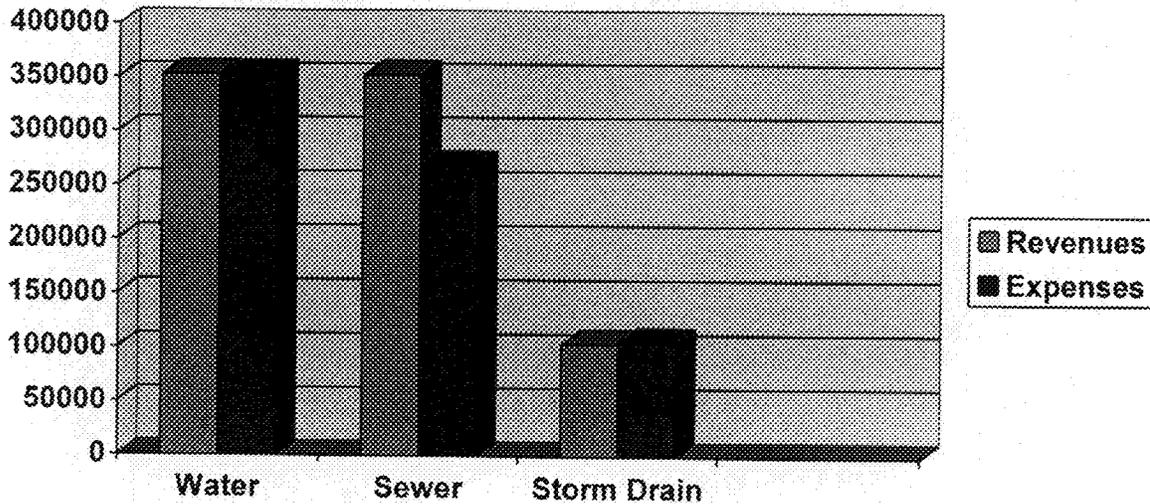


### 2014 Governmental Expenses



### Business-Type Activities

Business-type expenses for fiscal year 13/14 increased by less than 1% - \$723,503 for FY 2013 as compared to \$727,253 for FY 2014. Operating Revenues of the Proprietary Funds increased from the FY 12/13 figure of \$783,760, to \$810,324 in FY 13/14. This revenue increase is due to rate increases implemented in the Water and Wastewater Funds the past two years.



### FUND FINANCIAL STATEMENT ANALYSIS

#### Governmental Funds

The focus of governmental funds' analysis is to provide information on current period revenues and expenditures and the balance of resources available for future requirements. This information is useful in determining the City's annual financial requirements. As of the end of fiscal year 2013, the City of Fort Benton governmental funds reported a combined fund balance of \$846,039, while the combined fund balance at the end of FY 2014 was \$968,254, an increase of over 14%.

This year, the City of Fort Benton has three governmental funds which are reported as major funds. These include the General Fund, TIFD #1 Fund and the Solid Waste Fund.

*General Fund:* This is the primary operating fund for the City and includes General Government, Public Safety, Public Works, Culture and Recreation, Community Development and Public Health.

*TIFD #1 Fund:* This fund collects tax dollars, also called the increment, from Tax Increment Finance District #1. When improvements to the properties within this district result in higher taxable values, the increment that results then goes to this fund. Funds are used for improvements within the District.

*Solid Waste Fund:* This fund accounts for the assessments collected to pay for garbage service for the citizens of Fort Benton.

### *Enterprise Funds*

The Enterprise funds for the City consist of the Water, Sewer and Storm Drain Funds. These funds encompass the city's utility services for the citizens of Fort Benton. The newest utility fund, the Storm Drain Fund, was created in FY 2007. This fund was formed to deal with storm drain issues.

### *Budgetary Highlights*

There is a \$3000 difference between the total original budget and the total final budget. This amendment was due to the unanticipated purchase of a Police Car. \$1500 was added to the General Fund as an additional Transfer to the Police CIP fund, and that \$1500 was then budgeted out of Police CIP. There were other line item budget authority transfers, but they did not exceed or change the total original budget.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### *Capital Assets*

The City's investment in capital assets is \$952,526 including land for the governmental activities and \$2,866,837 for the business-type activities. This investment in capital assets includes land, buildings, improvements other than buildings, and machinery, equipment and construction in progress.

Depreciation on capital assets is recognized in the government-wide financial statements and proprietary fund financial statements.

### *Long-term Debt*

Payments of \$55,772 to the City's long-term governmental debt decreased the existing debt; that brings the overall governmental debt obligation to \$423,821. General Obligation Bond's payable balance is \$186,000, and Intercap contracts payable is \$10,543. Along with Compensated Absences of \$27,448, the TIFD loan payable of \$29,238 and the new TIFD#1 bond balance of \$170,591, the total debt of the governmental funds is \$423,821 for an overall increase of \$112,308 from the previous year.

The business-type funds' debt was decreased by payments of \$80,900 leaving the proprietary funds total debt including Compensated Absences of \$34,080 at \$988,574.

## THE GOVERNMENT'S FUTURE

The annual budget prepared by the City assures the efficient, effective and economic use of the City's resources, as well as establishes projects and priorities. Through the budget process, the Mayor and City Council set the direction of the City and allocate its resources.

Some of the factors considered while preparing the fiscal year 2014 budget include:

- Sustaining services at the current level.
- Preparing to meet the Montana DEQ's Administrative Order regarding our lagoon.
- Continuing the procurement process of the proposed Barley Protein Plant as part of the Fort Benton Industrial Park and Tax Increment Financing Industrial District.
- Maintaining effective employee salary and health benefits package.

In summary, the City of Fort Benton continues to maintain services at a level necessary to provide its citizens an affordable and quality place to live.

#### CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City's finances and to show the city's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact:

Mimi Heydon, Fort Benton Clerk/Treasurer  
PO Box 8  
Fort Benton, MT 59442  
[fbenton@ttc-cmc.net](mailto:fbenton@ttc-cmc.net)

INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
City of Fort Benton  
Chouteau County  
Fort Benton, Montana 59442

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

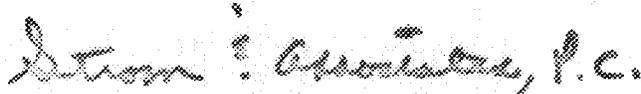
## Other Matters

### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 3 - 10) and budgetary comparison information (pages 36 - 38) 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 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 inquires 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 February 13, 2015 on our consideration of City of Fort Benton internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Fort Benton internal control over financial reporting and compliance.



STROM & ASSOCIATES, PC  
Billings, Montana  
February 13, 2015

STATEMENT OF NET POSITION  
 as of June 30, 2014

	Governmental Activities	Business-type Activities	Total
<b>ASSETS:</b>			
<b>Current Assets:</b>			
Cash and Cash Equivalents	\$ 956,190	\$ 672,473	\$ 1,628,663
Taxes/Assessments Receivable	90,504	-	90,504
Accounts Receivable - Net	31,911	82,171	114,082
Due From Other Governments	2,500	-	2,500
<b>Total Current Assets</b>	<b>1,081,105</b>	<b>754,644</b>	<b>1,835,749</b>
<b>Noncurrent Assets:</b>			
Restricted Cash and Cash Equivalents	-	444,725	444,725
<b>Capital Assets:</b>			
Land	12,402	108,480	120,882
Construction in Progress	19,592	25,383	44,975
Net Depreciable Assets	940,124	2,732,975	3,673,099
<b>Total Noncurrent Assets</b>	<b>972,118</b>	<b>3,311,563</b>	<b>4,283,681</b>
<b>Total Assets</b>	<b>\$ 2,053,223</b>	<b>\$ 4,066,207</b>	<b>\$ 6,119,430</b>
<b>LIABILITIES:</b>			
<b>Current Liabilities:</b>			
Accounts Payable	\$ 41,939	\$ 24,763	\$ 66,702
Other Current Liabilities	-	7,775	7,775
Current Portions Long-Term Obligations	9,049	-	9,049
Current Portions Compensated Absences	21,618	23,776	45,394
Current Portion Long-Term Capital Obligations	46,454	80,597	127,051
<b>Total Current Liabilities</b>	<b>119,060</b>	<b>136,911</b>	<b>255,971</b>
<b>Noncurrent Liabilities:</b>			
Long-Term Obligations	161,542	-	161,542
Compensated Absences	5,830	10,305	16,135
Long-Term Capital Obligations	179,327	873,897	1,053,224
<b>Total Noncurrent Liabilities</b>	<b>346,699</b>	<b>884,202</b>	<b>1,230,901</b>
<b>Total Liabilities</b>	<b>465,759</b>	<b>1,021,113</b>	<b>1,486,872</b>
<b>NET POSITION:</b>			
Net investment in capital assets	746,337	1,912,344	2,658,681
Restricted	634,960	444,725	1,079,685
Unrestricted (Deficit)	206,167	688,025	894,192
<b>Total Net Position</b>	<b>1,587,464</b>	<b>3,045,094</b>	<b>4,632,558</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 2,053,223</b>	<b>\$ 4,066,207</b>	<b>\$ 6,119,430</b>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

STATEMENT OF ACTIVITIES  
 For the Year Ended June 30, 2014

	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
	Expenses	Charge for Services	Operating Grants and Contributions	Primary Government		
				Governmental Activities	Business-type Activities	Total
<b>GOVERNMENT OPERATIONS</b>						
General Government	\$ 143,861	\$ 6,605	\$ 2,188	\$ (135,068)		\$ (135,068)
Public Safety	272,937	278	2,424	(270,235)		(270,235)
Public Works	337,143	221,766	48,355	(67,022)		(67,022)
Public Health	6,567	-	-	(6,567)		(6,567)
Culture and Recreation	176,680	6,700	24,173	(145,807)		(145,807)
Housing and Community Development	5,000	-	-	(5,000)		(5,000)
Miscellaneous	99,111	-	-	(99,111)		(99,111)
Debt Service						
Interest and other charges	8,755	-	-	(8,755)		(8,755)
Total Governmental Activities	<u>1,050,054</u>	<u>235,349</u>	<u>77,140</u>	<u>(737,565)</u>		<u>(737,565)</u>
<b>BUSINESS-TYPE ACTIVITIES</b>						
Water	\$ 352,604	\$ 353,131	\$ -		\$ 527	527
Sewer	268,643	353,017	-		84,374	84,374
Storm Water Drainage	106,008	104,176	-		(1,832)	(1,832)
Total Business-type activities	<u>727,255</u>	<u>810,324</u>	<u>-</u>		<u>83,069</u>	<u>83,069</u>
Total Primary Government	<u>\$ 1,777,309</u>	<u>\$ 1,045,673</u>	<u>\$ 77,140</u>	<u>\$ (737,565)</u>	<u>\$ 83,069</u>	<u>\$ (654,496)</u>
<b>GENERAL REVENUES</b>						
Taxes/Assessments				382,187	-	382,187
Local Option Taxes				47,982	-	47,982
Licenses and Permits				14,002	-	14,002
Unrestricted Federal/State shared Revenues				186,844	-	186,844
Interest				28,801	10,025	38,826
Miscellaneous				57,868	-	57,868
Total General Revenues				<u>717,684</u>	<u>10,025</u>	<u>727,709</u>
Change in Net Position				(19,881)	93,094	73,213
<b>Net Position</b>						
Beginning of the Year				1,607,345	2,952,000	4,559,345
End of the Year				<u>\$ 1,587,464</u>	<u>\$ 3,045,094</u>	<u>\$ 4,632,558</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

BALANCE SHEET  
 GOVERNMENTAL FUNDS  
 as of June 30, 2014

	MAJOR				Total Governmental Funds
	General	Tax Increment Finance District #1	Solid Waste	Other Governmental Funds	
<b>ASSETS:</b>					
Current Assets:					
Cash and Cash Equivalents	\$ 364,351	\$ 322,899	\$ 47,981	\$ 220,959	\$ 956,190
Taxes/Assessments Receivable	61,322	2,814	3,267	23,101	90,504
Accounts Receivable - Net	-	30,667	-	1,244	31,911
Due From Other Governments	2,500	-	-	-	2,500
<b>Total Assets</b>	<b>\$ 428,173</b>	<b>\$ 356,380</b>	<b>\$ 51,248</b>	<b>\$ 245,304</b>	<b>\$ 1,081,105</b>
<b>LIABILITIES:</b>					
Current Liabilities					
Accounts Payable	23,513	-	-	18,426	41,939
<b>Total Liabilities</b>	<b>23,513</b>	<b>-</b>	<b>-</b>	<b>18,426</b>	<b>41,939</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable Property Taxes Receivable	61,322	2,814	3,267	23,101	90,504
<b>Total Deferred Inflows of resources</b>	<b>61,322</b>	<b>2,814</b>	<b>3,267</b>	<b>23,101</b>	<b>90,504</b>
<b>FUND BALANCE:</b>					
Fund Balances:					
Restricted	-	353,566	47,981	204,231	605,778
Unassigned:	343,338	-	-	(454)	342,884
<b>Total Fund Balance</b>	<b>343,338</b>	<b>353,566</b>	<b>47,981</b>	<b>203,777</b>	<b>948,662</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balance</b>	<b>\$ 428,173</b>	<b>\$ 356,380</b>	<b>\$ 51,248</b>	<b>\$ 245,304</b>	<b>\$ 1,081,105</b>

RECONCILIATION TO THE STATEMENT OF NET POSITION

Total fund balance reported above	\$ 948,662
Governmental Capital Assets	972,118
Long-term Liabilities	
Long-Term Obligations	(170,591)
Compensated Absences	(27,448)
Long-Term Capital Obligations	(225,781)
Unavailable Property Taxes Receivable	90,504
<b>Net Position of Governmental Activities</b>	<b>\$ 1,587,464</b>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

STATEMENT OF REVENUES, EXPENDITURES, AND  
 CHANGES IN FUND BALANCES  
 GOVERNMENTAL FUNDS  
 For the Year Ended June 30, 2014

	MAJOR				Total Governmental Funds
	General	Tax Increment Finance District #1	Solid Waste	Other Governmental Funds	
<b>REVENUES:</b>					
Taxes/Assessments	\$ 288,275	\$ 25,666	\$ 143,107	\$ 165,756	\$ 622,804
Licenses and Permits	14,002	-	-	-	14,002
Intergovernmental Revenue	196,074	2,137	-	65,775	263,986
Charge for Service	12,228	-	4,715	-	16,943
Fines and Forfeitures	6,595	-	-	-	6,595
Miscellaneous	57,868	-	-	-	57,868
Investment and Royalty Earnings	26,777	209	-	1,814	28,800
<b>Total Revenues</b>	<b>601,819</b>	<b>28,012</b>	<b>147,822</b>	<b>233,345</b>	<b>1,010,998</b>
<b>EXPENDITURES:</b>					
<b>Current</b>					
General Government	123,162	10,000	-	-	133,162
Public Safety	247,393	-	-	1,859	249,252
Public Works	60,988	-	137,689	129,003	327,680
Public Health	5,580	-	-	-	5,580
Culture and Recreation	134,082	-	-	-	134,082
Housing and Community Development	5,000	-	-	-	5,000
Miscellaneous	-	-	-	99,111	99,111
<b>Debt Service</b>					
Principal	12,553	4,409	-	38,810	55,772
Interest and other charges	26	3,272	-	5,457	8,755
Capital Outlay	29,787	19,592	-	15,602	64,981
<b>Total Expenditures</b>	<b>618,571</b>	<b>37,273</b>	<b>137,689</b>	<b>289,842</b>	<b>1,083,375</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(16,752)</b>	<b>(9,261)</b>	<b>10,133</b>	<b>(56,497)</b>	<b>(72,377)</b>
<b>OTHER FINANCING SOURCES/USES</b>					
Loan Proceeds	-	175,000	-	-	175,000
Fund Transfers In	2,855	-	-	15,366	18,221
Fund Transfers (Out)	(15,366)	-	-	(2,855)	(18,221)
<b>Total Other financial Sources/Uses</b>	<b>(12,511)</b>	<b>175,000</b>	<b>-</b>	<b>12,511</b>	<b>175,000</b>
<b>NET CHANGES IN FUND BALANCES</b>	<b>(29,263)</b>	<b>165,739</b>	<b>10,133</b>	<b>(43,986)</b>	<b>102,623</b>
<b>FUND BALANCE:</b>					
Beginning of the Year	372,601	187,827	37,848	247,763	846,039
End of the Year	\$ 343,338	\$ 353,566	\$ 47,981	\$ 203,777	\$ 948,662

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

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

Net Changes in Fund Balance		\$	102,623
Revenues on the Statement of Activity not included in governmental funds statement.			
Increase (decrease) in taxes receivable			19,175
Revenues reported in the governmental funds statement not included in the Statement of Activity			
Bond/Note Proceeds			(175,000)
Sale of Fixed Assets			
Expenses on the Statement of Activity not included in the governmental funds statement.			
Depreciation Expense	(94,353)		
(Increase) decrease in compensated absence liability	<u>6,921</u>		(87,432)
Expenditures reported in the governmental funds statement not included in the Statement of Activity			
Capital outlays	64,981		
Principal payments on bonds	<u>55,772</u>		<u>120,753</u>
Change in net position reported on the Statement of Activity		\$	<u>(19,881)</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

STATEMENT OF NET POSITION  
 PROPRIETARY FUNDS  
 as of June 30, 2014

	MAJOR			Total Enterprise Funds
	Water	Sewer	Storm Water Drainage	
<b>ASSETS:</b>				
Current Assets:				
Cash and Cash Equivalents	\$ 242,219	\$ 320,632	\$ 109,622	\$ 672,473
Accounts Receivable - Net	34,036	37,329	10,606	82,171
<b>Total Current Assets</b>	<b>276,255</b>	<b>358,161</b>	<b>120,228</b>	<b>754,644</b>
Noncurrent Assets:				
Restricted Cash and Cash Equivalents	177,417	159,183	108,125	444,725
Capital Assets:				
Land	108,480	-	-	108,480
Construction in Progress	-	25,383	-	25,383
Net Depreciable Assets	1,380,852	35,957	1,316,166	2,732,975
<b>Total Noncurrent Assets</b>	<b>1,668,749</b>	<b>220,523</b>	<b>1,424,291</b>	<b>3,311,563</b>
<b>Total Assets</b>	<b>\$ 1,943,004</b>	<b>\$ 578,684</b>	<b>\$ 1,544,519</b>	<b>\$ 4,066,207</b>
<b>LIABILITIES:</b>				
Current Liabilities:				
Accounts Payable	\$ 13,576	\$ 9,603	\$ 1,584	\$ 24,763
Other Current Liabilities	7,775	-	-	7,775
Current Portions Compensated Absences	13,170	10,023	583	23,776
Current Portion Long-Term Capital Obligations	44,597	-	36,000	80,597
<b>Total Current Liabilities</b>	<b>79,118</b>	<b>19,626</b>	<b>38,167</b>	<b>136,911</b>
Noncurrent Liabilities:				
Long-Term Obligations	-	-	-	-
Compensated Absences	5,357	4,898	50	10,305
Long-Term Capital Obligations	319,897	-	554,000	873,897
<b>Total Noncurrent Liabilities</b>	<b>325,254</b>	<b>4,898</b>	<b>554,050</b>	<b>884,202</b>
<b>Total Liabilities</b>	<b>404,372</b>	<b>24,524</b>	<b>592,217</b>	<b>1,021,113</b>
<b>NET POSITION:</b>				
Net investment in capital assets	1,124,838	61,340	726,166	1,912,344
Restricted for Capital Improvement	17,951	28,132	50,125	96,208
Restricted for Bond Repayment	58,427	-	-	58,427
Restricted for Replacement and Depreciation	101,039	131,051	58,000	290,090
Unrestricted (Deficit)	236,377	333,637	118,011	688,025
<b>Total Net Position</b>	<b>1,538,632</b>	<b>554,160</b>	<b>952,302</b>	<b>3,045,094</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 1,943,004</b>	<b>\$ 578,684</b>	<b>\$ 1,544,519</b>	<b>\$ 4,066,207</b>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements

STATEMENT OF REVENUES, EXPENSES, AND  
 CHANGES IN FUND NET POSITION  
 PROPRIETARY FUNDS  
 For the Year Ended June 30, 2014

	MAJOR			Total Enterprise Funds
	Water	Sewer	Storm Water Drainage	
<b>OPERATING REVENUES:</b>				
Charges for Services	352,831	353,017	104,176	810,024
Miscellaneous	300	-	-	300
Total Operating Revenues	353,131	353,017	104,176	810,324
<b>OPERATING EXPENSES:</b>				
Personal services	186,988	163,031	22,509	372,528
Supplies	7,810	5,875	5,137	18,822
Purchased services	32,582	88,226	16,226	157,034
Building materials	7,666	-	-	7,666
Fixed charges	18,463	18,463	7,500	44,426
Depreciation	66,205	(6,932)	33,825	93,078
Total Operating Expense	339,714	268,643	85,197	693,554
OPERATING INCOME (LOSS)	13,417	84,374	18,979	116,770
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Interest revenue	3,764	4,369	1,892	10,025
Debt service interest expense	(12,890)	-	(20,811)	(33,701)
Total nonoperating revenue (expenses)	(9,126)	4,369	(18,919)	(23,676)
CHANGE IN NET POSITION	4,291	88,743	60	93,094
<b>NET POSITION:</b>				
Beginning of the Year	1,534,341	465,417	952,242	2,952,000
End of the Year	\$ 1,538,632	\$ 554,160	\$ 952,302	\$ 3,045,094

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 as of June 30, 2014

	Business-type Activities - Enterprise Funds			
	MAJOR			Total
	Water	Sewer	Storm Water	Enterprise Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Receipts from Customers	\$ 352,149	\$ 350,658	\$ 104,100	\$ 806,907
Payments to Suppliers	(77,141)	(107,251)	(31,694)	(216,086)
Payments to Employees	(194,694)	(165,380)	(21,876)	(381,950)
Miscellaneous Receipts (Payments)	300	-	-	300
Net Cash Provided (Used) by Operating Activities	80,614	78,027	50,530	209,171
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Purchases of Capital Assets	-	(25,383)	-	(25,383)
Principal Paid on Capital Debt	(43,900)	-	(37,000)	(80,900)
Interest Paid on Capital Debt	(12,890)	-	(20,811)	(33,701)
Net Cash Provided (Used) by Capital and Related Financing Activities	(56,790)	(25,383)	(57,811)	(139,984)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Interest and Dividends	3,764	4,369	1,892	10,025
Net Cash Provided (Used) by Investing Activities	3,764	4,369	1,892	10,025
Net Increase (Decrease) in Cash and Cash Equivalents	27,588	57,013	(5,389)	79,212
<b>BALANCE:</b>				
Beginning of the Year	392,048	422,802	223,136	1,037,986
End of the Year	\$ 419,636	\$ 479,815	\$ 217,747	\$ 1,117,198
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>				
Operating Income (Loss)	\$ 13,417	\$ 84,374	\$ 18,979	\$ 116,770
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:				
Depreciation Expense	66,205	(6,952)	33,825	93,078
Changes in Assets and Liabilities:				
Accounts Receivable	(682)	(2,359)	(76)	(3,117)
Accounts Payable	9,380	5,313	(2,831)	11,862
Compensated Absences	(9,515)	(2,349)	633	(11,231)
Other Current Liabilities	1,809	-	-	1,809
Net Cash Provided (Used) by Operating Activities	\$ 80,614	\$ 78,027	\$ 50,530	\$ 209,171

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements

STATEMENT OF FIDUCIARY NET POSITION  
 FIDUCIARY FUNDS  
 as of June 30, 2014

	Pension Trust Fund	Agency Funds
<b>ASSETS:</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 57,523	\$ 5,536
Taxes Receivable	1,985	-
<b>Total Assets</b>	<b>59,508</b>	<b>5,536</b>
<b>LIABILITIES:</b>		
Current Liabilities:		
Warrant's Payable	-	5,536
Account's Payable	2,527	-
<b>Total Liabilities</b>	<b>2,527</b>	<b>5,536</b>
<b>NET POSITION:</b>		
Restricted for Pension Benefits	56,981	-
<b>Total Net Position</b>	<b>\$ 56,981</b>	

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
 FIDUCIARY FUNDS  
 For the Year Ended June 30, 2014

	Private Purpose Trust Funds
<b>ADDITIONS:</b>	
Taxes/Assessments	\$ 15,795
Intergovernmental Revenue	2,519
Investment earnings	957
<b>Total Additions</b>	<b>19,271</b>
<b>DEDUCTIONS:</b>	
Benefit Payments	10,250
<b>Total Deductions</b>	<b>10,250</b>
<b>CHANGE IN NET POSITION</b>	<b>9,021</b>
<b>NET POSITION:</b>	
Beginning of the Year	47,960
<b>End of the Year</b>	<b>\$ 56,981</b>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

CITY OF FORT BENTON

NOTES TO THE FINANCIAL STATEMENTS  
Fiscal Year-Ended June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. a. REPORTING ENTITY

The basic financial statements of City of Fort Benton (City) have been prepared on a prescribed basis of accounting that demonstrates compliance with the accounting and budget laws of the State of Montana, which conforms to generally accepted accounting principles (GAAP). The City applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

During fiscal year 2014 the City adopted the following:

- GASB Statement No. 67 -- Financial Reporting for Pension Plans -- an amendment of GASB Statement No. 25. The amendment revised existing guidance for financial report of pension systems for state and local government. The statement is applicable for fiscal year 2014. This statement affects the applicable retirement plan administration at the State level and did not have any effect on the City.
- GASB Statement No. 70 -- Accounting and Financial Reporting for Nonexchange Financial Guarantees. The statement is applicable for fiscal year 2014. This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The City has not extend any financial guarantees to other parties. This statement has no effect on the financial statements.

The following are a listing of GASB statements which have been issued and the City assessment of effects to the financial statements.

- GASB Statement No. 68 -- Accounting and Financial Reporting for Pensions -- an amendment of GASB Statement No. 27. This statement revises and establishes new financial reporting requirement that provide employees with pension benefits. The statement is effective for fiscal year 2015. This statement will require the City to expand its pension foot note disclosures. The City plans to implement this in fiscal year 2015 after the State of Montana provides the required information for reporting and disclosure.
- GASB Statement No. 69 -- Government Combinations and Disposals of Government Operations. The statement is applicable for fiscal year 2015. The statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The City is not merging with another City or ceasing to exist. This statement has no effect on the financial statements.
- GASB Statement No. 71 -- Pension Transition for Contributions Made Subsequent to the Measurement Date--an amendment of GASB Statement No. 68. This statement amends paragraph 137 of statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The City plans to implement this in fiscal year 2015 after the State of Montana provides the required information for reporting and disclosure.

The City of Fort Benton was incorporated under the laws of the State of Montana and as required by generally accepted accounting principles, the financial statements of the reporting entity include those of the City of Fort Benton (the primary government) and any component units. The criteria for including organizations as component units within the City's reporting entity is set forth in Section 2100 of the Governmental Accounting Standards Board's (GASB) "Codification of Government Accounting and Financial Reporting Standards." The basic criteria include appointing a voting majority of an organization's governing body, as well as the City's ability to impose its will on that organization, or the potential for the organization to provide specific financial benefit to, or impose specific financial burdens on, the City. Based on those criteria this City has no component units.

Some of these activities controlled by governing boards appointed by the Mayor and Council or otherwise considered dependent on the City and included are as follows:

The fire department relief association is reflected as a Fiduciary Fund, since the City is responsible for the collection of taxes and the maintenance of a cash fund for the association.

The following related organizations are excluded from the financial reporting entity because the City's accountability does not extend beyond making appointments:

The finances of the City-County joint airport and City-County planning board are accounted for within the accounting records of Chouteau County. No fees are paid or revenues received by the City.

CITY OF FORT BENTON

NOTES TO THE FINANCIAL STATEMENTS (continued)  
Fiscal Year-Ended June 30, 2014

1. b BASIS OF PRESENTATION AND ACCOUNTING

1. b. 1 GOVERNMENT-WIDE STATEMENTS

The government-wide financial statements include the statement of net position and the statement of activities. The governmental activities column incorporates data from governmental funds, while business-type activities incorporate data from the government's enterprise funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

The government-wide financial statements report using the economic resource measurement focus and the accrual basis of accounting generally including the elimination of internal activity between or within funds. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. Expenses which are not directly related to a function, indirect expenses, are not charges to a function. Program revenues include:

- Charges for services such as fines and forfeitures and utility charges and
- Operating grants that are restricted to a particular functional program.

Property taxes, investment earnings, state entitlement payments, and other revenue sources not properly included with program revenue are reported as general revenues.

1. b. 2 FUND ACCOUNTING

The fund financial statements provide information about the government's funds, including its fiduciary funds. Separate statements for each fund category – governmental, proprietary, and fiduciary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities, and fund balance are included on the balance sheet. Operating statement of these funds present net increases and decreases in current assets. Revenues are recorded when they are both measurable and available. Available means collectible within the current period anything collected after June 30 are generally not material. Unavailable income are recorded in governmental funds for delinquent taxes. Expenditures are recorded when the related fund liability is incurred except for principal and interest on general long-term debt and compensated absence payments which are recognized when due. Capital assets are functional expenditures in governmental funds and proceeds from long-term debt are reported as other financing sources.

Revenues from local sources consist primarily of property taxes. Property tax revenue and revenues received from the State of Montana are recognized when susceptible to accrual. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are measurable and available. Cost reimbursement grant funds are considered to be both measurable and available to the extent of expenditures made under the provisions of the grant and, accordingly, when such funds are received and the expenditure has not been incurred they are recorded as unearned grant revenues because the revenues are available. All other revenue items are considered to be measurable and available only when cash is received by the government.

Proprietary, trust and agency fund financial statements report using the economic resources measurement focus and are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. On an accrual basis, revenue from property taxes and assessments are recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

CITY OF FORT BENTON

NOTES TO THE FINANCIAL STATEMENTS (continued)  
Fiscal Year-Ended June 30, 2014

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 connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water, sewer and storm water drainage funds are charges to customers for sales and services. The water fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. 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. Resources received for capital acquisition or construction are reported as separate items.

GASB Statement No. 34 requires the general fund be reported as a major fund. Other individual governmental and enterprise funds should be reported in separate columns as major funds based on these criteria:

- Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total (assets, liabilities, and so forth) for all funds of that category or type (that is, total governmental or total enterprise funds), and
- Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

In addition to funds that meet the major fund criteria, any other governmental or enterprise fund that government officials believe is particularly important to financial statement users may be reported as a major fund.

The City reports the following major governmental funds:

- General Fund -- The General Fund is the general operating fund of the City and accounts for all revenues and expenditures of the City not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund.
- Tax Increment Finance District #1 -- A special revenue fund that accounts for the additional tax levy and expenditures for improvements in Tax Increment Finance District #1.
- Solid Waste -- A special revenue fund that accounts for the activities of the City's garbage collection services.

The City reports the following major enterprise funds:

- Water Fund -- This fund is used to account for financing the activities of the City's water distribution operations.
- Sewer Fund -- This fund is used to account for financing the activities of the City's sewer collection and treatment operations.
- Storm Water Drainage Fund -- This fund is used to account for financing the activities of the City's storm drain utility service.

1. b. 3 OTHER FUND TYPES

Pension Trust Fund -- Accounts for the activities of the Fire Department Relief Association Pension Plan, which accumulates resources for pension benefit payments to qualified public safety employees.

Agency Funds -- Account for assets that the City holds on behalf of others as their agent in the payroll and claims clearing funds and employee payroll tax withholdings. Cash is held for warrants which were written but have not been paid by the County Treasurer.

1. c. ASSETS, LIABILITIES AND NET POSITION (FUND BALANCE)

1. c. 1 CASH AND INVESTMENTS

Cash includes amounts in demand deposits, as well as short-term investments as authorized by State statutes. Montana Code Annotated (MCA) allows Montana local governments to invest public money not necessary for immediate use in United States government treasury bills, notes, bonds; certain United States treasury obligations; United States government security money market fund if investments consist of those listed above; time or savings deposits with a bank, savings and loan association, or credit union which is FDIC, FSLIC, or NCUA insured and are located in the state; or in repurchase agreements as authorized by MCA, or Montana Board of Investments Short Term Investment Pool (STIP). Interest earned on the pooled investments is distributed to each contributing entity and fund on a pro rata basis. Investments are recorded at fair market value.

CITY OF FORT BENTON

NOTES TO THE FINANCIAL STATEMENTS (continued)  
Fiscal Year-Ended June 30, 2014

State statute requires that United State government securities or agencies be held as collateral to secure deposits of public funds in excess of Federal Deposit Insurance Corporation (FDIC) insurance.

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

1. c. 2 TAXES AND SPECIAL ASSESSMENTS

1. c. 2a TAXES

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

Property taxes and special assessments are collected by the County Treasurer who credits to the City funds their respective share of the collections. The tax levies are collectible in two installments, which become delinquent after November 30 and May 31. Property taxes are liens upon the property being taxed. After a period of three years, the County may begin foreclosure proceedings and sell the property at auction. The City receives its share of the sale proceeds of any such auction.

Taxes and special assessments that become delinquent are charged interest at the rate of 5/6 of 1% per month plus a penalty of 2%. After a period of three years, the County may begin foreclosure proceedings and sell real property auction. In the case of personal property, the property may be seized and sold after the taxes become delinquent.

1. c. 2b SPECIAL ASSESSMENTS

Special assessments receivable represent the uncollected amounts levied against benefited property for the cost of local improvements in the tax increment financing districts, maintenance costs in the maintenance district and the operating assessment for solid waste.

1. c. 3 INVENTORIES

Materials and supplies inventory at year end was not material. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased.

1. c. 4 CAPITAL ASSETS

The City's property, plant, equipment, and infrastructure (e.g. roads, bridges, sidewalks, lighting, and similar items) with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. Historical cost was established at the initial booking of the capital assets by determining actual costs or estimating using standard costing procedures. The City considers capital assets to be items in excess of \$5,000 with a useful life in excess of one year. The costs of normal maintenance and repair are not capitalized. Land and construction in progress are not depreciated. Depreciation on the other capital assets is provided over their estimated useful lives on the straight-line method. The useful lives of these assets have been estimated as follows.

<u>Capital Asset Classes</u>	<u>Lives</u>
Infrastructure	30 - 50 years
Buildings	30 - 50 years
Improvements other than buildings	25 - 50 years
Machinery and equipment	5 - 20 years
Vehicles and Heavy Equipment	5 - 10 years
Sewer Lines and Pump Stations	50 years

1. c. 5 DEFERRED INFLOWS OF RESOURCES

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting, which qualifies for reporting in this category. Accordingly, the item, unavailable, is reported only in the governmental funds balance sheet. The governmental funds report unavailable from two sources: property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

CITY OF FORT BENTON

NOTES TO THE FINANCIAL STATEMENTS (continued)  
Fiscal Year-Ended June 30, 2014

I.c. 6 VACATION AND SICK LEAVE

City employees accumulate vacation and sick leave for later use for payment upon termination, death, or retirement. City employees earn vacation leave at the rate of 15 days per year during the first 10 years of employment, and at increasing rates thereafter to a maximum of 24 days per year after 20 years of employment. There is no requirement that vacation leave be taken, but the maximum permissible accumulation is the amount earned in the most recent two-year period. At termination, employees are paid for any accumulated vacation leave at the current rate of pay. City employees earn sick leave at the rate of one day per month. There is no limit on the accumulation of unused sick leave. However, upon termination, only 25% of accumulated sick leave is paid.

Liabilities incurred because of unused vacation and sick leave accumulated by employees are reflected in the financial statements. Expenditures for unused leave are recorded when paid in governmental funds and when accrued on the statement of activities. The amount expected to be paid within one year is \$21,618 and it is generally paid out of the general fund.

I.c. 7 NET POSITION AND FUND BALANCE

Statement of Net Position include the following:

- Net Investment in Capital Assets -- The component of net position that reports the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt that is directly attributable to the acquisition, construction, or improvement of these capital assets.
- Restricted -- The component of net position that is either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.
- Unrestricted -- The difference between the assets and liabilities that is not reported in the other element of net position.

Governmental fund financial statements include the following fund balances:

- Restricted - Includes amounts that can be spent only for the specific purposes stipulated by the constitution, external resource providers, or through enabling legislation.
- Unassigned - Amounts that are available for any purpose; these amounts are reported only in the general fund or funds that have negative fund balances.

As of June 30, 2014, fund balance components other than unassigned fund balance consist of the following:

<u>Purpose</u>	<u>Restricted</u>
General Government	\$ 51,411
Public Safety	1,628
Public Works	170,885
Special Improvement Districts	353,566
Debt Service	12,203
Capital projects	16,085
Total	<u>\$ 605,778</u>

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first.

- I. d. OTHER
- I. d. 1 USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

I.d. 2 County Provided Services

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

CITY OF FORT BENTON

NOTES TO THE FINANCIAL STATEMENTS (continued)  
Fiscal Year-Ended June 30, 2014

NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

The City maintains a cash pool for all funds under the control of the City Treasurer.

The carrying amount of cash on hand, deposits and investments at June 30, 2014, is as follows:

	<u>Amount</u>
Cash on Hand	\$ 350
Demand Accounts	80,613
Time Deposits	790,424
U.S. Government Securities	1,097,866
Money market	167,194
Total	<u>\$ 2,136,447</u>

Custodial Credit Risk - Deposits: Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of June 30, 2014, City's bank balance was exposed to custodial credit risk as follows:

<u>Deposits</u>	<u>Fair Value</u>
Insured	\$ 755,266
Collateral held by the pledging bank's trust department but not in the Entity's name. (most investments)	171,895
Uninsured and uncollateralized	112,827
Total	<u>\$ 1,039,988</u>

Custodial Credit Risk - Investments: Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. As of June 30, 2014, the City's investment was exposed to custodial credit risk as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Investment Maturities - Book Value</u>		<u>Credit Quality</u>
		<u>1-5 years</u>	<u>6-10 Years</u>	<u>Rating</u>
Federal Farm Credit Bank	\$ 59,720	\$ 59,720	\$ 0	AA+/Aaa/AAA
Federal National Mortgage Association	845,670	556,209	289,461	n/a/AA+/Aaa/AAA
Federal Home Loan Banks	173,182	173,182	0	AA+/AAA
US Government Money Market Fund	2,677	n/a	n/a	n/a
Federal National Mortgage Association	197	0	197	n/a
Total	<u>\$ 1,081,466</u>	<u>\$ 789,111</u>	<u>\$ 289,658</u>	<u>\$ 1,097,866</u>
		Total Book Value		

AAA/Aaa/AAA is the highest credit quality rating issued by Standard & Poor's, Moody's Investors Service, and Fitch Ratings respectively.

Interest Rate Risk: The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from rising interest rates. The City's investment policy is to hold investments to maturity with the contractual understanding that these investments are low risk, locked in to a guaranteed rate of return, are therefore not impacted significantly by changes in short term interest rates. As a means of limiting its exposure to fair value losses arising from rising interest rates all of the City's investment portfolio is made up of securities whose maturities are less than 10 years.

NOTE 3. TAXES/ ASSESSMENTS RECEIVABLE

The assessed value of the roll as of January 1, 2013, upon which the levy for the 2014 fiscal year was based, was \$1,581,553 for the City. The tax rates assessed for the year ended June 30, 2014 to finance City operations and applicable taxes receivable for the City follows:

CITY OF FORT BENTON

NOTES TO THE FINANCIAL STATEMENTS (continued)  
Fiscal Year-Ended June 30, 2014

Fund	Mill Levies	Taxes/ Assessments
		Receivable
General*	161.82	\$ 61,322
Comprehensive Liability	4.47	1,927
PERS Employer Contribution	7.17	2,355
Health Insurance - Employer Contribution	20.35	7,681
Permissive Medical Levy	3.82	2,112
Swim Pool Bond	15.00	6,313
Fire Truck Bond	7.10	1,549
TIF #1*		2,814
TIF #2		32
SID #7 Maintenance		1,130
Sold Waste*		3,267
Total	<u>219.73</u>	<u>\$ 90,504</u>

\* Denotes Major Funds

NOTE 4. ACCOUNTS RECEIVABLE

Fund	Accounts Receivable	Less Prepayments	Loans Receivable	Net Receivable
Tax Increment District #1*	\$	\$	\$ 30,667	\$ 30,667
Revolving Loan Fund			1,244	1,244
Water*	41,811	(7,775)		34,036
Sewer*	37,530			37,530
Storm Water Drainage*	10,606			10,606
Total	<u>\$ 89,947</u>	<u>\$ (7,775)</u>	<u>\$ 31,911</u>	<u>\$ 114,083</u>

\* Denotes Major Funds

NOTE 5. DUE FROM OTHER GOVERNMENTS

Fund	Amount	Due From	Reason
General*	\$ 2,500	State of Montana	DNRC Grant receivable

NOTE 6. CAPITAL ASSETS, DEPRECIATION AND NET CAPITAL ASSETS

6. a. At June 30, 2014, the schedule of changes in general capital assets follows:

Governmental Activities:	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
<u>Non-depreciable:</u>				
Land	\$ 12,402	\$ 0	\$ 0	\$ 12,402
Construction In Progress	0	19,592	0	19,592
Total Non-depreciable	<u>\$ 12,402</u>	<u>\$ 19,592</u>	<u>\$ 0</u>	<u>\$ 31,994</u>
<u>Depreciable:</u>				
Buildings	\$ 549,609	\$ 0	\$ 0	\$ 549,609
Improvements other than buildings	684,554	23,403	0	707,957
Machinery and equipment	557,944	21,986	(27,036)	552,894
Total Depreciable	<u>\$ 1,792,107</u>	<u>\$ 45,389</u>	<u>\$ (27,036)</u>	<u>\$ 1,810,460</u>
<u>Accumulated Depreciation:</u>				
Buildings	\$ (156,647)	\$ (19,217)	\$ 0	\$ (175,864)
Improvements other than buildings	(371,258)	(38,444)	0	(409,702)
Machinery and equipment	(275,114)	(36,692)	27,036	(284,770)
Total Depreciation	<u>\$ (803,019)</u>	<u>\$ (94,353)</u>	<u>\$ 27,036</u>	<u>\$ (870,336)</u>
Net Depreciable Assets	<u>989,088</u>	<u>(48,964)</u>	<u>0</u>	<u>940,124</u>
Net Governmental Capital Assets	<u>\$ 1,001,490</u>	<u>\$ (29,372)</u>	<u>\$ 0</u>	<u>\$ 972,118</u>

CITY OF FORT BENTON

NOTES TO THE FINANCIAL STATEMENTS (continued)  
Fiscal Year-Ended June 30, 2014

6. b. General capital asset depreciation expense was charged to governmental functions as follows:

Function	Amount
General Government	\$ 17,620
Public Safety	23,685
Public Works	9,463
Public Health	987
Culture and Recreation	42,598
Total Depreciation Expense	\$ 94,353

6. c. At June 30, 2014, the schedule of changes in business-type capital assets follows:

Business-type Activities:	Balance July 1, 2013	Additions	Adjustments/ Transfers	Balance June 30, 2014
<u>Non-depreciable:</u>				
Land	\$ 108,480	\$ 0	\$ 0	\$ 108,480
Construction In Progress	0	25,383	0	25,383
Total Non-depreciable	\$ 108,480	\$ 25,383	\$ 0	\$ 133,863
<u>Depreciable:</u>				
Buildings	\$ 947,043	\$ 0	\$ 0	\$ 947,043
Improvements other than buildings	21,511	0	0	21,511
Pumping plant	39,102	0	0	39,102
Treatment plant	1,252,568	0	0	1,252,568
Transmission and distribution	4,154,403	0	0	4,154,403
Total Depreciable	\$ 6,414,627	\$ 0	\$ 0	\$ 6,414,627
<u>Accumulated Depreciation:</u>				
Buildings	\$ (772,034)	\$ (30,626)	\$ 0	\$ (802,660)
Improvements other than buildings	(21,511)	0	0	(21,511)
Pumping plant	(39,102)	0	0	(39,102)
Treatment plant	(1,261,848)	(60)	10,286	(1,251,622)
Transmission and distribution	(1,494,079)	(72,678)	0	(1,566,757)
Total Depreciation	\$ (3,588,574)	\$ (103,364)	\$ 10,286	\$ (3,681,652)
Net Depreciable Assets	2,826,053	(103,364)	10,286	2,732,975
Net Business-type Capital Assets	\$ 2,934,533	\$ (77,981)	\$ 10,286	\$ 2,866,838

NOTE 7. CHANGES IN LONG-TERM DEBT

7. a. At June 30, 2014, the schedule of changes in general Long-Term debt follows:

Governmental Activities	Balance July 1, 2013	New Debt and Other Additions	Principal Payments and Other Reductions	Balance June 30, 2014	Due within One Year
<u>Bonds and Notes Payable:</u>					
General Obligation Bonds	\$ 80,000	\$ 0	\$ (20,000)	\$ 60,000	\$ 20,000
Urban Renewal Bonds	0	175,000	(4,409)	170,591	9,049
Loans/Contracts	197,144	0	(31,363)	165,781	26,454
Total Bonds and Notes Payable	\$ 277,144	\$ 175,000	\$ (55,772)	\$ 396,372	\$ 55,503
<u>Other Liabilities:</u>					
Compensated Absences	\$ 34,369	\$ 0	\$ (6,921)	\$ 27,448	\$ 21,618
Total Other Liabilities	\$ 34,369	\$ 0	\$ (6,921)	\$ 27,448	\$ 21,618
Total Governmental Activities - Long-Term Debt:	\$ 311,513	\$ 175,000	\$ (62,693)	\$ 423,820	\$ 77,121

CITY OF FORT BENTON

NOTES TO THE FINANCIAL STATEMENTS (continued)  
Fiscal Year-Ended June 30, 2014

<u>Business-type Activities</u>	<u>Balance</u> <u>July 1, 2013</u>	<u>New Debt</u> <u>and Other</u> <u>Additions</u>	<u>Principal</u> <u>Payments</u> <u>and Other</u> <u>Reductions</u>	<u>Balance</u> <u>June 30, 2014</u>	<u>Due within</u> <u>One Year</u>
<u>Bonds and Notes Payable:</u>					
Revenue Bonds	\$ 1,035,394	\$ 0	\$ (80,900)	\$ 954,494	\$ 80,597
Total Bonds and Notes Payable	\$ 1,035,394	\$ 0	\$ (80,900)	\$ 954,494	\$ 80,597
<u>Other Liabilities:</u>					
Compensated Absences	\$ 45,312	\$ 633	\$ (11,864)	\$ 34,081	\$ 23,776
Total Other Liabilities	\$ 45,312	\$ 633	\$ (11,864)	\$ 34,081	\$ 23,776
Total Business-type Activities - Long-Term Debt:	\$ 1,080,706	\$ 633	\$ (92,764)	\$ 988,575	\$ 104,373

7. b. GENERAL OBLIGATION BONDS

The City issued general obligation bonds in prior years for the acquisition and construction of capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. These bonds were issued for the terms and payment schedules indicated in the following schedule:

<u>Description</u>	<u>Issue Date</u>	<u>Interest</u> <u>Rate</u>	<u>Length of</u> <u>Loan</u>	<u>Maturity</u> <u>Date</u>	<u>Amount</u> <u>Issued</u>	<u>Outstanding</u> <u>June 30,</u> <u>2014</u>
Swimming Pool Improvements	03/01/2002	4.0 to 4.65%	15 Years	07/01/2017	225,000	60,000

Debt service requirements to maturity for principal and interest for all bonded long term obligations are as follows:

For the year ended 6/30:		
	<u>Principal</u>	<u>Interest</u>
2015	\$ 20,000	\$ 2,730
2016	20,000	1,840
2017	20,000	930
Totals	\$ 60,000	\$ 5,500

7. c. URBAN RENEWAL BONDS

Urban renewal bond are issued to finance the undertaking of any urban renewal project. The bond do not pledge the general credit of the City and are secured by a lien on and pledge of the revenues of the TIFD district. The City issued the bonds for sidewalk, curbs, and storm drain repairs on Main Street and side streets connecting to Front Street within the TIFD district. These bonds were issued for the terms and payment schedules indicated in the following schedule:

<u>Description</u>	<u>Issue Date</u>	<u>Interest</u> <u>Rate</u>	<u>Length of</u> <u>Loan</u>	<u>Maturity</u> <u>Date</u>	<u>Amount</u> <u>Issued</u>	<u>Outstanding</u> <u>June 30,</u> <u>2014</u>
Series 2013 TIFD	12/20/2013	3.75%	15 Years	12/20/2028	\$ 175,000	\$ 170,591

Debt service requirements to maturity for principal and interest for all bonded long term obligations are as follows:

For the year ended 6/30:		
	<u>Principal</u>	<u>Interest</u>
2015	\$ 9,049	\$ 6,313
2016	9,375	5,987
2017	9,746	5,616
2018	10,115	5,248
2019	10,498	4,865
2020-2024	58,740	18,074
2025-2029	63,068	6,063
Totals	\$ 170,591	\$ 52,166

CITY OF FORT BENTON

NOTES TO THE FINANCIAL STATEMENTS (continued)  
Fiscal Year-Ended June 30, 2014

7. d. LOANS/CONTRACTS

Description	Issue Date	Interest Rate	Length of Loan	Maturity Date	Amount Issued	Outstanding June 30, 2014
Fire Truck	06/01/2009	1.0 - 3.25%*	15 years	07/01/2024	\$ 180,000	\$ 126,000
Police Radios	09/12/2008	1.0 - 4.25%*	5 years	08/15/2013	45,349	0
Dura Patch Trailer	07/13/2007	1.0 - 4.85%*	8 years	08/15/2015	49,700	10,544
TIFD Loan	08/06/2010	0.00%	7 years	08/16/2017	51,168	29,237
					<u>\$ 326,217</u>	<u>\$ 165,781</u>

Debt service requirements to maturity for principal and interest for all Intercap long term obligations are as follows:

For the year ended 6/30:	Principal	Interest
2015	\$ 26,454	\$ 1,365
2016	22,709	1,174
2017	19,309	1,020
2018	19,309	900
2019	12,000	780
2020-2024	60,000	2,100
2025	6,000	60
Totals	<u>\$ 165,781</u>	<u>\$ 7,399</u>

7. e. REVENUE BONDS

Description	Issue Date	Interest Rate	Length of Loan	Maturity Date	Amount Issued	Outstanding June 30, 2014
Water Revenue Bond -- Series 1998	04/15/1998	5.25%	20 years	05/01/2018	\$ 520,480	\$ 145,494
Water Revenue Bond -- ARRA B	12/16/2009	1.75%	20 years	07/01/2029	280,800	219,000
Storm Drain Revenue Bond -- Series 2008*	08/15/2008	2.25%	20 years	07/01/2028	\$ 771,645	\$ 590,000
					<u>\$ 1,572,925</u>	<u>\$ 954,494</u>

For the year ended 6/30:	Principal	Interest
2015	\$ 80,597	\$ 18,246
2016	86,384	15,808
2017	89,266	13,211
2018	92,247	10,510
2019	54,000	8,219
2020-2024	283,000	29,709
2025-2029	269,000	9,175
	<u>\$ 954,494</u>	<u>\$ 104,878</u>

\* Storm Drain Revenue Bond -- Series 2008 was refinanced in 2014 lowering the interest rate to 2.25%

The revenue bonds are collateralized by the revenues of the water and sewer systems and the various special funds established by the bond ordinances. The ordinances provide that the revenues of the systems are to be used first to pay operating and maintenance expenses of the systems and second to establish and maintain the revenue bond funds. Any remaining revenues may then be used for any lawful purpose.

The bond ordinances also require that water rates be sufficient to provide for operations, maintenance and 125% of the maximum amount of principal and interest requirements in any future fiscal year of the City. 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 City was in compliance with the applicable covenants, except for the storm drainage bond requirement for net revenues exceeding 125%.

CITY OF FORT BENTON

NOTES TO THE FINANCIAL STATEMENTS (continued)  
Fiscal Year-Ended June 30, 2014

NOTE 8. DEFERRED INFLOWS OF RESOURCES

<u>Fund</u>	<u>Amount</u>	<u>Reason</u>
General*	\$ 61,322	Taxes Receivable
Comprehensive Liability	1,927	Taxes Receivable
Tax Increment Finance District #1*	2,814	Taxes Receivable
Tax Increment Finance District #2	32	Taxes Receivable
PERS -- Employer Contribution	2,355	Taxes Receivable
Health Insurance -- Employer Contribution	7,681	Taxes Receivable
Permissive Medical Levy	2,112	Taxes Receivable
SID #7 Maintenance	1,130	Special Assessments Receivable
Solid Waste*	3,267	Special Assessments Receivable
Swim Pool Bond	6,315	Special Assessments Receivable
Fire Truck Bond	1,549	Special Assessments Receivable
Total	<u>\$ 90,504</u>	

\* Denotes Major Funds

NOTE 9. DEFICIT FUND BALANCES

<u>Fund</u>	<u>Amount</u>	<u>How to Correct</u>
Tax Increment Finance District #2*	\$ (454)	Tax collections

NOTE 10. TRANSFERS

<u>Fund - From</u>	<u>Amount</u>	<u>Fund - To</u>
Revolving Loan Fund	\$ 2,855	General*
General	1,866	Revolving Loan Fund
General	8,500	Capital Improvement -- Police
General	2,500	Capital Improvement -- Pool
General	2,500	Capital Improvement -- Park
Total	<u>\$ 18,221</u>	

\* Denotes Major Funds

NOTE 11. OTHER POST EMPLOYMENT BENEFITS

The City allows retirees to participate in the group health insurance plan. The City uses a single premium for both active and retired employees resulting in an implicit rate subsidy (the older retiree benefits from the City's blended premium). The City has not recorded a liability for the implicit rate subsidy as based on an analysis of the cost it is not material to the City's financial statements. At June 30, 2014 the City had three retired employees and two spouses of retired employees on the group insurance plan.

NOTE 12. OTHER COMMITMENTS AND CONTINGENCIES

The City's Sewer Treatment Plant facilities are out of compliance with Montana Department of Environmental Quality (DEQ) standards, (e.g. Montana Water Quality Act, MCA 75-5-6) The City is working with DEQ and applying for funding to upgrade or replace the current facility to meet DEQ Requirements.

NOTE 13. RISK MANAGEMENT

The City faces a considerable number of risks of loss, including damage to and loss of property and contents, employee torts, professional liability, (i.e. errors and omission), environmental damage, workers' compensation, and medical insurance costs of employees. A variety of methods are used to provide insurance for these risks. Commercial policies, transferring all risk of loss except for relatively small deductible amounts, are purchased for property and content damage and professional liabilities. Given the lack of coverage available, the City has no coverage for potential losses from environmental damages. The City participates in three statewide public risk pools operated by the Montana Municipal Interlocal Authority, for workers' compensation, tort liability and property coverage.

CITY OF FORT BENTON

NOTES TO THE FINANCIAL STATEMENTS (continued)  
Fiscal Year-Ended June 30, 2014

Coverage limits and the deductibles in the commercial policies have stayed relatively constant for the last several years. The premiums for the policies are allocated between the City's general fund and other funds based upon the insurance needs of the funds. Settled claims resulting from these risks did not exceed commercial insurance coverage for each of the past three years.

In 1986, the City joined other Montana cities in the Montana Municipal Interlocal Authority which established a workers' compensation plan and a tort liability plan. In 1996, the Montana Municipal Interlocal Authority created a property insurance plan. The 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 \$750 deductible per government. State tort law limits the City's liability to \$1.5 million. The City pays an annual premium for its employee injury insurance coverage, which is allocated to the employer funds based on total salaries and wages. The agreements for formation of the pools provide that they will be self-sustaining through member premiums.

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

NOTE 14. EMPLOYEE RETIREMENT SYSTEM

The City participates in a cost-sharing multiple employer defined benefit retirement plan which covers all City employees. The Public Employee Retirement System (PERS). The plan is established under State law and administered by the State of Montana.

The plan issues publicly available annual reports that include financial statements and required supplemental in-formation for the plans. Those reports may be obtained from the following:

Public Employees Retirement System  
P.O. Box 200131  
1712 Ninth Avenue  
Helena, MT 59620-0131  
Phone: 406-444-3154  
[www.state.mt.us/doa/perh/prb.htm](http://www.state.mt.us/doa/perh/prb.htm)

The PERS defined benefit contribution rates for employees was 7.9%. The PERS rate for the State was set at 0.10%. For the defined contribution plan the rates are the same except only 4.19% of the employer amount is added to the employee account. Employees who elect the defined contribution plan are in control of their investments and the retirement is based upon the cash in their fund. The PERS rate for employers was 8.07%.

Contribution rates are required and determined by State law. The amounts contributed to the plan during the years ended June 30, 2012, 2013 and 2014 were equal to the required contribution for each year. The amounts contributed by the State, City and its employees (including additional voluntary contributions by employees as permitted by State law) were as follows:

	<u>2012</u>	<u>2013</u>	<u>2014</u>
PERS	\$ 58,378	\$ 61,990	\$ 78,318

NOTE 15. LOCAL RETIREMENT PLAN

City volunteer firefighters are covered by the Fire Department Relief Association Disability and Pension Fund, which is established by State Law. The Association is managed by a Board of Trustees made up of members of the fire department, and is accounted for as a pension trust fund of the City. A member of a volunteer fire department who has served 20 years or more is entitled to benefits after attaining age 50. Volunteers serving less than 20 years but more than 10 years may receive reduced benefits. The amount of the pension benefits are set by the Association's Board of Trustees.

Montana law requires that the disability and pension fund contain at least 0.21 % of the total assessed value of taxable property within the City limits but not more than 0.52% of the assessed taxable value. Once the fund contains less than 0.21 % of the assessed value the City council shall levy a tax to be deposited in the fund. The City's contribution to the plan for the fiscal year ended June 30, 2014 was \$2,311. The State contributes, out of moneys received for insurance premium taxes, an amount equal to 1/4 mills times the total taxable value of the City, but not less than \$100. The State's contribution to the plan for the fiscal year was \$2,519. The plan's benefits are established by the Association's Board of Trustees. On April 10, 1985, the monthly pension for retired firefighters with 20 years of service was set at \$50.00 per month, with a widow's pension at 1/2 of the deceased firefighter's pension rate. Total benefits paid in the fiscal year ended June 30, 2014 amounted to \$10,250. The number of beneficiaries is 12.

CITY OF FORT BENTON

NOTES TO THE FINANCIAL STATEMENTS (continued)  
Fiscal Year-Ended June 30, 2014

No actuarial valuation or report of unfunded past service costs had been prepared for the Fort Benton Fire Department Relief Association Disability and Pension Fund.

NOTE 16. RESTRICTED ASSETS

The following Restricted Cash was held by the City Treasurer as of June 30, 2014:

<u>Fund Name</u>	<u>Water</u>	<u>Sewer</u>	<u>Storm Drain</u>	<u>Total</u>
Restricted for Capital Improvement	\$ 17,951	\$ 28,132	\$ 0	\$ 46,083
Restricted for Bond Repayment	58,427	0	50,125	108,552
Restricted for Replacement and Deprecation	<u>101,039</u>	<u>131,051</u>	<u>58,000</u>	<u>290,090</u>
Total	<u>\$ 177,417</u>	<u>\$ 159,183</u>	<u>\$ 108,125</u>	<u>\$ 444,725</u>

The ordinances authorizing the water, sewer, and storm drain system revenue bonds requires that the City establish sinking funds or cash restricted for payment of principal and interest on all revenue bonds. At June 30, 2013, the sinking fund balance is sufficient to satisfy such bond ordinance requirements.

The ordinance further requires that the proceeds from the sale of revenue bonds be expended for certain capital improvements to the water and sewer system. The proceeds are maintained as restricted assets - bond construction fund until such time as needed to fund the water and sewer system construction program.

NOTE 17. JOINT VENTURES

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

17.a. UNIFIED DISPOSAL DISTRICT

The Unified Disposal District is operating under an Interlocal agreement between Hill County, Chouteau County, the City of Havre, the City of Fort Benton, the City of Chinook, and the Town of Big Sandy. The District was formed for the purpose of coordinating solid waste collections and disposal for the parties to the agreement. The Unified Disposal Board has twelve members, which are appointed by the governing bodies of the various entities involved.

Joint ventures are independently constituted entities generally created by two or more governments for a specific purpose.

The Unified Disposal District is financed by user charges to the residents in the District. Revenues generated from these charges are deposited with Hill County for administration of the program. Expenditures made by the district are first approved by the Unified Disposal Board prior to transmittal to the Hill County auditor for processing and payment. The Unified Disposal District is a component unit of Hill County.

If any of the participating governments should wish to terminate their participation in this agreement that government is required to give at least a one year's written notice of their intent to withdraw. The governments continuing with the Unified Board will have an option to buy the terminating government's share, which shall be the proportionate interest of the net assets of the unified board determined by appraisal at the time of withdrawal. If all governments should wish to terminate, proceeds of any sale or distribution of the assets of the entity shall be split according to the proportionate interest the withdrawing governments have in the entire district.

17.b. CITY-COUNTY AIRPORT

The City participates in the financing of a joint City-County airport operation along with other incorporated towns in Chouteau County. The City made no direct contribution to the operation. Airport revenue derived from a County-wide airport levy includes tax revenue derived from the taxable valuation of the property within the City's boundaries. The finances of the joint City-County airport are accounted for within the records of Chouteau County.

CITY OF FORT BENTON

NOTES TO THE FINANCIAL STATEMENTS (continued)  
Fiscal Year-Ended June 30, 2014

NOTE 18. SUBSEQUENT REPORTABLE EVENTS

The City of Fort Benton's projected plans for a new Wastewater Treatment System are as follows:

The project is identified as a Wastewater treatment and disposal system improvements consisting of lift station improvements, a replacement sewer force main, a new aeration system in the existing treatment lagoons, a new on-site storage lagoon, and a slow rate land application effluent disposal system.

The approximate projected cost of said project is around \$4,000,000. The City has received a TSEP Grant of \$750,000, and an RRGL Grant of \$100,000. The City is also working on getting a Rural Development Grant of \$1,000,000 and the balance to be paid with a loan from Rural Development.

The amended completion date of the said project is January 1, 2016, per Amended Administrative Order dated October 17, 2013.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 (Budget and Actual)  
 ALL BUDGETED MAJOR GOVERNMENTAL FUNDS  
 For the Year Ended June 30, 2014

	General			Tax Increment Finance District #1		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
<b>REVENUES:</b>						
Taxes/Assessments	\$ 287,926	\$ 287,926	\$ 288,275	\$ 26,125	\$ 26,125	\$ 25,666
Licenses and Permits	11,205	11,205	14,002	-	-	-
Intergovernmental Revenue	255,666	255,666	196,074	-	-	2,137
Charge for Service	9,455	9,455	12,228	-	-	-
Fines and Forfeitures	7,500	7,500	6,595	-	-	-
Miscellaneous	35,500	35,500	57,868	-	-	-
Investment and Royalty Earnings	20,000	20,000	26,777	-	-	209
<b>Total Revenues</b>	<b>627,252</b>	<b>627,252</b>	<b>601,819</b>	<b>26,125</b>	<b>26,125</b>	<b>28,012</b>
<b>EXPENDITURES:</b>						
<b>Current</b>						
General Government			123,162			10,000
Public Safety			247,393			-
Public Works			60,988			-
Public Health			5,580			-
Culture and Recreation			134,082			-
Housing and Community Development			5,000			-
<b>Debt Service</b>						
Principal			12,553			4,409
Interest and other charges			26			3,272
Capital Outlay			29,787			19,592
<b>Total Expenditures</b>	<b>865,537</b>	<b>865,537</b>	<b>618,571</b>	<b>500,000</b>	<b>500,000</b>	<b>37,273</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(238,285)</b>	<b>(238,285)</b>	<b>(16,752)</b>	<b>(473,875)</b>	<b>(473,875)</b>	<b>(9,261)</b>
<b>OTHER FINANCING SOURCES/USES</b>						
Loan Proceeds	-	-	-	400,000	400,000	175,000
Fund Transfers In	-	-	2,855	-	-	-
Fund Transfers (Out)	(12,000)	(13,500)	(15,366)	-	-	-
<b>Total Other financial Sources/Uses</b>	<b>(12,000)</b>	<b>(13,500)</b>	<b>(12,511)</b>	<b>400,000</b>	<b>400,000</b>	<b>175,000</b>
<b>NET CHANGES IN FUND BALANCES</b>	<b>(250,285)</b>	<b>(251,785)</b>	<b>(29,263)</b>	<b>(73,875)</b>	<b>(73,875)</b>	<b>165,739</b>
<b>FUND BALANCE:</b>						
Beginning of the Year			372,601			187,827
End of the Year			\$ 343,338			\$ 353,566

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 (Budget and Actual)  
 ALL BUDGETED MAJOR GOVERNMENTAL FUNDS  
 For the Year Ended June 30, 2014

	Solid Waste		
	Original Budget	Final Budget	Actual
<b>REVENUES:</b>			
Taxes/Assessments	\$ 135,200	\$ 135,200	\$ 143,107
Licenses and Permits	-	-	-
Intergovernmental Revenue	-	-	-
Charge for Service	3,000	3,000	4,715
Fines and Forfeitures	-	-	-
Miscellaneous	-	-	-
Investment and Royalty Earnings	-	-	-
<b>Total Revenues</b>	<u>138,200</u>	<u>138,200</u>	<u>147,822</u>
<b>EXPENDITURES:</b>			
Current			
General Government	-	-	-
Public Safety	-	-	-
Public Works	-	-	137,689
Public Health	-	-	-
Culture and Recreation	-	-	-
Housing and Community Development	-	-	-
Debt Service	-	-	-
Principal	-	-	-
Interest and other charges	-	-	-
Capital Outlay	-	-	-
<b>Total Expenditures</b>	<u>162,438</u>	<u>162,438</u>	<u>137,689</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(24,238)</u>	<u>(24,238)</u>	<u>10,133</u>
<b>OTHER FINANCING SOURCES/USES</b>			
Loan Proceeds	-	-	-
Fund Transfers In	-	-	-
Fund Transfers (Out)	-	-	-
<b>Total Other financial Sources/Uses</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>NET CHANGES IN FUND BALANCES</b>	<u>(24,238)</u>	<u>(24,238)</u>	<u>10,133</u>
<b>FUND BALANCE:</b>			
Beginning of the Year	-	-	37,848
End of the Year	-	-	<u>\$ 47,981</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

CITY OF FORT BENTON

NOTES TO THE BUDGET VS ACTUAL SCHEDULE  
Fiscal Year-Ended June 30, 2014

NOTE 1. BUDGETS

1. a. BUDGETS

Budgets are adopted on a basis consistent with the State of Montana budget laws (Title 7, Chapter 6, Part 40, MCA) which are consistent with generally accepted accounting principles (GAAP). Annual appropriated budgets are adopted for all funds of the City. All annual appropriations lapse at fiscal year-end, unless the City elects to encumber supplies and personal property ordered but not received at year end. The City does not use a formal encumbrance system.

1. a. 1 General Budget Policies:

Budgeted funds are those of which a legal budget must be adopted to have expenditures from such funds and are noted above. The Schedule of Revenues, Expenditures, and Changes in Fund Balances, Budget vs. Actual, has been prepared on the modified accrual basis of accounting and contains financial information for only the major budgeted funds. The major funds Water, Sewer, and Storm Water Drainage are not included in the schedule because they are enterprise funds.

The original budget was not amended so the original budget and the final budget are the same, except for in the general fund where the general fund budget was increase by \$1,500 in transfers and the police CIP fund was also increased by \$1,500.

1. a. 2 Budget Operation:

The City operates within the budget requirements for incorporated city or town's as specified by State law. The financial report reflects the following budgetary standards:

- (1) A local government shall submit a complete copy of the final budget together with a statement of tax levies to the Department of Administration by the later of October 1 or 60 days after receipt of taxable values from the Department of Revenue.
- (2) Local government officials may not make a disbursement or an expenditure or incur an obligation in excess of the total appropriations for a fund.
- (3) The governing body may amend the budget during the fiscal year by conducting public hearings at regularly scheduled meetings. Budget amendments providing for additional appropriations must identify the fund reserves, unanticipated revenue, or previously unbudgeted revenue that will fund the appropriations.
- (4) The governing body and each municipal official are limited to the amount of appropriations and by the classifications in the annual appropriation resolution when making disbursements or expenditures or incurring liabilities. Exceptions to this limitation - Appropriations may be adjusted according to procedures authorized by the governing body for:
  - a. debt service funds for obligations related to debt approved by the governing body;
  - b. trust funds for obligations authorized by trust covenants;
  - c. any fund for federal, state, local, or private grants and shared revenue accepted and approved by the governing body;
  - d. any fund for special assessments approved by the governing body;
  - e. the proceeds from the sale of land;
  - f. any fund for gifts or donations; and
  - g. money borrowed during the fiscal year.
- (5) If an expenditure is to be financed from a tax levy required to be authorized and approved at an election, the expenditure may not be made or an obligation may not be incurred against the expenditure until the tax levy is authorized and approved.
- (6) At the end of a fiscal year, unencumbered appropriations lapse unless specifically obligated by the City.

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*

INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
City of Fort Benton  
Chouteau County  
Fort Benton, Montana 59442

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 *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Fort Benton as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City of Fort Benton's basic financial statements and have issued our report thereon dated February 13, 2015.

**Internal Control Over Financial Reporting**

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

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

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether City of Fort Benton's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2014-001.

### City of Fort Benton's Response to Findings

The City's response to the findings identified in our audit are attached to the accompanying schedule of findings and responses. The City's response was not subjected 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 on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Strom & Associates, P.C.*

STROM & ASSOCIATES, PC  
Billings, Montana  
February 13, 2015

SCHEDULE OF FINDINGS AND RESPONSES

The following is the status of prior year findings and updated for current year.

Finding Number 1-2013:

Segregation of Duties (Repeat from prior year)

This finding was not repeated in the current year

Finding Number 2-2013:

Water Bond Covenants (Repeat from prior year)

This finding was not repeated in the current year

Finding Number 2014-001 -- Storm Water Bond Covenants

Criteria:

Storm Water bond covenants require that the City produce net operating revenues during each fiscal year not less than 125% of the maximum annual principle and interest payable in the current or any future fiscal year.

Condition:

The City does not have sufficient net operating revenues to meet Storm Water bond covenants.

Effect:

The City is out of compliance with the Storm Water bond covenants.

Context:

Net revenues for fiscal year ended June 30, 2014 were \$54,696 and the required amount based on bond requirements was approximately \$61,313.

Cause:

Storm Water rates were not sufficient to provide for the required level of net operating revenue for the fiscal year.

Recommendation:

The City Council should review Storm Water revenue predictions and expenses to determine if a rate increase is needed to meet revenue bond requirements.

# City of Fort Benton



1204 Front Street  
P.O. Box 8 Fort Benton, Montana 59442  
Phone: (406) 622-5494  
Fax: (406) 622-5496  
fbenton@ttc-cmc.net

December 29, 2014

Strom & Associates, P.C.  
PO Box 1980  
Billings MT 59103

**RE: Audit Findings**

John Paul:

Regarding our audit findings and your request for our response, please consider this our response.

The City of Fort Benton intends to address the Storm Drain Bond Covenant non-compliance issue noted in the audit findings. The net operating revenues for the Storm Drain Fund will be at least 125% of the maximum annual principal and interest payable in the current fiscal year by curtailing the total expenditures of this fund. This will be accomplished on a monthly basis starting in December 2014, and will also be addressed at budget time for the 2015/2016 fiscal year and subsequent fiscal years.

If you have any further questions, feel free to contact this office.

Sincerely,

A handwritten signature in dark ink, appearing to read "Richard D. Morris".

Richard D. Morris  
Mayor  
City of Fort Benton