

TOWN OF HYSHAM
TREASURE COUNTY
HYSHAM, MONTANA

FINANCIAL AND COMPLIANCE REPORT

Fiscal year Ended June 30, 2014

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

Town of Hysham
Treasure County
Hysham, MT 59038

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Town of Hysham
Treasure County
Hysham, MT 59038

ORGANIZATION

TOWN COUNCIL

Larry Fink	Mayor
Leo Cunningham	member
Sharon DeCock	member
Sharon Keyes	member
Stuart Thrower	member

OFFICIALS

Erin Fink	Town Judge
Shawn Mitchell	Clerk/Treasurer
Robert Keele	Public Utility Supervisor
Gary Ryder	Town Attorney

TOWN OF HYSHAM MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the Town of Hysham's financial performance provides an overview of the government's financial activities for the year ending June 30, 2014. Please read the information in this discussion and analysis in conjunction with our financial statements presented in this annual financial report.

The ANNUAL FINANCIAL REPORT consists of a series of financial statements.

The governmental-wide financial statements provide information about the activities of the government as a whole and present a longer-term view of the finances.

For governmental activities, fund statements tell how these services were financed, in the short term, as well as, what remains of future spending. Fund financial statements also report the government's operation in more detail than the governmental-wide financial statements by providing information about the most significant funds.

The remaining statements provide financial information about activities for which the government acts solely as trustee or agent for the benefit of those outside of the government.

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-wide financial statements – One of the most important questions asked about the government's finances is "Is the Town of Hysham on the whole, better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the Town of Hysham as a whole and about its activities in a way that helps answer this question. Those statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

These two statements report the net position and changes in them. You can think of net position – the difference between assets and liabilities – as one way to measure the financial health, or financial position. Over time, increases or decreases in net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the property tax base, change in service demands, and the condition of the capital assets, to assess the overall health.

In the Statement of Net Position and the Statement of Activities, our government is divided into two kinds of activities:

Governmental activities – basic services are reported here, including law enforcement, public works, legal services, park department and general administration. Property taxes and intergovernmental revenues finance most of these activities.

Business type activities – fees charged to customers to help it cover all or most of the cost of certain services it provides. The water and sewer system and solid waste services are reported here.

Fund Financial Statements – The fund financial statements provide detail information about the most significant funds – not the government as a whole. Some funds are required to be established by State Law and by bond covenants. Also, the governing body establishes several other funds to help it control and manage money for particular purposes or to meet legal responsibilities for using certain taxes, grants and other money. The Town of Hysham utilizes the following funds:

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

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

Fiduciary funds – fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds use the accrual basis of accounting. We excluded these activities from the other financial statements because we cannot use these assets to finance our operations. We are responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Contact Information – Business hours for the Town of Hysham office are from 8:00 AM to 12:00 PM Monday through Friday. The phone number for the Town of Hysham office is 406-342-5544. Following are names and phone numbers to call after business hours.

Mayor – Larry Fink	406-342-5237
Council Chairman – Leo Cunningham	406-670-3510
Council Member – Sharon DeCock	406-342-5669
Council Member – Sharon Keyes	406-342-5839
Council Member – Stuart Thrower	406-342-5543
Public Works Director – Robert Keele	406-696-8943
Town of Hysham Clerk – Shawn Mitchell	406-342-5494

FINANCIAL HIGHLIGHTS

From the Governmental-wide Financial statements

The Town of Hysham Statement of Net Position (pg. 13) of the AFR

	2013	2014	Increase/(decrease)
shows the total net position for:			
Governmental Activities	141,432.06	138,082.43	\$ (3,349.63)
Business-type Activities	1,936,820.00	1,859,529.97	\$ (77,290.03)
Total Net Position	2,078,252.06	1,997,612.40	\$ (80,639.66)

It shows **Unrestricted assets** for:

Governmental Activities	82,367.00	71,828.06	\$ (10,538.94)
Business-type Activities	54,876.91	33,774.90	\$ (21,102.01)
Total Unrestricted Assets	137,243.91	105,602.96	\$ (31,640.95)

It shows **Capital Assets** less accumulated depreciation for:

Governmental Activities	36,195.00	34,357.00	\$ (1,838)
Business-type Activities	2,488,219.48	2,393,869.29	\$ (94,350.19)
Total Capital Assets less deprec.	2,524,414.48	2,428,226.29	\$ (96,188.19)

It shows **Noncurrent Liabilities** Due in more than one year for:

Governmental Activities	936.04	1,273.49	\$ 337.45
Business-type Activities	682,398.90	611,925.71	\$ (70,473.19)
Total Noncurrent Liabilities	683,334.94	613,199.20	\$ (70,135.74)

The Town of Hysham Statement of Activities (pg. 14) of the AFR

shows the **total expenses** for

	2013	2014	Increase/(decrease)
Governmental Activities	128,175.21	114,690.11	\$ (13,485.10)
Business-type Activities	275,361.93	324,223.61	\$ 48,861.68
Total Expenses	403,537.14	438,913.72	\$ 35,376.58

It show **total revenues** for:

Governmental Activities	128,013.96	129,340.48	\$ 1,326.52
Business-type Activities	180,799.26	228,934.58	\$ 48,135.32
Total Revenues	308,813.22	358,275.06	\$ 49,461.84

Revenue less Expenses	(94,723.92)	(80,639.66)	
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*Town of Hysham Statement of Revenues, expenses and changes in Fund Net Position
on pg. 19 shows operating revenues for the following:*

	2013	2014	Increase/(decrease)
Water	128,114.82	117,843.64	\$ (10,271.18)
Sewer	31,005.56	34,400.27	\$ 3,394.71
Solid Waste	16,094.35	20,226.16	\$ 4,131.81

Number of Active Meter Services as of June 30th:

Business-type Activities	198	197	-1
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The Schedule of Cash receipts and Disbursements - all Funds on pg.72 of the AFR shows the ending cash balances for the following funds:

	2013	2014	Increase/(decrease)
General	44,600.94	54,130.73	\$ 9,529.79
Comprehensive Insurance	11,104.67	12,955.19	\$ 1,850.52
Building Permit	2,086.34	2,152.91	\$ 66.57
Police reserve	2,160.96	2,386.96	\$ 226.00
Gas Tax	17,113.66	25,848.40	\$ 8,734.74
Water	91,444.36	73,832.50	\$ (17,611.86)
Sewer	33,337.46	17,236.12	\$ (16,101.34)
Solid waste	9,161.59	6,627.31	\$ (2,534.28)

MISCELLANEOUS INFORMATION

Operating Grants and Contributions received from the State of Montana:
NONE

STROM & ASSOCIATES, PC
Certified Public Accountants
P.O. Box 1980
Billings, Montana 59103

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Town of Hysham
Treasure County
Hysham, MT 59038

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 Town of Hysham as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Hysham 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 - 6) and budgetary comparison information (pages 30 - 31) 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 April 28, 2015 on our consideration of Town of Hysham internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Hysham internal control over financial reporting and compliance.



STROM & ASSOCIATES, PC
Billings, Montana
April 28, 2015

STATEMENT OF NET POSITION
 as of June 30, 2014

	Governmental Activities	Business-type Activities	Total
ASSETS:			
Current Assets:			
Cash and Cash Equivalents	\$ 97,474	\$ 19,446	\$ 116,920
Taxes/Assessments Receivable - Net	6,016	-	6,016
Due From Other Governments	-	15,000	15,000
Accounts Receivable - Net	-	16,853	16,853
Total Current Assets	<u>103,490</u>	<u>51,299</u>	<u>154,789</u>
Noncurrent Assets:			
Restricted Cash and Cash Equivalents	-	78,252	78,252
Capital Assets:			
Land	1,509	3,172	4,681
Net Depreciable Assets	34,357	2,393,869	2,428,226
Total Noncurrent Assets	<u>35,866</u>	<u>2,475,293</u>	<u>2,511,159</u>
Total Assets	<u>\$ 139,356</u>	<u>\$ 2,526,592</u>	<u>\$ 2,665,948</u>
LIABILITIES:			
Current Liabilities			
Current Portions Compensated Absences	\$ 636	\$ -	\$ 636
Accounts Payable	-	15,000	15,000
Deposits Payable	-	1,435	1,435
Current Portion Long-Term Capital Obligations	-	38,700	38,700
Total Current Liabilities	<u>636</u>	<u>55,135</u>	<u>55,771</u>
Noncurrent Liabilities:			
Compensated Absences	637	1,088	1,725
Long-Term Capital Obligations	-	610,839	610,839
Total Noncurrent Liabilities	<u>637</u>	<u>611,927</u>	<u>612,564</u>
Total Liabilities	<u>1,273</u>	<u>667,062</u>	<u>668,335</u>
NET POSITION:			
Net investment in capital assets	35,866	1,747,502	1,783,368
Restricted	43,343	78,252	121,595
Unrestricted (Deficit)	58,874	33,776	92,650
Total Net Position	<u>138,083</u>	<u>1,859,530</u>	<u>1,997,613</u>
Total Liabilities and Net Position	<u>\$ 139,356</u>	<u>\$ 2,526,592</u>	<u>\$ 2,665,948</u>

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
GOVERNMENT OPERATIONS						
General Government	\$ 36,646	\$ 415	\$ -	\$ (36,231)		\$ (36,231)
Public Safety	10,471	328	226	(9,917)		(9,917)
Public Works	46,224	-	11,420	(34,804)		(34,804)
Public Health	3,872	-	-	(3,872)		(3,872)
Social and Exonomic Services	240	-	-	(240)		(240)
Culture and Recreation	8,358	500	-	(7,858)		(7,858)
Miscellaneous	8,879	-	-	(8,879)		(8,879)
Total Governmental Activities	<u>114,690</u>	<u>1,243</u>	<u>11,646</u>	<u>(101,801)</u>		<u>(101,801)</u>
BUSINESS-TYPE ACTIVITIES						
Water	\$ 249,890	\$ 117,844	\$ 55,000		\$ (77,046)	(77,046)
Sewer	50,809	35,400	-		(15,409)	(15,409)
Solid Waste	23,525	20,226	-		(3,299)	(3,299)
Total Business-type activates	<u>324,224</u>	<u>173,470</u>	<u>55,000</u>		<u>(95,754)</u>	<u>(95,754)</u>
Total Primary Government	<u>\$ 438,914</u>	<u>\$ 174,713</u>	<u>\$ 66,646</u>	<u>\$ (101,801)</u>	<u>\$ (95,754)</u>	<u>\$ (197,555)</u>
GENERAL REVENUES						
Taxes /Assessments				85,687	-	85,687
Licenses & Permits				100	-	100
Other State Revenues				29,350	-	29,350
Interest				19	464	483
Miscellaneous				1,296	-	1,296
Total General Revenues				<u>116,452</u>	<u>464</u>	<u>116,916</u>
Change in Net Position				14,651	(95,290)	(80,639)
Net Position						
Beginning of the Year				141,432	1,936,820	2,078,252
Prior Period Adjustments				(18,000)	18,000	-
End of the Year				<u>\$ 138,083</u>	<u>\$ 1,859,530</u>	<u>\$ 1,997,613</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		Other Governmental Funds	Total Governmental Funds
	General	Gas Tax		
ASSETS:				
Current Assets:				
Cash and Cash Equivalents	\$ 67,086	\$ 25,848	\$ 4,540	\$ 97,474
Taxes/Assessments Receivable - Net	6,016	-	-	6,016
Total Assets	<u>\$ 73,102</u>	<u>\$ 25,848</u>	<u>\$ 4,540</u>	<u>\$ 103,490</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable Property Taxes Receivable	6,016	-	-	6,016
Total Deferred Inflows of resources	<u>6,016</u>	<u>-</u>	<u>-</u>	<u>6,016</u>
FUND BALANCE:				
Fund Balances:				
Restricted	12,955	25,848	4,540	43,343
Unassigned:	54,131	-	-	54,131
Total Fund Balance	<u>67,086</u>	<u>25,848</u>	<u>4,540</u>	<u>97,474</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 73,102</u>	<u>\$ 25,848</u>	<u>\$ 4,540</u>	<u>\$ 103,490</u>

RECONCILIATION TO THE STATEMENT OF NET POSITION

Total fund balance reported above	\$ 97,474
Governmental Capital Assets	35,866
Long-term Liabilities	
Compensated Absences	(1,273)
Unavailable Property Taxes Receivable	6,016
Net Position of Governmental Activities	<u>\$ 138,083</u>

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		Other Governmental Funds	Total Governmental Funds
	General	Gas Tax		
REVENUES:				
Taxes /Assessments	\$ 89,268	\$ -	\$ -	\$ 89,268
Licenses and Permits	100	-	200	300
Intergovernmental Revenue	29,350	11,420	226	40,996
Fines and Forfeitures	15	-	-	15
Miscellaneous	2,324	-	-	2,324
Investment and Royalty Earnings	19	-	-	19
Total Revenues	<u>121,076</u>	<u>11,420</u>	<u>426</u>	<u>132,922</u>
EXPENDITURES:				
Current				
General Government	35,509	-	-	35,509
Public Safety	10,338	-	133	10,471
Public Works	39,490	2,686	-	42,176
Public Health	3,872	-	-	3,872
Culture and Recreation	8,358	-	-	8,358
Miscellaneous	8,879	-	-	8,879
Total Expenditures	<u>106,446</u>	<u>2,686</u>	<u>133</u>	<u>109,265</u>
NET CHANGES IN FUND BALANCES	14,630	8,735	293	23,657
FUND BALANCE:				
Beginning of the Year	70,456	17,114	4,247	91,817
Prior Period Adjustments	(18,000)	\$ -	-	(18,000)
End of the Year	<u>\$ 67,086</u>	<u>\$ 25,848</u>	<u>\$ 4,540</u>	<u>\$ 97,474</u>

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

Town of Hysham
Treasurer County
Hysham, Montana 59038

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	\$	23,657
Revenues on the Statement of Activity not included in governmental funds statement:		
Increase (decrease) in taxes receivable		(3,581)
Expenses on the Statement of Activity not included in the governmental funds statement:		
Depreciation Expense	(5,088)	
(Increase) decrease in compensated absence liability	<u>(337)</u>	<u>(5,425)</u>
Change in net position reported on the Statement of Activity	\$	<u>14,651</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	Solid Waste	
ASSETS:				
Current Assets:				
Cash and Cash Equivalents	\$ 10,362	\$ 2,457	\$ 6,627	\$ 19,446
Due From Other Governments	15,000	-	-	15,000
Accounts Receivable - Net	11,166	3,622	2,065	16,853
Total Current Assets	36,528	6,079	8,692	51,299
Noncurrent Assets:				
Restricted Cash and Cash Equivalents	63,472	14,780	-	78,252
Capital Assets:				
Land	300	2,872	-	3,172
Net Depreciable Assets	2,257,396	134,933	1,540	2,393,869
Total Noncurrent Assets	2,321,168	152,585	1,540	2,475,293
Total Assets	\$ 2,357,696	\$ 158,664	\$ 10,232	\$ 2,526,592
LIABILITIES:				
Current Liabilities				
Deposits Payable	\$ 1,460	\$ (16)	\$ (9)	\$ 1,435
Accounts Payable	15,000	-	-	15,000
Current Portion Long-Term Capital Obligati	24,200	14,500	-	38,700
Total Current Liabilities	40,660	14,484	(9)	55,135
Noncurrent Liabilities:				
Compensated Absences	544	544	-	1,088
Long-Term Capital Obligations	580,712	30,127	-	610,839
Total Noncurrent Liabilities	581,256	30,671	-	611,927
Total Liabilities	621,916	45,155	(9)	667,062
NET POSITION:				
Net investment in capital assets	1,652,784	93,178	1,540	1,747,502
Restricted for debt service	63,472	14,780	-	78,252
Unrestricted (Deficit)	19,524	5,551	8,701	33,776
Total Net Position	1,735,780	113,509	10,241	1,859,530
Total Liabilities and Net Position	\$ 2,357,696	\$ 158,664	\$ 10,232	\$ 2,526,592

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	Solid Waste	
OPERATING REVENUES:				
Charges for Services	117,844	35,400	20,226	173,470
Total Operating Revenues	117,844	35,400	20,226	173,470
OPERATING EXPENSES:				
Personal services	20,566	21,010	-	41,576
Supplies	30,888	5,384	367	36,639
Purchased services	69,663	9,174	22,388	101,225
Fixed charges	15,000	-	-	15,000
Depreciation	81,212	12,368	770	94,350
Total Operating Expense	217,329	47,936	23,525	288,790
OPERATING INCOME (LOSS)	(99,485)	(12,536)	(3,299)	(115,320)
NONOPERATING REVENUES (EXPENSES)				
Intergovernmental revenue	55,000	-	-	55,000
Interest revenue	331	114	19	464
Debt service interest expense	(32,561)	(2,873)	-	(35,434)
Total nonoperating revenue (expenses)	22,770	(2,759)	19	20,030
CHANGE IN NET POSITION	(76,715)	(15,295)	(3,280)	(95,290)
NET POSITION:				
Beginning of the Year	1,802,495	128,804	5,521	1,936,820
Prior Period Adjustments	10,000	-	8,000	18,000
End of the Year	\$ 1,735,780	\$ 113,509	\$ 10,241	\$ 1,859,530

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

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 For the Year Ended June 30, 2014

	Business-type Activities - Enterprise Funds			
	MAJOR			Total
	Water Utility	Sewer Utility	Solid Waste	Enterprise
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from Customers	\$ 119,597	\$ 35,297	\$ 20,201	\$ 175,095
Payments to Suppliers	(100,551)	(14,558)	(22,755)	(137,864)
Payments to Employees	(20,239)	(20,683)	-	(40,922)
Net Cash Provided (Used) by Operating Activities	(1,193)	56	(2,554)	(3,691)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Subsidies from Taxes and Other Governments	(15,000)	-	-	(15,000)
Net Cash Provided (Used) By Noncapital Financing Activities	(15,000)	-	-	(15,000)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Capital Contributions	55,000	-	-	55,000
Principal Paid on Capital Debt	(24,187)	(13,399)	-	(37,586)
Interest Paid on Capital Debt	(32,561)	(2,873)	-	(35,434)
Net Cash Provided (Used) by Capital and Related Financing Activities	(1,748)	(16,272)	-	(18,020)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest and Dividends	331	114	19	464
Net Cash Provided (Used) by Investing Activities	331	114	19	464
Net Increase (Decrease) In Cash and Cash Equivalents	(17,610)	(16,102)	(2,535)	(36,247)
BALANCE:				
Beginning of the Year	91,444	33,339	9,162	133,945
End of the Year	\$ 73,834	\$ 17,237	\$ 6,627	\$ 97,698
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating Income (Loss)	\$ (99,485)	\$ (12,536)	\$ (3,299)	\$ (115,320)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:				
Depreciation Expense	81,212	12,368	770	94,350
Changes In Assets and Liabilities:				
Accounts Receivable	1,253	(87)	(16)	1,150
Accounts Payable	15,000	-	-	15,000
Customer Deposits	500	(16)	(9)	475
Compensated Absences	327	327	-	654
Net Cash Provided (Used) by Operating Activities	\$ (1,193)	\$ 56	\$ (2,554)	\$ (3,691)

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

	Private Purpose	
	Trust Funds	Agency Funds
ASSETS:		
Current Assets:		
Cash and Cash Equivalents	\$ 20,017	\$ 2,468
Total Assets	<u>20,017</u>	<u>2,468</u>
LIABILITIES:		
Current Liabilities		
Warrants Payable	-	2,191
Due to Others Governments	-	<u>277</u>
Total Liabilities	-	<u>2,468</u>
NET POSITION:		
Held in Trust for Pension Benefits	<u>20,017</u>	
Total Net Position	<u>\$ 20,017</u>	

STATEMENT OF CHANGES IN FIDUCIARY NET
 FIDUCIARY FUNDS
 For the year ended June 30, 2014

	Private Purpose Trust Funds
ADDITIONS:	
Intergovernmental Revenue	\$ 226
Investment Earnings	<u>262</u>
Total Additions	<u>488</u>
DEDUCTIONS:	
Total Deductions	<u>-</u>
CHANGE IN NET POSITION	488
NET POSITION:	
Beginning of the Year	<u>19,529</u>
End of the Year	<u>\$ 20,017</u>

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. a. REPORTING ENTITY

The basic financial statements of Town of Hysham (Town) 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 Town applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

During fiscal year 2014 the Town 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 Town.
- 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 Town 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 Town 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 Town to expand its pension foot note disclosures. The Town 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 Town is not merging with another Town 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 Town plans to implement this in fiscal year 2015 after the State of Montana provides the required information for reporting and disclosure.

The Town provides water, sewer, and solid waste services as well as general governmental services, public works, and cultural and recreational activities to the residence of the Town. The Town council is elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations.

The Town of Hysham 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 Town of Hysham (the primary government) and any component units. The criteria for including organizations as component units within the Town'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 Town'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 Town. Based on those criteria the Town 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.

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 (primary government). 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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 water, sewer, and solid waste fees and
- Operating grants that are restricted to a particular functional program.

Property taxes, investment earnings, state/federal shared 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. The pension trust fund is displayed as a fiduciary fund. Since the resources in the fiduciary funds cannot be used for Town operations, they are not included in the entity-wide 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 compensated absence payments which are recognized when due. Capital assets are functional expenditures in governmental funds.

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.

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 solid waste 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

NOTES TO THE FINANCIAL STATEMENTS (continued)

- 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 Town reports the following major governmental funds:

General Fund – The General Fund is the general operating fund of the Town and accounts for all revenues and expenditures of the Town 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.

Gas Tax Fund - This fund is used to account for the proceeds from the allocation of gasoline tax collected by the Department of Revenue and then distributed to municipalities and counties in the State based on sales in those locations. The funds can only be used for road and street repairs, maintenance and construction.

The Town reports the following major enterprise funds:

- Water Fund – This fund is used to account for financing the activities of the Town's water distribution operations and to collect and administer water impact fees.
- Sewer Fund – This fund is used to account for financing the activities of the Town's sewer collection and treatment operations and includes the storm sewer system.
- Solid Waste Fund – This fund is used to account for financing the activities of the Town's solid waste 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 Town holds on behalf of others as their agent in the payroll and claims clearing funds and employee payroll tax withholdings. Cash is held for checks which were written but have not been paid by the bank.

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.

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

1. c. 2 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 Town. 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 are collected by the County Treasurer who credits to the Town 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 Town receives its share of the sale proceeds of any such auction.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Taxes 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. 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 Town's property, plant, and equipment 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 Town 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>
Buildings	25 - 50 years
Buildings/Plant	15 - 50 years
Transmission	40 years
Machinery and Equipment	5 - 10 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 property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

1.c. 6 VACATION AND SICK LEAVE

Town employees accumulate vacation and sick leave for later use or for payment upon termination, death, or retirement. Town 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. Town 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 at the current rate of pay.

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 \$636 and it is generally paid out of the general fund.

1.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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

- Unassigned – Amounts that are available for any purpose; these amounts are reported only in the general fund. As of June 30, 2014, fund balance components other than unassigned fund balance consist of the following:

<u>Purpose</u>	<u>Restricted</u>
Public Works - Streets	\$ 25,848
Public Safety - Police Reserve	2,387
Public Safety - Building Code	2,153
General Government - Comp Ins.	12,955
Total	<u>\$ 43,343</u>

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Town considers restricted funds to have been spent first. When an expenditure is incurred and restricted or unassigned fund balances are available, the School District considers amounts to have been spent first out of restricted and then unassigned funds as needed, unless the board of trustees has provided otherwise.

1. d. OTHER

1. 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.

1. d. 2 COUNTY PROVIDED SERVICES

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

NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

At June 30, 2014, the summary of cash, cash equivalents for governmental and business-type activities, and fiduciary funds is as follows:

<u>Account Type</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash and Cash Equivalents	\$ 97,474	\$ 19,446	\$ 22,485	\$ 139,405
Restricted Assets	0	78,252	0	78,252
Total	<u>\$ 97,474</u>	<u>\$ 97,698</u>	<u>\$ 22,485</u>	<u>\$ 217,657</u>

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

	<u>Amount</u>
Cash on Hand	\$ 100
Demand Accounts	150,723
Time Deposits	66,834
Total	<u>\$ 217,657</u>

Custodial Credit Risk – Deposits: Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk. As of June 30, 2014, \$217,657, all, of the Town's bank balance were covered by FDIC insurance.

NOTE 3. DUE FROM OTHER GOVERNMENTS

The Town had the following due from other governments outstanding as of June 30, 2014: Water fund \$15,000 due from TSEP (\$5,000) and the Montana Coal Board (\$10,000).

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 4. TAXES RECEIVABLE

The Town is permitted by State statutes to levy taxes up to certain fixed limits for various purposes. The assessed value of the roll as of January 1, 2013, upon which the levy for the 2014 fiscal year was based, was \$150,615. The tax rates assessed for the year ended June 30, 2014 to finance Town operations and applicable taxes receivable for the Town follows:

<u>Fund</u>	<u>Mill Levies</u>	<u>Taxes Receivable</u>
General*	503.77	\$ 6,016
* Denotes Major Funds		

NOTE 5. ACCOUNTS RECEIVABLE

<u>Elementary Fund</u>	<u>Accounts Receivable</u>
Water*	\$ 11,166
Sewer*	3,622
Solid Waste*	2,065
Total	<u>\$ 16,853</u>
* Denotes Major Funds	

NOTE 6. CAPITAL ASSETS, DEPRECIATION AND NET CAPITAL ASSETS

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

<u>Governmental Activities:</u>	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2014</u>
<u>Non-depreciable:</u>				
Land	<u>\$ 1,509</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,509</u>
<u>Depreciable:</u>				
Buildings	\$ 76,000	\$ 0	\$ 0	\$ 76,000
Machinery and equipment	<u>199,280</u>	<u>0</u>	<u>0</u>	<u>199,280</u>
Total Depreciable	<u>\$ 275,280</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 275,280</u>
<u>Accumulated Depreciation:</u>				
Buildings	\$ (50,340)	\$ (1,920)	\$ 0	\$ (52,260)
Machinery and equipment	<u>(185,495)</u>	<u>(3,168)</u>	<u>0</u>	<u>(188,663)</u>
Total Depreciation	<u>\$ (235,835)</u>	<u>\$ (5,088)</u>	<u>\$ 0</u>	<u>\$ (240,923)</u>
Net Depreciable Assets	<u>39,445</u>	<u>(5,088)</u>	<u>0</u>	<u>34,357</u>
Net General Capital Assets	<u>\$ 40,954</u>	<u>\$ (5,088)</u>	<u>\$ 0</u>	<u>\$ 35,866</u>

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

<u>Function</u>	<u>Amount</u>
General Government	\$ 800
Public Works	4,048
Culture & Recreation	240
Total Depreciation Expense	<u>\$ 5,088</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

6. c. At June 30, 2014 the schedule of changes to capital assets reported in the enterprise type funds follows:

<u>Enterprise Activities:</u>	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2014</u>
<u>Non-depreciable:</u>				
Land	\$ 3,172	\$ 0	\$ 0	\$ 3,172
<u>Depreciable:</u>				
General Plant	\$ 3,592,210	\$ 0	\$ 0	\$ 3,592,210
Transmission & Distribution	300,592	0	0	300,592
Machinery and equipment	7,700	0	0	7,700
Total Depreciable	<u>\$ 3,900,502</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 3,900,502</u>
<u>Accumulated Depreciation:</u>				
General Plant	\$ (1,158,904)	\$ (86,066)	\$ 0	\$ (1,244,970)
Transmission & Distribution	(247,989)	(7,514)	0	(255,503)
Machinery and equipment	(5,390)	(770)	0	(6,160)
Total Depreciation	<u>\$ (1,412,283)</u>	<u>\$ (94,350)</u>	<u>\$ 0</u>	<u>\$ (1,506,633)</u>
Net Depreciable Assets	<u>2,488,219</u>	<u>(94,350)</u>	<u>0</u>	<u>2,393,869</u>
Net Enterprise Capital Assets	<u>\$ 2,491,391</u>	<u>\$ (94,350)</u>	<u>\$ 0</u>	<u>\$ 2,397,041</u>

6. d. Enterprise capital asset depreciation expense was charged to enterprise functions as follows:

<u>Function</u>	<u>Amount</u>
Water	\$ 81,212
Sewer	12,368
Solid Waste	770
Total Depreciation Expense	<u>\$ 94,350</u>

NOTE 7. CHANGES IN LONG-TERM DEBT

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

<u>Governmental 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>Other Liabilities:</u>					
Compensated Absences	\$ 936	\$ 337	\$ 0	\$ 1,273	\$ 636
Total Other Liabilities	<u>\$ 936</u>	<u>\$ 337</u>	<u>\$ 0</u>	<u>\$ 1,273</u>	<u>\$ 636</u>
Total Governmental Activities - Long-Term Debt:	<u>\$ 936</u>	<u>\$ 337</u>	<u>\$ 0</u>	<u>\$ 1,273</u>	<u>\$ 636</u>
<u>Proprietary 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>					
Notes Payable	\$ 58,026	\$ 0	\$ 13,399	\$ 44,627	\$ 14,500
Bonds Payable	629,098	0	24,187	604,912	24,200
Total Bonds and Notes Payable	<u>\$ 687,124</u>	<u>\$ 0</u>	<u>\$ 37,586</u>	<u>\$ 649,539</u>	<u>\$ 38,700</u>
<u>Other Liabilities:</u>					
Compensated Absences	\$ 434	\$ 654	\$ 0	\$ 1,088	\$ 0
Total Other Liabilities	<u>\$ 434</u>	<u>\$ 654</u>	<u>\$ 0</u>	<u>\$ 1,088</u>	<u>\$ 0</u>
Total Proprietary Activities - Long-Term Debt:	<u>\$ 687,558</u>	<u>\$ 654</u>	<u>\$ 37,586</u>	<u>\$ 650,627</u>	<u>\$ 38,700</u>

7. b. LONG TERM NOTE

The Town entered into an loan agreement in prior years with the Montana Department of Natural Resources and Conservation for the acquisition of a sewer lift station. Total payments made in fiscal year 2014 were \$16,272 which included \$2,873 of interest. The loan was issued for the terms and payment schedule indicated below.

NOTES TO THE FINANCIAL STATEMENTS (continued)

<u>Description</u>	<u>Issue Date</u>	<u>Interest Rate*</u>	<u>Length of Loan</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Outstanding June 30, 2014</u>
MT DNRC Loan	6/1998	5.25%	20 Years	6/2018	\$ 200,000	\$ 44,627

Debt service requirements to maturity for principal and interest for this long term obligation is as follows:

For the year ended 6/30:	Principal	Interest
2015	\$ 14,500	\$ 2,160
2016	14,862	1,410
2017	<u>15,265</u>	<u>619</u>
Totals	<u>\$ 44,627</u>	<u>\$ 4,189</u>

7. c. WATER REVENUE BONDS

The Town entered into water revenue bonds with the Federal Farm Home Administration in prior years for the acquisition and construction of water capital facilities. This bond was issued for the terms indicated in the following schedule:

<u>Description</u>	<u>Issue Date</u>	<u>Interest Rate</u>	<u>Length of Loan</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Outstanding June 30, 2014</u>
Water revenue bonds	4/94	5.75%	38 yrs. 9 m.	1/33	\$ 618,000	\$ 426,553

Debt service requirements to maturity for principal and interest for this bonded long term obligation is as follows:

For the year ended 6/30:	Principal	Interest
2015	\$ 14,800	\$ 23,774
2016	16,710	22,842
2017	17,696	21,856
2018	18,741	20,811
2019	19,847	19,705
2020-2024	118,261	79,499
2025-2029	157,544	40,216
2030-2031	<u>62,954</u>	<u>2,556</u>
Totals	<u>\$ 426,553</u>	<u>\$ 231,259</u>

The revenue bonds are collateralized by the revenues of the water 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 110% of the maximum amount of principal and interest requirements in any future fiscal year of the Town. The more significant covenants 1) require that cash be restricted and reserved for operations, construction, debt service, and replacement and depreciation; 2) specify minimum required operating revenue; and 3) specific and timely reporting of financial information to bond holders and the registrar. The Town was in compliance with the applicable covenants, except for the water bond requirement for net revenues exceeding 110%.

7. d. WATER REVENUE BONDS

The Town entered into a water revenue bonds with the Federal Farm Home Administration in prior years for the acquisition and construction of water capital facilities. Total payments made in fiscal year 2014 was \$17,196 which included \$7,573 of interest. This loan was issued for the terms indicated in the following schedule:

<u>Description</u>	<u>Issue Date</u>	<u>Interest Rate*</u>	<u>Length of Loan</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Outstanding June 30, 2014</u>
Farm Home Loan	1/2008	4.125%	20 Years	1/2028	\$ 226,000	\$ 178,359

NOTES TO THE FINANCIAL STATEMENTS (continued)

Debt service requirements to maturity for principal and interest for this long term obligation is as follows:

For the year ended 6/30:	Principal	Interest
2015	\$ 10,000	\$ 7,168
2016	10,446	6,750
2017	10,887	6,309
2018	11,346	5,850
2019	11,822	5,371
2020-2024	67,003	20,006
2025-2028	<u>56,855</u>	<u>3,343</u>
Totals	<u>\$ 178,359</u>	<u>\$ 54,797</u>

NOTE 8. DEFERRED INFLOWS OF RESOURCES

8. a. PROPERTY TAXES

<u>Fund</u>	<u>Amount</u>	<u>Reason</u>
General*	<u>\$ 6,016</u>	Taxes Receivable

* Denotes Major Funds

NOTE 9. PRIOR PERIOD ADJUSTMENTS

<u>Fund</u>	<u>Amount</u>	<u>REASON</u>
General*	\$ (10,000)	Advance to water fund was forgiven in FY14
General*	<u>(8,000)</u>	Advance to sewer fund was forgiven in FY14
Total	<u>\$ (18,000)</u>	
* Denotes Major Funds		
Governmental Type Activities	<u>(18,000)</u>	Advance to water and sewer funds were forgiven in FY14
Total	<u>\$ (18,000)</u>	

NOTE 10. 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>Total</u>
Restricted for Bond Repayment	\$ 63,472	\$ 14,780	\$ 78,252

The ordinances authorizing the water and sewer system revenue bonds requires that the Town establish sinking funds or cash restricted for payment of principal and interest on all revenue bonds. At June 30, 2014, the sinking fund balance is sufficient to satisfy such bond ordinance requirements.

NOTE 11. WATER BOND RESOLUTION:

Bond Resolution: the Town adopted resolution 92.6, a resolution directing the construction, improvement, expansion and rehabilitation of the water system of the Town of Hysham, authorizing and directing the issuance and sale of a revenue bond to finance and pay the costs of the foregoing, and creating special funds and accounts and pledging certain revenues as the sole source of security and payment for such bonds. The aforementioned resolution 92-6 requires the following items to be included in the annual report for the Town of Hysham's water fund (the required financial information is included in the basic financial statements since the water fund is a major fund).

12.a THE NUMBER OF PREMISES CONNECTED TO THE SYSTEM AS OF JUNE 30, 2014:

Residential	161
Commercial	<u>27</u>
Total	<u>188</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

12.b THE CASH BALANCES ON HAND IN EACH ACCOUNT (SUBFUND) AS OF JUNE 30,2014:

	<u>WATER</u>	<u>SEWER</u>	<u>SOLID WASTE</u>
Operations	\$ 8,902	\$ 2,457	\$ 6,627
Reserved	0	14,780	0
FMHA	63,472	0	0
Operations Deposits	1,460	0	0
Total	<u>\$ 73,834</u>	<u>\$ 17,237</u>	<u>\$ 6,627</u>

12.c THE FOLLOWING IS A LIST OF INSURANCE AND BONDS IN FORCE AS OF JUNE 30, 2014:

General liability insurance - Montana Municipal Interlocal Authority Insurance
\$750,000 per occurrence

Property insurance — Employers Mutual Companies
Vehicle - \$139,282
Real Property - \$266,125
Other Property - \$677,034

Surety Bond - Western Surety Company
\$44,000 each for mayor, clerk and president of Town council.

12.d The Town was in full compliance with the provisions of resolution 92-6 as of June 30, 2014 and has set into place procedures to insure future compliance.

NOTE 13. OTHER POST EMPLOYMENT BENEFITS

The Town does not offer its employees' health insurance benefits and has no Other Post Employment Benefits (OPEB) liability to report.

NOTE 14. RISK MANAGEMENT

The Town 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 Town has no coverage for potential losses from environmental damages. The Town participates in three statewide public risk pools operated by the Montana Municipal Interlocal Authority, for workers' compensation, tort liability and property coverage.

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 Town'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 Town joined other Montana cities in the Montana Municipal Interlocal Authority which established a workers' compensation plan and a tort liability plan. The public entity risk pool currently operates 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 Town's liability to \$1.5 million. The Town pays an annual premium for its employee injury insurance coverage, which is allocated to the employer funds based on total salaries and wages. The agreements for formation of the pool provide that they will be self-sustaining through member premiums.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 15. EMPLOYEE RETIREMENT SYSTEM

The Town participates in one state-wide, cost-sharing multiple employer defined benefit retirement plan which cover all Town employees, except certain part-time and elected employees. The Public Employee Retirement System (PERS) covers Town employees. The plan is established under State law and is administered by the State of Montana.

The plan issues publicly available annual reports that include financial statements and required supplemental information for the plan. 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/perb/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 for the plan is required and determined by State law. The amounts contributed to the plan during the years ended June 30, 2013 and 2014 were equal to the required contribution for each year. The amounts contributed by the State, Town and its employees (including additional voluntary contributions by employees as permitted by State law) were as follows:

		<u>2013</u>		<u>2014</u>
PERS	\$	2,892	\$	9,896

NOTE 16. LOCAL RETIREMENT PLAN

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

Retirement Benefit: An annual lifetime benefit of \$240 will become payable after a firefighter has completed 20 years of service.

Termination Benefit: If the firefighter reaches 65 years of age with less than 20 year of service then benefits are prorated. The amount will be \$240 reduced 5% (\$6.25) for each year of service less than 20 years.

Funeral Benefit: For any member in good standing at time of decease - \$250.

Insurance Benefit: The Association carries insurance covering \$15,000 death benefit, \$25,000 of medical, \$150 weekly income, and \$100 daily hospital coverage on the full membership. Any member injured in the performance of their duties as a firefighter shall receive such benefits as provided for in the above referred to accident insurance.

Montana law requires that the disability and pension fund contain at least 0.21 % of the total assessed value of taxable property within the Town 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 Town council shall levy a tax to be deposited in the fund. The Town's contribution to the plan for the fiscal year ended June 30, 2014 was \$0. The State contributes, out of moneys received for insurance premium taxes, an amount equal to 1½ mills times the total taxable value of the Town, but not less than \$100. The State's contribution to the plan for the fiscal year was \$226. 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 \$240 per year, with a widow's pension at ½ of the deceased firefighter's pension rate. The pension fund has in the form of cash and cash investments at June 30, 2014, \$20,017 to pay future benefits. Total benefits paid in the fiscal year ended June 30, 2014 amounted to \$0. The number of beneficiaries is 0.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 17. INTERLOCAL AGREEMENT

The Town has entered into an inter-local agreement with Treasure County to share expenses for solid waste disposal, justice of the peace services, fire protection, law enforcement, community center, and a swimming pool operations. Generally, expenses are split in half; the Town pays \$8,000 a year for law enforcement and \$5,500 per year for swimming pool operations.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 (Budget and Actual)
 ALL BUDGETED MAJOR GOVERNMENTAL FUNDS
 as of June 30, 2014

	General			Gas Tax		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
REVENUES:						
Taxes /Assessments	\$ 78,962	\$ 78,962	\$ 89,268	\$ -	\$ -	\$ -
Licenses and Permits	150	150	100	-	-	-
Intergovernmental Revenue	26,465	26,465	29,350	11,421	11,421	11,420
Fines and Forfeitures	400	400	15	-	-	-
Miscellaneous	600	600	2,324	-	-	-
Investment and Royalty Earnings	50	50	19	-	-	-
Total Revenues	<u>106,627</u>	<u>106,627</u>	<u>121,076</u>	<u>11,421</u>	<u>11,421</u>	<u>11,420</u>
EXPENDITURES:						
Current						
General Government			35,509	-	-	-
Public Safety			10,338	-	-	-
Public Works			39,490	19,969	19,969	2,686
Public Health			3,872	-	-	-
Culture and Recreation			8,358	-	-	-
Miscellaneous			8,879	-	-	-
Total Expenditures	<u>118,528</u>	<u>118,528</u>	<u>106,446</u>	<u>19,969</u>	<u>19,969</u>	<u>2,686</u>
NET CHANGES IN FUND BALANCES	<u>(11,901)</u>	<u>(11,901)</u>	<u>14,630</u>	<u>(8,548)</u>	<u>(8,548)</u>	<u>8,734</u>
FUND BALANCE:						
Beginning of the Year	70,456	70,456	70,456	17,114	17,114	17,114
Prior Period Adjustments	<u>(18,000)</u>	<u>(18,000)</u>	<u>(18,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
End of the Year	<u>\$ 40,555</u>	<u>\$ 40,555</u>	<u>\$ 67,086</u>	<u>\$ 8,566</u>	<u>\$ 8,566</u>	<u>\$ 25,848</u>

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

TOWN OF HYSHAM

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 Town. All annual appropriations lapse at fiscal year-end, unless the Town elects to encumber supplies and personal property ordered but not received at year end. The Town 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 Solid Waste 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.

1. a. 2 BUDGET OPERATION:

The Town 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 Town

NOTE 2. BUDGET AMENDMENT

The original budget was not amended so the original budget and the final budget are the same.

STROM & ASSOCIATES, PC
Certified Public Accountants
P.O. Box 1980
Billings, Montana 59103

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
Town of Hysham
Treasure County
Hysham, MT 59038

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 Town of Hysham as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town of Hysham's basic financial statements and have issued our report thereon dated April 28, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Town of Hysham'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 Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

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

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

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Hysham'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 items 2014-002 and 2014-003.

Town of Hysham's Response to Findings

The Town did not provide a response to the findings identified in our audit are described in the schedule of findings and responses. State law provides if a response is not included in the report the audited entity has thirty-days to provide a response to the State.

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, PC
Billings, Montana
April 28, 2015

SCHEDULE OF FINDINGS AND RESPONSES

There were no findings or recommendations in the prior audit report.

2014-001 PAYABLES AND RECEIVABLES:

Criteria: Generally Accepted Accounting Principles (GAAP) requires revenues, expenditures, assets, and liabilities to be recorded and reported in the proper fiscal year.

Condition: The Town incurred reimbursable grant expenditures for engineering and professional services in June of 2014. The expenditures for engineering and professional services totaling \$15,000, the revenue due from the Montana Coal Board for \$10,000, and the revenue due from TSEP Grant for \$5,000 should have been recognized in fiscal year 2014 and were not recognized until fiscal year 2015.

Effect: This results in understated expenditures, payables, revenues and receivables of \$15,000 each. This has been corrected for financial reporting.

Context: The fiscal year 2014 expenditures were \$15,000. Also, the Due from Other Governments from the Montana Coal Board for \$10,000 and TSEP Grant for \$5,000 were not recorded as well as the accounts payable, and the revenue relating to the grant expenditures.

Cause: This was caused by recording transactions on the cash basis rather than modified accrual.

Recommendation: We recommend the Town clerk to recognize expenditures in the period that they are incurred and recognize grant revenue as earned when the corresponding expenditures are incurred.

2014-002 BUDGETS:

Criteria: Montana Code Annotated (MCA) 7-6-4005(1) and (2) state "(1) Local government officials may not make a disbursement or expenditure or incur an obligation in excess of the total appropriations for a fund. (2) A local government official who violates subsection (1) is liable for the amount of the excess disbursement, expenditure, or obligation personally."

Condition: The Town exceeded budgetary authority in the water fund.

Effect: The Town has exceeded budgetary authority as required by Section 7-6-4005, MCA.

Context: In fiscal year ended June 30, 2014 the following fund had budget overdrafts,
• the water fund – \$30,520

Cause: This was caused by not including the expenditures that were going to be paid for by grants for the feasibility study when the budget was prepared.

Recommendation: We recommend the Town include in the budget all expenditures that would be paid in the fiscal year, even if those expenditures will be covered by grant monies. If unforeseen expenditures arise that will result in expenditures going over the budget the Town should follow the procedures for processing a budget amendment.

2014-003 REVENUE BOND REQUIREMENTS:

Criteria: Revenue bond requirements for outstanding water fund debt require that the water fund maintain net revenues of 110% of the maximum future debt payment.

Condition: During fiscal year 2014 the water fund had a net loss of \$17,942. This was below the required amount of \$18,916.

Effect: The Town is not in compliance with revenue bond requirements.

Context: The Water fund does not have sufficient operating revenue to meet the revenue bond requirement in fiscal year 2014.

Cause: The Water fund does not have sufficient operating revenue to meet the revenue bond requirement in fiscal year 2014.

Recommendation: We recommend the Town evaluate and raise rates to ensure compliance with revenue bond requirements.