

**CITY OF SCOBEEY, MONTANA**  
**FINANCIAL STATEMENTS AND**  
**SUPPLEMENTARY INFORMATION**  
**YEAR ENDED JUNE 30, 2014**

**CITY OF SCOBAY, MONTANA  
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JUNE 30, 2014**

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**CITY OF SCOBEEY, MONTANA  
CITY OFFICIALS  
JUNE 30, 2014**

Danne Showers	. . . . .	Mayor
Richard Kerstein	. . . . .	Council Member
Paul Landeraaen	. . . . .	Council Member
Nichole Larson	. . . . .	Council Member
Rob Rouse	. . . . .	Council Member
Sonya Southland	. . . . .	Clerk/Treasurer
Jamie Baier	. . . . .	Utility Clerk
Benjamin Fosland	. . . . .	City Attorney
Jerod Nieskens	. . . . .	City Judge



**CHMS, P.C.**  
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## Independent Auditor's Report

To the Honorable Mayor and City Council  
City of Scobey  
P.O. Box 68  
Scobey, MT 59263

### **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 Scobey, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise City of Scobey'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 Scobey, 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.

OFFICES IN GLASGOW, MALTA, SIDNEY, WOLF POINT AND GLENDIVE

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4–10 and 38–39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

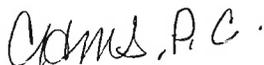
### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Scobey's basic financial statements. The combining nonmajor fund financial statements, the proprietary fund supplementary information requirements of Resolution No. 833 as amended by Resolution No. 872, and the proprietary fund supplementary information schedule of insurance in force are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor fund financial statements, the proprietary fund supplementary information requirements of Resolution No. 833 as amended by Resolution No. 872, and the proprietary fund supplementary information schedule of insurance in force is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements, the proprietary fund supplementary information requirements of Resolution No. 833 as amended by Resolution No. 872, and the proprietary fund supplementary information schedule of insurance in force is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2014 on our consideration of City of Scobey's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Scobey's internal control over financial reporting and compliance.



CHMS, P.C.  
Certified Public Accountants  
Glasgow, Montana

November 20, 2014

**City of Scobey, Montana**  
**Revised Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2014**

The discussion and analysis of the City of Scobey's financial performance provides an overall review of the City's financial activities for the fiscal year ended June 30, 2014. The intent of this discussion and analysis is to look at the City's financial performance as a whole. Readers are encouraged to consider the information presented here in conjunction with the additional information contained in the financial statements and the notes thereof.

### **FINANCIAL HIGHLIGHTS**

- The assets of the City of Scobey exceeded its liabilities at the close of the most recent year by \$4,343,794 (net position). This is an increase of \$424,127. Of this amount, \$1,513,397 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$424,127. Governmental activities assets increased by \$171,116 and the Business-type assets increased by \$253,011.
- The City retired \$261,804 of total long-term debt. Of that retirement, \$6,294 to pay off the loader loan to Daniels Sheridan FCU; \$12,510 to pay one year on the fire truck to Independence Bank; \$74,000 was the ninth year of 20 years of payments on the Sewer Lagoon Project and the remaining \$7,000 was the fourth year payment of 20 years on the water main extension project. \$162,000 of the water main extension project was forgiven upon completion of the project.

### **USING THIS ANNUAL FINANCIAL REPORT**

This discussion and analysis is intended to serve as an introduction to the City of Scobey's basic financial statements. The City of Scobey's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

### **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The government-wide financial statements are designed to provide readers with a broad overview of the City of Scobey's finances in a manner similar to private-sector business. The Statement of Net Position presents information on all the City of Scobey's assets and liabilities, with the difference between the two reported as *net position*. Over time, an increase or decrease in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. However, in evaluating the overall position of the City, non-financial factors such as the City's tax base, change in tax laws, and the condition of the capital assets should also be considered.

**City of Scobey, Montana**  
**Revised Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2014**

Both the Statement of Net Position and the Statement of Activities use the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account, all of the current year's revenues and expenses regardless of when cash is received or paid.

The Statement of Net Position and the Statement of Activities distinguish between the following activities:

- Governmental activities, normally supported by taxes and intergovernmental revenues, include general government, public safety, public works, parks and recreation.
- Business-type activities, recover all or a significant portion of their costs through user fees and charges, include water, sewer, and garbage.

The government-wide financial statements can be found on pages after this management's discussion and analysis report.

## **FUND FINANCIAL STATEMENTS**

### *Fund Financial Statements*

Fund financial statements report detailed information about the City. The emphasis of fund financial statements is to maintain control over resources that have been segregated for specific activities or objectives. The fund financial statements provide detailed information about the most significant funds. The City's major governmental funds are the General Fund, Street Maintenance District Fund, Community Transportation Enhancement Program Fund and the Safe Routes to School Fund. The City's major proprietary funds are the Water, Sewer, and Solid Waste Funds.

### *Governmental Funds*

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources as well as on the balance of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. The funds are reported using an accounting method called *modified accrual* accounting that measures cash and all *other financial assets* that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Both the governmental fund balance sheet and the government fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate a comparison between governmental activities

**City of Scobey, Montana**  
**Revised Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2014**

reported in the Statement of Net Position and the Statement of Activities and governmental funds.

*Proprietary Funds*

Proprietary Funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the City's enterprise fund is the same as the business-type activity we report in the government-wide statements but provide more detail and additional information such as cash flows for proprietary funds.

**THE CITY AS A WHOLE**

The City is providing condensed financial information for fiscal years 2013 and 2014. Following the 2014 Primary Government Worksheet, comparative information between the two years is being provided. Our analysis below focuses on the net position of the City's governmental and business type activities.

**City of Scobey's Net Position**

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Assets:						
Current Assets	574,211	517,104	1,324,334	1,213,162	1,898,545	1,730,266
Restricted Assets	-	-	95,861	107,080	95,861	107,080
Capital Assets	573,797	474,533	2,751,338	2,810,277	3,325,135	3,284,810
<b>Total Assets</b>	<b>1,148,008</b>	<b>991,637</b>	<b>4,171,533</b>	<b>4,130,519</b>	<b>5,319,541</b>	<b>5,122,156</b>
Liabilities:						
Current Liabilities	19,829	22,790	98,051	95,891	117,880	118,681
Other Liabilities	4,563	16,347	853,304	1,067,461	857,867	1,083,808
<b>Total Liabilities</b>	<b>24,392</b>	<b>39,137</b>	<b>951,355</b>	<b>1,163,352</b>	<b>975,747</b>	<b>1,202,489</b>
Net Position:						
Invested in Capital Assets	562,770	448,898	1,839,338	1,683,669	2,402,108	2,132,567
Restricted	332,428	297,530	95,861	127,436	428,289	424,966
Unrestricted	228,418	206,072	1,284,979	1,156,062	1,513,397	1,362,134
<b>Total Net Position</b>	<b>1,123,616</b>	<b>952,500</b>	<b>3,220,178</b>	<b>2,967,167</b>	<b>4,343,794</b>	<b>3,919,667</b>

**City of Scobey, Montana**  
**Revised Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2014**

**City of Scobey's Changes in Net Position**

	Governmental Activities		Business Activities		Total	
	2014	2013	2014	2013	2014	2012
<b>Program Revenues:</b>						
Charges for Services	\$ 106,683	\$ 115,889	\$ 622,760	\$ 651,827	\$ 729,443	\$ 767,716
Operating Grants	42,450	41,738	-	-	42,450	41,738
Capital Grants and Contributions	144,167	10,552	162,000	425,000	306,167	435,552
<b>General Revenues:</b>						
Property Taxes	252,808	240,390	-	-	252,808	240,390
Licenses and Permits	4,498	4,310	-	-	4,498	4,310
Intergovernmental	115,089	107,911	-	-	115,089	107,911
Investment Earnings	4,214	4,224	141	189	4,355	4,413
Miscellaneous	3,541	28,869	8,151	13,866	11,692	42,735
<b>Total Revenues</b>	<b>673,450</b>	<b>553,883</b>	<b>793,052</b>	<b>1,090,882</b>	<b>1,466,502</b>	<b>1,644,765</b>
<b>Expenses</b>						
General Government/Misc	81,824	89,770	-	-	81,824	89,770
Public Safety	212,541	192,504	-	-	212,541	192,504
Public Works	105,632	145,413	-	-	105,632	145,413
Health and Sanitation	500	500	-	-	500	500
Culture and Recreation	27,349	37,655	-	-	27,349	37,655
Housing/Community Development	1,017	1,017	-	-	1,017	1,017
Miscellaneous	47,119	39,804	-	-	47,119	39,804
Water	-	-	227,010	207,295	227,010	207,295
Sewer	-	-	183,390	179,816	183,390	179,816
Solid Waste	-	-	129,641	108,027	129,641	108,027
Interest on Long-Term Debt	904	1,386	-	-	904	1,386
Disposition of Capital assets	25,448	-	-	-	25,448	-
<b>Total Expenses</b>	<b>502,334</b>	<b>508,049</b>	<b>540,041</b>	<b>495,138</b>	<b>1,042,375</b>	<b>1,003,187</b>
<b>Change in Net Position</b>	<b>171,116</b>	<b>45,834</b>	<b>253,011</b>	<b>595,744</b>	<b>424,127</b>	<b>641,578</b>
Net Position-Beginning	952,500	906,666	2,967,167	2,371,423	3,919,667	3,278,089
Net Position - Ending	\$ 1,123,616	\$ 952,500	\$ 3,220,178	\$ 2,967,167	\$ 4,343,794	\$ 3,919,667

**GOVERNMENTAL ACTIVITIES**

The cost of all Governmental activities this year was \$476,886. The largest portion of that expense is for public safety including sheriff, dispatchers, fire and ambulance for \$212,541. Public works expenditures of \$105,632 were also rather high due to increased costs of fuel, gas, etc... However, as shown in the Statement of Activities, the amount that our taxpayers financed for total expenses through City taxes was \$252,808. \$78,738 is special assessment revenue for streets. Governmental activities increased the City's net position by \$171,116.

**City of Scobey, Montana**  
**Revised Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2014**

**BUSINESS TYPE ACTIVITIES**

The cost of all Proprietary (Business Type) activities this year was 540,041. As shown in the Statement of Activities, the amounts paid by users of the system were \$622,760. Net position of business type activities were \$3,220,178.

**CITY FUNDS**

The following is an analysis of balances in the City's major individual funds.

**General Major Governmental Funds**

The information below compares revenues of the General Fund for FY 2013 and FY 2014.

Revenues by Source

	<u>2013-2014</u>	<u>2012-2013</u>	<u>Change</u>	<u>%</u>
Property Taxes	\$ 209,212	\$ 206,164	\$ 3,048	1%
Fees and Fines	2,998	6,832	(3,834)	-56%
Licenses and Permits	4,498	4,310	188	4%
Intergovernmental	115,089	107,911	7,178	7%
Charges for Services	755	6,720	(5,965)	-89%
Investments Earnings	4,214	4,224	(10)	0%
Miscellaneous	1,360	1,099	261	24%
<b>Total Revenues</b>	<b><u>\$ 338,126</u></b>	<b><u>\$ 337,260</u></b>	<b><u>\$ 866</u></b>	<b><u>0%</u></b>

The information below compares expenditures of the General Fund for FY 2013 and FY 2014.

**City of Scobey, Montana**  
**Revised Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2014**

**Expenditures by Function**

	<u>2012-2013</u>	<u>2012-2013</u>	<u>Change</u>	<u>%</u>
General Government	\$ 68,404	\$ 78,524	(10,120)	-13%
Public Safety	202,655	185,630	17,025	9%
Public Works	3,938	4,683	(745)	-16%
Public Health	500	500	-	0%
Housing/Community	1,017	1,017	-	0%
Culture and Recreation	21,595	33,004	(11,409)	-35%
Debt Service	13,393	12,510	883	7%
Capital Outlay	11,027	-	11,027	0%
Total Expenditures	<u>\$ 322,529</u>	<u>\$ 315,868</u>	<u>\$ 6,661</u>	<u>2%</u>

The other major funds are Street Maintenance District, Community Transportation Enhancement Program, and Safe Routes to School. Street Maintenance District funds are assessments on the County Tax rolls. Street Maintenance District expenditures are for street maintenance, supplies, and equipment with the City. Assessments revenues increased from \$77,799 to \$78,738. The fund spent \$50,957 in street maintenance. The fund balance as of June 30, 2014 was \$239,726 an increase of \$29,598 from last fiscal year. The Community Transportation Enhancement Program and the Safe Routes to School funds install and improve sidewalks. The intergovernmental funding was \$72,743 and \$71,424 respectively. Capital outlay was \$72,743 and \$71,111 respectively.

**Proprietary Fund**

The City has three major Enterprise Funds consisting of the Water, Sewer, and Solid Waste fund. The basic financial statements for the major funds are included in this report. Net cash provided by operating activities were Water \$103,046; Sewer \$113,289; and Solid Waste \$14,929. The Council has been very conservative with expenditures; thus, increasing net income.

Total net position as of June 30, 2014: Water fund of \$1,646,903, Sewer fund of \$1,446,087 and Solid Waste fund of \$127,188.

**DEBT ADMINISTRATION**

Total debt for governmental and business-type activities include compensated absences of \$37,205; a note on a fire truck of \$11,027; waste water loan for the sewer project of \$769,000; water main extension loan for \$143,000 totaling \$960,232. More detailed information can be found in Note F.

**City of Scobey, Montana**  
**Revised Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2014**

**CAPITAL ASSETS**

The City of Scobey's Governmental activities capital assets net was \$573,797 and its business-type activities capital asset's net as of June 30, 2014 was \$2,751,338. More information can be found in Note D.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The City of Scobey is in good financial position for continuing the everyday business, even with the large increase in debt due to the sewer project. The Council has reduced budget authority and revenues in order to continue increasing net position.

Another concern is the aging infrastructure of the city and budgeting for replacement.

Council raised mill levies at the allowed maximum rate and continued funding of a permissive medical mill levy to help finance increasing costs of employee health benefits.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the City's finances and to show the City's accountability for the funds and assets it receives. If you have any questions about this report or need additional financial information, contact the Clerk/Treasurer at City of Scobey, 708 First Avenue West, Scobey, MT 59263.

**CITY OF SCOBEEY, MONTANA**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2014**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and Investments (Note C)	\$ 432,863	\$ 1,272,387	\$ 1,705,250
Receivables, net	29,009	51,947	80,956
Due From Other Governments (Note P)	112,339	-	112,339
Total Current Assets	<u>574,211</u>	<u>1,324,334</u>	<u>1,898,545</u>
<b>Noncurrent Assets</b>			
Restricted Cash and Investments (Note C)	-	95,861	95,861
Capital Assets (Net of Accumulated Depreciation) (Note D)	<u>573,797</u>	<u>2,751,338</u>	<u>3,325,135</u>
Total Noncurrent Assets	<u>573,797</u>	<u>2,847,199</u>	<u>3,420,996</u>
Total Assets	<u>1,148,008</u>	<u>4,171,533</u>	<u>5,319,541</u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accounts Payable	2,239	13,276	15,515
Current Portion of Long-Term Debt (Note F)	<u>17,590</u>	<u>84,775</u>	<u>102,365</u>
Total Current Liabilities	<u>19,829</u>	<u>98,051</u>	<u>117,880</u>
<b>Noncurrent Liabilities</b>			
Long-Term Debt (Note F)	<u>4,563</u>	<u>853,304</u>	<u>857,867</u>
Total Noncurrent Liabilities	<u>4,563</u>	<u>853,304</u>	<u>857,867</u>
Total Liabilities	<u>24,392</u>	<u>951,355</u>	<u>975,747</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	562,770	1,839,338	2,402,108
Restricted (Note N)	332,428	95,861	428,289
Unrestricted	<u>228,418</u>	<u>1,284,979</u>	<u>1,513,397</u>
Total Net Position	<u>\$ 1,123,616</u>	<u>\$ 3,220,178</u>	<u>\$ 4,343,794</u>

See notes to the financial statements.

**CITY OF SCOBEEY, MONTANA  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2014**

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Primary Government:</b>							
Governmental Activities							
General Government	\$ 81,824	\$ 3,753	\$ 9,582	\$ -	\$ (68,489)	\$ -	\$ (68,489)
Public Safety	212,541	-	1,025	-	(211,516)	-	(211,516)
Public Works	105,632	102,930	31,843	144,167	173,308	-	173,308
Health and Sanitation	500	-	-	-	(500)	-	(500)
Culture and Recreation	27,349	-	-	-	(27,349)	-	(27,349)
Housing/Community Development	1,017	-	-	-	(1,017)	-	(1,017)
Miscellaneous	47,119	-	-	-	(47,119)	-	(47,119)
Interest on Long-Term Debt	904	-	-	-	(904)	-	(904)
Total Governmental Activities	<u>476,886</u>	<u>106,683</u>	<u>42,450</u>	<u>144,167</u>	<u>(183,586)</u>	<u>-</u>	<u>(183,586)</u>
Business-Type Activities:							
Water	227,010	284,384	-	162,000	-	219,374	219,374
Sewer	183,390	216,796	-	-	-	33,406	33,406
Solid Waste	129,641	121,580	-	-	-	(8,061)	(8,061)
Total Business-Type Activities	<u>540,041</u>	<u>622,760</u>	<u>-</u>	<u>162,000</u>	<u>-</u>	<u>244,719</u>	<u>244,719</u>
Total Government	<u>\$ 1,016,927</u>	<u>\$ 729,443</u>	<u>\$ 42,450</u>	<u>\$ 306,167</u>	<u>(183,586)</u>	<u>244,719</u>	<u>61,133</u>
General Revenues							
Property Taxes, Levied For General Purposes					252,808	-	252,808
Licenses and Permits					4,498	-	4,498
Intergovernmental Revenue Not Restricted to Specific Programs					115,089	-	115,089
Unrestricted Investment Earnings					4,214	141	4,355
Miscellaneous					3,541	8,151	11,692
Special Item							
Loss on Disposition of Capital Assets					(25,448)	-	(25,448)
Total General Revenues and Special Item					<u>354,702</u>	<u>8,292</u>	<u>362,994</u>
Change in Net Position					171,116	253,011	424,127
Net Position - Beginning					952,500	2,967,167	3,919,667
Net Position - Ending					<u>\$ 1,123,616</u>	<u>\$ 3,220,178</u>	<u>\$ 4,343,794</u>

See notes to the financial statements.

**CITY OF SCOBEEY, MONTANA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2014**

	<u>General</u>	<u>Street Maintenance District</u>	<u>Community Transportation Enhancement Program</u>	<u>Safe Routes to School</u>	<u>Other Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>						
Cash and Investments (Note C)	\$ 98,268	\$ 240,961	\$ -	\$ 313	\$ 93,321	\$ 432,863
Receivables, Net	15,453	8,077	-	-	5,479	29,009
Due From Other Governments (Note P)	-	-	72,743	39,596	-	112,339
Due From Other Funds (Note L)	112,339	-	-	-	-	112,339
<b>Total Assets</b>	<u>\$ 226,060</u>	<u>\$ 249,038</u>	<u>\$ 72,743</u>	<u>\$ 39,909</u>	<u>\$ 98,800</u>	<u>\$ 686,550</u>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>Liabilities</b>						
Accounts Payable	\$ 1,004	\$ 1,235	\$ -	\$ -	\$ -	\$ 2,239
Due to Other Funds (Note L)	-	-	72,743	39,596	-	112,339
<b>Total Liabilities</b>	<u>1,004</u>	<u>1,235</u>	<u>72,743</u>	<u>39,596</u>	<u>-</u>	<u>114,578</u>
<b>Deferred Inflows of Resources (Note O)</b>						
Unavailable Tax Revenue	15,453	8,077	-	-	5,479	29,009
<b>Total Deferred Inflows of Resources</b>	<u>15,453</u>	<u>8,077</u>	<u>-</u>	<u>-</u>	<u>5,479</u>	<u>29,009</u>
<b>Fund Balances (Note N)</b>						
Restricted	-	239,726	-	313	84,916	324,955
Committed	-	-	-	-	8,405	8,405
Unassigned	209,603	-	-	-	-	209,603
<b>Total Fund Balances</b>	<u>209,603</u>	<u>239,726</u>	<u>-</u>	<u>313</u>	<u>93,321</u>	<u>542,963</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 226,060</u>	<u>\$ 249,038</u>	<u>\$ 72,743</u>	<u>\$ 39,909</u>	<u>\$ 98,800</u>	<u>\$ 686,550</u>

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position

Total Fund Balance Governmental Funds	\$ 542,963
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	573,797
Some liabilities, including notes payable, are not due and payable in the current period and therefore are not reported in the funds.	(22,153)
Taxes receivable recognized as revenue in the government-wide statements are not available to pay current-period expenditures and are therefore not reported in the funds.	29,009
<b>Net position of governmental activities</b>	<u>\$ 1,123,616</u>

**CITY OF SCOBEEY, MONTANA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

	General	Street Maintenance District	Community Transportation Enhancement Program	Safe Routes to School	Other Funds	Total Governmental Funds
<b>REVENUES</b>						
Property Taxes	\$ 209,212	\$ -	\$ -	\$ -	\$ 35,999	\$ 245,211
Property Taxes - Assessments	-	78,738	-	-	24,192	102,930
Fees and Fines	2,998	-	-	-	-	2,998
Licenses and Permits	4,498	-	-	-	-	4,498
Intergovernmental	115,089	-	72,743	71,424	42,450	301,706
Charges for Services	755	-	-	-	-	755
Investment Earnings	4,214	-	-	-	-	4,214
Miscellaneous	1,360	1,817	-	-	364	3,541
<b>Total Revenues</b>	<b>338,126</b>	<b>80,555</b>	<b>72,743</b>	<b>71,424</b>	<b>103,005</b>	<b>665,853</b>
<b>EXPENDITURES</b>						
<b>Current:</b>						
General Government	68,404	-	-	-	2,805	71,209
Public Safety	202,655	-	-	-	3,012	205,667
Public Works	3,938	47,542	-	-	46,067	97,547
Health and Sanitation	500	-	-	-	-	500
Culture and Recreation	21,595	-	-	-	-	21,595
Housing/Community Development	1,017	-	-	-	-	1,017
Miscellaneous	-	1,296	-	-	45,823	47,119
<b>Debt Service</b>						
Principal	12,510	2,098	-	-	-	14,608
Interest	883	21	-	-	-	904
<b>Capital Outlay</b>	<b>11,027</b>	<b>-</b>	<b>72,743</b>	<b>71,111</b>	<b>-</b>	<b>154,881</b>
<b>Total Expenditures</b>	<b>322,529</b>	<b>50,957</b>	<b>72,743</b>	<b>71,111</b>	<b>97,707</b>	<b>615,047</b>
<b>Net Change in Fund Balances</b>	<b>15,597</b>	<b>29,598</b>	<b>-</b>	<b>313</b>	<b>5,298</b>	<b>50,806</b>
<b>Fund Balance, Beginning of Year</b>	<b>194,006</b>	<b>210,128</b>	<b>-</b>	<b>-</b>	<b>88,023</b>	<b>492,157</b>
<b>Fund Balance, End of Year</b>	<b>\$ 209,603</b>	<b>\$ 239,726</b>	<b>\$ -</b>	<b>\$ 313</b>	<b>\$ 93,321</b>	<b>\$ 542,963</b>

See notes to the financial statements.

**CITY OF SCOBEEY, MONTANA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance  
of Governmental Funds to the Statement of Activities

Net change in fund balances -- total governmental funds	\$ 50,806
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over the estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay (\$154,881) exceeded depreciation expense (\$30,169)	124,712
In the Statement of Activities, the gain or loss on the sale or disposal of capital assets is recognized. However, the fund financial statements recognize only the proceeds from the sale of these assets. This is the difference between total proceeds and the loss on disposal.	(25,448)
The increase in current property tax receivable is not reflected in the revenue in the governmental funds statement.	7,597
Repayment of debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position	14,608
The increase in compensated absences payable reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	(1,159)
Change in net position of governmental activities	<u>\$ 171,116</u>

**CITY OF SCOBEEY, MONTANA  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
JUNE 30, 2014**

	<b>Enterprise Funds</b>			
	<b>Water</b>	<b>Sewer</b>	<b>Solid Waste</b>	<b>Total</b>
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and Cash Equivalents (Note C)	\$ 744,368	\$ 472,837	\$ 55,182	\$1,272,387
Accounts Receivable	19,032	21,189	11,726	51,947
Interfund Receivable (Note L)	-	18,500	-	18,500
Total Current Assets	<u>763,400</u>	<u>512,526</u>	<u>66,908</u>	<u>1,342,834</u>
<b>Noncurrent Assets</b>				
Restricted Cash and Cash Equivalents (Note C)	11,732	84,129	-	95,861
Capital Assets (Net of Accumulated Depreciation) (Note D)	1,039,535	1,629,104	82,699	2,751,338
Total Noncurrent Assets	<u>1,051,267</u>	<u>1,713,233</u>	<u>82,699</u>	<u>2,847,199</u>
Total Assets	<u>1,814,667</u>	<u>2,225,759</u>	<u>149,607</u>	<u>4,190,033</u>
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Accounts Payable	11,648	216	1,412	13,276
Waste Water Bonds (Note F)	-	63,000	-	63,000
Water System Bonds (Note F)	6,000	-	-	6,000
Compensated Absences (Note F)	7,649	6,111	2,015	15,775
Interfund Payable (Note L)	-	-	18,500	18,500
Total Current Liabilities	<u>25,297</u>	<u>69,327</u>	<u>21,927</u>	<u>116,551</u>
<b>Noncurrent Liabilities</b>				
Waste Water Bonds (Note F)	-	706,000	-	706,000
Water System Bonds (Note F)	137,000	-	-	137,000
Compensated Absences (Note F)	5,467	4,345	492	10,304
Total Noncurrent Liabilities	<u>142,467</u>	<u>710,345</u>	<u>492</u>	<u>853,304</u>
Total Liabilities	<u>167,764</u>	<u>779,672</u>	<u>22,419</u>	<u>969,855</u>
<b>NET POSITION</b>				
Net Investment in Capital Assets	896,535	860,104	82,699	1,839,338
Restricted For:				
Debt Service	11,732	84,129	-	95,861
Unrestricted	738,636	501,854	44,489	1,284,979
Total Net Position	<u>\$1,646,903</u>	<u>\$1,446,087</u>	<u>\$127,188</u>	<u>\$3,220,178</u>

See notes to the financial statements.

**CITY OF SCOBEEY, MONTANA**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

	<b>Enterprise Funds</b>			<b>Total</b>
	<b>Water</b>	<b>Sewer</b>	<b>Solid Waste</b>	
<b>Operating Revenues</b>				
Charges for Services	\$ 284,384	\$ 216,796	\$ 121,580	\$ 622,760
Miscellaneous Revenues	657	154	7,340	8,151
<b>Total Operating Revenue</b>	<u>285,041</u>	<u>216,950</u>	<u>128,920</u>	<u>630,911</u>
<b>Operating Expenses</b>				
Personal Services	92,015	59,942	74,723	226,680
Supplies	29,042	3,805	13,716	46,563
Purchased Services	66,287	48,560	24,335	139,182
Depreciation	34,833	46,281	16,867	97,981
<b>Total Operating Expenses</b>	<u>222,177</u>	<u>158,588</u>	<u>129,641</u>	<u>510,406</u>
<b>Operating Income (Loss)</b>	<u>62,864</u>	<u>58,362</u>	<u>(721)</u>	<u>120,505</u>
<b>Nonoperating Income/(Expenses)</b>				
Interest Revenue	-	141	-	141
Interest Expense	(4,833)	(24,802)	-	(29,635)
<b>Total Nonoperating Income/(Expenses)</b>	<u>(4,833)</u>	<u>(24,661)</u>	<u>-</u>	<u>(29,494)</u>
<b>Income Before Contributions</b>	<u>58,031</u>	<u>33,701</u>	<u>(721)</u>	<u>91,011</u>
<b>Capital Contributions</b>	<u>162,000</u>	<u>-</u>	<u>-</u>	<u>162,000</u>
<b>Change in Net Assets</b>	<u>220,031</u>	<u>33,701</u>	<u>(721)</u>	<u>253,011</u>
<b>Total Net Position -- Beginning</b>	<u>1,426,872</u>	<u>1,412,386</u>	<u>127,909</u>	<u>2,967,167</u>
<b>Total Net Position -- Ending</b>	<u>\$ 1,646,903</u>	<u>\$ 1,446,087</u>	<u>\$ 127,188</u>	<u>\$ 3,220,178</u>

See notes to the financial statements.

**CITY OF SCOBEEY, MONTANA**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

	Enterprise Funds			
	Water	Sewer	Solid Waste	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash Received From Customers	\$ 291,335	\$ 219,156	\$ 130,587	\$ 641,078
Cash Paid to Suppliers	(100,180)	(52,271)	(37,561)	(190,012)
Cash Paid to Employees	(89,651)	(53,596)	(78,097)	(221,344)
Deposits received from Customers	1,542	-	-	1,542
Net Cash Provided (Used) by Operating Activities	<u>103,046</u>	<u>113,289</u>	<u>14,929</u>	<u>231,264</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Proceeds from Long-Term Debt	32,588	-	-	32,588
Interfund Loan	-	-	(18,500)	(18,500)
Acquisition of Capital Assets	(36,272)	-	(2,770)	(39,042)
Principal Paid on Long-Term Debt	(9,099)	(76,097)	-	(85,196)
Interest Paid on Long-Term Debt	(4,833)	(24,802)	-	(29,635)
Net Cash Used by Capital and Related Financing Activities	<u>(17,616)</u>	<u>(100,899)</u>	<u>(21,270)</u>	<u>(139,785)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interfund Loan	-	18,500	-	18,500
Interest Earnings	-	141	-	141
Net Cash Used by Investing Activities	<u>-</u>	<u>18,641</u>	<u>-</u>	<u>18,641</u>
Net Increase (Decrease) in Cash and Cash Equivalents	85,430	31,031	(6,341)	110,120
<b>Cash and Cash Equivalents,</b>				
Beginning of Year	670,670	525,935	61,523	1,258,128
End of Year	<u>\$ 756,100</u>	<u>\$ 556,966</u>	<u>\$ 55,182</u>	<u>\$ 1,368,248</u>
<b>Reconciliation to Statement of Net Position:</b>				
Cash and Cash Equivalents	\$ 744,368	\$ 472,837	\$ 55,182	\$ 1,272,387
Restricted Cash and Cash Equivalents	11,732	84,129	-	95,861
Total Cash and Cash Equivalents	<u>\$ 756,100</u>	<u>\$ 556,966</u>	<u>\$ 55,182</u>	<u>\$ 1,368,248</u>
<b>Reconciliation of Operating Income to Net Cash Provided By Operating Activities:</b>				
Operating Income (Loss)	\$ 62,864	\$ 58,362	\$ (721)	\$ 120,505
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:				
Depreciation	34,833	46,281	16,867	97,981
(Increase) Decrease in Accounts Receivable	6,294	2,206	1,667	10,167
Increase (Decrease) in Deposits Payable	(3,309)	94	490	(2,725)
Increase (Decrease) in Compensated Absences Payable	2,364	6,346	(3,374)	5,336
Total Adjustments	<u>40,182</u>	<u>54,927</u>	<u>15,650</u>	<u>110,759</u>
Net Cash Provided (Used) By Operating Activities	<u>\$ 103,046</u>	<u>\$ 113,289</u>	<u>\$ 14,929</u>	<u>\$ 231,264</u>
<b>Noncash Investing and Capital and Related Financing Activities:</b>				
Bonds Forgiven	\$ 162,000	\$ -	\$ -	\$ 162,000

See notes to the financial statements.

**CITY OF SCOBAY, MONTANA  
STATEMENT OF NET POSITION  
FIDUCIARY FUNDS  
JUNE 30, 2014**

	<u>Agency Fund</u>
<b>ASSETS</b>	
<b>Current Assets</b>	
Cash and Cash Equivalents (Note C)	\$ 423
Receivables:	
Other Receivables	<u>294</u>
Total Assets	<u>717</u>
<b>LIABILITIES</b>	
<b>Current Liabilities</b>	
Due To Other Governments (Note E)	<u>717</u>
Total Liabilities	<u>\$ 717</u>

See notes to the financial statements.

**CITY OF SCOBEEY, MONTANA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Scobey, Montana, was incorporated in 1914, under the provisions of Montana Municipal Statutes. The City operates under a Council/Mayor form of government. The accounting policies of the City of Scobey, Montana, conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the more significant policies:

**FASB Documents**

The financial statements of the City of Scobey are prepared in accordance with Generally Accepted Accounting Principles (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, and has the option to apply applicable FASB pronouncements issued after that date.

**Reporting Entity**

The City, for financial purposes, includes all of the funds, account groups, organizations, and boards for which the City is financially accountable and other organizations for which the nature and significance of the relationship are such that exclusion would cause the City's financial statements to be misleading or incomplete. Financial accountability is accomplished by appointing a majority of the governing body, the imposition of the City's will, or the potential for financial benefit or burden. The City provides the following services: solid waste disposal, water and sewer, cemetery, public safety (police and fire), recreation and streets.

The accompanying financial statements represent the City of Scobey only. As of June 30, 2014, the City had no component units.

**Basis of Presentation and Basis of Accounting:**

**Basis of Presentation - Fund Accounting**

The accounts of the City are organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

The City's funds are grouped into three broad fund categories and four generic fund types for financial statement presentation purposes. Governmental funds include the general, special revenue, and debt service funds. Proprietary funds include the enterprise funds. The City also has one fiduciary agency fund.

**Government-Wide Financial Statements**

The statement of net position and the statement of activities display information about the financial activities of the overall City, except for fiduciary activities as the expendable resources are not available to support the City's operations. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which primarily rely on fees and charges for support. Eliminations have been made to minimize double counting of any internal activities.

**CITY OF SCOBEEY, MONTANA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Government-Wide Financial Statements (Continued)**

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds. The primary effect of internal activity has been eliminated from the government-wide financial statements.

The statement of activities presents a comparison between direct expenses and program revenues for each governmental program and each business-type activity.

Direct Expenses - those that are specifically associated with a program or function and therefore, are clearly identifiable to a particular function.

Indirect Expenses - expenses of the City related to the administration and support of the City's programs, such as personnel and accounting, that are not allocated to programs.

Program Revenues - charges paid by the recipients of goods or services offered by the programs, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program.

General Revenues - all revenues not classified as program revenue, such as taxes and intergovernmental revenues.

**Fund Financial Statements**

Fund financial statements report detailed information about the City. The emphasis of fund financial statements is on major governmental and proprietary funds, each displayed in a separate column. Nonmajor funds are aggregated and presented in a single column.

The City reports the following major governmental funds:

General Fund - This fund is the City's primary operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

Street Maintenance District Fund - This fund is to account for the proceeds of special revenue resources that are legally restricted to expenditures of the Street Maintenance District.

Community Transportation Enhancement Program Fund - This fund is used to account for grants received from the Montana Department of Transportation to fund projects that strengthen the cultural, aesthetic, and environmental aspects of Montana's intermodal transportation system.

Safe Routes to School Fund - This fund is used to account for grants received to improve the safe transportation of students to and from school.

The City reports the following major proprietary funds:

**CITY OF SCOBEEY, MONTANA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Fund Financial Statements (Continued)**

Water Fund - This fund is to account for the provision of water treatment and distribution to the residential and commercial users of the City.

Sewer Fund - This fund is to account for sewer services provided to the residential and commercial users of the City.

Solid Waste Fund - This fund is to account for solid waste services provided to the residential and commercial users of the City.

The City reports the following agency funds:

Fire Relief Fund - This fund is to account for assets held by the City in a trustee capacity or as an agent for individuals, other governments, and/or other funds.

**Basis of Accounting**

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide financial statements and proprietary fund financial statements are reported using the economic resources measurement focus and 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. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenues from property taxes are recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations are recognized in the fiscal year in which the eligibility requirements have been satisfied.

Fund financial statements of governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. State and other governmental revenues applicable to the current fiscal year and collected within 60 days after year-end are recognized as revenue.

Expenditures are recorded when the related fund liability is incurred, except for compensated absences, which are recognized as expenditures when paid. General capital asset acquisitions are reported as expenditures in the governmental funds. Proceeds of general long-term liabilities and acquisitions under capital leases are reported as other financing sources.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred. These funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses are those that result from providing goods and services in connection with the proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**CITY OF SCOBEEY, MONTANA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Assets and Liabilities**

**Cash and Cash Equivalents**

The City has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with maturities of three months or less from the date of acquisition. Cash and cash equivalents are combined with investments and displayed as Cash and Investments in all funds.

**Receivables**

Property tax and special assessment receivables consist primarily of delinquent property taxes from the current and prior year levies. Property tax receivables are offset by unavailable tax revenue in the fund financial statements.

The proprietary funds use the direct write-off method to record bad debt expense. All accounts are considered collectible or services would be shut off. Potential losses on delinquent accounts would not be considered material to the financial statements.

**Inventories**

Inventories consist of expendable supplies held for future use and are carried at cost on the first-in, first-out method.

**Capital Assets**

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Due to the size of the City, GASB Statement No. 34 does not require the retroactive recording of infrastructure, and management has decided not to retroactively report infrastructure. However, all future additions to infrastructure will be recorded as required under Generally Accepted Accounting Principles of the United States of America. Repair and maintenance costs are not capitalized, but are expensed as incurred.

Depreciation is computed using the straight-line method and the estimated useful lives are as follows:

Buildings	5 to 50 years
Improvements	5 to 20 years
Machinery and Equipment	5 to 15 years
Water and Sewer Systems	5 to 50 years

**Compensated Absences**

The City accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned by the employee. The City classifies the vacation portion of the liability as short term and the sick portion of the liability as long term. The amounts have typically been paid out of the general, water, sewer, and solid waste funds in prior periods.

**Contributions**

Enterprise fund resources received from grants, entitlements, or shared revenues which may be utilized for operating or for either operations or capital acquisitions or construction are reported as non-operating revenues. Capital contributions are reported separately after non-operating revenue and expenses.

**CITY OF SCOBEEY, MONTANA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Interfund Transactions**

Interfund transactions consisting of identified services performed for other funds or costs billed to other funds are treated as expenditures in the fund receiving the services and as revenue in the fund performing the services. Transactions which constitute reimbursements of a fund for expenditures or expenses initially made from it, which are properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as a reduction of the expenditures in the fund that is reimbursed. All other transfers between funds are called interfund transfers and are reported as other financing sources/uses in governmental funds and after non-operating revenue/expenses in proprietary funds. Advances between funds are accounted for in the appropriate interfund receivable and payable accounts. These are eliminated in the government-wide financial statements.

**Property Tax**

The City's property tax is levied each November 1, on assessed value as of the prior January 1, for all real and personal property located in the City. Assessed values are established by the State Department of Revenue based on market value. A re-evaluation of all property is required to be completed on a periodic basis. Taxable value is defined by state statute as a fixed percentage of assessed value. The taxes are due in two installments on November 30 and May 31 of each fiscal year.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent 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.

**Fund Equity**

In governmental fund type accounts, fund equity is called "fund balance." Fund balance is reported in the following classifications which reflect the extent to which the City is bound to honor constraints on the purposes for which the amounts can be spent: nonspendable, restricted, committed, assigned, and unassigned.

When resources meeting more than one of the classifications (excluding nonspendable) are comingled in an account, assuming that an expenditure meets the constraints of the classification, the assumed order of spending is restricted first, committed second, and finally assigned.

**NOTE B - PROPERTY TAXES**

The City's real estate property tax is levied on the assessed value listed as of January 1 for all real property located in the City. Assessed values are established by the State Department of Revenue based on market value. A re-evaluation of all property is required to be completed on a periodic basis. Taxable value is defined by the State Statutes as a fixed percentage of assessed value.

The City is permitted by State Statutes to levy taxes up to certain fixed limits for various purposes. The taxes levied by the City for the year ended June 30, 2014, were within the legal limits.

**CITY OF SCOBEEY, MONTANA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2014**

**NOTE B - PROPERTY TAXES (CONTINUED)**

Real property taxes and special assessments are generally billed in October and are payable in two equal installments by November 30 and May 31. After these dates, taxes and assessments become delinquent and become a lien on the property. Personal property is assessed and personal property taxes are billed throughout the year, with a significant portion generally billed in May, June and July. Personal property taxes are based on levies set during the prior August. These taxes become delinquent 30 days after billing.

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

The taxable value, upon which the tax levies for the year ended June 30, 2014 were based, was \$683,011.

**NOTE C - CASH AND INVESTMENTS**

Cash and investments are classified in the accompanying financial statements as of June 30, 2014 as follows:

Governmental Funds	
Cash and Investments	\$ 432,863
Business-Type Activities	
Cash and Investments	1,272,387
Restricted Cash and Investments	95,861
Fiduciary Funds	
Cash and Investments	<u>423</u>
Total Cash and Investments	<u>\$ 1,801,534</u>

Cash and investments consist of the following as of June 30, 2014:

Cash on Hand	\$ 200
Demand Deposits with Financial Institutions	19,639
Savings Deposits with Financial Institutions	1,034,540
Time Certificates of Deposit with Financial Institutions	<u>747,155</u>
Total Cash and Investments	<u>\$ 1,801,534</u>

Cash and investments may include cash and cash items; demand, time, savings and fiscal agent deposits; or repurchase agreements with financial institutions that are located in Montana and are insured by FDIC, FSLIC, NCUA, and SIPC. The City may also invest money in obligations of the United States Government, or in the State Short-Term Investment Pool.

**Concentration of Credit Risk**

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the Montana Code Annotated. The City has demand, savings, and time deposits in the amount of \$1,054,379 with Daniels Sheridan Federal Credit Union, which represents 58% of all deposits. The City has time deposits in the amount of \$245,000 with Independence Bank, which represents 14% of all deposits. The City has \$502,155 invested in CDAR's, which represents 28% of all deposits.

**CITY OF SCOBEEY, MONTANA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE C - CASH AND INVESTMENTS (CONTINUED)**

**Custodial Credit Risk**

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Montana law requires 50% security of deposits with financial institutions in excess of the depository insurance coverage limits. A governmental entity's money is insured for each "public unit" based on how the account is titled at the financial institution. The City of Scobey is considered to have \$250,000 FDIC and NCUA coverage.

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

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or governmental investment pools (such as the State Short-Term Investment Pool).

**Foreign Currency Risk**

The City does not have a formal policy to limit foreign currency risk and does not have any foreign currency risk as the City does not own any foreign currency.

**Restricted Cash and Investments**

Restricted cash is restricted for future debt payments.

Water Fund	\$ 11,732
Sewer Fund	84,129
Total	<u>\$ 95,861</u>

**CITY OF SCOBEEY, MONTANA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE D - CAPITAL ASSETS**

**Governmental Capital Assets**

Capital asset activity for the year ended June 30, 2014 was as follows:

	Balance 06/30/13	Additions	Deletions	Balance 06/30/14
Land	\$ 22,586	\$ -	\$ -	\$ 22,586
Construction in Progress	-	143,854	-	143,854
Buildings	69,106	-	16,509	52,597
Improvements	49,585	-	24,719	24,866
Machinery and Equipment	487,963	11,027	-	498,990
Infrastructure	223,137	-	-	223,137
<b>Total</b>	<b>852,377</b>	<b>154,881</b>	<b>41,228</b>	<b>966,030</b>
Less Accumulated Depreciation for:				
Buildings	(42,373)	(864)	(11,969)	(31,268)
Improvements	(24,955)	(2,065)	(3,811)	(23,209)
Machinery and Equipment	(274,060)	(18,254)	-	(292,314)
Infrastructure	(36,456)	(8,986)	-	(45,442)
<b>Total</b>	<b>(377,844)</b>	<b>(30,169) *</b>	<b>(15,780)</b>	<b>(392,233)</b>
<b>Capital Assets, Net</b>	<b>\$ 474,533</b>	<b>\$ 124,712</b>	<b>\$ 25,448</b>	<b>\$ 573,797</b>

\*Depreciation expense was charged to functions as follows:

Governmental activities:	
General Government	\$ 9,456
Public Safety	6,874
Public Works	8,085
Culture and Recreation	5,754
<b>Total governmental activities depreciation expense</b>	<b>\$ 30,169 *</b>

**CITY OF SCOBEEY, MONTANA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE D - CAPITAL ASSETS (CONTINUED)**

**Proprietary Capital Assets**

	Balance 06/30/13	Additions	Deletions	Balance 06/30/14
<b>Business-type activities:</b>				
Construction in Progress	\$ 285,311	\$ -	\$ 285,311	\$ -
Machinery and Equipment	266,454	2,770	-	269,224
Source of Supply	213,225	-	-	213,225
Pumping Plant	29,727	-	-	29,727
Treatment Plant	1,505,129	-	-	1,505,129
Transmission and Distribution	2,039,651	285,310	-	2,324,961
General Plant	322,140	36,273	4,600	353,813
Buildings	56,886	-	-	56,886
Irrigation	228,834	-	-	228,834
<b>Total</b>	<b>4,947,357</b>	<b>324,353</b>	<b>289,911</b>	<b>4,981,799</b>
<b>Less accumulated depreciation for:</b>				
Machinery and Equipment	(146,888)	(17,712)	-	(164,600)
Source of Supply	(207,911)	(1,773)	-	(209,684)
Pumping Plant	(27,089)	(139)	-	(27,228)
Treatment Plant	(271,987)	(29,866)	-	(301,853)
Transmission and Distribution	(1,164,695)	(31,843)	-	(1,196,538)
General Plant	(220,999)	(7,983)	(4,600)	(224,382)
Buildings	(16,887)	(2,220)	-	(19,107)
Irrigation	(80,624)	(6,445)	-	(87,069)
<b>Total</b>	<b>(2,137,080)</b>	<b>(97,981) *</b>	<b>(4,600)</b>	<b>(2,230,461)</b>
<b>Proprietary Capital Assets, Net</b>	<b>\$ 2,810,277</b>	<b>\$ 226,372</b>	<b>\$ 285,311</b>	<b>\$ 2,751,338</b>

\*Depreciation expense was charged to functions as follows:

<b>Business-type activities:</b>	
Water	\$ 34,833
Sewer	46,281
Solid Waste	16,867
<b>Total business-type activities depreciation expense</b>	<b>\$ 97,981 *</b>

**NOTE E - AMOUNTS DUE TO OTHER GOVERNMENTS**

The amounts due to other governments consist of the following:

Due to Other Governments:

Agency Fund:

Scobey Fire Department Relief Association Disability and Pension Fund	\$ 717
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**CITY OF SCOBEEY, MONTANA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE F - LONG-TERM DEBT**

Long-term liabilities for the year ended June 30, 2014 were as follows:

	Balance 06/30/13	Additions	Deletions	Balance 06/30/14	Amounts due Within 1 year
<b>Governmental Activities</b>					
Fire truck Loan	\$ 23,537	\$ -	\$ 12,510	\$ 11,027	\$ 11,027
Loader Loan	2,098	-	2,098	-	-
Total	25,635	-	14,608	11,027	11,027
Comp. Absences	9,967	1,159	-	11,126	6,563
Total	<u>\$ 35,602</u>	<u>\$ 1,159</u>	<u>\$ 14,608</u>	<u>\$ 22,153</u>	<u>\$ 17,590</u>
<b>Business-type activities:</b>					
Loader Loan	\$ 4,196	\$ -	\$ 4,196	\$ -	\$ -
Waste Water Bonds	843,000	-	74,000	769,000	63,000
Water System Bond	279,412	32,588	169,000	143,000	6,000
Total	1,126,608	32,588	247,196	912,000	69,000
Comp. Absences	20,743	5,336	-	26,079	15,775
Total	<u>\$ 1,147,351</u>	<u>\$ 37,924</u>	<u>\$ 247,196</u>	<u>\$ 938,079</u>	<u>\$ 84,775</u>

The Fire truck Loan originated on June 24, 2008, with Independence Bank for a 1993 GMC Ferrara Pumper/Tanker. The total purchase price of the pumper was \$89,126 and the amount financed was \$77,000. The loan is payable over 7 years and has an annual payment of \$12,510. The interest rate is fixed at 3.75%.

The Loader Loan originated on April 21, 2010, with Daniels-Sheridan Federal Credit Union for a 2010 John Deere 544K Loader. The total purchase price of the loader after a trade-in allowance was \$49,500 and the amount financed was \$30,000. The loan was payable over 47 months and had a monthly payment of \$666. This was a variable rate loan. This loan was paid off during the fiscal year ended June 30, 2014.

The Waste Water Revenue Bonds were issued November 7, 2005. The bonds carry interest rates ranging from 2.75% to 3.75%. A portion of the bonds mature on January 1 and July 1 of every year starting in 2006 and ending in 2025. The funds to repay the bonds will be generated by increasing sewer rates. On January 21, 2014, these bonds were refinanced reducing the interest rate to 2.25%. The refinance had a provision allowing the cash restricted to service these bonds to be reduced. There is \$84,129 set aside in restricted cash to service these bonds.

The Water System Revenue Bonds were issued November 1, 2011. The bonds carry an interest rate of 3.75%. A portion of the bonds mature on January 1 and July 1 each year starting in 2012 and ending in 2031. The funds to repay the bonds will be generated by increasing water rates. \$162,000 of the bond issue was forgivable upon completion of the project pending the City meeting requirements for the bond to be forgiven. On January 21, 2014, these bonds were refinanced reducing the interest rate to 3.00%. The refinance had a provision allowing the cash restricted to service these bonds to be reduced. There is \$11,732 set aside in restricted cash to service these bonds. On March 14, 2014, \$162,000 of the bonds issued were forgiven.

**CITY OF SCOBEEY, MONTANA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2014**

**NOTE F - LONG-TERM DEBT (CONTINUED)**

The annual requirements to amortize all long term debt, excluding compensated absences, as of June 30, 2014, are as follows:

<u>June 30,</u>	<u>Governmental Fire Truck Loan</u>	
2015	\$	12,357
Total		<u>12,357</u>
Less Amount Representing Interest		<u>1,330</u>
Total	\$	<u><u>11,027</u></u>

<u>June 30,</u>	<u>Business-type</u>	
	<u>Waste Water Bonds</u>	<u>Drinking Water Bonds</u>
2015	\$ 79,954	\$ 10,245
2016	78,525	11,050
2017	80,096	9,855
2018	78,611	9,675
2019	79,115	10,480
2020 - 2024	396,748	53,950
2025 - 2029	79,316	56,395
2030 - 2031	-	22,855
Total	<u>872,365</u>	<u>\$ 184,505</u>
Less Amount Representing Interest	<u>103,365</u>	<u>41,505</u>
Total	<u><u>\$ 769,000</u></u>	<u><u>\$ 143,000</u></u>

**NOTE G - RETIREMENT PLANS**

The City participates in one multiple employer, cost-sharing retirement plan, the Public Employees' Retirement System. The plan covers all employees, except employees not exceeding the equivalency of 960 hours. The plan is established by State law and is administered by the Department of Administration of the State of Montana.

This plan issues a publicly available annual report that includes financial statements and required supplemental information for the plan. This report may be obtained by contacting:

Public Employees Retirement System  
P.O. Box 200131  
1712 Ninth Avenue  
Helena, Montana 59620-0131  
Telephone: 406-444-3154

**CITY OF SCOBEEY, MONTANA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE G - RETIREMENT PLANS (CONTINUED)**

Contribution rates are required and determined by State law. The employer's contribution rate is 8.07% and the employee's contribution rate is 7.9%, for a total of 15.97%, expressed as a percentage of covered payroll. The employers rate is required to increase by 0.1% each fiscal year effective July 1, 2014 through fiscal year 2024.

The amounts contributed to the plans during the years ended June 30, 2012, 2013, and 2014 were equal to the required contribution for each year. The amounts contributed by both the City and its employees (including voluntary contributions by employees as permitted by State law) were \$28,523, \$28,092, and \$34,474 respectively.

The State of Montana contributes .10% of the PERS employees' payroll which is considered an on-behalf payment. The City considers this contribution to be immaterial and has not recorded it in their financial statements as required by accounting principles generally accepted in the United States of America.

**Local Retirement Plan**

The Fire Department Relief Association administers the Fireman's Pension and Disability Fund to pay pension benefits to retired volunteer firemen. The Firemen's Pension and Disability Fund is managed by a Board of Trustees composed of members of the fire department. The Fund is considered an independent reporting entity which is not included in the City's financial statements. The City does maintain an agency fund to account for taxes levied and contributions to the Firemen's Pension and Disability Fund. In previous fiscal years, the City has levied for the support of the Association as authorized under the provisions of MCA 19-18-503 and MCA 19-18-504. It is intended only to provide for and maintain a Relief Association fund balance less than .52% and more than .21% of the total assessed value of taxable property, determined as provided in MCA 15-8-111 within the limits of the City or at a level determined by actuarial valuation. As of June 30, 2014, the total assets of the association were in the amount of \$56,002 which was within the range required. The City contributed \$1,080 to the fund for the fiscal year ended June 30, 2014.

The State contributes, out of money received for insurance premium taxes, an amount equal to 1 1/2 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 \$1,063.

No actuarial valuation or report of unfunded past service costs had been prepared for the Fire Relief Association Pension and Disability Fund for the year ended June 30, 2014.

**NOTE H - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS**

**Plan Description** - The City is a member of the Montana Municipal Interlocal Authority (MMIA), a local government risk retention pool which administers the City's group health insurance plan, an agent multiple-employer defined benefit plan. The City provides its employees who retire, along with their eligible spouses and dependents, the option to continue to participate in the City's group health insurance plan. To continue this health insurance coverage, the retirees are required to pay the full amount of their premium. State law does not require that the City provide the same premium rates to retirees as it pays for its active employees, nor does it require that the City pay any portion of the retiree premiums. Premium rates and healthcare benefits may be administratively altered at the end of any contract year.

**CITY OF SCOBEEY, MONTANA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2014**

**NOTE H - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)**

**Plan Description (Continued)**

MMIA issues an annual financial report that can be obtained at:

Montana Municipal Interlocal Authority  
P.O. Box 6669  
Helena, MT 59604-6669

**Funding Policy** - The City provides no direct subsidy to the health insurance premiums for retirees. Retirees pay the entire cost of the health insurance premium. Eligible retired employees include former fulltime and certain other employees. At June 30, 2014, the City had no retired employees and no employees covered under COBRA insurance coverage.

**Annual OPEB Cost Obligation** - The City's other post employment benefit (OPEB) cost (expense) is calculated based on the projected unit credit cost method as of June 30, 2014 using MMIA's alternative measurement method calculations. The objective under this method is to fund each participant's benefits under the plan as they accrue. Thus, the total benefit to which each participant is expected to become entitled at retirement is broken down into units, each associated with year of past or future credited services. Typically, when this method is introduced, there will be an initial liability for benefits credited for services prior to that date, and to the extent that the liability is not covered by assets of the plan, there is an unfunded liability to be funded over a stipulated period in accordance with an amortization schedule. This information was provided to the City by MMIA, who hired an actuary, Leif Associates, Inc., to evaluate the potential liability as of June 30, 2014. The City had no liability as of June 30, 2014.

**Funded Status and Funding Progress** - As of June 30, 2014, there was not an unfunded portion.

**Methods and Assumptions** - Projection of benefits for financial reporting purposes are based on the substantive plan and include the type of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual fund limitations on the pattern of cost sharing between employer and plan members in the future. The methods used are designed to reduce effects of short-term volatility in accrued liabilities and the value of assets, consistent with the long term perspective of the calculations.

The following assumptions were made:

Cost Method:	Projected Unit Credit
Amortization Method:	Level Percent
Inflation Rate:	3.00%
Investment Return:	3.00%
Participation Rate:	100.00%
Projected Salary Increases:	2.00%
Healthcare Cost Trend Rate:	6.1% - 7.0%

For valuation purposes, health care cost increases are assumed to apply at the end of the plan year.

**CITY OF SCOBEEY, MONTANA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2014**

**NOTE I - JOINT VENTURES**

**City-County Airport**

The City-County Airport is owned and operated jointly by Daniels County and the City of Scobey. The operation of the City-County Airport is accounted for by Daniels County within a Special Revenue Fund. All capital assets of the City-County Airport are included within the County's capital assets. The City-County Airport is administered by a five member board, comprised of two members from the City and three members from the County governing board. Airport Board members are appointed every two years. The original budget is approved by the controlling governments, with the City budgeting for its share within its budget, and the County including the entire operation within its budget.

The following is a summary of the City-County Airport's balance sheet as of June 30, 2014 and its operations for the fiscal year ended June 30, 2014:

	Total
Total Assets	\$ 64,737
Total Liabilities	24,314
Total Equity	40,423
Total Revenues	98,602
Total Expenditures	96,388
Net Increase in Fund Balance	2,214

Airport revenues are derived from tax levies by the City of Scobey and Daniels County, user fees, Federal and State grants, and investment income. The City of Scobey did not make any payments to Daniels County for the fiscal year ended June 30, 2014 for the airport.

**Law Enforcement**

The City entered into a general law enforcement agreement in September 1990 with Daniels County in which the County agrees to provide general law enforcement services to the City. The law enforcement agreement, which is renewable every year, is administered by a five member board, comprised of two members from the City, two members from the County, and one member at large. The City of Scobey paid Daniels County \$190,792 for the fiscal year ended June 30, 2014 for law enforcement.

**NOTE J - RISK MANAGEMENT**

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

**CITY OF SCOBEEY, MONTANA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE J - RISK MANAGEMENT (CONTINUED)**

Coverage limits and the deductibles on the commercial policies have stayed relatively constant for the last several years. The premiums for property and content damage and the employee medical plan are allocated between all applicable City funds. The premiums for professional liability are allocated between the City's enterprise funds and the general fund. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The City has joined together with other Montana cities to form the Montana Municipal Insurance Authority which established a workers' compensation plan and a tort liability plan, both public entity risk pools currently operating as common risk management and insurance programs for the member governments. The liability limits are \$750,000 per person and \$1.5 million per accident.

**NOTE K - SUBSEQUENT EVENTS**

The City of Scobey recognizes all effects of subsequent events that provide additional evidence about conditions that existed as of June 30, 2014, including the estimates inherent in the process of preparing financial statements. Subsequent events that provide evidence about conditions that did not exist as of June 30, 2014, but arose after that date and prior to issuance are not recognized in these financial statements other than disclosure. The City of Scobey evaluates the subsequent events through the date of the auditor's report.

**NOTE L - INTERFUND BALANCES**

At June 30, 2014, there was \$39,596 owed by the Safe Routes to School Fund to the General Fund for expenditures paid in the Safe Routes to School Fund for which reimbursement had not been received.

At June 30, 2014, there was \$72,743 owed by the Community Transportation Enhancement Program to the General Fund for expenditures paid in the Community Transportation Enhancement Program for which reimbursement had not been received.

On February 5, 2013, the City Council approved a loan from the sewer fund to the solid waste fund of \$37,000 for the purchase of a garbage truck. The terms of repayment are equal payments annually with no interest due. The loan is to mature June 30, 2015. At June 30, 2014, the balance was \$18,500.

**CITY OF SCOBEE, MONTANA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE M - GOVERNMENTAL FUND BALANCES**

The City's governmental fund balances are classified according to the relative constraints that control how amounts can be spent. Classifications include:

**Nonspendable**

Balances that either are not in spendable form or are legally or contractually required to remain intact.

**Restricted**

Balances that are restricted for specific purposes by the constitution, enabling governing body or external resource providers such as creditors, grantors, or laws or regulations of other governments.

**Committed**

Balances that can only be used for specific purposes pursuant to constraints imposed by resolution of the City Council.

**Assigned**

Balances that are constrained by resolution of the City Council to be used for specific purposes, but are neither restricted nor committed.

**Unassigned**

Residual balances that are not contained in the other classifications.

**NOTE N - FUND BALANCES AND RESTRICTED NET POSITION**

**Fund Balances**

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below.

**CITY OF SCOBEEY, MONTANA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE N - FUND BALANCES AND RESTRICTED NET POSITION (CONTINUED)**

**Fund Balances (Continued)**

Fund Balances	General	Street Maintenance District	Community Transportation Enhancement Program	Safe Routes to School	Other Funds	Total Governmental Funds
<b>Restricted for:</b>						
Street Maintenance	\$ -	\$ 229,567	\$ -	\$ -	\$23,638	\$ 253,205
Street Lighting	-	-	-	-	19,073	19,073
Insurance	-	-	-	-	11,734	11,734
Employee Benefits	-	-	-	-	19,758	19,758
Public Safety	-	-	-	313	10,713	11,026
Debt Service	-	10,159	-	-	-	10,159
<b>Total Restricted</b>	<b>-</b>	<b>239,726</b>	<b>-</b>	<b>313</b>	<b>84,916</b>	<b>324,955</b>
<b>Committed to:</b>						
Recreation	-	-	-	-	8,405	8,405
<b>Total Committed</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,405</b>	<b>8,405</b>
<b>Unassigned</b>	<b>209,603</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>209,603</b>
<b>Total Fund Balances</b>	<b>\$ 209,603</b>	<b>\$ 239,726</b>	<b>\$ -</b>	<b>\$ 313</b>	<b>\$93,321</b>	<b>\$ 542,963</b>

**Restricted Net Position**

The City is required by law or contract that certain assets be restricted for a specific purpose. The City classifies the net position of these funds as restricted net position.

These funds and their net position at June 30, 2014, are as follows:

	Governmental Activities	Business-Type Activities	Total
<b>Restricted for:</b>			
Street Maintenance	\$ 255,199	\$ -	\$ 255,199
Street Lighting	21,766	-	21,766
Insurance	14,192	-	14,192
Employee Benefits	20,086	-	20,086
Public Safety	11,026	-	11,026
Debt Service	10,159	95,861	106,020
<b>Total Restricted</b>	<b>\$ 332,428</b>	<b>\$ 95,861</b>	<b>\$ 428,289</b>

**CITY OF SCOBEE, MONTANA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE O - DEFERRED INFLOWS AND DEFERRED OUTFLOWS OF RESOURCES**

On the Balance Sheet for the governmental funds, taxes levied but not collected are classified as a deferred inflow of resources as these funds were not collected and available within the reporting period. This account is eliminated on the Government Wide Financial Statements.

**NOTE P - DUE FROM OTHER GOVERNMENT**

The Due From Other Governments is grant proceeds for the safe routes to school sidewalk project for which work has been completed but not reimbursed to the City. The individual fund detail is as follows.

Community Transportation Enhancement Program	\$ 72,743
Safe Routes to School	<u>39,596</u>
Total	<u><u>\$ 112,339</u></u>

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF SCOBEEY, MONTANA**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Budgeted Amounts</u>		Actual Amounts	Variance
	Original and Final			
<b>Resources (inflows):</b>				
Taxes	\$ 204,652		\$ 209,212	\$ 4,560
Fees and fines	4,000		2,998	(1,002)
Licenses and Permits	2,150		4,498	2,348
Intergovernmental Revenue	109,498		115,089	5,591
Charges for Service	650		755	105
Investment Earnings	3,500		4,214	714
Miscellaneous Revenue	500		1,360	860
Total Resources (inflows):	<u>324,950</u>		<u>338,126</u>	<u>13,176</u>
<b>Charges to appropriations (outflows):</b>				
General Government				
Town Council	8,515		7,134	1,381
Mayor	2,850		2,597	253
Police Court	8,517		7,733	784
Financial Administration	42,550		29,797	12,753
Accounting	3,720		3,785	(65)
Data Processing	7,480		439	7,041
Elections	2,000		1,524	476
Purchasing Services	2,500		1,345	1,155
Legal Services	6,500		3,382	3,118
Administration	3,600		2,859	741
Taxes	725		307	418
Maintenance	8,100		6,712	1,388
Association Dues	795		790	5
Public Safety				
Law Enforcement Services	192,000		190,792	1,208
Other Law Enforcement Services	200		154	46
Administration	2,300		2,155	145
Facilities	12,400		8,474	3,926
Personnel Training	1,500		1,080	420
Emergency Medical Services	1,600		-	1,600
Public Works				
Administration	6,959		3,938	3,021
Airport	3,200		-	3,200
Cemetery Services	500		-	500
Public Health				
Mosquito Control	-		500	(500)
Culture and Recreation				
Supplies	200		123	77
Park and Recreation Services	11,050		5,226	5,824
Facilities	80,000		2,536	77,464
Forestry and Nursery	-		492	(492)
Playground	300		253	47
Swimming Pool	13,115		11,300	1,815
Other participant recreation programs	1,700		1,665	35
Housing and Community Development	1,200		1,017	183
Nondepartmental				
Principal payments on long-term debt	11,630		12,510	(880)
Interest payments on long-term debt	900		883	17
Capital Outlay	14,500		11,027	3,473
Total charges to appropriations	<u>453,106</u>		<u>322,529</u>	<u>130,577</u>
Net change in fund balance	<u>\$ (128,156)</u>		<u>15,597</u>	<u>\$ 143,753</u>
Fund balance, beginning of year			194,006	
Fund balance, end of year			<u>\$ 209,603</u>	

**CITY OF SCOBEY, MONTANA**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE MAJOR SPECIAL REVENUE FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

	Street Maintenance Fund			Community Transportation Enhancement Program			Safe Routes to School		
	Budgeted Amounts Original and Final	Actual Amounts Budgetary Basis	Variance	Budgeted Amounts Original and Final	Actual Amounts Budgetary Basis	Variance	Budgeted Amounts Original and Final	Actual Amounts Budgetary Basis	Variance
<b>Resources (inflows):</b>									
Taxes - Assessments	\$ 75,075	\$ 78,738	\$ 3,663	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	78,000	72,743	(5,257)	72,400	71,424	(976)
Miscellaneous	50	1,817	1,767	-	-	-	-	-	-
Total Resources (inflows):	75,125	80,555	5,430	78,000	72,743	(5,257)	72,400	71,424	(976)
<b>Charges to appropriations (outflows):</b>									
Public Works									
Other Road and Street Operations	143,405	47,542	95,863	-	-	-	-	-	-
Miscellaneous									
Special Assessments	1,300	1,296	4	-	-	-	-	-	-
Nondepartmental									
Principal payments on long-term debt	2,190	2,098	92	-	-	-	-	-	-
Interest payments on long-term debt	33	21	12	-	-	-	-	-	-
Capital Outlay	35,000	-	35,000	78,000	72,743	5,257	72,400	71,111	1,289
Total charges to appropriations	181,928	50,957	130,971	78,000	72,743	5,257	72,400	71,111	1,289
Net change in fund balance	<u>\$ (106,803)</u>	<u>29,598</u>	<u>\$ 136,401</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>\$ -</u>	<u>313</u>	<u>\$ 313</u>
Fund balance, beginning of year		<u>210,128</u>							
Fund balance, end of year		<u>\$ 239,726</u>						<u>\$ 313</u>	

**NOTES TO THE BUDGET AND ACTUAL SCHEDULE**

A budget is adopted annually by the City Council for all funds. The budget is prepared on a basis consistent with generally accepted accounting principles (GAAP). The City expenditures have remained within the budgeted limits for 2014.

**SUPPLEMENTARY INFORMATION**

**CITY OF SCOBEY, MONTANA  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2014**

	Special Revenue										Total Nonmajor Governmental Funds
	Liability Insurance	Park Fence	PERS	Group Insurance	Permissive Med Levy	Light Maint. District	Police Training	Gas Tax Appt.			
<b>ASSETS</b>											
Cash and Investments	\$ 11,734	\$ 8,405	\$ 10,109	\$ 8,936	\$ 713	\$ 19,073	\$ 10,713	\$ 23,638	\$	\$	\$ 93,321
Receivables											
Taxes	1,280	-	328	564	614	-	-	-	-	-	2,786
Special Assessments	-	-	-	-	-	2,693	-	-	-	-	2,693
<b>Total Assets</b>	<b>\$ 13,014</b>	<b>\$ 8,405</b>	<b>\$ 10,437</b>	<b>\$ 9,500</b>	<b>\$ 1,327</b>	<b>\$ 21,766</b>	<b>\$ 10,713</b>	<b>\$ 23,638</b>	<b>\$</b>	<b>\$</b>	<b>\$ 98,800</b>
<b>LIABILITIES</b>											
Deferred Inflows of Resources											
Deferred Revenue	\$ 1,280	\$ -	\$ 328	\$ 564	\$ 614	\$ 2,693	\$ -	\$ -	\$ -	\$ -	\$ 5,479
<b>Total Liabilities</b>	<b>1,280</b>	<b>-</b>	<b>328</b>	<b>564</b>	<b>614</b>	<b>2,693</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,479</b>
<b>FUND EQUITY</b>											
<b>Fund Balance:</b>											
Restricted	11,734	-	10,109	8,936	713	19,073	10,713	23,638			84,916
Committed	-	8,405	-	-	-	-	-	-	-	-	8,405
<b>Total Fund Balance</b>	<b>11,734</b>	<b>8,405</b>	<b>10,109</b>	<b>8,936</b>	<b>713</b>	<b>19,073</b>	<b>10,713</b>	<b>23,638</b>	<b></b>	<b></b>	<b>93,321</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 13,014</b>	<b>\$ 8,405</b>	<b>\$ 10,437</b>	<b>\$ 9,500</b>	<b>\$ 1,327</b>	<b>\$ 21,766</b>	<b>\$ 10,713</b>	<b>\$ 23,638</b>	<b>\$</b>	<b>\$</b>	<b>\$ 98,800</b>

**CITY OF SCOBEY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

	Special Revenue Funds										Total Nonmajor Governmental Funds
	Liability Insurance	Park Fence	PERS	Group Insurance	Permissive Med Levy	Light Maint. Dist.	Police Training	Gas Tax Apprt.			
<b>Revenues</b>											
Property Taxes	\$ 16,303	\$ -	\$ 3,959	\$ 8,819	\$ 6,918	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 35,999
Property Taxes/Assessments	-	-	-	-	-	24,192	-	-	-	-	24,192
Intergovernmental	4,017	-	2,413	3,152	-	-	1,025	31,843	-	-	42,450
Miscellaneous	-	-	-	-	-	-	-	364	-	-	364
<b>Total Revenues</b>	<b>20,320</b>	<b>-</b>	<b>6,372</b>	<b>11,971</b>	<b>6,918</b>	<b>24,192</b>	<b>1,025</b>	<b>32,207</b>	<b>-</b>	<b>-</b>	<b>103,005</b>
<b>Expenditures</b>											
<b>Current:</b>											
General Government	-	-	-	-	-	-	-	2,805	-	-	2,805
Public Safety	-	-	-	-	-	-	3,012	-	-	-	3,012
Public Works	-	-	-	-	-	26,073	-	19,994	-	-	46,067
Miscellaneous	15,384	-	6,518	16,421	7,500	-	-	-	-	-	45,823
<b>Total Expenditures</b>	<b>15,384</b>	<b>-</b>	<b>6,518</b>	<b>16,421</b>	<b>7,500</b>	<b>26,073</b>	<b>3,012</b>	<b>22,799</b>	<b>-</b>	<b>-</b>	<b>97,707</b>
<b>Net Change in Fund Balances</b>	<b>4,936</b>	<b>-</b>	<b>(146)</b>	<b>(4,450)</b>	<b>(582)</b>	<b>(1,881)</b>	<b>(1,987)</b>	<b>9,408</b>	<b>-</b>	<b>-</b>	<b>5,298</b>
<b>Fund Balance, Beginning of Year</b>	<b>6,798</b>	<b>8,405</b>	<b>10,255</b>	<b>13,386</b>	<b>1,295</b>	<b>20,954</b>	<b>12,700</b>	<b>14,230</b>	<b>-</b>	<b>-</b>	<b>88,023</b>
<b>Fund Balance, End of Year</b>	<b>\$ 11,734</b>	<b>\$ 8,405</b>	<b>\$ 10,109</b>	<b>\$ 8,936</b>	<b>\$ 713</b>	<b>\$ 19,073</b>	<b>\$ 10,713</b>	<b>\$ 23,638</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 93,321</b>

CITY OF SCOBEEY, MONTANA  
 PROPRIETARY FUND - SUPPLEMENTARY INFORMATION  
 REQUIREMENTS OF RESOLUTION NO. 833 AS AMENDED BY RESOLUTION NO. 872  
 FOR THE YEAR ENDED JUNE 30, 2014

Resolution No. 833 is a resolution authorizing the issuance and sale of \$324,000 of water system revenue bonds to finance and pay for the costs of improving the municipal water system, establishing the form and terms thereof, and creating special funds and accounts and pledging certain revenues as the sole source of security and payment for such bonds. This \$324,000 bond issue consists of issuing two series of bonds. Series 2011A Bonds for \$162,000 may be forgiven when the City satisfies certain conditions, and Series 2011B Bonds to be repaid over 40 years. On January 21, 2014, Resolution 872 was adopted authorizing the interest rate to be reduced to 3.00% and the cash restricted to service the bond to be reduced.

In accordance with Resolution No. 833, Section 2.2, the following information is provided:

- a. A statement of revenues, expenses, and change in net position of the System, see page 17.
- b. The statement of net position as of June 30, 2014, see page 16.
- c. As of June 30, 2014, the number of water users is as follows:

Residential	517
Commercial	102
Multi-Plex Units	5
Irrigation	1
Hydrants	70
Total	695

- d. The amount of cash on hand in each water account at June 30, 2014, is as follows:

Operating	\$ 744,368
Revenue Bond	-
Reserve	11,732
Replacement and Depreciation	-
Surplus	-

- e. See page 44 for a list of the insurance policies in force.

CITY OF SCOBAY, MONTANA  
 PROPRIETARY FUND - SUPPLEMENTARY INFORMATION  
 REQUIREMENTS OF RESOLUTION NO. 833 AS AMENDED BY RESOLUTION NO. 872  
 FOR THE YEAR ENDED JUNE 30, 2014

**f. Cash Requirements**

Cash and investment balances required by Resolution 833 and actual cash balances maintained at June 30, 2014, are compared as follows:

	<u>Required</u>	<u>Actual</u>	<u>Over (Short)</u>
Operating	\$ 15,612	\$744,368	\$728,756
Revenue Bond	-	-	-
Reserve	-	11,732	11,732
Replacement and Depreciation	Reasonable	-	-
Surplus	Reasonable	-	-

The amount in the revenue account is zero, as the July 1, 2014 payment was made in fiscal year ended June 30, 2014.

**Bond Requirements**

Section 2.2 of Resolution 833, 2011 Issue, required net revenues in each fiscal year to be in an amount at least equal to 125% of the maximum amount of principal and interest payable on all outstanding bonds in any subsequent fiscal year. Section 2.2 required the minimum net operating revenues to be at least \$12,270. The operating revenue is \$97,040 which is \$84,770 more than the requirement stated.

Net revenues shall mean the gross revenues less the operating expense attributable to the system. The gross revenues shall exclude the interest earnings from Construction Fund investments. The expenses shall exclude depreciation expense, amortization of bond issuance costs, capital outlay, and principal and interest on bonds.

CITY OF SCOBEEY, MONTANA  
 PROPRIETARY FUND - SUPPLEMENTARY INFORMATION  
 SCHEDULE OF INSURANCE IN FORCE  
 JUNE 30, 2014

The City is insured by Montana Municipal Insurance Authority. All policies covered the period 7/1/2013 to 7/1/2014. Below is a brief description of the risks insured and the coverage limits.

**Liability Coverage**

<b><u>Risk Insured</u></b>	<b><u>Amount of Coverage</u></b>
A) General Liability and B) Public Officials Errors and Omissions	\$750,000 per claim and \$1,500,000 per occurrence - \$12,000,000 for items not subject to other limits.
C) Employment Practices D) Employee Benefits Liability E) Land Use Practices	\$500,000 per occurrence
F) Defense of Non Monetary Claims for Open Meeting and Public Document Claims	\$100,000 per claim \$200,000 for all claims
G) No Fault Coverage Sewer Backup/Water Main Breaks	\$1,000 To each claimant

Aggregate limits apply when damages from each claim or occurrence exceed \$2,500,000.

**Property Coverage**

<b><u>Risk Insured</u></b>	<b><u>Amount of Coverage</u></b>
A) Boiler & Machinery B) Breakdown C) Combined Property Damage and Business Interruption / Extra Expense	\$1,000,000,000 per occurrence: all perils, coverage's and insured's/ members combined, subject to sublimits.

**Workers' Compensation**

<b><u>Risk Insured</u></b>	<b><u>Amount of Coverage</u></b>
Workers' Compensation and Occupational Disease	Statutory

## **ADDITIONAL REPORTS**



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

To the Honorable Mayor and City Council  
City of Scobey  
P.O. Box 68  
Scobey, MT 59263

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Scobey as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise City of Scobey's basic financial statements, and have issued our report thereon dated November 20, 2014.

***Internal Control over Financial Reporting***

In planning and performing our audit of the financial statements, we considered City of Scobey'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 City of Scobey's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Scobey'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 over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as Finding #1 that we consider to be significant deficiencies.

### ***Compliance and Other Matters***

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

### ***Purpose of this Report***

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



CHMS, P.C.  
Certified Public Accountants  
Glasgow, Montana

November 20, 2014

**CITY OF SCOBAY, MONTANA  
SCHEDULE OF FINDINGS  
JUNE 30, 2014**

**Significant Deficiency**

**Finding #1 - Deficiencies in the Internal Control Structure Design**

**Condition**

There is an absence of segregation of duties appropriate for a strong system of internal control.

**Criteria**

Internal Controls should be in place segregating the functions of:

1. Authorizing,
2. Recording,
3. Custody of Assets,
4. and Reconciling.

**Cause**

The size of the entity prevents adequate segregation of duties.

**Effect**

A material misstatement in the financial statements due to error, abuse or fraud may not be detected and corrected in a timely manner.

**Recommendation**

The City has implemented compensating controls to the extent practical, and we are not recommending further action by the City Council. However, we believe the City Council should be aware that the condition results in a greater risk of errors occurring and not being identified within a timely manner than would be the case if duties were appropriately segregated.

**Response**

No response required.

***Status of Prior Year Comments***

<u>Finding</u>	<u>Status</u>
Segregation of Duties	No implementation necessary.
Fire Department Relief Association	Implemented
Employee Classification	Implemented
Tracking Bond Proceeds Expenditures	Implemented