

***TOWN OF SHERIDAN, MONTANA***

**ANNUAL FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**



**AMATICS**  
**CPA GROUP**

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ANNUAL FINANCIAL REPORT  
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# **PART I**

## **INTRODUCTORY SECTION**

**TOWN OF SHERIDAN, MONTANA  
ORGANIZATION OF ENTITY  
June 30, 2014**

**TOWN COUNCIL**

Mark McLaughlin  
Tom Shaffer  
Paul Kramer  
Nick Pairitz

**TOWN OFFICIALS**

Dean Derryberry, Mayor

Stephanie Kruer, Attorney

Gail Leary, Clerk/Treasurer

Don Bair, Public Works Director

**PART II**  
**FINANCIAL SECTION**



**AMATICS**  
CPA GROUP

220 West Lamme St Ste 3A  
Bozeman, MT 59715

P. O. Box 1207  
Bozeman, MT 59771

P 406.404.1925

F 406.404.1926

## **INDEPENDENT AUDITORS' REPORT**

The Honorable Mayor and Town Council  
Town of Sheridan, Montana:

### **Report on the Financial Statements**

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

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

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

### **Auditors' Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Town'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 Town's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Sheridan 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.



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## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management Discussion and Analysis, the Schedule of Funding Progress – Other Post-Employment Healthcare Benefits, and Budget to Actual Comparison – Major Funds on pages II-3 through II-11, II-50, and II-51 through II-53 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with 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 the Town of Sheridan’s basic financial statements. The accompanying introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2014, on our consideration of the Town of Sheridan, Montana’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Sheridan, Montana’s internal control over financial reporting and compliance.

### ***Amatics CPA Group***

Bozeman, Montana  
December 29, 2014

## **A. Management Discussion and Analysis**

**TOWN OF SHERIDAN, MONTANA  
MANAGEMENT DISCUSSION AND ANALYSIS**

**OVERVIEW**

As management of the Town of Sheridan, we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2014. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

**Financial Highlights**

- The assets of the Town of Sheridan exceeded its liabilities at the close of the fiscal year 2014 by \$7,560,852 (net position).
- The government's total net position increased by \$776,338 (a decrease of \$141 in governmental activities and an increase of \$776,479 in business-type activities).
- As of the close of the current fiscal year 2014, the Town of Sheridan's governmental funds reported combined ending fund balances of \$231,035, an increase of \$20,341 in comparison with the prior year. Approximately 36.5 percent, or \$84,387, of this total amount is unassigned and available for spending at the government's discretion. Approximately 4.3 percent of the total amount, or \$10,000, is non-spendable. Approximately 6.2 percent, or \$14,173, is restricted for special projects. Approximately 53 percent, or \$122,475, is assigned and available for spending at the government's discretion for capital improvement projects.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$84,387, or 58 percent of total general fund expenditures for the fiscal year.
- The Town's total net capital assets increased by \$342,980 due to completion of the Water and Sewer projects. There were no additions or deletions within the governmental activities.
- The Town's total debt decreased by \$83,799 during the current fiscal year. The reduction includes a principal payment of \$4,792 in governmental activities debt and \$79,625 principal payments in Water and Sewer activities debt.

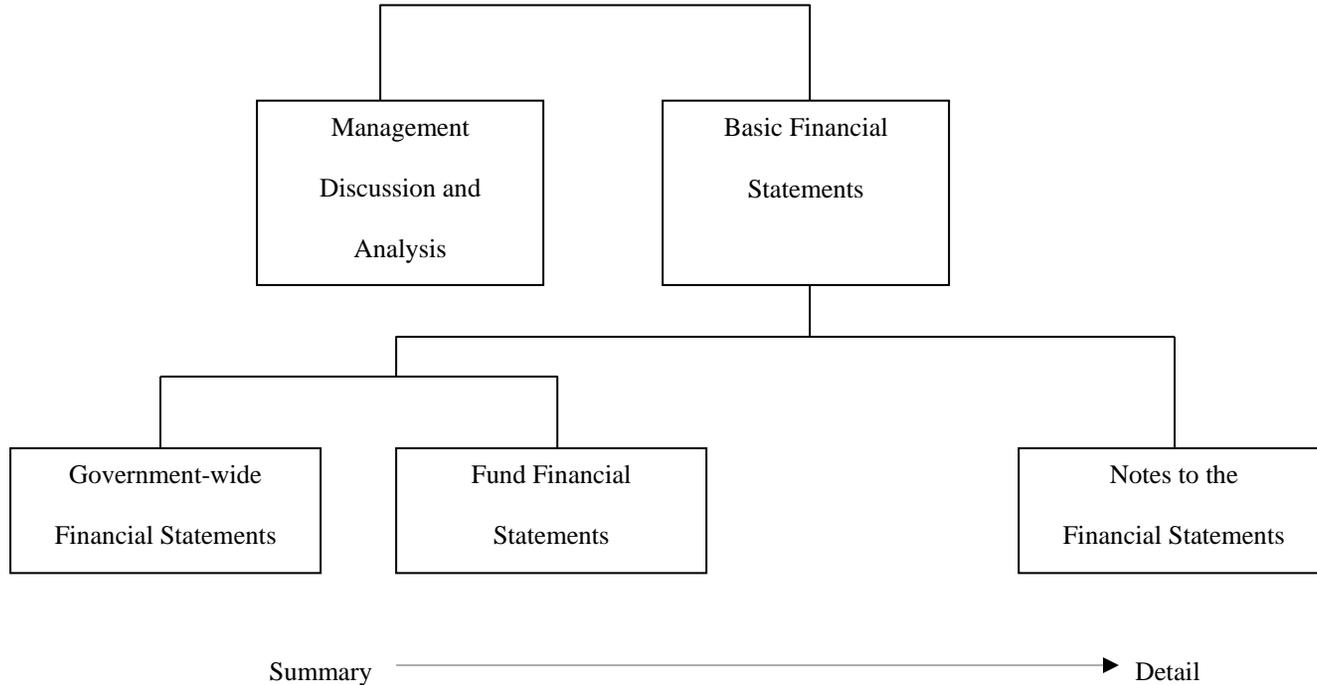
**Overview of the Financial Statements**

This discussion and analysis are intended to serve as an introduction to the Town of Sheridan's basic financial statements. The Town's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The basic financial statements present two different views of the Town through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the Town of Sheridan.

**TOWN OF SHERIDAN, MONTANA  
MANAGEMENT DISCUSSION AND ANALYSIS**

**Required Components of Annual Financial Report**

**Figure 1**



**Basic Financial Statements**

The first two statements of the report in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the Town’s financial status.

The next statements are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Town’s government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the proprietary fund statements and 3) fiduciary fund statements.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the Town’s individual funds. Budgetary information required by the General Statutes also can be found in this part of the statements.

## **TOWN OF SHERIDAN, MONTANA MANAGEMENT DISCUSSION AND ANALYSIS**

### **Government-wide Financial Statements**

The government-wide financial statements are designed to provide the reader with a broad overview of the Town's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the Town's financial status as a whole.

The two government-wide statements report the Town's net position and how they have changed. Net position is the difference between the Town's total assets and total liabilities. Measuring net position is one way to gauge the Town's financial condition.

The government-wide statements are divided into two categories: 1) governmental activities; and 2) business-type activities. The governmental activities include most of the Town's basic services such as general administration, public safety, public works, and culture and recreation. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the Town charges customers to provide. These include the water and sewer services offered by the Town of Sheridan.

### **Fund Financial Statements**

The fund financial statements provide a more detailed look at the Town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Sheridan like all other governmental entities in Montana uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the Town's budget ordinance. All of the funds of the Town of Sheridan can be divided into two categories: governmental funds and proprietary funds.

**Governmental Funds** – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the Town's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called modified accrual accounting that provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Town's programs. The relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The Town of Sheridan adopts an annual budget for its governmental funds, and a budget for its proprietary fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town, and the decisions of the Council about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the council; 2) the final budget as amended by the council; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities may be shown at the end of the budgetary statement.

**Proprietary Funds** – The Town of Sheridan has one kind of proprietary fund. Enterprise Funds are used to report its water and sewer services. These funds are the same as those functions shown in the business-type activities in the Statement of Net Position and the Statement of Activities.

**Notes to the Financial Statements** – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements follow the Fund Financial Statements of this report.

**TOWN OF SHERIDAN, MONTANA  
MANAGEMENT DISCUSSION AND ANALYSIS**

**Government-Wide Financial Analysis  
The Town of Sheridan's Net Position**

**Table I**

Comparative **Governmental** statement of net position were as follows for years ending June 30,

	<b><u>2014</u></b>		<b><u>2013</u></b>		<b><u>Change</u></b>
Current and other assets	\$ 233,865	\$	216,033	\$	17,832
Capital assets	452,147		476,863		(24,716)
Total assets	<u>\$ 686,012</u>	\$	<u>692,896</u>	\$	<u>(6,884)</u>
Current liabilities	\$ 11,872	\$	13,739	\$	(1,867)
Long term liabilities	43,365		48,241		(4,876)
Total liabilities	<u>55,237</u>		<u>61,980</u>		<u>(6,743)</u>

Net Position:

Invested in capital assets, net of related debt	444,768		464,692		(19,924)
Restricted	146,648		125,886		20,762
Unrestricted	39,359		40,338		(979)
Total net position June 30	<u>630,775</u>		<u>630,916</u>		<u>(141)</u>
Total liabilities and net position	<u>\$ 686,012</u>	\$	<u>692,896</u>	\$	<u>(6,884)</u>

Comparative **Business-type** statement of net position were as follows for years ending June 30,

	<b><u>2014</u></b>		<b><u>2013</u></b>		<b><u>Change</u></b>
Current and other assets	\$ 905,194	\$	1,044,695	\$	(139,501)
Capital assets	9,866,626		9,498,930		367,696
Total assets	<u>\$ 10,771,820</u>	\$	<u>10,543,625</u>	\$	<u>228,195</u>
Current liabilities	\$ 92,031	\$	557,844	\$	(465,813)
Long term liabilities	3,749,712		3,832,183		(82,471)
Total liabilities	<u>3,841,743</u>		<u>4,390,027</u>		<u>(548,284)</u>

Net Position:

Invested in capital assets, net of related debt	6,073,867		5,626,546		447,321
Restricted	183,021		154,563		28,458
Unrestricted	673,189		372,489		300,700
Total net position June 30	<u>\$ 6,930,077</u>	\$	<u>6,153,598</u>	\$	<u>776,479</u>
Total liabilities and net position	<u>\$ 10,771,820</u>	\$	<u>10,543,625</u>	\$	<u>228,195</u>

**TOWN OF SHERIDAN, MONTANA  
MANAGEMENT DISCUSSION AND ANALYSIS**

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets of the Town of Sheridan exceeded liabilities by \$7,560,852 as of June 30, 2014. The Town's net position increased by \$776,338 for the fiscal year ended June 30, 2014. However, the largest portion reflects the Town's investment in capital assets (e.g. land, buildings, machinery and equipment and utility infrastructure); less any related debt still outstanding that was issued to acquire those items. The Town of Sheridan uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Sheridan's investment in capital assets is reported net of the related outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town of Sheridan's net assets represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$712,548 is unrestricted.

**The Town of Sheridan's Changes in Net Position  
Table II**

Changes in Net Position for **Governmental Activities** were as follows for years ending June 30,

	<u>2014</u>		<u>2013</u>		<u>Change</u>
<b>Revenues:</b>					
<b><u>Program Revenues:</u></b>					
Operating grants and contributions	\$ 56,187	\$	54,747	\$	1,440
<b><u>General Revenues:</u></b>					
Property taxes	120,250		118,478		1,772
Unrestricted Federal/State shared revenue	55,202		53,122		2,080
Unrestricted investment earnings	357		324		33
Miscellaneous	11,874		17,371		(5,497)
Total revenues	<u>\$ 243,870</u>	\$	<u>244,042</u>	\$	<u>(172)</u>
<b>Expenses:</b>					
General government	\$ 51,483	\$	66,712	\$	(15,229)
Public safety	34,548		34,560		(12)
Public works	47,902		49,722		(1,820)
Culture and recreation	106,968		106,090		878
Miscellaneous	3,000		-		3,000
Interest on long term debt	110		195		(85)
Total expenses	<u>\$ 244,011</u>	\$	<u>257,279</u>	\$	<u>(13,268)</u>
Change in net position	(141)		(13,237)		13,096
Net position, July 1	\$ 630,916	\$	644,153	\$	(13,237)
Net position, June 30	<u>\$ 630,775</u>	\$	<u>630,916</u>	\$	<u>(141)</u>

**TOWN OF SHERIDAN, MONTANA  
MANAGEMENT DISCUSSION AND ANALYSIS**

**Governmental activities:** Governmental activities decreased the Town's net assets by \$141. Key elements of this decrease are as follows:

- Revenues remained stable between the comparative years, and
- There was an overall decrease of 5% in governmental activities spending.

**The Town of Sheridan's Changes in Net Position  
Table II - cont.**

Changes in Net Position for **Business-type Activities** were as follows for years ending June 30,

	<u>2014</u>	<u>2013</u>	<u>Change</u>
<b>Revenues:</b>			
<b><u>Program Revenues:</u></b>			
Charges for services	\$ 499,202	\$ 461,035	\$ 38,167
Capital grants and contributions	741,774	2,302,185	(1,560,411)
<b><u>General Revenues:</u></b>			
Unrestricted investment earnings	266	505	(239)
Total revenues	\$ 1,241,242	\$ 2,763,725	\$ (1,522,483)
<b>Expenses:</b>			
Water	\$ 212,774	\$ 219,034	\$ (6,260)
Sewer	251,989	138,150	113,839
Total expenses	\$ 464,763	\$ 357,184	\$ 107,579
Change in net position	776,479	2,406,541	(1,630,062)
Net position, July 1	\$ 6,153,598	\$ 3,747,057	\$ 2,406,541
Net position, June 30	\$ 6,930,077	\$ 6,153,598	\$ 776,479

**Business-type activities:** Business-type activities increased the Town's net assets by \$776,479. Key elements of this increase are as follows:

- Charges for services revenues were up \$38,167 (8 percent) from the prior year and because of completion of Water and Sewer projects, capital grants and contributions decreased by \$1,560,411. Expenditures increased within the Water, and Sewer primarily for increased debt service expenditures related to the projects debt and an increase in depreciation expense upon closing out of the projects and the beginning of depreciation for those capital assets placed into service.

**TOWN OF SHERIDAN, MONTANA  
MANAGEMENT DISCUSSION AND ANALYSIS**

**Financial Analysis of the Town's Funds**

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

**Governmental Funds.** The focus of the Town of Sheridan's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Town of Sheridan's financing requirements. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the Town of Sheridan. At the end of the current fiscal year 2014, unreserved fund balance of the General Fund was \$84,387, while total fund balance for all governmental funds reached \$231,035. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 58 percent of total General Fund expenditures.

At June 30, 2014, the governmental funds of the Town of Sheridan reported a combined fund balance of \$231,035, a \$20,341 increase from last year.

**Governmental Fund Budgetary Highlights:** During the fiscal year, total final budgeted expenditures for governmental activities were \$247,915. Actual expenditures totaled \$224,123; with unused appropriations of \$23,792. Total original budgeted and final revenues for the governmental activities were \$240,555. Total governmental activities actual revenues of \$244,464 exceeded the budgeted revenue amount \$3,909.

**Proprietary Funds.** The Town's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Water, and Sewer funds at the end of the fiscal year 2014 amounted to \$673,189. The total net growth in net assets for all proprietary funds was \$776,479. Other factors concerning the finances of these funds have already been addressed in the discussion of the Town's business-type activities.

**Capital Asset and Debt Administration**

**Capital assets.** The Town of Sheridan's investment in capital assets for its governmental and business-type activities as of June 30, 2014, totals \$10,318,773 (net of accumulated depreciation). These assets include buildings, improvements other than buildings, roads, land, machinery and equipment, park facilities, vehicles, and utility system infrastructure.

**The Town of Sheridan's Changes in Capital Assets  
Table III**

**Governmental Activities** for capital assets were as follows for years ending June 30,

	<u>2014</u>	<u>2013</u>	<u>Change</u>
Land	\$ 46,681	\$ 46,681	\$ -
Buildings and systems	311,192	311,192	-
Improvements other than bldgs	207,229	207,229	-
Machinery & equipment	204,630	204,630	-
Infrastructure	28,409	28,409	-
Total capital assets at cost	\$ 798,141	\$ 798,141	\$ -
Less accumulated depreciation	(345,994)	(321,278)	(24,716)
Total capital assets	<u>\$ 452,147</u>	<u>\$ 476,863</u>	<u>\$ (24,716)</u>

**TOWN OF SHERIDAN, MONTANA  
MANAGEMENT DISCUSSION AND ANALYSIS**

**The Town of Sheridan's Changes in Capital Assets  
Table III - cont.**

**Business-type Activities** for capital assets were as follows for years ending June 30,

	<u>2014</u>		<u>2013</u>		<u>Change</u>
Land	\$ 81,376	\$	81,376	\$	-
Buildings and systems	170,000		170,000		-
Machinery & equipment	49,474		49,474		-
Infrastructure	10,724,510		3,470,343		7,254,167
Construction in progress	-		6,708,340		(6,708,340)
Total capital assets at cost	\$ 11,025,360	\$	10,479,533	\$	545,827
Less accumulated depreciation	(1,158,734)		(980,603)		(178,131)
Total capital assets	<u>\$ 9,866,626</u>	\$	<u>9,498,930</u>	\$	<u>367,696</u>

Additional information on the Town's capital assets can be found in the Notes to the Basic Financial Statements of this report.

**Long-term Debt.** As of June 30, 2014, the Town of Sheridan had total bonded debt outstanding of \$3,792,759, as shown in Table IV. The bonded debt of the Town debt represents bonds secured solely by specified revenue sources (i.e. revenue bonds). The intercap loan payable of \$7,379 is for remaining debt on the Town's loan for a main street parking lot. The \$16,535 total for compensated absences represents the cumulative amount of annual and sick leave liability that has been accrued by employees at June 30, 2014. The \$73,550 total represents the amount of Other Post Employment Benefits other than pensions, which is fully discussed within the notes to the financial statement.

The Town of Sheridan's total bonded debt decreased by principal reduction of \$79,625 for business-type activity debt, and \$4,792 in the governmental activities contractual debt for the year end June 30, 2014.

**The Town of Sheridan's Outstanding Debt  
Table IV**

**Governmental Activities** for long-term debt were as follows for years ending June 30,

	<u>2014</u>		<u>2013</u>		<u>Change</u>
Notes/Loans/Intercap	\$ 7,379	\$	12,171	\$	(4,792)
Compensated absences	8,880		9,099		(219)
Other post-employment benefits	37,587		37,404		183
Total	<u>\$ 53,846</u>	\$	<u>58,674</u>	\$	<u>(4,828)</u>

**TOWN OF SHERIDAN, MONTANA  
MANAGEMENT DISCUSSION AND ANALYSIS**

**The Town of Sheridan's Outstanding Debt  
Table IV - cont.**

**Business-type Activities** for long-term debt were as follows for years ending June 30,

	<u>2014</u>	<u>2013</u>	<u>Change</u>
Revenue bonds	\$ 3,792,759	\$ 3,872,384	\$ (79,625)
Compensated absences	7,655	7,176	479
Other post-employment benefits	35,963	35,788	175
Total	\$ 3,836,377	\$ 3,915,348	\$ (78,971)

Additional information regarding the Town of Sheridan's long-term debt can be found in the Notes to the Financial Statements of this report.

**Requests for Information**

This report is designed to provide an overview of the Town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to:

Town Clerk/Treasurer  
Town of Sheridan  
PO Box 78  
Sheridan, Montana 59749  
Phone number (406) 842-5431

## **B. Basic Financial Statements**

# **Government-Wide Financial Statements**

**TOWN OF SHERIDAN, MONTANA**  
**STATEMENT OF NET POSITION**  
**June 30, 2014**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and investments	\$ 207,152	\$ 677,788	\$ 884,940
Restricted cash and investments	10,503	183,021	193,524
Receivables, net	16,210	44,385	60,595
Nondepreciable land	46,681	81,376	128,057
Other capital assets, net of depreciation	405,466	9,785,250	10,190,716
Total capital assets	452,147	9,866,626	10,318,773
Total assets	686,012	10,771,820	11,457,832
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	1,391	5,366	6,757
Compensated absences payable	5,506	4,746	10,252
Current portion long-term notes	4,975	81,919	86,894
Long-term liabilities, due in more than one year			
Compensated absences	3,374	2,909	6,283
Other post employment benefits	37,587	35,963	73,550
Notes and bonds payable	2,404	3,710,840	3,713,244
Total liabilities	55,237	3,841,743	3,896,980
<b>NET POSITION</b>			
Net investment in capital assets	444,768	6,073,867	6,518,635
Restricted for:			
Public works	1	-	1
Culture and recreation	24,172	-	24,172
Debt service	-	55,554	55,554
Construction and replacement	122,475	127,467	249,942
Unrestricted	39,359	673,189	712,548
Total net position	\$ 630,775	\$ 6,930,077	\$ 7,560,852

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

**TOWN OF SHERIDAN, MONTANA**  
**STATEMENT OF ACTIVITIES**  
**Year Ended June 30, 2014**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Primary Government:							
Governmental activities:							
General government	\$ 51,483	\$ -	\$ -	\$ -	\$ (51,483)	\$ -	\$ (51,483)
Public safety	34,548	-	16,000	-	(18,548)	-	(18,548)
Public works	47,902	-	-	-	(47,902)	-	(47,902)
Culture and recreation	106,968	-	40,187	-	(66,781)	-	(66,781)
Other	3,000	-	-	-	(3,000)	-	(3,000)
Interest and fiscal fees	110	-	-	-	(110)	-	(110)
Total governmental activities	<u>244,011</u>	<u>-</u>	<u>56,187</u>	<u>-</u>	<u>(187,824)</u>	<u>-</u>	<u>(187,824)</u>
Business-type activities:							
Water	212,774	217,747	-	137,663	-	142,636	142,636
Sewer	251,989	281,455	-	604,111	-	633,577	633,577
Total business-type activities	<u>464,763</u>	<u>499,202</u>	<u>-</u>	<u>741,774</u>	<u>-</u>	<u>776,213</u>	<u>776,213</u>
Total primary government	<u>\$ 708,774</u>	<u>\$ 499,202</u>	<u>\$ 56,187</u>	<u>\$ 741,774</u>	<u>(187,824)</u>	<u>776,213</u>	<u>588,389</u>
General revenues:							
Property taxes, levied for general purposes					120,250	-	120,250
Grants and contributions not restricted to specific programs					55,202	-	55,202
Unrestricted investment earnings					357	266	623
Miscellaneous					11,874	-	11,874
Total general revenues					<u>187,683</u>	<u>266</u>	<u>187,949</u>
Change in net position					(141)	776,479	776,338
Net position-beginning					<u>630,916</u>	<u>6,153,598</u>	<u>6,784,514</u>
Net position-ending					<u>\$ 630,775</u>	<u>\$ 6,930,077</u>	<u>\$ 7,560,852</u>

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

## **Fund Financial Statements**

# **Governmental Fund Financial Statements**

**TOWN OF SHERIDAN, MONTANA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2014**

	<u>General</u>	<u>Library</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 70,728	13,948	122,476	\$ 207,152
Receivables:				
Property taxes	1,439	-	-	1,439
Other governments	14,771	-	-	14,771
Restricted cash and cash equivalents	-	-	10,503	10,503
<b>Total assets</b>	<u>\$ 86,938</u>	<u>13,948</u>	<u>132,979</u>	<u>\$ 233,865</u>

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

**TOWN OF SHERIDAN, MONTANA  
BALANCE SHEET (CONTINUED)  
GOVERNMENTAL FUNDS  
June 30, 2014**

	<u>General</u>	<u>Library</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 1,112	279	-	\$ 1,391
<b>Deferred inflows of resources:</b>				
Deferred inflows of tax revenues	1,439	-	-	1,439
<b>Fund balances:</b>				
Nonspendable	-	-	10,000	10,000
Restricted	-	13,669	504	14,173
Assigned	-	-	122,475	122,475
Unassigned	84,387	-	-	84,387
<b>Total fund balances</b>	<u>84,387</u>	<u>13,669</u>	<u>132,979</u>	<u>231,035</u>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<u>\$ 86,938</u>	<u>13,948</u>	<u>132,979</u>	<u>\$ 233,865</u>

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

**TOWN OF SHERIDAN, MONTANA**  
**RECONCILIATION OF THE BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION - GOVERNMENTAL FUNDS**  
**June 30, 2014**

Fund balances - total governmental funds		\$	231,035
<p>Amounts reported for <i>governmental activities</i> in the statement of net position are different because:</p>			
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.</p>			
Governmental capital assets		\$	798,141
Less: accumulated depreciation			<u>(345,994)</u>
			452,147
<p>Deferred inflows of resources in the governmental funds are reported on the full accrual method in the entity-wide statements.</p>			
			1,439
<p>Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the governmental funds.</p>			
Notes payable			(7,379)
Other post employment benefits			(37,587)
Compensated absences			<u>(8,880)</u>
			<u>(53,846)</u>
Net position of governmental activities		\$	<u><u>630,775</u></u>

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

**TOWN OF SHERIDAN, MONTANA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**Year Ended June 30, 2014**

	<u>General</u>	<u>Library</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>				
Taxes and assessments	\$ 120,844	-	-	\$ 120,844
Intergovernmental	55,202	40,187	16,000	111,389
Interest on investments	315	-	42	357
Other	7,287	4,587	-	11,874
Total revenues	<u>183,648</u>	<u>44,774</u>	<u>16,042</u>	<u>244,464</u>
<b>EXPENDITURES</b>				
Current				
General government	50,830	-	-	50,830
Public safety	30,078	-	-	30,078
Public works	22,925	-	16,000	38,925
Culture and recreation	38,188	58,200	-	96,388
Other	-	-	3,000	3,000
Debt service				
Principal payments	4,792	-	-	4,792
Interest and fiscal fees	110	-	-	110
Total expenditures	<u>146,923</u>	<u>58,200</u>	<u>19,000</u>	<u>224,123</u>
Excess (deficiency) of revenues over expenditures	<u>36,725</u>	<u>(13,426)</u>	<u>(2,958)</u>	<u>20,341</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	17,146	20,000	37,146
Transfers out	<u>(37,146)</u>	<u>-</u>	<u>-</u>	<u>(37,146)</u>
Total other financing sources (uses)	<u>(37,146)</u>	<u>17,146</u>	<u>20,000</u>	<u>-</u>
Net change in fund balances	(421)	3,720	17,042	20,341
<b>FUND BALANCE -</b>				
beginning of year	<u>84,808</u>	<u>9,949</u>	<u>115,937</u>	<u>210,694</u>
<b>FUND BALANCE -</b>				
end of year	<u>\$ 84,387</u>	<u>13,669</u>	<u>132,979</u>	<u>\$ 231,035</u>

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

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

Net change in fund balances - total governmental funds	\$	20,341
<p>Amounts reported for <i>governmental activities</i> in the statement of activities are different because:</p> <p>Governmental funds report capital outlays as expenditures. In the statement of activities, however, the cost of these assets is depreciated over the asset's useful life.</p>		
Expenditures for capital assets	\$	-
Less: current year depreciation		<u>(24,716)</u>
		(24,716)
<p>Repayment of principal is an expenditure in the governmental funds, but this repayment reduces long-term liabilities in the statement of net position.</p>		
Principal payments		4,792
<p>Some revenues reported in the statement of activities do not require the use of current financial resources and therefore are not reported as revenues in governmental funds.</p>		
Property taxes		(594)
<p>Some expenditures reported in governmental funds are to be collected on a long-term basis and therefore are not reported as expenses in the statement of activities.</p>		
Compensated absences		219
Other post employment benefits		<u>(183)</u>
		<u>36</u>
Change in net position of governmental activities	\$	<u><u>(141)</u></u>

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

## **Proprietary Fund Financial Statements**

**TOWN OF SHERIDAN, MONTANA**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**June 30, 2014**

	<b>Business-type Activities</b>		
	<b>Enterprise Funds</b>		
	<b>Water Fund</b>	<b>Sewer Fund</b>	<b>Total</b>
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 224,853	452,935	\$ 677,788
Customers receivables, net	20,097	22,488	42,585
Other governments	1,800	-	1,800
	246,750	475,423	722,173
Total current assets			
Other assets			
Restricted cash and investments	139,698	43,323	183,021
	139,698	43,323	183,021
Property, plant and equipment			
Nondepreciable:			
Land	5,340	76,036	81,376
Depreciable:			
Buildings	170,000	-	170,000
Machinery and equipment	26,924	22,550	49,474
Infrastructure	4,042,837	6,681,673	10,724,510
Accumulated depreciation	(819,376)	(339,358)	(1,158,734)
	3,425,725	6,440,901	9,866,626
Net property, plant and equipment			
	3,425,725	6,440,901	9,866,626
Total assets	\$ 3,812,173	6,959,647	\$ 10,771,820

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

**TOWN OF SHERIDAN, MONTANA**  
**STATEMENT OF NET POSITION (CONTINUED)**  
**PROPRIETARY FUNDS**  
**June 30, 2014**

	<b>Business-type Activities</b>		
	<b>Enterprise Funds</b>		
	<b>Water Fund</b>	<b>Sewer Fund</b>	<b>Total</b>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	\$ 5,343	23	\$ 5,366
Compensated absences payable	2,565	2,181	4,746
Bonds, notes, and loans payable	23,712	58,207	81,919
Total current liabilities	31,620	60,411	92,031
Noncurrent liabilities			
Compensated absences payable	1,572	1,337	2,909
Bonds payable	488,140	3,222,700	3,710,840
OPEB liability	22,015	13,948	35,963
Total noncurrent liabilities	511,727	3,237,985	3,749,712
Total liabilities	543,347	3,298,396	3,841,743
<b>NET POSITION</b>			
Net investment in capital assets	2,913,873	3,159,994	6,073,867
Restricted for debt service	37,966	17,588	55,554
Restricted for construction and replacement	101,732	25,735	127,467
Unrestricted	215,255	457,934	673,189
Total net position	3,268,826	3,661,251	6,930,077
Total liabilities and net position	\$ 3,812,173	6,959,647	\$ 10,771,820

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

**TOWN OF SHERIDAN, MONTANA**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUNDS**  
**Year Ended June 30, 2014**

	<b>Business-type Activities</b>		
	<b>Enterprise Funds</b>		
	<b>Water Fund</b>	<b>Sewer Fund</b>	<b>Totals</b>
<b>OPERATING REVENUES</b>			
Charges for services	\$ 217,747	281,455	\$ 499,202
<b>OPERATING EXPENSES</b>			
Personal services	43,541	43,369	86,910
Supplies	11,231	7,222	18,453
Purchased services	68,889	36,741	105,630
Depreciation	77,581	100,550	178,131
Total operating expenses	201,242	187,882	389,124
Operating income	16,505	93,573	110,078
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Interest expense	(11,532)	(64,107)	(75,639)
Interest income	266	-	266
Capital grant income	137,663	604,111	741,774
Total nonoperating revenues (expenses)	126,397	540,004	666,401
<b>Change in Net Position</b>	142,902	633,577	776,479
<b>NET POSITION,</b>			
beginning of year	3,125,924	3,027,674	6,153,598
<b>NET POSITION,</b>			
end of year	\$ 3,268,826	3,661,251	\$ 6,930,077

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

**TOWN OF SHERIDAN, MONTANA**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**Year Ended June 30, 2014**

	<b>Business-type Activities</b>		
	<b>Enterprise Funds</b>		
	<u><b>Water Fund</b></u>	<u><b>Sewer Fund</b></u>	<u><b>Total</b></u>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>			
<b>Cash Flows from Operations:</b>			
Receipts from customers	\$ 216,543	287,319	\$ 503,862
Payments to suppliers	(77,477)	(46,340)	(123,817)
Payments to employees	(43,194)	(43,062)	(86,256)
<b>Net Cash Provided by Operating Activities</b>	<u>95,872</u>	<u>197,917</u>	<u>293,789</u>
<b>Cash Flows from Capital and Related Financing Activities</b>			
Additions to property, plant and equipment	(82,680)	(932,726)	(1,015,406)
Principal paid on bonds, interfund loans, loans and leases	(22,621)	(57,004)	(79,625)
Interest paid on bonds, interfund loans, loans and leases	(11,532)	(64,107)	(75,639)
Capital grants	137,663	764,281	901,944
<b>Net Cash Flows Provided (Used) by Capital and Related Financing Activities</b>	<u>20,830</u>	<u>(289,556)</u>	<u>(268,726)</u>
<b>Cash Flows from Investing Activities</b>			
Interest on investments	266	-	266
<b>Net Cash Flows Provided by Investing Activities</b>	<u>266</u>	<u>-</u>	<u>266</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	116,968	(91,639)	25,329
Cash and Cash Equivalents at Beginning of Year	<u>247,583</u>	<u>587,897</u>	<u>835,480</u>
<b>Cash and Cash Equivalents at End of Year</b>	<u>\$ 364,551</u>	<u>496,258</u>	<u>\$ 860,809</u>
<b>Classified As:</b>			
Current Assets	\$ 224,853	452,935	\$ 677,788
Restricted Assets	<u>139,698</u>	<u>43,323</u>	<u>183,021</u>
<b>Totals</b>	<u>\$ 364,551</u>	<u>496,258</u>	<u>\$ 860,809</u>

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

**TOWN OF SHERIDAN, MONTANA**  
**STATEMENT OF CASH FLOWS (CONTINUED)**  
**PROPRIETARY FUNDS**  
**Year Ended June 30, 2014**

	<b>Business-type Activities</b>		
	<b>Enterprise Funds</b>		
	<b>Water Fund</b>	<b>Sewer Fund</b>	<b>Total</b>
<b>Operating Income</b>	\$ 16,505	93,573	\$ 110,078
<b>Adjustments to reconcile operating income to net cash provided by operating activities</b>			
Depreciation and amortization	77,581	100,550	178,131
Changes in other post employment benefits	107	68	175
<b>Change in Assets and Liabilities:</b>			
(Increase) Decrease in:			
Accounts receivable	(1,204)	5,864	4,660
Increase (Decrease) in:			
Accounts payable	2,643	(2,377)	266
Accrued employee benefits payable	240	239	479
Total adjustments	79,367	104,344	183,711
Net cash provided by operating activities	\$ 95,872	197,917	\$ 293,789

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

# **Fiduciary Fund Financial Statements**

**TOWN OF SHERIDAN, MONTANA**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
**June 30, 2014**

	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 18,439
Total assets	<u>\$ 18,439</u>
<b>LIABILITIES</b>	
Warrants payable	\$ 18,439
Total liabilities	<u>\$ 18,439</u>

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

## **Notes to Financial Statements**

**TOWN OF SHERIDAN, MONTANA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

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

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

For the year ended June 30, 2012, the Town implemented the provisions GASB Statement 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of Statement 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is found to observe constraints imposed upon the use of resources reported in governmental funds. The clarifications of the governmental fund type definitions should reduce uncertainty about which resources can or should be reported in the respective fund types. These new classifications include nonspendable and spendable, which is further reported as restricted, committed, assigned and unassigned. The new fund balance classifications and the minimum fund balance disclosure provided in Statement 54 are discussed in further detail later in Footnote 1.

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

**TOWN OF SHERIDAN, MONTANA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

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

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

**Reporting Entity**

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

**Basis of Accounting/Measurement Focus**

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

**TOWN OF SHERIDAN, MONTANA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Basis of Accounting/Measurement Focus (continued)**

**Government-Wide Financial Statements**

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

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

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

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

**Governmental Fund Financial Statements**

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

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

**TOWN OF SHERIDAN, MONTANA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Basis of Accounting/Measurement Focus (continued)**

**Proprietary Fund Financial Statements**

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

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

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

**Fiduciary Fund Financial Statements**

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

**Funds**

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

**Governmental Funds**

1. General Fund: The General Fund is the primary operating unit of the Town. It accounts for all financial resources of the Town, except those required to be accounted for in another fund.
2. Library Fund: This fund is a special revenue fund that accounts for the operations of the library.

**Proprietary Funds**

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

**TOWN OF SHERIDAN, MONTANA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Budgets and Budgetary Accounting**

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

**Capital Assets**

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

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

Buildings	40 to 75 years
Improvements other than buildings	5 to 20 years
Machinery and equipment	5 to 30 years
Infrastructure	20 to 50 years

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

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

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

**TOWN OF SHERIDAN, MONTANA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Enterprise Accounts Receivable**

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

**Inventories**

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

**Compensated Absences Payable**

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

**Cash and Cash Equivalents**

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

**Interfund Transactions**

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

**Fund Balance/Net Position**

**Fund Balance**

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

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

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

**TOWN OF SHERIDAN, MONTANA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Fund Balance/Net Position (continued)**

**Fund Balance (continued)**

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

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

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

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

**Minimum General Fund – Fund Balance**

The Town does not maintain a stabilization fund.

**Net Position**

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

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

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

**TOWN OF SHERIDAN, MONTANA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position (continued)**

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

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

**2. CASH AND INVESTMENTS**

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

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

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Governmental activities	\$ 207,152	\$ 10,503	\$ 217,655
Business-type activities	677,788	183,021	860,809
Fiduciary funds	18,439	-	18,439
	<u>\$ 903,379</u>	<u>\$ 193,524</u>	<u>\$ 1,096,903</u>

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

	<u>Cash/Cash Equivalents</u>	<u>Investments</u>	<u>Total</u>
Petty cash	\$ 170	\$ -	\$ 170
Cash in banks:			
Demand deposits	937,164	-	937,164
Saving deposits	-	25,729	25,729
Time deposits	-	60,503	60,503
State Short-Term Investment Pool (STIP)	-	73,337	73,337
	<u>\$ 937,334</u>	<u>\$ 159,569</u>	<u>\$ 1,096,903</u>

**TOWN OF SHERIDAN, MONTANA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**2. CASH AND INVESTMENTS (Continued)**

*Custodial Credit Risk - Deposits.* Custodial credit risk for deposits is the risk that in the event of a financial institution failure, the Town's deposits may not be returned or the Town will not be able to recover the collateral securities in the possession of the outside party. The Town does not have a deposit policy for custodial credit risk. Of the bank balances, the balances are insured up to \$250,000 at each institution covered by the Federal Deposit Insurance Corporation (FDIC). As of June 30, 2014, the uninsured amount was \$781,750. This uninsured portion was secured by pledged securities held by financial institutions or by the trust departments or agents but not in the Town's name (class 3 collateral).

The Town minimizes custodial credit risk by restrictions set forth in state law. The Town Treasurer maintains a listing of financial institutions, which are approved for investment purposes. Types of securities that may be pledged as collateral are detailed in Section 17-6-103 of the Montana Code Annotated (MCA).

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

<u>Investment</u>	<u>Maturities</u>	<u>Credit Risk Rating</u>	<u>Fair Value</u>
Petty cash	N/A	N/A	\$ 170
Demand deposits	N/A	N/A	937,164
Certificates of deposit	N/A	N/A	60,503
Savings	N/A	N/A	25,729
State Short-Term Investment Pool (STIP)	N/A	N/A	73,337
			<u>\$ 1,096,903</u>

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

*Credit Risk.* As noted above, statutes authorize the Town to invest in direct obligations of the United States Government and securities issued by agencies of the United States, repurchase agreements, and the State Short-Term Investment Pool (STIP). STIP is classified as a 2a7-like pool, and as such uses amortized cost to report unit values. The Town has no investment policy that would further limit its investment choices. The STIP maintained by the State of Montana has certain investments in derivatives. GASB requires the nature of underlying securities and market, credit and legal risks be disclosed. Reference to the audit of the State of Montana would identify the level of risk associated with STIP. The Town's investments as of June 30, 2014, consisted almost entirely of noninterest bearing demand deposits. There were several savings, interest bearing demand deposits, and time deposits with a maturity of 1 year or less with effective interest rate of .10% to .45%. These investments are recorded at cost, which approximate the market value at June 30, 2014.

**TOWN OF SHERIDAN, MONTANA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**3. TAXES AND ASSESSMENTS RECEIVABLE**

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

The Town is permitted by state statutes to levy taxes up to certain fixed limits for various purposes. The taxes levied by the Town for the year ended June 30, 2014, were within legal limits. The tax levies were based upon a taxable valuation of \$904,372.

**4. CAPITAL ASSETS**

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

	<u>June 30, 2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers/ Reclassifications</u>	<u>June 30, 2014</u>
<b>Governmental Activities:</b>					
Non-depreciable					
Land	\$ 46,681	\$ -	\$ -	\$ -	\$ 46,681
Depreciable					
Buildings	311,192	-	-	-	311,192
Improvements other than buildings	207,229	-	-	-	207,229
Infrastructure	28,409	-	-	-	28,409
Machinery and equipment	204,630	-	-	-	204,630
Total	798,141	-	-	-	798,141
Accumulated depreciation	(321,278)	(24,716)	-	-	(345,994)
Total governmental activities	<u>\$ 476,863</u>	<u>\$ (24,716)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 452,147</u>

**TOWN OF SHERIDAN, MONTANA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**4. CAPITAL ASSETS (Continued)**

	<u>June 30, 2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers/ Reclassifications</u>	<u>June 30, 2014</u>
<b>Business-type Activities:</b>					
Non-depreciable					
Land	\$ 81,376	\$ -	\$ -	\$ -	\$ 81,376
Construction in progress	6,708,340	545,827	-	(7,254,167)	-
Depreciable					
Buildings	170,000	-	-	-	170,000
Machinery and equipment	49,474	-	-	-	49,474
Transmission and distribution	3,470,343	-	-	7,254,167	10,724,510
Total	10,479,533	545,827	-	-	11,025,360
Accumulated depreciation	(980,603)	(178,131)	-	-	(1,158,734)
Total business-type activities	<u>\$ 9,498,930</u>	<u>\$ 367,696</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,866,626</u>
Total capital assets	<u>\$ 9,975,793</u>	<u>\$ 342,980</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,318,773</u>

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

	<u>June 30, 2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers/ Reclassifications</u>	<u>June 30, 2014</u>
<b>Governmental Activities:</b>					
Buildings	\$ (129,677)	\$ (5,072)	\$ -	\$ -	\$ (134,749)
Improvements other than buildings	(54,518)	(9,723)	-	-	(64,241)
Infrastructure	(4,545)	(568)	-	-	(5,113)
Machinery and equipment	(132,538)	(9,353)	-	-	(141,891)
Total governmental activities	<u>\$ (321,278)</u>	<u>\$ (24,716)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (345,994)</u>

**TOWN OF SHERIDAN, MONTANA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**4. CAPITAL ASSETS (Continued)**

	<u>June 30, 2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers/ Reclassifications</u>	<u>June 30, 2014</u>
Business-type Activities:					
Buildings	\$ (139,700)	\$ (3,400)	\$ -	\$ -	\$ (143,100)
Machinery and equipment	(32,151)	(3,671)	-	-	(35,822)
Transmission and distribution	<u>(808,752)</u>	<u>(171,060)</u>	<u>-</u>	<u>-</u>	<u>(979,812)</u>
Total business-type activities	<u>\$ (980,603)</u>	<u>\$ (178,131)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,158,734)</u>
Total accumulated depreciation	<u>\$ (1,301,881)</u>	<u>\$ (202,847)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,504,728)</u>

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

<b>Governmental Activities:</b>	
General Government	\$ 668
Public Safety	4,470
Public Works	8,983
Culture and Recreation	10,595
<b>Total depreciation expense - governmental activities</b>	<u>\$ 24,716</u>
<b>Business-type Activities:</b>	
Water	\$ 77,581
Sewer	100,550
<b>Total depreciation expense - business-type activities</b>	<u>\$ 178,131</u>

**TOWN OF SHERIDAN, MONTANA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**5. COMPENSATED ABSENCES**

The Town's policy relating to compensated absences is described in Footnote 1. As shown in the table below, the long-term portion of the debt, amounting to \$3,374 for governmental activities and \$2,909 for business-type activities at June 30, 2014, is expected to be paid in future years from future resources. In prior years, compensated absences have been liquidated primarily by the general fund and the proprietary funds. The total amounts outstanding at June 30, 2014, were \$8,880 for governmental activities and \$7,655 for business-type activities.

	<b>Balance June 30, 2013</b>	<b>Incurred</b>	<b>Satisfied</b>	<b>Balance June 30, 2014</b>
Compensated absences				
Governmental Activities	\$ 9,099	\$ 898	\$ (1,117)	\$ 8,880
Business-type Activities	7,176	1,269	(790)	7,655
Total compensated absences	\$ 16,275	\$ 2,167	\$ (1,907)	\$ 16,535
		<b>Due within one year</b>	<b>Due after one year</b>	<b>Total</b>
Compensated absences				
Governmental Activities	\$ 5,506	\$ 3,374	\$ 8,880	
Business-type Activities	4,746	2,909	7,655	
Total compensated absences	\$ 10,252	\$ 6,283	\$ 16,535	

**6. LONG-TERM DEBT**

**Governmental Activities Long-Term Debt**

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

	<b>Balance June 30, 2013</b>	<b>Issuances</b>	<b>Repayments</b>	<b>Balance June 30, 2014</b>
Intercap loans	\$ 12,171	\$ -	\$ (4,792)	\$ 7,379

**TOWN OF SHERIDAN, MONTANA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**6. LONG-TERM DEBT (Continued)**

**Governmental Activities Long-Term Debt (continued)**

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

	<b>Current Portion (Due within one year)</b>	<b>Long-term Portion (Due after one year)</b>	<b>Total Long Term Debt</b>
Intercap loans	\$ 4,975	\$ 2,404	\$ 7,379

*Intercap Loans* – Intercap loans have variable interest rates that are adjusted on February 16<sup>th</sup> of each year and are based on a spread over the interest paid on one-year term, tax-exempt bonds which are sold to fund the loans. Intercap loans currently outstanding are as follows:

<b>Purpose</b>	<b>Origination Date</b>	<b>Interest Rate</b>	<b>Term</b>	<b>Maturity Date</b>	<b>Principal Amount</b>	<b>Annual Payment</b>	<b>Balance June 30, 2014</b>
Land for Main Street Parking	9/9/2005	1.00%	10 yrs	8/15/2015	\$ 43,000	Varies	\$ 7,379

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

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
Year ending June 30,			
2015	\$ 4,975	\$ 61	\$ 5,036
2016	2,404	12	2,416
	\$ 7,379	\$ 73	\$ 7,452

**TOWN OF SHERIDAN, MONTANA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014**

**6. LONG-TERM DEBT (Continued)**

**Business-Type Activities Long-Term Debt**

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

	<b>Balance June 30, 2013</b>	<b>Issuances</b>	<b>Repayments</b>	<b>Balance June 30, 2014</b>
Revenue bonds	\$ 3,872,384	\$ -	\$ (79,625)	\$ 3,792,759

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

	<b>Current Portion (Due within one year)</b>	<b>Long-term Portion (Due after one year)</b>	<b>Total Long Term Debt</b>
Revenue bonds	\$ 81,919	\$ 3,710,840	\$ 3,792,759

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

*Water*

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

<b>Purpose</b>	<b>Origination Date</b>	<b>Interest Rate</b>	<b>Term</b>	<b>Maturity Date</b>	<b>Principal Amount</b>	<b>Annual Payment</b>	<b>Balance June 30, 2014</b>
2007 Drinking Water	9/28/2007	2.25%	20 yrs	7/1/2027	\$ 359,213	Varies	\$ 290,000
2011 Water System	7/20/2012	2.50%	40 yrs	7/20/2051	229,000	\$ 9,216	221,852
					\$ 588,213		\$ 511,852

**TOWN OF SHERIDAN, MONTANA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014**

**6. LONG-TERM DEBT (Continued)**

**Business-Type Activities Long-Term Debt (continued)**

*Revenue Bonds (continued)*

*Water (continued)*

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

Year ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 23,712	\$ 11,917	\$ 35,629
2016	23,806	11,372	35,178
2017	23,902	10,827	34,729
2018	24,001	10,277	34,278
2019	26,102	9,715	35,817
2020-2024	136,120	39,473	175,593
2025-2029	99,061	23,956	123,017
2030-2034	28,395	17,685	46,080
2035-2039	32,171	13,909	46,080
2040-2044	36,450	9,630	46,080
2045-2049	41,298	4,782	46,080
2050-2051	16,834	415	17,249
	<u>\$ 511,852</u>	<u>\$ 163,958</u>	<u>\$ 675,810</u>

*Sewer*

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

<u>Purpose</u>	<u>Origination Date</u>	<u>Interest Rate</u>	<u>Term</u>	<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Annual Payment</u>	<u>Balance June 30, 2014</u>
2011 Sewer System	12/12/2011	2.25%	40 yrs	12/28/2051	\$ 516,000	\$ 19,632	\$ 495,398
2013 Sewer System	3/27/2013	1.875%	40 yrs	4/27/2053	2,846,000	101,436	2,785,509
					<u>\$ 3,362,000</u>	<u>\$ 121,068</u>	<u>\$ 3,280,907</u>

**TOWN OF SHERIDAN, MONTANA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**6. LONG-TERM DEBT (Continued)**

**Business-Type Activities Long-Term Debt (continued)**

*Revenue Bonds (continued)*

*Sewer (continued)*

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

Year ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 58,207	\$ 62,861	\$ 121,068
2016	59,340	61,728	121,068
2017	60,496	60,572	121,068
2018	61,674	59,394	121,068
2019	62,875	58,193	121,068
2020-2024	333,238	272,102	605,340
2025-2029	367,006	238,334	605,340
2030-2034	404,212	201,128	605,340
2035-2039	445,213	160,127	605,340
2040-2044	490,394	114,946	605,340
2045-2049	540,186	65,154	605,340
2050-2053	398,066	13,557	411,623
	<u>\$ 3,280,907</u>	<u>\$ 1,368,096</u>	<u>\$ 4,649,003</u>

The significant compliance provisions of the water system revenue bonds require 1) a debt service account will be established and credited monthly with one-sixth of the interest and principal due within the next six months with respect to all outstanding bonds payable from that accounts, 2) establish a reserve account equal to the maximum principal and interest due in any fiscal year; this account will be established from net revenues 3) establish an asset replacement reserve with an initial deposits of \$22,750 and then monthly transfers of \$583 until the balance is \$113,900 and 4) produce net revenues not less than 125% of maximum principal and interest due in any subsequent fiscal year. The Town is in substantial compliance with the provisions of the water and sewer system revenue bonds.

The significant compliance provisions of the sewer system revenue bonds require 1) establish a debt service reserve account equal to the maximum principal and interest due in any fiscal year; this account will be established from monthly payments from net revenues 3) establish an asset replacement reserve with an initial deposit of \$14,110 and then monthly transfers of \$775 until the balance is \$106,100 and 4) produce net revenues not less than 110% of maximum principal and interest due in any subsequent fiscal year. The Town is in substantial compliance with the provisions of the water and sewer system revenue bonds.

**TOWN OF SHERIDAN, MONTANA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**7. INTERFUND TRANSFERS**

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

Transfers To	<b>Transfers From</b>			
	Governmental Funds			
	General Fund	Library Fund	Nonmajor Governmental	Total
General Fund	\$ -	\$ -	\$ -	\$ -
Library Fund	17,146	-	-	17,146
Nonmajor Governmental	20,000	-	-	20,000
	\$ 37,146	\$ -	\$ -	\$ 37,146

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

**8. EMPLOYEE RETIREMENT PLANS**

In accordance with GASB Statement 24, on-behalf payments of fringe benefits and salaries for the Town are recognized as revenues and expenditures in the fund financial statements during the period.

Public Employees' Retirement System (PERS)

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

**TOWN OF SHERIDAN, MONTANA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**8. EMPLOYEE RETIREMENT PLANS (Continued)**

Public Employees' Retirement System (PERS) (continued)

Contribution rates for the plan are required and determined by State law. Covered employees are required by State statute to contribute 7.9% of their salary to the plan. The Town is required to contribute 8.07% of members' compensation. The State is required to contribute 0.1% of members' compensation (on behalf of the Town), which was \$111 for fiscal year 2014. Whether the State of Montana or the local government employers are ultimately responsible for any underfunding of PERS is unclear in State law.

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

<u>Year Ended June 30</u>	<u>Covered Payroll</u>	<u>Employee Contributions</u>	<u>Employer Contributions</u>	<u>Total Contributions</u>
2014	\$ 111,249	\$ 8,789	\$ 8,978	\$ 17,767
2013	111,995	7,728	7,918	15,646
2012	119,365	8,236	8,439	16,675

**9. CLASSIFICATION OF NET POSITION**

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

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

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

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

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

**TOWN OF SHERIDAN, MONTANA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**10. RISK MANAGEMENT**

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

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

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

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

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

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

**TOWN OF SHERIDAN, MONTANA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**11. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS**

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

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

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

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

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

Annual required contribution	\$ 1,334
Interest on net OPEB obligation	1,464
Adjustment to annual required contribution	(2,440)
Annual OPEB cost (expense)	<u>358</u>
Contributions made	<u>-</u>
Increase in net OPEB obligation	358
Net OPEB obligation - beginning of year	<u>73,192</u>
Net OPEB obligation - end of year	<u><u>\$ 73,550</u></u>

**TOWN OF SHERIDAN, MONTANA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**11. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)**

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

<u>Functions/Programs</u>	<u>FY 2014 Expense</u>	<u>Net OPEB Obligation at Year End</u>
Primary Government:		
Governmental activities:		
General government	\$ 75	\$ 12,543
Public works	32	12,500
Culture and recreation	76	12,544
Total governmental activities	<u>183</u>	<u>37,587</u>
Business-type activities:		
Water	107	22,015
Sewer	68	13,948
Total business-type activities	<u>175</u>	<u>35,963</u>
Total primary government	<u>\$ 358</u>	<u>\$ 73,550</u>

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

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

1. Discount Rate: 2.0% utilized by MMIA actuarially determined financials
2. Investment Rate of Return: 2.0%
3. Premium increases: 7.4% for 2014, 5.7% for 2015, 6.3% for 2016, 5.9% for 2017, 6.2% for 2018, 6.5% for 2019, and 6.7% for 2020 and later from the Centers for Medicare and Medicaid Services as published in National Health Care Expenditures Projections 2011-2021.
4. Average salary increase: 1.7%
5. Rate for Single plus spouse is double the single rate.
6. Average life expectancy: 78 years.
7. All members will stay on the plan for their entire life expectancy.

**TOWN OF SHERIDAN, MONTANA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**11. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)**

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

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

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

**12. FIRE DEPARTMENT RELIEF ASSOCIATION DISABILITY AND PENSION FUND**

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

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

**TOWN OF SHERIDAN, MONTANA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**13. MAJOR PURPOSE PRESENTATION**

The table presented below displays the Town's fund balances by major purpose, as displayed on page II-15 of the governmental funds balance sheet. Statement 54 requires the disclosure of the purpose of each Major Special Revenue Fund.

	<u>General Fund</u>	<u>Library Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Nonspendable</b>				
Library endowment	\$ -	\$ -	\$ 10,000	\$ 10,000
<b>Restricted</b>				
Public works	-	-	1	1
Culture and recreation	-	13,669	503	14,172
Total restricted	<u>-</u>	<u>13,669</u>	<u>504</u>	<u>14,173</u>
<b>Assigned</b>				
General government	-	-	106,160	106,160
Public safety	-	-	16,315	16,315
Total assigned	<u>-</u>	<u>-</u>	<u>122,475</u>	<u>122,475</u>
<b>Unassigned</b>	<u>84,387</u>	<u>-</u>	<u>-</u>	<u>84,387</u>
Total fund balances	<u>\$ 84,387</u>	<u>\$ 13,669</u>	<u>\$ 132,979</u>	<u>\$ 231,035</u>

**14. PENDING LITIGATION**

A claim was filed in October 2013 against the Town and its engineering firm by a contractor for allegations of breach of contract for alleged failure to pay for extra work and for extra costs for the Sheridan meter pit installation project. Claims for the additional work had originally been submitted to the Town for payment and denied by the Town, and the Town then terminated the contract with the contractor on March 20, 2013. The case was settled through mediation on November 19, 2014, the Town's contribution to the settlement is \$35,000, and a dismissal of the complaint and counterclaim is pending.

**15. INTERLOCAL AGREEMENTS**

Joint Ventures

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

The Towns of Ennis, Sheridan, Twin Bridges, and Virginia City have an interlocal agreement. The purpose of the agreement is to acquire, maintain, and operate machinery, equipment and services which may not be practical for one of the Towns to obtain by itself and which may be mutually advantageous for the Towns as a group. The required contribution each year is \$3,000 per Town.

Law Enforcement Services

The Town participated in a law enforcement service agreement with Madison County for the fiscal year ended June 30, 2014. Madison County was paid \$15,430 for law enforcement services for the year ended June 30, 2014.

**TOWN OF SHERIDAN, MONTANA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**16. SUBSEQUENT EVENTS**

See Footnote 14 for the pending litigation that was settled subsequent to June 30, 2014.

Date of Management Evaluation

Management has evaluated subsequent events through December 29, 2014, the date on which the financial statements were available to be issued.

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

**TOWN OF SHERIDAN, MONTANA**  
**SCHEDULE OF FUNDING PROGRESS - OTHER POST-EMPLOYMENT HEALTHCARE BENEFITS**  
**For the Year Ended June 30, 2014**

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

ANNUAL OPEB COST				
	Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
Retiree Health Plan	6/30/2012	\$ 24,176	0.00%	\$ 72,855
	6/30/2013	\$ 337	0.00%	\$ 73,192
	6/30/2014	\$ 358	0.00%	\$ 73,550

The funded status of the plan was as follows:

FUNDED STATUS	
(a) Actuarial accrued liability (AAL)	\$ 7,984
(b) Actuarial value of plan assets (UAAL)	-
Unfunded actuarial accrued liability (funding excess) [(a) - (b)]	\$ 7,984
Funded ratio (b) / (a)	0.0%
(c) Covered payroll	\$ 112,473
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll ((a) - (b)) / (c)	7%

SCHEDULE OF FUNDING PROGRESS							
	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
Retiree Medical Plan	7/1/2009	\$ -	\$ 86,726	\$ 86,726	0%	\$ 67,651	128%
	7/1/2012	\$ -	\$ 7,984	\$ 7,984	0%	\$ 112,473	7%

**Budget to Actual Comparison – General and  
Special Revenue Major Funds**

**TOWN OF SHERIDAN, MONTANA**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**  
**Year Ended June 30, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
Budgetary fund balance, July 1	\$ 84,808	\$ 84,808	\$ 84,808	\$ -
Resources (inflows):				
Taxes	120,457	120,457	120,844	387
Intergovernmental	54,830	54,830	55,202	372
Interest on investments	240	240	315	75
Transfers from other funds	-	-	-	-
Other	6,451	6,451	7,287	836
Amounts available for appropriation	<u>266,786</u>	<u>266,786</u>	<u>268,456</u>	<u>1,670</u>
Charges to appropriations (outflows):				
Current				
General government	60,511	60,511	50,830	9,681
Public safety	30,046	30,046	30,078	(32)
Public works	26,341	26,341	22,925	3,416
Culture and recreation	51,344	51,344	38,188	13,156
Capital outlay	-	-	-	-
Debt service	4,902	4,902	4,902	-
Transfers to other funds	37,146	37,146	37,146	-
Total charges to appropriations	<u>210,290</u>	<u>210,290</u>	<u>184,069</u>	<u>26,221</u>
Budgetary fund balance, June 30	<u>\$ 56,496</u>	<u>\$ 56,496</u>	<u>\$ 84,387</u>	<u>\$ 27,891</u>

See the Independent Auditors' Report.

**TOWN OF SHERIDAN, MONTANA**  
**BUDGETARY COMPARISON SCHEDULE - LIBRARY FUND**  
**Year Ended June 30, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
Budgetary fund balance, July 1	\$ 9,949	\$ 9,949	\$ 9,949	\$ -
Resources (inflows):				
Taxes	-	-	-	-
Intergovernmental	38,808	38,808	40,187	1,379
Interest on investments	-	-	-	-
Transfers from other funds	17,146	17,146	17,146	-
Other	3,750	3,750	4,587	837
Amounts available for appropriation	<u>69,653</u>	<u>69,653</u>	<u>71,869</u>	<u>2,216</u>
Charges to appropriations (outflows):				
Current				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Culture and recreation	58,771	58,771	58,200	571
Capital outlay	-	-	-	-
Debt service	-	-	-	-
Transfers to other funds	-	-	-	-
Total charges to appropriations	<u>58,771</u>	<u>58,771</u>	<u>58,200</u>	<u>571</u>
Budgetary fund balance, June 30	<u>\$ 10,882</u>	<u>\$ 10,882</u>	<u>\$ 13,669</u>	<u>\$ 2,787</u>

See the Independent Auditors' Report.

**TOWN OF SHERIDAN, MONTANA  
BUDGETARY COMPARISON SCHEDULE  
NOTE A TO RSI**

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

**Year Ended June 30, 2014**

	<u>General Fund</u>	<u>Library Fund</u>
<b>Sources/inflows of resources</b>		
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 268,456	\$ 71,869
Differences - budget to GAAP:		
The fund balance at the beginning of the year is a budgetary resource but is not a current-year revenue for financial reporting purposes.	(84,808)	(9,949)
Transfers from other funds are inflows of budgetary resources but are not <i>revenues</i> for financial reporting purposes.	-	(17,146)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>\$ 183,648</u>	<u>\$ 44,774</u>
 <b>Uses/outflows of resources</b>		
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 184,069	\$ 58,200
Differences - budget to GAAP:		
Transfers to other funds are outflows of budgetary resources but are not <i>expenditures</i> for financial reporting purposes.	(37,146)	-
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>\$ 146,923</u>	<u>\$ 58,200</u>

See the Independent Auditors' Report.

## **PART III**

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



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

To the Honorable Mayor and Town Council of the  
Town of Sheridan, Montana:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Sheridan, Montana, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town of Sheridan, Montana's basic financial statements, and have issued our report thereon dated December 29, 2014.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Town of Sheridan, Montana's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Sheridan, Montana's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Sheridan, Montana'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 Town'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 the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying Schedule of Findings and Responses that we consider to be a significant deficiency (2014-I1).



**Compliance and Other Matters**

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

**Town of Sheridan, Montana's Response to Findings**

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

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town'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 Town's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

***Amatics CPA Group***

Bozeman, Montana  
December 29, 2014

**TOWN OF SHERIDAN, MONTANA**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**JUNE 30, 2014**

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

**2014-C1** Criteria: According to MCA 7-6-4033, the Town is limited to actual expenditures to not exceed budgeted appropriations per the original or amended budget. These appropriations may be amended through a public hearing.

Condition: Fund #4010 Fire Department Capital Projects had expenditures in excess of budgeted appropriations of \$3,000, due to money approved by the Council to be used toward the purchase of a fire truck.

Effect: The Town is out of compliance with MCA 7-6-4033.

Cause: The Town did not make appropriate amendments to the budget in its process of approving the expenditure by the volunteer fire department.

Recommendation: The Town should make appropriate amendments to its budget to account for expenditures such as these in future years.

Response: The Town will be more diligent in their budget amendments regarding expenditures that exceed the budget appropriations.

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

**2014-I1** Criteria: There needs to be adequate segregation of duties with regard to the utility cash receipts.

Condition: The Town Clerk is responsible for collecting, recording, and billing of accounts receivable and is responsible for preparing the deposit and making the deposit.

Effect: There is a lack of segregation of duties over the Town's cash receipts.

Cause: Due to limited staffing, it makes it difficult to achieve adequate segregation of duties.

Recommendation: We recommend that the Town continue to evaluate the segregation of duties with the Town Clerk to ensure compensating controls are in place to detect and deter fraud until the ability exists for the Town to have a separate individual prepare and make the deposit.

Response: The Town will continue to evaluate the segregation of duties for the Clerk to ensure compensating controls.

**TOWN OF SHERIDAN, MONTANA  
STATUS OF PRIOR YEAR FINDINGS  
JUNE 30, 2014**

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

**2013-C1** Criteria: Per the sewer revenue bond agreements, the Town is required to maintain both a debt service reserve and an asset replacement reserve starting with initial deposits at the closing of the loan and then monthly reserve allocations for the next ten years.

Condition: Based on our inquiries, the Town was not fully aware of the requirements and has not been accounting for the sewer reserve amounts; however, the Town does have the cash available to cover this reserves as of June 30, 2013.

Effect: The Town would not have maintained the required reserves and could have potentially become out of compliance with the debt covenants.

Cause: The Town did review the full detail of the required covenants and, therefore, was not aware of the necessary reserves.

Recommendation: The Town should either reclassify the amounts for these restricted amounts from operating cash or utilize a separate banking account to account for the portion of funds that is restricted for the debt service and asset replacement reserves.

Status: Resolved. The Town has reclassified the necessary debt service reserves as restricted from operating cash from the Sewer fund.

**2013-C2** Criteria: In accordance with Montana Code Annotated (MCA) 7-6-207(2), the governing body shall accept and approve and make a complete minute entry of the acceptance and approval of pledged securities at least quarterly.

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

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

Cause: The Town was not aware of the MCA requirements related to pledge securities.

Recommendation: The Town Council should review, accept, and approved the pledged securities at least quarterly going forward.

Status: Resolved. The Council is reviewing, accepting, and approving the pledged securities quarterly.

**TOWN OF SHERIDAN, MONTANA**  
**STATUS OF PRIOR YEAR FINDINGS (CONTINUED)**  
**JUNE 30, 2014**

We noted the following significant deficiencies in internal control for the year ended June 30, 2013.

- 2013-I1**            Criteria: There needs to be adequate segregation of duties with regard to the utility cash receipts.
- Condition: The Town Clerk is responsible for collecting, recording, and billing of accounts receivable and is responsible for preparing the deposit and making the deposit.
- Effect: There is a lack of segregation of duties over the Town's cash receipts.
- Cause: Due to limited staffing, it makes it difficult to achieve adequate segregation of duties.
- Recommendation: We recommend that the Town continue to evaluate the segregation of duties with the Town Clerk to ensure compensating controls are in place to detect and deter fraud until the ability exists for the Town to have a separate individual prepare and make the deposit.
- Status: Not resolved – see 2014-I1.
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- 2013-I2**            Criteria: There needs to be adequate segregation of duties with regard to the payroll process.
- Condition: The Town Clerk enters hours based on the timecards prepared by employees, prepares the direct deposit ACH file, and releases the direct deposit ACH file.
- Effect: There is a lack of segregation of duties over the Town's payroll process.
- Cause: Due to limited staffing, it makes it difficult to achieve adequate segregation of duties.
- Recommendation: We recommend that the Mayor or a Council Member review and approve the direct deposit ACH listing and compare against a payroll summary and timecards, preferably prior to release of the ACH file, to verify that amounts paid agree with hours and approved rates.
- Status: Resolved. The Mayor reviews and approves on a monthly basis a payroll register, timecards/timesheets and the direct deposit ACH listing.