

TOWN OF SUNBURST
TOOLE COUNTY
SUNBURST, MONTANA

FINANCIAL AND COMPLIANCE REPORT

Fiscal year Ended June 30, 2014

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Town of Sunburst
Toole County
Town of Sunburst, Montana 59482

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Town of Sunburst
Toole County
Town of Sunburst, Montana 59482

ORGANIZATION

Town Council

Michael Tobin	President
Tim Tharp	Member
Dale Diegel	Member
Lori House	Member

OFFICIALS

Gary Iverson	Mayor
Linda Burley	Clerk/Treasurer
William Hunt	Town Attorney
Joe Rapcoch	City Judge
Dan Kolve	Public Works Supervisor

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Town of Sunburst
Toole County
Town of Sunburst, Montana 59482

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Basis for Modified Opinion on Governmental Activities, Business-Type Activities and Major Funds (Street SID Fund, Water Fund, Sewer Fund, and Garbage Fund)

The Town has not maintained adequate subsidiary records for supporting amounts reported as capital assets, and does not report any amounts for accumulated depreciation or depreciation expense. Accordingly, we were unable to satisfy ourselves as to the capital asset balances reported in the following financial statements. The Governmental Activities, Business-type Activities, Water Fund, Sewer Fund and Garbage funds as follows \$1,030,008, 1,744,433, 1,445,183, 174,701, and 124,549, respectively.

In addition, the Town did not report the entire of deferred special assessments receivable and related deferred revenue in the Street SID Fund. This has the effect of understating assets and liabilities in the Street SID Fund and understating assets and equity on the Governmental Activities by \$167,953.

Qualified Opinion

In our opinion, except for the effects of the matters described in the "Basis for Modified Opinion on Governmental Activities, Business-Type Activities and Major Funds (Street SID Fund, Water Fund, Sewer Fund, and Garbage Fund)" paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Governmental Activities, Business-type Activities, Street SID Fund, Water Fund, Sewer Fund and Garbage Fund of the Town of Sunburst as of and for the year ended June 30, 2014, and the respective changes in financial position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the General Fund and Aggregate Remaining Fund information of the Town of Sunburst, as of and for the year ended June 30, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the schedule of funding for other post-employment benefits other than pensions (page 26) and budgetary comparison information (pages 27 - 28) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Emphasis of Matter Regarding Operating Cash

The general, water, sewer and solid waste funds currently have no or almost no operating cash. In addition, the general fund has borrowed from an external financial institution to cover deficit balances in other funds and the water and sewer funds have incurred interfund loans in order to maintain operations. All of the governmental funds display a deficiency of revenues over expenditures and the garbage and sewer funds have current operating losses. Lack of operating cash combined with its issuance of general debt in the general fund and all governmental funds displaying a deficiency of revenues over expenditures indicates very poor financial health. Lack of operating cash in the enterprise funds combined with operating losses indicates very poor financial health for the enterprise funds.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 10, 2015 on our consideration of Town of Sunburst internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Sunburst internal control over financial reporting and compliance.



STROM & ASSOCIATES, PC
Billings, Montana
June 10, 2015

STATEMENT OF NET POSITION
 June 30, 2014

	Governmental Activities	Business-type Activities	Total
ASSETS:			
Current Assets:			
Cash and Cash Equivalents	\$ 56,700	\$ -	\$ 56,700
Taxes and Assessments Receivable	21,207	-	21,207
Accounts Receivable - Net	-	21,415	21,415
Internal Balances	27,000	(27,000)	-
Total Current Assets	104,907	(5,585)	99,322
Noncurrent Assets:			
Special Assessments Receivable Deferred	161,967	24,388	186,355
Capital Assets:			
Land	-	6,000	6,000
Net Depreciable Assets	1,030,008	1,738,433	2,768,441
Total Noncurrent Assets	1,191,975	1,768,821	2,960,796
Total Assets	\$ 1,296,882	\$ 1,763,236	\$ 3,060,118
LIABILITIES:			
Current Liabilities			
Accounts Payable	\$ 25,800	\$ 80,672	\$ 106,472
Other Current Liabilities	-	4,116	4,116
Cash Overdraft	-	23,630	23,630
Current Portions Long-Term Obligations	23,061	-	23,061
Current Portions Compensated Absences	1,419	4,271	5,690
Current Portion Long-Term Capital Obligations	84,945	42,190	127,135
Total Current Liabilities	135,225	154,879	290,104
Noncurrent Liabilities:			
Long-Term Obligations	143,769	1,133	144,902
Compensated Absences	1,419	4,273	5,692
Long-Term Capital Obligations	374,097	199,305	573,402
Total Noncurrent Liabilities	519,285	204,711	723,996
Total Liabilities	654,510	359,590	1,014,100
NET POSITION:			
Net investment in capital assets	570,966	1,502,938	2,073,904
Restricted	253,119	-	253,119
Unrestricted (Deficit)	(181,713)	(99,292)	(281,005)
Total Net Position	642,372	1,403,646	2,046,018
Total Liabilities and Net Position	\$ 1,296,882	\$ 1,763,236	\$ 3,060,118

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

STATEMENT OF ACTIVITIES
 For the Year Ended June 30, 2014

	Program Revenues				Net (Expenses) Revenues and Changes in Net Position		
	Expenses	Charge for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
GOVERNMENT OPERATIONS							
General government	\$ 75,822	\$ 404	\$ -	\$ -	\$ (75,418)		\$ (75,418)
Public safety	14,514	-	-	-	(14,514)		(14,514)
Public works	30,976	66,421	19,470	-	54,915		54,915
Public health	6,687	3,714	-	-	(2,973)		(2,973)
Culture and recreation	35,173	2,103	-	-	(33,070)		(33,070)
Housing and community development	4,432	-	-	-	(4,432)		(4,432)
Miscellaneous	4,004	-	-	-	(4,004)		(4,004)
Debt Service							
Interest and other charges	12,666	-	-	-	(12,666)		(12,666)
Total Governmental Activities	<u>184,274</u>	<u>72,642</u>	<u>19,470</u>	<u>-</u>	<u>(92,162)</u>		<u>(92,162)</u>
BUSINESS-TYPE ACTIVITIES							
Water	\$ 120,673	\$ 112,245	\$ -	\$ 13,358		\$ 4,930	4,930
Sewer	143,505	51,722	25,000	-		(66,783)	(66,783)
Garbage	79,675	75,277	-	-		(4,398)	(4,398)
Total Business-type Activities	<u>343,853</u>	<u>239,244</u>	<u>25,000</u>	<u>13,358</u>		<u>(66,251)</u>	<u>(66,251)</u>
Total Primary Government	<u>\$ 528,127</u>	<u>\$ 311,886</u>	<u>\$ 44,470</u>	<u>\$ 13,358</u>	<u>\$ (92,162)</u>	<u>\$ (66,251)</u>	<u>\$ (158,413)</u>
GENERAL REVENUES							
Property Taxes for General Purposes					97,414	-	97,414
Local Option Tax					11,372	-	11,372
Federal/State Shared Revenues					34,725	-	34,725
Miscellaneous					2,411	-	2,411
Investment and royalty earnings					45	-	45
Internal Balances					(7,300)	7,300	-
Total General Revenues					<u>138,667</u>	<u>7,300</u>	<u>145,967</u>
Change in Net Position					46,505	(58,951)	(12,446)
Net Position							
Beginning of the Year					<u>595,867</u>	<u>1,462,597</u>	<u>2,058,464</u>
End of the Year					<u>\$ 642,372</u>	<u>\$ 1,403,646</u>	<u>\$ 2,046,018</u>

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

BALANCE SHEET
 GOVERNMENTAL FUNDS
 June 30, 2014

	MAJOR		Other Governmental Funds	Total Governmental Funds
	General	Street SID		
ASSETS:				
Current Assets:				
Cash and Cash Equivalents	\$ 2,508	\$ 40,435	\$ 13,757	\$ 56,700
Taxes and Assessments Receivable	6,247	14,655	305	21,207
Receivable From Other Funds	5,000	-	22,000	27,000
Noncurrent Assets:				
Special Assessments Receivable Deferred	-	161,967	-	161,967
Total Assets	<u>13,755</u>	<u>217,057</u>	<u>36,062</u>	<u>266,874</u>
LIABILITIES:				
Current Liabilities				
Accounts Payable	25,800	-	-	25,800
Total Liabilities	<u>25,800</u>	<u>-</u>	<u>-</u>	<u>25,800</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable Property Taxes Receivable	6,247	176,622	428	183,297
Total Deferred Inflows of resources	<u>6,247</u>	<u>176,622</u>	<u>428</u>	<u>183,297</u>
FUND BALANCE:				
Fund Balances:				
Restricted	-	40,435	35,634	76,069
Unassigned:	(18,292)	-	-	(18,292)
Total Fund Balance	<u>(18,292)</u>	<u>40,435</u>	<u>35,634</u>	<u>57,777</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 13,755</u>	<u>\$ 217,057</u>	<u>\$ 36,062</u>	<u>\$ 266,874</u>

RECONCILIATION TO THE STATEMENT OF NET POSITION

Total fund balance reported above	\$ 57,777
Governmental Capital Assets	1,030,008
Long-term Liabilities	
Long-Term Obligations	(166,830)
Compensated Absences	(2,838)
Long-Term Capital Obligations	(459,042)
Unavailable Property Taxes Receivable	183,297
Net Position of Governmental Activities	<u>\$ 642,372</u>

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

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

	MAJOR		Other Governmental Funds	Total Governmental Funds
	General	Street SID		
REVENUES:				
Taxes/assessments	\$ 111,692	\$ 66,381	\$ 40	\$ 178,113
Licenses and permits	90	-	-	90
Intergovernmental revenues	34,725	-	19,470	54,195
Charges for services	17,189	-	-	17,189
Fines and forfeitures	314	-	-	314
Miscellaneous	2,411	-	-	2,411
Investment and royalty earnings	45	-	-	45
Total Revenues	<u>166,466</u>	<u>66,381</u>	<u>19,510</u>	<u>252,357</u>
EXPENDITURES:				
Current				
General government	75,822	-	-	75,822
Public safety	14,514	-	-	14,514
Public works	27,119	-	3,857	30,976
Public health	6,687	-	-	6,687
Culture and recreation	35,173	-	-	35,173
Housing and community development	4,432	-	-	4,432
Miscellaneous	4,004	-	-	4,004
Debt Service				
Principal	26,344	62,742	17,517	106,603
Interest and other charges	7,588	3,920	1,158	12,666
Total Expenditures	<u>201,683</u>	<u>66,662</u>	<u>22,532</u>	<u>290,877</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(35,217)</u>	<u>(281)</u>	<u>(3,022)</u>	<u>(38,520)</u>
OTHER FINANCING SOURCES/USES				
Fund Transfers (Out)	(7,300)	-	-	(7,300)
Total Other financial Sources/Uses	<u>(7,300)</u>	<u>-</u>	<u>-</u>	<u>(7,300)</u>
NET CHANGES IN FUND BALANCES	<u>(42,517)</u>	<u>(281)</u>	<u>(3,022)</u>	<u>(45,820)</u>
FUND BALANCE:				
Beginning of the Year	24,225	40,716	38,656	103,597
End of the Year	<u>\$ (18,292)</u>	<u>\$ 40,435</u>	<u>\$ 35,634</u>	<u>\$ 57,777</u>

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

Town of Sunburst
Toole County
Sunburst, Montana 59482

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

Net Changes in Fund Balance	\$ (45,820)
Revenues on the Statement of Activities not included in governmental funds statement:	
Increase (decrease) in taxes receivable	(14,278)
Expenditures reported in the governmental funds statement not included in the Statement of Activities	
Principal payments on bonds	<u>106,603</u>
Change in net position reported on the Statement of Activities	<u>\$ 46,505</u>

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

STATEMENT OF NET POSITION
 PROPRIETARY FUNDS
 June 30, 2014

	MAJOR			Total Enterprise Funds
	Water	Sewer	Garbage	
ASSETS:				
Current Assets:				
Cash and Cash Equivalents	\$ 439	\$ -	\$ -	\$ 439
Accounts Receivable - Net	8,612	6,539	6,264	21,415
Receivable From Other Funds	-	20,046	-	20,046
Total Current Assets	9,051	26,585	6,264	41,900
Noncurrent Assets:				
Special Assessments Receivable Deferred	24,388	-	-	24,388
Land	6,000	-	-	6,000
Net Depreciable Assets	1,439,183	174,701	124,549	1,738,433
Total Noncurrent Assets	1,469,571	174,701	124,549	1,768,821
Total Assets	\$ 1,478,622	\$ 201,286	\$ 130,813	1,810,721
LIABILITIES:				
Current Liabilities				
Accounts Payable	\$ 7,617	\$ 64,005	\$ 9,050	80,672
Payable to Other Funds	42,046	5,000	-	47,046
Other Current Liabilities	4,116	-	-	4,116
Cash Overdraft	-	22,543	1,526	24,069
Current Portions Compensated Absences	1,646	1,455	1,170	4,271
Current Portion Long-Term Capital Obligations	32,129	4,343	5,718	42,190
Total Current Liabilities	87,554	97,346	17,464	202,364
Noncurrent Liabilities:				
Long-Term Obligations	457	375	301	1,133
Compensated Absences	1,647	1,456	1,170	4,273
Long-Term Capital Obligations	186,540	6,941	5,824	199,305
Total Noncurrent Liabilities	188,644	8,772	7,295	204,711
Total Liabilities	276,198	106,118	24,759	407,075
NET POSITION:				
Net investment in capital assets	1,226,514	163,417	113,007	1,502,938
Unrestricted (Deficit)	(24,090)	(68,249)	(6,953)	(99,292)
Total Net Position	1,202,424	95,168	106,054	1,403,646
Total Liabilities and Net Position	\$ 1,478,622	\$ 201,286	\$ 130,813	\$ 1,810,721

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

Town of Sunburst
 Toole County
 Sunburst, Montana 59482

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

	MAJOR			Total Enterprise Funds
	Water	Sewer	Garbage	
OPERATING REVENUES:				
Charges for Services	110,034	51,722	75,277	237,033
Miscellaneous	2,211	-	-	2,211
Total Operating Revenues	112,245	51,722	75,277	239,244
OPERATING EXPENSES:				
Personal services	34,198	27,544	18,183	79,925
Supplies	30,279	30,756	12,652	73,687
Purchased services	40,571	81,713	46,830	169,114
Fixed charges	3,001	2,999	1,853	7,853
Total Operating Expense	108,049	143,012	79,518	330,579
OPERATING INCOME (LOSS)	4,196	(91,290)	(4,241)	(91,335)
NONOPERATING REVENUES (EXPENSES)				
Intergovernmental revenue	-	25,000	-	25,000
Debt service interest expense	(12,624)	(493)	(157)	(13,274)
Total nonoperating revenue (expenses)	(12,624)	24,507	(157)	11,726
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS				
Capital contributions	13,358	-	-	13,358
Transfers in (out)	-	7,300	-	7,300
CHANGE IN NET POSITION	4,930	(59,483)	(4,398)	(58,951)
NET POSITION:				
Beginning of the Year	1,197,494	154,651	110,452	1,462,597
End of the Year	\$ 1,202,424	\$ 95,168	\$ 106,054	\$ 1,403,646

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

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

	Business-type Activities - Enterprise Funds			
	MAJOR			Total
	Water Utility	Sewer Utility	Landfill/ Garbage	Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from Customers	\$ 113,739	\$ 49,019	\$ 74,511	\$ 237,269
Payments to Suppliers	(66,234)	(51,463)	(52,285)	(169,982)
Payments to Employees	(34,744)	(28,089)	(18,729)	(81,562)
Net Cash Provided (Used) by Operating Activities	<u>12,761</u>	<u>(30,533)</u>	<u>3,497</u>	<u>(14,275)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Operating Subsidies and Transfers to Other Funds	16,520	12,668	-	29,188
Net Cash Provided (Used) By Noncapital Financing Activities	<u>16,520</u>	<u>12,668</u>	<u>-</u>	<u>29,188</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Capital Contributions	13,358	-	-	13,358
Principal Paid on Capital Debt	(29,576)	(4,185)	(5,608)	(39,369)
Interest Paid on Capital Debt	(12,624)	(493)	(157)	(13,274)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(28,842)</u>	<u>(4,678)</u>	<u>(5,765)</u>	<u>(39,285)</u>
Net Increase (Decrease) In Cash and Cash Equivalents	<u>439</u>	<u>(22,543)</u>	<u>(2,268)</u>	<u>(24,372)</u>
BALANCE:				
Beginning of the Year	-	-	742	742
End of the Year	<u>\$ 439</u>	<u>\$ (22,543)</u>	<u>\$ (1,526)</u>	<u>\$ (23,630)</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVED (USED) BY OPERATING ACTIVITIES:				
Operating Income (Loss)	\$ 4,196	\$ (91,290)	\$ (4,241)	\$ (91,335)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:				
Changes In Assets and Liabilities:				
Accounts Receivable	1,299	(2,703)	5,498	4,094
Special Assessments Receivable	-	-	(6,264)	(6,264)
Accounts Payable	7,617	64,005	9,050	80,672
Customer Deposits	195	-	-	195
Compensated Absences	(546)	(545)	(546)	(1,637)
Net Cash Provided (Used) by Operating Activities	<u>\$ 12,761</u>	<u>\$ (30,533)</u>	<u>\$ 3,497</u>	<u>\$ (14,275)</u>

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

Town of Sunburst
Toole County
Sunburst, Montana 59482

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2014

	<u>Agency Funds</u>
ASSETS:	
Current Assets:	
Cash and Cash Equivalents	\$ 63,843
Total Assets	<u>63,843</u>
LIABILITIES:	
Current Liabilities	
Warrants Payable	50,078
Due to other governments	14,236
Other Current Liabilities	<u>(471)</u>
Total Liabilities	<u>63,843</u>
NET POSITION:	
Total Net Position	<u>\$ -</u>

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

TOWN OF SUNBURST

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. a. REPORTING ENTITY

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

During fiscal year 2014 the Town adopted the following:

- GASB Statement No. 63 - Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, which revised the terminology for financial reporting from "net assets" to "net position" and introduced "deferred outflows/deferred inflows" terminology. There is no effect on the financial statements only a terminology change.
- GASB Statement No. 65 - Items Previously Reported as Assets and Liabilities. This statement made changes in major fund determination and the use of the term "deferred". For the Town deferred property taxes are reported as an element of deferred inflows of resources.
- GASB Statement No. 67 - Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25. The amendment revised existing guidance for financial report of pension systems for state and local government. The statement is applicable for fiscal year 2014. This statement affects the applicable retirement plan administration at the State level and did not have any effect on the Town.
- GASB Statement No. 70 - Accounting and Financial Reporting for Nonexchange Financial Guarantees. The statement is applicable for fiscal year 2014. This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The Town has not extend any financial guarantees to other parties. This statement has no effect on the financial statements.

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

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

The Town provides general governmental services and water, sewer and solid waste activity for the citizens of the Town. The mayor and town council are elected by the public and have the authority to make decisions, appoint administrators and managers, and significantly influence operations.

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

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

The finances of the North Toole County Rural Fire District are accounted for within the accounting records of the Town's agency funds. No fees are paid or revenues received by the Town.

TOWN OF SUNBURST

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

1. b. BASIS OF PRESENTATION AND ACCOUNTING

1. b. 1 GOVERNMENT-WIDE STATEMENTS

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

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

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

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

- Charges for services such as fines and forfeitures, swimming pool fees, water fees, sewer fees and garbage fees.
- Operating and Capital grants that are restricted to a particular functional program.

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

1. b. 2 FUND ACCOUNTING

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

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

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

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

TOWN OF SUNBURST

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water, sewer and garbage funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Resources received for capital acquisition or construction are reported as separate items.

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

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

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

The Town reports the following major governmental funds:

- General Fund – The General Fund is the general operating fund of the Town and accounts for all revenues and expenditures of the Town not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund.
- Street SID – This fund is used to account for financing the special improvement debt issued and related tax collections for street improvements.

The Town reports the following major enterprise funds:

- Water Fund – This fund is used to account for financing the activities of the Town's water distribution operations.
- Sewer Fund – This fund is used to account for financing the activities of the Town's sewer collection and treatment operations and includes the storm sewer system.
- Garbage Fund – This fund is used to account for financing the activities of the Town's solid waste service.

1. b. 3 OTHER FUND TYPES

Agency Funds – Account for assets that the Town holds on behalf of others as their agent and for warrant written but not redeemed that are reported in the Town's, payroll and claims clearing funds. Cash is held for warrants which were written but have not been paid by the County Treasurer. A warrant is an order by which the drawer (the person with authority to make the order) commands the Town trustee to pay a particular sum of money to a payee (person or entity) from funds in the Town treasury which are or may become available.

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

1. c. 1 CASH AND INVESTMENTS

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

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

TOWN OF SUNBURST

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

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

Cash overdrafts reported in the fund statements are classified as current liabilities in the governmental and enterprise fund statements. The cash overdrafts are eliminated in the governmental and business-type activities columns of the statement of net assets.

1. c. 2 TAXES AND SPECIAL ASSESSMENTS

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

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

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

1. c. 2. a. SPECIAL ASSESSMENTS

Special assessments receivable represent the uncollected amounts levied against benefited property for the cost of local improvements. Assessments are payable over a period of 18 to 20 years and bear interest of 2.5% to 5.75% per annum. Deferred special assessments receivable represent the amount of the special assessment which has not been billed and assessed by the county.

1. c. 3 INVENTORIES

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

1. c. 4 CAPITAL ASSETS

The Town's property, plant, equipment, and infrastructure (e.g. roads, bridges, sidewalks, lighting, and similar items) with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. Historical cost was established at the initial booking of the capital assets by determining actual costs or estimating using standard costing procedures. The Town considers capital assets to be items in excess of \$5,000 with a useful life in excess of one year. The costs of normal maintenance and repair are not capitalized. The Town does not depreciate the capital assets.

1.c. 5 DEFERRED INFLOWS OF RESOURCES

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

1.c. 6 VACATION AND SICK LEAVE

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

TOWN OF SUNBURST

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

Liabilities incurred because of unused vacation and sick leave accumulated by employees are reflected in the financial statements. Expenditures for unused leave are recorded when paid in governmental funds and when accrued on the statement of activities. The amount expected to be paid within one year is \$5,690 and it is paid out of the general, water, sewer, and garbage funds.

1.c. 7 NET POSITION AND FUND BALANCE

Statement of Net Position include the following:

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

Governmental fund financial statements include the following fund balances:

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

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

<u>Purpose</u>	<u>Restricted</u>
Public Works	\$ 3,384
Debt Service	50,685
Total	<u>\$ 54,069</u>

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

1. d. OTHER

1. d. 1 USE OF ESTIMATES

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

1.d. 2 COUNTY PROVIDED SERVICES

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

NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

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

<u>Account Type</u>	<u>Governmental</u>	<u>Business-type</u>	<u>Fiduciary</u>	<u>Total</u>
	<u>Activities</u>	<u>Activities</u>	<u>Funds</u>	
Cash and Cash Equivalents	\$ 56,700	\$ 0	\$ 63,843	\$ 120,543
Cash Overdraft	<u>0</u>	<u>(23,630)</u>	<u>0</u>	<u>(23,630)</u>
Total	<u>\$ 56,700</u>	<u>\$ (23,630)</u>	<u>\$ 63,843</u>	<u>\$ 96,913</u>

TOWN OF SUNBURST

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

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

	<u>Amount</u>
Cash on Hand	\$ 100
Demand Accounts	91,743
STIP	2,529
Unreconciled	<u>2,541</u>
Total	<u>\$ 96,913</u>

Custodial credit risk-deposits: The deposits of the Town may be subject to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk. As of June 30, 2014, the deposits were covered by FDIC insurance.

2. a. 1 SHORT TERM INVESTMENT POOL (STIP)

STIP is an external investment pool of the State of Montana. Although the STIP is not registered with the Securities and Exchange Commission (SEC) as an investment company STIP has policy that it will be consistent with the SEC's rule 2a7 of the Investment Company Act of 1940. The Town's participant unit price is fixed at \$1 for both buys and sells.

The STIP investment portfolio consists of securities with a maximum maturity of 397 days or less unless they are a variable rate security. The portfolio is carried at amortized cost or book value.

The STIP portfolio includes asset-backed and variable rate securities. Asset-backed securities represent debt securities collateralized by a pool of mortgage and non-mortgage assets such as trade and loan receivables, equipment leases, credit cards, etc. Commercial paper is unsecured short-term debt with maturities ranging from 1 to 270 days. U.S. Government direct obligations include U.S. Treasury securities and debt explicitly guaranteed by the U.S. Government. U.S. Government agency securities include U.S. Government agency and mortgage-backed securities. Repurchase agreements (REPOs) represent an agreement between a seller and a buyer, usually of U.S. Government securities, whereby the seller agrees to repurchase the securities at an agreed upon price and stated time. Variable rate securities pay a variable rate of interest until maturity. The STIP portfolio's variable rate securities reset to LIBOR (London Interbank Offered Rate).

Because of the pooled funds concept, cash held in STIP cannot be categorized as to custodial risk. For additional information contact the Montana Board of Investments, P.O. Box 200126, Helena, MT 59620-0126 – Telephone (406)-444-0001

2. a. 2 FUND CASH OVERDRAFT

The following funds report overdrawn cash accounts.

<u>Elementary Fund</u>	<u>Amount</u>	<u>Reason</u>
Sewer*	\$ 22,543	Operating revenues do not cover operating costs
Garbage*	<u>1,526</u>	Operating revenues do not cover operating costs
Total	<u>\$ 24,069</u>	

* Denotes Major Funds

NOTE 3. TAXES/SPECIAL ASSESSMENTS RECEIVABLE

The Town is permitted by State statutes to levy taxes up to certain fixed limits for various purposes. The assessed value of the roll as of January 1, 2013, upon which the levy for the 2014 fiscal year was based, was \$434,993. The tax rates assessed for the year ended June 30, 2014 to finance Town operations and applicable taxes/special assessments receivable follows:

<u>Fund</u>	<u>Mill Levies</u>	<u>Taxes</u> <u>Receivable</u>	<u>Special</u> <u>Assessments</u> <u>Receivable</u>	<u>Deferred</u> <u>Special</u> <u>Assessments</u> <u>Receivable</u>
General*	229.14	\$ 6,247	\$ 0	\$ 0
Street Lights	N/A	0	305	0
Street SID*	N/A	0	14,655	161,967
Water Fund*	<u>N/A</u>	<u>0</u>	<u>0</u>	<u>24,388</u>
Total	<u>229.14</u>	<u>\$ 6,247</u>	<u>\$ 14,960</u>	<u>\$ 186,355</u>

* Denotes Major Funds

TOWN OF SUNBURST

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

NOTE 4. ACCOUNTS RECEIVABLE

<u>Elementary Fund</u>	<u>Accounts Receivable</u>	<u>Allowance for Uncollectable</u>	<u>Unbilled but Paid in Advance</u>	<u>Net Accounts Receivable</u>
Water*	\$ 11,065	\$ 0	\$ (2,453)	\$ 8,612
Sewer*	6,539	0	0	6,539
Garbage*	7,521	(1,257)	0	6,264
Total	<u>\$ 25,125</u>	<u>\$ (1,257)</u>	<u>\$ (2,453)</u>	<u>\$ 21,415</u>

* Denotes Major Funds

NOTE 5. DUE TO/FROM OTHER FUNDS

<u>Payable Fund</u>	<u>Amount</u>	<u>Receivable Fund</u>	<u>Reason</u>
Sewer*	\$ 5,000	General*	Negative cash due to operating revenues not covering operating costs
Water*	20,046	Sewer*	Negative cash due to operating revenues not covering operating costs
Water*	22,000	Revolving	Negative cash due to operating revenues not covering operating costs
Total	<u>\$ 47,046</u>		

* Denotes Major Funds

NOTE 6. CAPITAL ASSETS, DEPRECIATION AND NET CAPITAL ASSETS

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

<u>Governmental Activities:</u>	<u>Balance July 1, 2013</u>	<u>Balance June 30, 2014</u>
<u>Depreciable:</u>		
Machinery and equipment	\$ 169,055	\$ 169,055
Infrastructure	860,953	860,953
Total Depreciable	<u>\$ 1,030,008</u>	<u>\$ 1,030,008</u>

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

<u>Business-type Activities:</u>	<u>Balance July 1, 2013</u>	<u>Balance June 30, 2014</u>
<u>Non-depreciable:</u>		
Land	\$ 6,000	\$ 6,000
<u>Depreciable:</u>		
Improvements other than buildings	\$ 287,273	\$ 287,273
Buildings	5,000	5,000
Machinery and equipment	257,813	257,813
Source of supply	170,014	170,014
Transmission and distribution	1,018,333	1,018,333
Total Depreciable	<u>\$ 1,738,433</u>	<u>\$ 1,738,433</u>
Net Business-type Capital Assets	<u>\$ 1,744,433</u>	<u>\$ 1,744,433</u>

NOTE 7. DEFERRED INFLOWS OF RESOURCES

7. a. PROPERTY TAXES AND SPECIAL ASSESSMENTS

<u>Elementary Fund</u>	<u>Amount</u>	<u>Reason</u>
General*	\$ 6,247	Taxes Receivable
Street Lights	428	Special Assessments Receivable
Street SID*	14,655	Special Assessments Receivable
Street SID*	161,967	Deferred Special Assessments Receivable e
Total	<u>\$ 183,297</u>	

* Denotes Major Funds

TOWN OF SUNBURST

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

NOTE 8. CHANGES IN LONG-TERM DEBT

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

<u>Governmental Activities</u>	<u>Balance</u> <u>July 1, 2013</u>	<u>Principal</u> <u>Payments</u> <u>and Other</u> <u>Reductions</u>	<u>Balance</u> <u>June 30, 2014</u>	<u>Due within</u> <u>One Year</u>
<u>Bonds and Notes Payable:</u>				
Operating Loan	\$ 187,435	\$ (22,159)	\$ 165,276	\$ 23,061
Capital Lease	15,470	(4,185)	11,284	4,343
Intercap Loans	<u>528,016</u>	<u>(80,259)</u>	<u>447,758</u>	<u>80,602</u>
Total Bonds and Notes Payable	<u>\$ 730,921</u>	<u>\$ (106,603)</u>	<u>\$ 624,318</u>	<u>\$ 108,006</u>
<u>Other Liabilities:</u>				
Compensated Absences	\$ 2,838	\$ 0	\$ 2,838	\$ 1,419
Other Post-Employment Benefits (OPEB)	<u>1,554</u>	<u>0</u>	<u>1,554</u>	<u>0</u>
Total Other Liabilities	<u>\$ 4,392</u>	<u>\$ 0</u>	<u>\$ 4,392</u>	<u>\$ 0</u>
Total Governmental Activities - Long-Term Debt:	<u>\$ 735,313</u>	<u>\$ (106,603)</u>	<u>\$ 628,710</u>	<u>\$ 109,425</u>

8. b. At June 30, 2014, the schedule of changes in business-type activities long-term debt follows:

<u>Business-type Activities</u>	<u>Balance</u> <u>July 1, 2013</u>	<u>Principal</u> <u>Payments</u> <u>and Other</u> <u>Reductions</u>	<u>Balance</u> <u>June 30, 2014</u>	<u>Due within</u> <u>One Year</u>
<u>Bonds and Notes Payable:</u>				
Revenue Bonds	\$ 232,774	\$ (25,391)	\$ 207,383	\$ 27,786
Capital Lease	30,940	(8,370)	22,569	8,686
Intercap Loans	<u>17,151</u>	<u>(5,608)</u>	<u>11,542</u>	<u>5,718</u>
Total Bonds and Notes Payable	<u>\$ 280,865</u>	<u>\$ (39,369)</u>	<u>\$ 241,496</u>	<u>\$ 42,190</u>
<u>Other Liabilities:</u>				
Compensated Absences	\$ 10,180	\$ (1,637)	\$ 8,544	\$ 4,271
Other Post-Employment Benefits (OPEB)	<u>1,133</u>	<u>0</u>	<u>1,133</u>	<u>0</u>
Total Other Liabilities	<u>\$ 11,313</u>	<u>\$ (1,637)</u>	<u>\$ 9,676</u>	<u>\$ 4,271</u>
Total Business-type Activities - Long-Term Debt:	<u>\$ 292,178</u>	<u>\$ (41,006)</u>	<u>\$ 251,172</u>	<u>\$ 46,461</u>

8. c. OPERATING LOAN

The Town entered a loan with a local bank in prior years for the acquisition and construction of capital facilities. The loan was for the terms and payment schedules indicated in the following schedule:

<u>Description</u>	<u>Issue Date</u>	<u>Interest</u> <u>Rate</u>	<u>Length of</u> <u>Loan</u>	<u>Maturity</u> <u>Date</u>	<u>Amount</u> <u>Issued</u>	<u>Outstanding</u> <u>June 30,</u> <u>2014</u>
Operating Loan	11/20/2012	4.00%	5 Years	11/20/2018	<u>\$ 200,000</u>	<u>\$ 165,276</u>

Debt service requirements to maturity for principal and interest for the loan is as follows:

For the year ended 6/30:

	<u>Principal</u>	<u>Interest</u>
2015	\$ 23,061	\$ 6,193
2016	23,988	5,266
2017	24,978	4,276
2018	<u>93,249</u>	<u>1,492</u>
Totals	<u>\$ 165,276</u>	<u>\$ 17,227</u>

TOWN OF SUNBURST

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

8. d. INTERCAP LOAN*

The Town entered into an intercap loan in prior years with the Montana Board of Investments for the acquisition of a street improvements and a garbage truck. The loan was issued for the terms and payment schedule indicated below.

Description	Issue Date	Current Interest Rate*	Length of Loan	Maturity Date	Amount Issued	Outstanding June 30, 2014
Street, Curb & Gutter Improvements (1)	11/12/2010	1.00%	9 Years	8/15/2019	\$ 145,000	\$ 102,654
SID #4 Street & Gutter Improvements (1)	1/12/2010	1.00%	9 Years	8/15/2016	249,999	345,104
1999 Mack Garbage Truck (2)	2/18/2011	1.00%	5 Years	2/15/2016	28,050	11,542
Total					<u>\$ 423,049</u>	<u>\$ 459,300</u>

(1) – Reported in Governmental Funds
(2) – Reported in Enterprise Funds

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

For the year ended 6/30:

	Principal	Interest
2015	\$ 86,320	\$ 4,593
2016	86,776	4,663
2017	81,308	3,577
2018	81,673	2,561
2019	82,044	1,541
2020	41,179	514
Totals	<u>\$ 459,300</u>	<u>\$ 17,449</u>

*Intercap loans have variable interest rates. Interest rates are subject to change annually. Interest rates to the borrower are adjusted on February 16th 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.

8. e. CAPITAL LEASES

A lease purchase agreement was entered into between Trinity and Town of Sunburst on May 18, 2011. This lease-purchase agreement provided a method of financing a Backhoe for the Town. The amount due on this lease purchase is reflected as a liability on the financial statements of the Town in the Statement of Net Position. The amount shown in the Statement of Net Position for capitalized machinery and equipment is 76,860. The capital lease is equal split between the general fund, water fund and sewer fund.

For the year ended 6/30:	Future Minimum Lease Payments
2015	\$ 14,033
2016	21,335
Less interest	(1,515)
Total	<u>\$ 33,853</u>

8. f. REVENUE BONDS

Revenue Bonds constitute special obligations of the Town solely secured by a lien on and pledge of the net revenues of the water system. These bonds were issued for the terms and payment schedules indicated in the following schedule:

Description	Issue Date	Interest Rate	Length of Loan	Maturity Date	Amount Issued	Outstanding June 30, 2014
Water Revenue Bond	1980	5.00%	40 Years	2019	\$ 415,000	\$ 116,715
Water Revenue Bond	1992	6.22%	40 Years	2023	200,000	90,668
					<u>\$ 615,000</u>	<u>\$ 207,383</u>

TOWN OF SUNBURST

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

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

For the year ended 6/30:	Principal	Interest
2015	\$ 27,786	\$ 9,738
2016	29,208	8,316
2017	30,702	6,822
2018	32,273	5,251
2019	33,924	3,600
2020-2024	53,490	2,836
Totals	<u>\$ 207,383</u>	<u>\$ 36,563</u>

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

The bond ordinances also require that water rates be sufficient to provide for operations, maintenance and 120% of the maximum amount of principal and interest requirements in any future fiscal year of the Town. The more significant covenants 1) require that cash be restricted and reserved for operations, construction, debt service, and replacement and depreciation; 2) specify minimum required operating revenue; and 3) specific and timely reporting of financial information to bond holders and the registrar. The Town was not in compliance with the applicable covenants, except for the water bond requirement for net revenues exceeding 120%.

NOTE 9. OPERATING TRANSFERS

<u>Fund - In</u>	<u>Amount</u>	<u>Fund - Out</u>	<u>Purpose</u>
Sewer*	<u>\$ 7,300</u>	General*	Shore up negative cash balances due to operating revenues not covering operating costs

* Denotes Major Funds

NOTE 10. OTHER POST EMPLOYMENT BENEFITS

Plan Description - The Town provides the same health care plan to all of its members. The Town had fewer than 100 plan participants and thus qualified to use an Alternative Measurement Method instead of an actuarial valuation to determine the OPEB liability. Valuations involve estimates of the reported amounts and assumptions about the probability of events far into the future and estimated amounts are subject to continued revision as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for the plan are based on types of benefits provided under the current plan.

Funding Policy - The government pays OPEB liabilities on a pay as you go basis. The trust fund for future liabilities has not been established. Funding status and progress as of July 1, 2012 was as follows:

Actuarial Accrued Liability (AAL)	\$ 3,042
Actuarial value of plan assets	<u>0</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>3,042</u>
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	\$ 189,835
UAAL as a percentage of covered payroll	2%

Annual OPEB Cost and Net OPEB Obligations - The government's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount determined in accordance with the parameter of GASB statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed (30) years. The following table shows the components of the government's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the government's net OPEB obligation for the valuation performed at July 1, 2012.

TOWN OF SUNBURST

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

Annual Required Contribution (ARC)	\$ 937
Interest on net OPEB obligation	0
Adjustment to ARC	0
Annual OPEB cost (expense)	937
Contribution made	0
Increase in net OPEB obligation	0
Net OPEB obligation - beginning of year	2,687
Net OPEB obligation - end of year	<u>\$ 2,687</u>

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

Actuarial Cost Method	Unit Credit Cost Method
Average age of retirement (based on historical data)	62
Discount rate (average anticipated rate)	4.00%
Average Salary Increase	3.00%
Health care cost rate trend	
Year	% Increase
2015	6.60%
2016	6.70%
2017	7.00%
2018 and after	6.80%

NOTE 11. CONSTRUCTION COMMITMENTS

Sewer Fund Lift Station Project:

The lift station was built in 1982 and was expected to last only 20 years. The Town has been able to continue to keep it running, however, the Town had to make an emergency bypass and can no longer patch the old system. The Town has subsequently obtained a design for a new lift station and a geotechnical boring has been done. The Town is in the process of completing its new lift station at an estimated cost of \$372,000. As of March 2015 the town has incurred costs and received funding for \$184,920.

NOTE 12. RISK MANAGEMENT

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

Coverage limits and the deductibles in the commercial policies have stayed relatively constant for the last several years. The premiums for the policies are allocated between the Town's general fund and other funds based upon the insurance needs of the funds. Settled claims resulting from these risks did not exceed commercial insurance coverage for each of the past three years. In 1986, the Town joined other Montana cities in the Montana Municipal Interlocal Authority which established a workers' compensation plan and a tort liability plan. In 1996, the Montana Municipal Interlocal Authority created a property insurance plan. The public entity risk pools currently operate as common risk management and insurance programs for the member governments. The liability limits for damages in tort action are \$750,000 per claim and \$1.5 million per occurrence with a \$750 deductible per government. State tort law limits the Town's liability to \$1.5 million. The Town pays an annual premium for its employee injury insurance coverage, which is allocated to the employer funds based on total salaries and wages. The agreements for formation of the pools provide that they will be self-sustaining through member premiums.

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

TOWN OF SUNBURST

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

NOTE 13. EMPLOYEE RETIREMENT SYSTEM

The Town participates in a state-wide, cost-sharing multiple employer defined benefit retirement plans which cover all Town employees, except elected officials. The Public Employee Retirement System (PERS) covers nonteaching employees. The plans are established under State law and are administered by the State of Montana.

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

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

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

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

	<u>2012</u>	<u>2013</u>	<u>2014</u>
PERS	\$ <u>14,608</u>	\$ <u>15,597</u>	\$ <u>19,851</u>

NOTE 14. SUBSEQUENT REPORTABLE EVENTS

Operating Loan

In November 2012, the Town incurred an operating loan in the amount of \$200,000 to help cover operating costs. At June 30, 2014 the remaining balance to be repaid was \$165,276. In October 2014 the operating loan was rewritten to include additional operating cash and the new loan incurred was for \$298,000 which included paying off the old loan.

NOTE 15. CONTINGENCIES

The government participates in various federal grant programs, the principal of which are subject to program compliance audits pursuant to the Single Audit Act as amended. Accordingly, the government's compliance with applicable grant requirements will be established at a future date. The amount of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the government anticipates such amounts, if any, will be immaterial.

TOWN OF SUNBURST

SCHEDULE OF FUNDING PROGRESS
 Other Post-Employment Benefits Other Than Pensions (OPEB)
 Fiscal Year-Ended June 30, 2014

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a / b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll [(b-a) / c]</u>
<u>7/1/2012</u>	\$ -	\$ 3,042	\$ 3,042	0%	\$ 189,835	2%

This schedule is based on the actuarial values as of July 1, 2012. Information for prior years is not available.

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

	General			Street SID		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
REVENUES:						
Taxes/assessments	\$ 103,447	\$ 103,447	\$ 111,692	\$ 66,000	\$ 66,000	\$ 66,381
Licenses and permits	350	350	90	-	-	-
Intergovernmental revenues	52,500	52,500	34,725	-	-	-
Charges for services	19,548	19,548	17,189	-	-	-
Fines and forfeitures	1,000	1,000	314	-	-	-
Miscellaneous	8,000	8,000	2,411	-	-	-
Investment and royalty earnings	500	500	45	-	-	-
Total Revenues	185,345	185,345	166,466	66,000	66,000	66,381
EXPENDITURES:						
Current						
General government	83,000	83,000	75,822	-	-	-
Public safety	15,100	15,100	14,514	-	-	-
Public works	24,100	24,100	27,119	-	-	-
Public health	6,350	6,350	6,687	-	-	-
Culture and recreation	37,500	37,500	35,173	-	-	-
Housing and community development	5,000	5,000	4,432	-	-	-
Miscellaneous	3,000	3,000	4,004	-	-	-
Debt Service						
Principal	29,255	29,255	26,344	68,427	68,427	62,742
Interest and other charges	-	-	7,588	-	-	3,920
Total Expenditures	203,305	203,305	201,683	68,427	68,427	66,662
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(17,960)	(17,960)	(35,217)	(2,427)	(2,427)	(281)
OTHER FINANCING SOURCES/USES						
Fund Transfers (Out)	-	-	(7,300)	-	-	-
Total Other financial Sources/Uses	-	-	(7,300)	-	-	-
NET CHANGES IN FUND BALANCES	(17,960)	(17,960)	(42,517)	(2,427)	(2,427)	(281)
FUND BALANCE:						
Beginning of the Year			24,225			40,716
End of the Year			<u>\$ (18,292)</u>			<u>\$ 40,435</u>

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

TOWN OF SUNBURST

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

NOTE 1. BUDGETS

1. a. BUDGETS

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

1. a. 1 GENERAL BUDGET POLICIES:

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

1. a. 2 BUDGET OPERATION:

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

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

NOTE 2. BUDGET AMENDMENT

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

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

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Town of Sunburst
Toole County
Town of Sunburst, Montana 59482

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Sunburst as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town of Sunburst's basic financial statements and have issued our report thereon dated June 10, 2015. Our opinion on the financial statements was modified due to the Town not maintaining adequate subsidiary ledgers for capital assets reporting and not reporting deferred special assessments receivable.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses as items 2014-002, 2014-003 and 2014-004.

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. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies as items 2017-007 and 2014-009.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Sunburst's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2014-001, 2014-005 and 2014-006 and 2014-008.

Town of Sunburst's Response to Findings

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

Purpose of this Report

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

Strom & Associates, P.C.

STROM & ASSOCIATES, PC
Billings, Montana
June 10, 2015

TOWN OF SUNBURST
SCHEDULE OF FINDINGS AND RESPONSES
Fiscal Year-Ended June 30, 2014

The following is the status of prior year findings and updated for the fiscal year ended June 30, 2014.

2013-001 Reporting of Intercap Loans Related To Special Improvements
See 2014-004

2013-002 Capital Asset Reporting
See 2014-003

2013-003 Overstated Agency Fund Cash
Not repeated

2013-004 Reporting Errors
Not repeated

2013-005 Operating Cash (repeat of prior finding 2011-10)
See 2014-002

2013-006 Segregation of Duties
See 2014-009

2013-007 Supporting Documentations
Not repeated

2013-008 Exceeding Budget Authority
See 2014-008

2013-009 Management's Discussion and Analysis
See 2014-007

2013-010 Inadequate Water Fund Cash Reserves
See 2014-005

2014-001 Revolving Fund:

Criteria: MCA 7-12-4222 – A tax may not be levied if the revolving fund balance will exceed 10% or, with the amount levied by the tax, will exceed 10% of the then-outstanding SID bonds and warrants secured by the revolving fund after all required transfers have been made to the district funds through fiscal yearend. Transfers may also be made to the revolving fund from the general fund, which shall be considered as loans. Further, to provide funds for the revolving fund, the city or town council can include in the cost of improvements to be paid from the proceeds of the bonds or warrants (if secured by the revolving fund) an amount of at least 5% and not more than 10% of the bonds or warrants to be issued.

Condition: The Town maintains a SID revolving fund within the governmental funds of the Town. During fiscal year ended June 30, 2014 the Town provided funding to the sewer fund from the SID revolving fund.

Effect: The operating transfer out of the SID revolving fund into the sewer fund does not appear to comply with the purpose of the establishment of the fund as provided in MCA 7-12-4222. At the request of the client, the audit report has been adjusted.

Context: During the fiscal year ended June 30, 2014, the town transferred \$22,000 of SID revolving fund money to the sewer fund.

Cause: Town trying to shore up the negative cash balance in the sewer fund.

Recommendation: We recommend use the fund in the SID revolving fund only for the purpose specified in MCA 7-12-4222. In addition, the \$22,000 transferred from the SID revolving fund should be returned to that fund.

SCHEDULE OF FINDINGS AND RESPONSES (Continued)

2014-002 Operating Cash (repeat finding 2010, 2011, Biennial 2013 – updated for FY 2014):

Criteria: Lack of operating cash combined with issuance of general debt in the general fund indicates very poor financial health for the general fund. Lack of operating cash in the enterprise funds combined with operating losses indicates very poor financial health for the enterprise funds.

Condition:

- The general, water, sewer, and garbage funds currently have no or almost no operating cash. In addition, the General fund has borrowed from an external financial institution in prior years to cover deficit balances in other funds.
- The water and sewer funds has incurred inter-fund loans and operating fund transfers from the governmental funds in order to maintain operations.
- The general fund and street lights fund have deficiency of revenues over expenditures and the water and garbage funds have current operating losses.
- The general fund has a deficit unassigned fund balance and water, sewer, and garbage funds have deficit unrestricted net position.

Effect: From review of the financial statements it appears the town is in poor financial health.

Context:

- The general fund, street light fund, and enterprise funds currently do not generate adequate revenues to increase cash reserves.
- The general fund and street light fund have a current deficiency of revenues over expenditures of \$35,217 and \$3,303, respectively.
- The water and garbage funds have current operating losses of \$12,624 and \$157, respectively.
- The water, sewer, and garbage fund have deficit unrestricted net position of \$2,090, \$68,249, and \$6,953, respectively.
- The general fund is obligated for \$165,275 of debt related to loans obtained to maintain operations in other funds.
- The sewer fund has a \$20,046 inter-fund loan from water fund and the water fund and sewer fund received operating transfer from the governmental funds for \$22,000 and \$7,300, respectively.

Cause: Over the year costs have exceeded collections and adjustments appear to not have occurred.

Recommendation: We recommend that the Town immediately design and implement a recovery plan to resolve projected net operating losses in the general, street lights and enterprise funds to ensure more serious liquidity problems do not occur in the future.

2014-003 Capital Asset Reporting (repeat from Biennial 2013-002):

Criteria: Generally Accepted Accounting Principles (GAAP) requires that a governmental entity accurately report its capital assets and related costs in its financial statements.

Condition: The Town does not maintain an adequate system to account for and report its' governmental and enterprise fund capital assets. Detailed perpetual capital assets inventory records with all necessary information were not maintained and the Town did not perform period physical inventories of Town-owned assets.

Effect: The failure to maintain complete and accurate property inventory records result can result in the loss or misuse to Town property. Adequate records may enhance efforts to obtain optimum insurance levels and provide important proof-of-loss evidence when insurance claims are filed.

Context: Due to the lack of capital assets records, we were unable to determine accurate values for the followings funds of the financial statements:

Statement of Net Position:

Governmental Activities – Capital assets	\$	1,030,008
Business-type Activities – Capital assets	\$	1,744,433

Statement of Activities:

Governmental Activities – depreciation expense	\$	0
Business-type Activities – depreciation expense	\$	0

SCHEDULE OF FINDINGS AND RESPONSES (Continued)

Statement of Net Position – Proprietary Funds:

Water fund- Capital assets	\$	1,445,183
Sewer fund – Capital assets	\$	174,701
Solid Waste fund – Capital assets	\$	124,549

Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds:

Water fund – depreciation expense	\$	0
Sewer fund – depreciation expense	\$	0
Solid Waste fund – depreciation expense	\$	0

Cause: The Town does not maintain capital asset schedules.

Recommendation:

- 1) The Town should develop a capitalization policy showing a capitalization threshold, estimated useful lives of assets, and systematic and rational depreciation methods.
- 2) The Town should perform a physical inventory of all owned assets to determine accurate historical costs.
- 3) The Town should compute the aggregate amount of depreciation it has incurred over time on the depreciable assets it currently owns and has put into service.
- 4) The Town should report in the Enterprise funds Statement of Net Position and in the Government-wide Statement of Net Position the appropriate amount of depreciable assets, net of accumulated depreciation. The Town should report in the Enterprise Funds Statement of Revenues, Expenses, and Changes in Net Position and the government-wide Statement of Activities the appropriate amount of annual depreciation expense.

2014-004 Reporting of Intercap Loans Related to Special Improvements (Repeat from Biennial 2013-001):

Criteria: Generally Accepted Accounting Principles (GAAP) require that the Town report an asset and corresponding liability for the amount of which the Town will receive in future periods in order to pay the principal on the related debt. GAAP also requires the Town to report proceeds of new debt in the fund that is accountable for the debt.

Condition: In fiscal year 2012, the Town of Sunburst issued additional debt related to the Street Improvement SID. The Town did not record a corresponding amount of Deferred Assessment Receivable (Asset) and Deferred Assessment Revenue (Liability) in relation to the new SID debt.

Also, in fiscal year 2012, the Town of Sunburst issued additional debt to be accounted for and financed by revenues of the Gas Tax fund. The Town incorrectly reported the debt as a portion of the Street Improvement SID debt.

Effect: Deferred special assessments receivable reported in the accounting records do not agree to the subsidiary ledger.

Context: The Town reports deferred special assessments receivable of \$161,967 and the subsidiary ledger reports \$329,920 for a difference of \$167,953.

Cause: The Town was not aware of the generally accepted reporting requirements for special improvement districts and did not record the correct assets and corresponding liabilities. In addition, the Town incorrectly recorded proceeds from debt in the Street SID fund rather than in the Other Governmental funds opinion unit.

Recommendation: We recommend that the Town obtain assistance in determining and recording the proper amount of Special Assessments Receivable Deferred and corresponding Deferred Revenue for future fiscal years.

2014-005 Inadequate Water Fund Cash Reserves (repeat finding from Biennial 2013 – 13-10):

Criteria: Section 12 of the \$415,000 Water System Revenue Bonds, Series 1980 requires that the revenue bond “reserve account is to be accumulated at a minimum rate of \$200 per month until there is a minimum of \$24,060 in the account.” Section 14 of the \$200,000 Water System Revenue bonds, Series 1992 requires that the revenue bond “reserve account is to be accumulated at a minimum rate of \$127 per month until there is a minimum of \$15,176 in the account.”

Condition: The Town’s cash balances do not allow compliance with bonding requirements.

SCHEDULE OF FINDINGS AND RESPONSES (Continued)

Effect: The Town does not comply with its revenue bond requirements.

Context: At June 30, 2014, the water fund did not have adequate cash on hand to allow for compliance with bond cash reserve requirements.

Cause: The town does not generate enough cash collections to ensure positive cash flows in the water fund.

Recommendation: We recommend the Town increase its water fund rates to comply with the bond requirements.

2014-006 Water Bond Covenants:

Criteria: The water bond covenants require the Town produce net operating revenues during each fiscal year not less than 120% of the maximum annual principle and interest payable in the current or any future fiscal year.

Condition: The Town does not have sufficient net operating revenues to meet water bond covenants.

Effect: The Town is out of compliance with the Water bond covenants

Context: The Town's net revenues for fiscal year-ended June 30, 2014 were \$4,197 and the required amount based on bond requirements was approximately \$45,028.

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

Recommendation: We recommend the Town council review its water rates and adjust rates or expenses to ensure net operating revenues comply with the bond requirements.

2014-007 Management's Discussion and Analysis (repeat finding from Biennial 2013-009):

Criteria: Governmental Accounting Standards Board Statement number 34 (GASB-34) requires the MDA to be presented in the front of the financial statements as required supplementary information.

Condition: The Town did not present a Management's Discussion and Analysis (MDA) for the fiscal year 2014 audit report.

Effect: The Town is not in compliance with GASB-34.

Context: The Town did not present a Management's Discussion and Analysis (MDA) for the fiscal year 2014 audit report.

Cause: Working on other items needed for a clean audit report

Recommendation: We recommend the Town prepare the MD&A as required by GASB-34.

2014-008 Exceeding Budget Authority (repeat finding from Biennial 2013-008):

Criteria: Section 7-6-4005(1) Montana Code Annotated (MCA) states "Local government officials may not make a disbursement or expenditure or incur an obligation in excess of the total appropriations for a fund."

Condition: The Town expenditures exceeded its' budget appropriations in the sewer fund and garbage fund.

Effect: The Town is not in compliance with the budget laws found in MCA.

Context: The Town exceeded its' budget appropriations in the sewer fund by \$101,891 and in the garbage fund by \$11,818.

Cause: The Town did not monitor its expenditures and adjust appropriations when needed.

Recommendation: We recommend the Town monitor its' expenditures against the budget on a monthly basis and amended the budget when unanticipated expenditures occur that were not originally included in the budget appropriation.

SCHEDULE OF FINDINGS AND RESPONSES (Continued)

2014-009 Segregation of Duties (repeat finding from Biennial 2013-006):

Criteria: Proper internal controls require a segregation of duties between asset handling and asset accountability to safeguard assets. Review and approval of journal vouchers is also necessary for strong internal controls.

Condition: The clerk perform all functions relating to the accounting and reporting function.

Effect: When the asset handling and accounting are performed by the same person, there is a significantly higher risk of loss related to these assets due to fraud.

Context: The clerk receives payments, posts to the accounting system, makes deposits, and reconciles the bank statements. The clerk therefore performs all functions of asset handling and accounting related to cash receipts. In addition, the Town does not have a process for review and approval of adjusting journal vouchers.

Cause: A small office staff limits the number of individuals available to segregation of duties.

Recommendation: We recommend that the Council continue to evaluate internal controls over segregation of duties to ensure the proper safeguarding of assets. We also recommend that the Town implement a journal voucher review process.