

Doyle & Associates, P.C.

The accompanying financial statements and reports are intended for the original recipient.

They must be presented in their entirety and may not be modified in any manner.

**CITY OF THOMPSON FALLS
SANDERS COUNTY, MONTANA**

FINANCIAL & COMPLIANCE REPORTS

FOR THE YEAR ENDED JUNE 30, 2014
(With Independent Auditor's Reports Thereon)

CITY OF THOMPSON FALLS
Sanders County, Montana

Table of Contents

For the Fiscal Year Ended June 30, 2014

Organization.....	1
Management’s Discussion and Analysis.....	2
Independent Auditor’s Report.....	11
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position.....	13
Statement of Activities.....	14
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	15
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position.....	16
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds.....	17
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	18
Statement of Net Position – Proprietary Funds.....	19
Statement of Revenues, Expenses, and Changes in Net Position- Proprietary Funds.....	20
Combined Statement of Cash Flows – Proprietary Fund Types.....	21
Statement of Fiduciary Net Position.....	22
Statement of Changes in Fiduciary Net Position.....	23
Notes to the Financial Statements.....	24
Required Supplementary Information:	
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual General Fund and Major Special Revenue Fund.....	42
Notes to the Budget and Actual Schedule.....	43
Independent Auditor’s Report:	
On Internal Control over Financial Reporting and on Compliance and Other Matters.....	44

CITY OF THOMPSON FALLS

Sanders County, Montana

Organization

Fiscal Year Ended June 30, 2014

Mayor.....	Carla Parks
City Council.....	Linda McKahan Raoul Ribiero Earlene Powell Dennis Newman Tom Eggensperger Jim Haughton
City Clerk/Treasurer.....	Chelsea Peterson
Assistant Clerk.....	Nadean Nelson
Chief of Police.....	Charles Hammett
City Judge.....	David S Johnson
Public Works Director.....	Jerry Lacy
Attorney.....	Claude Burlingame

Management's Discussion and Analysis

June 30, 2014

As management of the City of Thompson Falls, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City 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 City's financial statements, which follow this narrative.

Financial Highlights

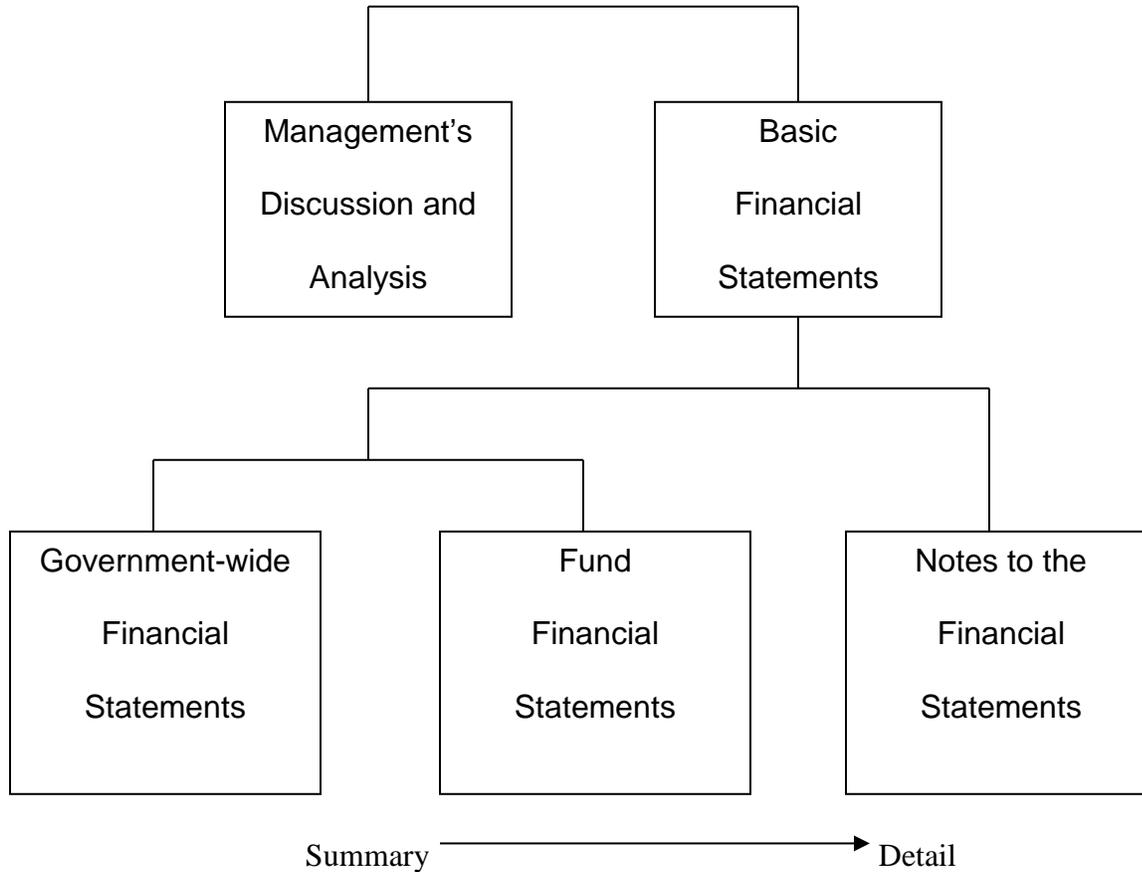
- The assets of the City of Thompson Falls exceeded its liabilities at the close of the fiscal year by \$4,971,694
- The government's total net position increased by \$216,125 primarily due to the increase of sewer and water fees and the resulting increase in cash (about \$132,000) and the receipt of a federal grant passed through the Montana Department of Transportation for a street sweeper (\$162,856) and a CTEP Railroad Park project from the State plus other park grants and contributions for an increase of \$120,643 to that area, which increased the capital assets and offset the depreciation expense for the year. We also decreased the noncurrent liabilities by over \$111,000 and increased current liabilities by over \$15,000. This was a result of refinancing our bond debt for lower interest rates and shorter terms.
- As of the close of the current fiscal year, the City of Thompson Falls' governmental funds reported combined ending fund balances of \$524,879; which is within \$650 of last year's \$524,629. This small change reflects a flattening tax base.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$323,184, or 46.3% of total general fund expenditures for the fiscal year. The prior year percent had been 50.8%.
- The City's total bond and loan indebtedness decreased by \$110,662 (8.26%) during the current fiscal year. The decrease consists of the payment of intercap loans in the amount of \$24,316 and SRF Loan and revenue bond payments in the amount of \$86,346. The latter were refunded with the State at lower interest rates (2.25% on the 2005 and 2008 bonds and 3% on the larger 1998 bond; that bond was at 4.75%). This will give us a significant interest savings over the years.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Thompson Falls' basic financial statements. The City's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, 3) notes to the financial statements (see Figures 1 and 4) other required supplementary information in addition to the basic financial statements themselves. The basic financial statements present two different views of the City 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 City of Thompson Falls.

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements (pages 13 and 14) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the City's financial status.

The next statements (pages 15 through 23) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the City'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) the fiduciary fund statements.

The next section of the basic financial statements is the **Notes to Financial Statements**. The **Notes to Financial Statements** explain in detail some of the data contained in those statements. After the Notes, **Supplemental Information** is provided to show budgetary information to the City's major funds which are the General Fund and the Library Fund.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the City'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 City's financial status as a whole.

The two government-wide statements report the City's net position and how it has changed. Net position is the difference between the City's total assets and total liabilities. Measuring net position is one way to gauge the City'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 City's basic services such as public safety, public works, parks and recreation, and general administration. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the City charges customers to provide. These include the water and sewer services offered by the City of Thompson Falls.

The government-wide financial statements are on Exhibits 2 and 3 of this report.

Fund Financial Statements

The fund financial statements (see Figure 3) provide a more detailed look at the City'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 City of Thompson Falls 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 City's budget ordinance. All of the funds of the City of Thompson Falls 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 City'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 City'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.

Fund Financial Statements

Governmental Funds – continued

The City of Thompson Falls 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 City, the management of the City, and the decisions of the Council about which services to provide and how to pay for them. It also authorizes the City to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund (page 43) demonstrates how well the City complied with the budget ordinance and whether or not the City 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 is shown at the end of the budgetary statement.

Proprietary Funds – The City of Thompson Falls has one kind of proprietary fund. Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Thompson Falls uses enterprise funds to account for 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 are on pages 24 through 41 of this report.

Other Required Supplemental Information – In addition to the basic financial statements and accompanying notes, this report also presents the Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual for the General Fund and the major special revenue fund on page 42.

Government-Wide Financial Analysis

The City of Thompson Falls' Net Position

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets of the City of Thompson Falls exceeded liabilities by \$4,971,694 as of June 30, 2014. The City's net position increased by \$216,123 for the fiscal year ended June 30, 2014. The City of Thompson Falls uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Thompson Falls' investment in its capital assets (\$3,706,975) is reported net of the 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 City of Thompson Falls' net position, \$451,285 represents resources that are subject to external restrictions on how they may be used and the remaining balance of \$813,434 is unrestricted.

Figure 2

Net Position	Governmental Activities			Business-type Activities		
	Change			Change		
<u>Net Position</u>						
	Governmental Activities			Business- Type Activities		
	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>Increase</u> <u>(Decrease)</u>	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>Increase</u> <u>(Decrease)</u>
Current and other assets	\$ 591,494	\$ 582,163	\$ 9,331	\$ 562,106	663,935	(101,829)
Capital assets	1,382,921	1,210,820	172,101	3,786,860	3,744,785	42,075
Total assets	1,974,415	1,792,983	181,432	4,348,966	4,408,720	(59,754)
Long-term debt outstanding	31,814	50,658	(18,844)	1,187,730	1,289,022	(101,292)
Other liabilities	103,775	78,600	25,175	28,368	26,863	1,505
Total liabilities	135,589	130,249	5,340	1,216,098	1,315,885	(99,787)
Net Position:						
Net investment in capital assets	1,341,632	1,160,162	181,470	2,365,343	2,455,764	(90,421)
Restricted	217,498	170,573	46,925	233,787	221,787	12,000
Unrestricted (deficit)	279,696	331,999	(52,303)	533,738	415,284	118,454
Total net position	\$ 1,838,826	\$ 1,662,734	\$ 176,092	\$ 3,132,868	\$ 3,092,835	\$ 40,033

City of Thompson Falls' Changes in Net Position

Figure 3

	<u>Governmental Activities</u>		<u>Change Increase (Decrease)</u>	<u>Business-type Activities</u>		<u>Change Increase (Decrease)</u>
	<u>6/30/2014</u>	<u>6/30/2013</u>		<u>6/30/14</u>	<u>6/30/2013</u>	
Revenues						
Program revenues (by major source):						
Charges for services	\$ 79,133	\$ 74,426	\$ 4,707	\$ 479,823	\$ 442,951	\$ 36,872
Operating grants and contributions	166,520	204,403	(37,883)	-	-	-
Capital grants and contributions	230,061	41,798	188,263	-	-	-
General revenues (by major source):						
Property taxes for general purposes	316,951	265,093	51,858	-	-	-
Local option tax	52,446	51,401	1,045	-	-	-
Permits & Licenses	2,186	2,016	170	-	-	-
Unrestricted Fed/State shared revenues	5,925	-	5,925	-	-	-
Unrestricted grants and contributions	-	6,575	(6,575)	-	-	-
Unrestricted investment earnings	713	1,228	(515)	1,670	2,704	(1,034)
Miscellaneous	12,540	5,578	6,962	35,160	-	35,160
State Entitlement	314,150	302,966	11,184	-	-	-
Total revenues	1,180,625	955,484	225,141	516,653	445,655	70,998
Program expenses						
General government	216,710	190,677	26,033			
Public safety	299,863	228,604	71,259			
Public works	244,810	247,229	(2,419)			
Public health	1,187	1,203	(16)			
Culture and recreation	216,990	232,969	(15,979)			
Debt service - interest	454	757	(303)			
Miscellaneous	24,518	28,895	(4,377)			
Water				350,484	357,867	(7,384)
Sewer				126,136	136,805	(10,669)
Total expenses	1,004,532	930,334	74,198	476,620	494,672	(18,052)
Excess (deficiency) before special items and transfers	176,092	25,150	150,942	40,033	(49,017)	89,050
Increase (decrease) in Net Position	\$ 176,092	\$ 25,150	\$ 150,942	\$ 40,033	\$ (49,017)	\$ 89,050

Governmental activities: The Governmental activities increased the City's net position by \$176,091 (net of adjustments). This compares with the prior year's increase of \$25,150.

- The City's governmental revenues increased by \$195,402 (net of adjustments) over the prior year revenues and the governmental expenditures increased by \$44,461 from the prior year expenditures. The expenditure increase was in the most due to a cost of living increase for our employees and the hiring of a SRO officer. The reimbursement for that officer also increased our revenues, as did a State donation for a new street sweeper.

Business-type activities: The business-type activities increased the City of Thompson Falls' net position by \$40,033. This is an \$89,049 increase as compared to the prior years \$49,017 loss of net position. Key elements of this increase are as follows:

- The Sewer Fund and the Water Fund both had rate increases and increased revenue by \$37,047. We were out of compliance with our bonds and the required reserve in our Sewer. This was a much needed step to bring us back into compliance.
- We had over \$34,000 in timber income from logging Sewer property. This is one-time revenue and will not be repeated in the foreseeable future.

Financial Analysis of the City's Funds

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

Governmental Funds: The focus of the City of Thompson Falls governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the City of Thompson Falls' 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 City of Thompson Falls. At the end of the current fiscal year, unreserved and total fund balance of the General Fund was \$323,184. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 46.3% percent of total General Fund expenditures.

At June 30, 2014, the governmental funds of the City of Thompson Falls reported a combined fund balance of \$524,879, a \$650 increase over last year's combined fund balance.

Governmental Fund Budgetary Highlights: During the fiscal year, the City made 5 expenditure line-item budget adjustments for funds.

- 1) The Fort Thompson Playground Project project is being funded by donations and grants. There were \$4,250 in equipment purchases, construction, and general expenses for the project in FYE 6/30/14 and revenue for that year of \$2,023.
- 2) We had an award from the Frisbie-Morbella Foundation and a donation from Avista for the completion of a play area adjacent to the swimming pool. \$3660 was expended for that.
- 3) We received \$3880 from MRL and a \$1500 donation from North Western Energy which were expended on our Phase 2 Railroad Park Project.
- 4) We had an amended expenditure of \$58,365 for the completion of our Phase 2 Railroad Park CTEP project. With that was amended revenue amounts from CTEP of \$62, 655.
- 5) Due to the lateness of the prior year audit, we shifted the expense into the current year, so we had two years of audit fees. This increased our expense by \$4000 over original budget.

Total revenues received for the governmental activities were \$1,172,451. They exceeded the budgeted revenues of \$1,152,726 by \$19,725. Our total governmental funds expenditures were \$1,171,801. Our budgeted expenditures for governmental activities were \$1,263,875. We underspent our budgeted expenditures by \$92,074.

Proprietary Funds: The City'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 at the end of the fiscal year amounted to \$533,738. The total increase in net position for all proprietary funds was \$40,033. This increase was a result of a net gain from operations of the same amount. This gain represents a turnaround for our utilities of \$89,050. On September 9th, of 2014 we passed Resolution #636 to increase our sewer fees by \$4.33. This resolution includes two additional increases of the same amount to be initiated in October of 2015 and 2016. By our

Management Discussion and Analysis
 City of Thompson Falls

calculations, along with the 2014 year’s increase, these will bring us into compliance with our lenders operating surplus requirements.

Capital Asset and Debt Administration

Capital assets: The City of Thompson Falls’ investment in capital assets for its governmental and business–type activities as of June 30, 2014, totals \$4,935,994 (net of accumulated depreciation). These assets include land, buildings, improvements other than buildings, library books and equipment, machinery and equipment, roads and streets infrastructure, and utility system infrastructure.

Major capital asset transactions during the year include the following additions (there were no significant demolitions or disposals):

- We had the Swimming Pool Play Ground added for \$19,638.
- A Street Sweeper was added at a value of \$188,089.
- A Street Sander was added for \$7,080.
- Completion of Railway Park 4 CTEP project: 2014 expenditures- \$76,520 plus prior year’s of \$10,784
- Computer server for \$6,255 for the Library
- Water Fountain for Fort Thompson Play area for \$4,250
- Pool Park Playground equipment for \$4,289

City of Thompson Falls’ Capital Assets

Figure 4

	Governmental Activities		Business- Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 286,456	\$ 286,456	\$ 7,500	\$ 7,500	\$ 293,956	\$ 293,956
Buildings & systems	968,971	968,971	12,200	12,200	981,171	981,171
Improvements other than buildings	237,246	160,726	5,400	5,400	242,646	166,126
Machinery and equipment	1,010,630	806,913	167,771	167,773	1,178,401	974,686
Library equipment and books	81,254	74,999			81,254	74,999
Infrastructure	698,675	698,675	7,152,965	7,152,966	7,851,640	7,851,641
Total	\$ 3,283,232	\$ 2,996,740	\$ 7,345,836	\$ 7,345,839	\$ 10,629,068	\$ 10,342,579
Less Accumulated Depreciation	(1,900,311)	(1,785,919)	(3,792,763)	(3,601,055)	(5,693,074)	(5,386,974)
Net Assets	\$ 1,382,921	\$ 1,210,821	\$ 3,553,073	\$ 3,744,784	\$ 4,935,994	\$ 4,955,605

Additional information on the City’s capital assets can be found in note 3 beginning on page 33 of this report.

Long-term Debt. As of June 30, 2014, the City of Thompson Falls had total bonded debt outstanding of \$1,254,200. The bonded debt of the City debt represents bonds secured solely by specified revenue sources (i.e. revenue bonds). Other debt includes loans payable.

City of Thompson Falls' Outstanding Debt
Revenue Bonds, Loans Payable

Figure 5

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenue bonds	\$ -	\$ -	\$ 1,167,854	\$ 1,254,200	\$ 1,167,854	\$ 1,254,200
Loans Payable	41,289	50,658	19,875	34,822	61,164	85,480
Total	\$ 41,289	\$ 50,658	\$ 1,187,729	\$ 1,289,022	\$ 1,229,018	\$ 1,339,680

The City of Thompson Falls' total debt decreased by \$110,662 for the fiscal year. In September of 2014 the City refinanced their bonds with State of Montana for quicker payoff dates and lower rates. In the long term the savings to the City will be over \$85,000 and we retain essentially the same cash expenditure for each year.

Additional information regarding the City of Thompson Falls' long-term debt can be found in note 4 beginning on page 34 of this report.

Prepared by Mayor Carla Parks from Financial Statements provided by Treasurer Chelsea Peterson.

Requests for Information

This report is designed to provide an overview of the City'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 either:

Carla Parks, Mayor or
 Chelsea Peterson, City Clerk/Treasurer
 City of Thompson Falls
 PO Box 99
 Thompson Falls, Montana 59873
 Phone number (406) 827-3557

* * * * *

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INDEPENDENT AUDITOR'S REPORT

Mayor and City Council
City of Thompson Falls
Sanders County
Thompson Falls, 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 of the City of Thompson Falls, Sanders County, Montana (the "City") as of and for the year ended June 30, 2014 and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of

expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 2 through 10 and page 42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2015 on our consideration of the City of Thompson Falls's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Thompson Falls's internal control over financial reporting and compliance.

Daflo & Associates, P.C.

Lolo, Montana
June 30, 2015

CITY OF THOMPSON FALLS, SANDERS COUNTY, MONTANA

Statement of Net Position June 30, 2014

	Primary Government		
	Governmental Activities	Business-type Activities	2014 Total
<u>Assets</u>			
Current assets			
Cash and Cash Equivalents	\$ 526,338	\$ 540,556	\$ 1,066,894
Property Taxes Receivable	65,156	-	65,156
Accounts Receivable (net)	-	21,550	21,550
Total Current Assets	591,494	562,106	1,153,600
Non-current Assets			
Restricted Cash	-	233,787	233,787
Capital Assets - Net	1,382,921	3,553,073	4,935,994
Total Non-current Assets	1,382,921	3,786,860	5,169,781
Total Assets	1,974,415	4,348,966	6,323,381
<u>Liabilities</u>			
Current liabilities			
Accrued Liabilities	1,459	414	1,873
Compensated Absences due within one year	65,112	16,593	81,705
Current Portion of Long-Term Debt	9,475	99,300	108,775
Total Current Liabilities	76,046	116,307	192,353
Non-current Liabilities			
Compensated Absences	18,365	8,433	26,798
Long-Term Debt	31,814	1,088,430	1,120,244
OPEB Liability	9,364	2,928	12,292
Total Non-current Liabilities	59,543	1,099,791	1,159,334
Total Liabilities	135,589	1,216,098	1,351,687
Net Position			
Net Investment in capital assets	1,341,632	2,365,343	3,706,975
Restricted Net Position	217,498	233,787	451,285
Unrestricted Net Position	279,696	533,738	813,434
Total Net Position	\$ 1,838,826	\$ 3,132,868	\$ 4,971,694

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

CITY OF THOMPSON FALLS, SANDERS COUNTY, MONTANA

Statement of Activities
For the Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants & Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	2014 Total
Primary government:							
Governmental activities:							
General government	\$ 216,710	\$ 8,776	\$ -	\$ -	\$ (207,934)	\$ -	\$ (207,934)
Public safety	299,863	45,465	29,737	-	(224,661)	-	(224,661)
Public works	244,810	4,275	38,182	162,856	(39,497)	-	(39,497)
Public health	1,187	-	-	-	(1,187)	-	(1,187)
Culture and recreation	216,990	20,617	98,601	67,205	(30,567)	-	(30,567)
Interest expense	454	-	-	-	(454)	-	(454)
Miscellaneous expense	24,518	-	-	-	(24,518)	-	(24,518)
Total governmental activities	<u>1,004,532</u>	<u>79,133</u>	<u>166,520</u>	<u>230,061</u>	<u>(528,818)</u>	<u>-</u>	<u>(528,818)</u>
Business-type activities:							
Water	350,484	369,954	-	-	-	19,470	19,470
Sewer	126,136	110,044	-	-	-	(16,092)	(16,092)
Total business-type activities	<u>476,620</u>	<u>479,998</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,378</u>	<u>3,378</u>
Total primary government	<u>\$ 1,481,152</u>	<u>\$ 559,131</u>	<u>\$ 166,520</u>	<u>\$ 230,061</u>	<u>(528,818)</u>	<u>3,378</u>	<u>(525,440)</u>
General Revenues:							
Property taxes					316,951	-	316,951
Local option tax					52,446	-	52,446
Licenses and permits					2,186	-	2,186
Unrestricted Federal/State shared revenues					5,925	-	5,925
State entitlement					314,150	-	314,150
Unrestricted investment earnings					712	1,670	2,382
Miscellaneous					12,540	34,985	47,525
Total general revenues					<u>704,910</u>	<u>36,655</u>	<u>741,565</u>
Change in net position					176,092	40,033	216,125
Total net position - July 1, 2013					1,662,734	3,092,835	4,755,569
Total net position - June 30, 2014					<u>\$ 1,838,826</u>	<u>\$ 3,132,868</u>	<u>\$ 4,971,694</u>

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

CITY OF THOMPSON FALLS, SANDERS COUNTY, MONTANA

Balance Sheet
Governmental Funds
June 30, 2014

	Major Funds		Other Governmental Funds	Total Governmental Funds
	General	Library		
<u>Assets</u>				
Current assets:				
Cash and Cash Equivalents	\$ 322,367	\$ 88,381	\$ 115,590	\$ 526,338
Property Taxes Receivable	33,126	13,581	18,449	65,156
Due from Other Funds	2,276	-	-	2,276
Total Current Assets	<u>357,769</u>	<u>101,962</u>	<u>134,039</u>	<u>593,770</u>
Total Assets	<u>\$ 357,769</u>	<u>\$ 101,962</u>	<u>\$ 134,039</u>	<u>\$ 593,770</u>
<u>Liabilities:</u>				
Current liabilities				
Due to Other Funds	-	-	2,276	2,276
Accrued Liabilities	1,459	-	-	1,459
Total Liabilities	<u>1,459</u>	<u>-</u>	<u>2,276</u>	<u>3,735</u>
<u>Deferred Inflows of Resources:</u>				
Uncollected Property Taxes	33,126	13,581	18,449	65,156
Total Liabilities and Deferred Inflows	<u>34,585</u>	<u>13,581</u>	<u>20,725</u>	<u>68,891</u>
<u>Fund Balance:</u>				
Restricted	-	88,381	63,961	152,342
Committed	-	-	49,353	49,353
Assigned	87,958	-	-	87,958
Un-Assigned	235,226	-	-	235,226
Total Fund Balance	<u>323,184</u>	<u>88,381</u>	<u>113,314</u>	<u>524,879</u>
Total Liabilities and Deferred Inflows and Fund Balance	<u>\$ 357,769</u>	<u>\$ 101,962</u>	<u>\$ 134,039</u>	<u>\$ 593,770</u>

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

CITY OF THOMPSON FALLS, SANDERS COUNTY, MONTANA

Reconciliation of the Balance Sheet Governmental Funds
to the Statement of Net Assets
June 30, 2014

Fund balance as reported in the governmental fund statement		\$	524,879
Add assets not reported in the governmental funds statements:			
Capital assets (net of accumulated depreciation)			1,382,921
Less liabilities not reported in the governmental fund statements:			
Loans payable	(41,289)		
Compensated absences	(83,477)		
OPEB liability	<u>(9,364)</u>		(134,130)
Deferred revenue for property taxes recognized as revenue in the government-wide statements			<u>65,156</u>
Net assets as reported in the government-wide statement of net assets		\$	<u><u>1,838,826</u></u>

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

CITY OF THOMPSON FALLS, SANDERS COUNTY, MONTANA

Statement of Revenues, Expenditures, and Changes in Fund Balance
 Governmental Funds
 For the Fiscal Year Ended June 30, 2014

	Major Funds		Other Governmental Funds	Total Governmental Funds
	General	Library		
<u>Revenues:</u>				
Taxes	\$ 232,929	\$ 74,980	\$ 128,297	\$ 436,206
Licenses and Permits	2,186	-	-	2,186
Intergovernmental	562,718	17,054	36,682	616,454
Charges for Services	65,813	-	-	65,813
Fines and Forfeitures	8,776	-	-	8,776
Miscellaneous	20,169	13,613	8,522	42,304
Investment Earnings	664	48	-	712
Total Revenues	<u>\$ 893,255</u>	<u>\$ 105,695</u>	<u>\$ 173,501</u>	<u>\$ 1,172,451</u>
<u>Expenditures:</u>				
General Government	133,217	-	74,750	207,967
Public Safety	276,283	-	2,243	278,526
Public Works	106,038	-	59,527	165,565
Public Health	1,187	-	-	1,187
Culture and Recreation	95,305	93,552	8,866	197,723
Debt Service				
Principal	9,369	-	-	9,369
Interest	454	-	-	454
Capital Outlay	268,908	6,255	11,330	286,493
Miscellaneous	-	2,597	21,920	24,517
Total Expenditures	<u>890,761</u>	<u>102,404</u>	<u>178,636</u>	<u>1,171,801</u>
Change in Fund Balance	2,494	3,291	(5,135)	650
Fund Balance				
Beginning of the Year	<u>320,690</u>	<u>85,090</u>	<u>118,449</u>	<u>524,229</u>
End of the Year	<u>\$ 323,184</u>	<u>\$ 88,381</u>	<u>\$ 113,314</u>	<u>\$ 524,879</u>

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

CITY OF THOMPSON FALLS, SANDERS COUNTY, MONTANA

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

Changes in fund balances as reported in the governmental funds statement	\$ 650
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:	
Capital assets purchased	286,493
Depreciation Expense	(114,392)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the fund financial statements:	
Taxes receivable (change in deferred revenue)	8,171
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term debt in the Statement of Net Assets:	
Long-term debt principal payments	9,369
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental fund financial statements:	
Change in compensated absence liability	(11,465)
Change in other post employment benefits	(2,734)
Changes in net assets on the statement of activities	<u>\$ 176,092</u>

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

CITY OF THOMPSON FALLS, SANDERS COUNTY, MONTANA

Statement of Net Position

Proprietary Funds

June 30, 2014

	Major Enterprise Funds		Totals
	Water	Sewer	
<u>Assets</u>			
Current assets:			
Cash and Cash Equivalents	\$ 443,430	\$ 97,126	\$ 540,556
Accounts Receivable	16,035	5,515	21,550
Total Current Assets	<u>459,465</u>	<u>102,641</u>	<u>562,106</u>
Non-current Assets:			
Restricted Assets:			
Cash and Cash Equivalents	211,171	22,616	233,787
Capital Assets (net of accumulated depreciation)	2,479,567	1,073,506	3,553,073
Total Non-current Assets	<u>2,690,738</u>	<u>1,096,122</u>	<u>3,786,860</u>
Total Assets	<u>3,150,203</u>	<u>1,198,763</u>	<u>4,348,966</u>
<u>Liabilities:</u>			
Current liabilities			
Accrued Liabilities	414	-	414
Current Portion of Compensated Absences	12,878	3,716	16,594
Current Portion of Long-term Debt	91,000	8,300	99,300
Total Current Liabilities	<u>104,292</u>	<u>12,016</u>	<u>116,308</u>
Non-current Liabilities			
Compensated Absences	6,343	2,090	8,433
OPEB Liability	2,066	862	2,928
Long-Term Debt	894,325	194,104	1,088,429
Total Non-current Liabilities	<u>902,734</u>	<u>197,056</u>	<u>1,099,790</u>
Total Liabilities	<u>1,007,026</u>	<u>209,072</u>	<u>1,216,098</u>
<u>Net Position</u>			
Invested in Capital Assets net of Related Debt	1,494,242	871,101	2,365,343
Restricted for:			
Debt Service	99,553	6,874	106,427
Replacement/Depreciation	111,618	15,742	127,360
Unrestricted	437,764	95,974	533,738
Total Net Position	<u>\$ 2,143,177</u>	<u>\$ 989,691</u>	<u>\$ 3,132,868</u>

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

CITY OF THOMPSON FALLS, SANDERS COUNTY, MONTANA

Statement of Revenues, Expenses, and Changes in Fund Net Position

Proprietary Funds

For the Year Ended June 30, 2014

	Major Enterprise Funds		Totals
	Water	Sewer	
<u>Operating revenues</u>			
Charges for Services	\$ 369,779	\$ 110,044	\$ 479,823
Miscellaneous	175	34,985	35,160
Total Operating Revenues	<u>369,954</u>	<u>145,029</u>	<u>514,983</u>
<u>Operating expenses:</u>			
Personal Services	123,228	32,894	156,122
Supplies	24,775	3,797	28,572
Purchased Services	37,310	29,080	66,390
Fixed Charges	6,231	1,553	7,784
Depreciation	137,099	54,614	191,713
Total Operating Expenses	<u>328,643</u>	<u>121,938</u>	<u>450,581</u>
Operating Income (Loss)	<u>41,311</u>	<u>23,091</u>	<u>64,402</u>
<u>Nonoperating Revenues (Expenses):</u>			
Interest Revenue	1,500	170	1,670
Debt Service Interest Expense	(21,841)	(4,198)	(26,039)
Total Nonoperating Revenues (Expenses)	<u>(20,341)</u>	<u>(4,028)</u>	<u>(24,369)</u>
Change in Net Position	20,970	19,063	40,033
Total Net Position - July 1, 2013	2,122,207	970,628	3,092,835
Total Net Position - June 30, 2014	<u>\$ 2,143,177</u>	<u>\$ 989,691</u>	<u>\$ 3,132,868</u>

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

CITY OF THOMPSON FALLS, SANDERS COUNTY, MONTANA

Combined Statement of Cash Flows
All Proprietary Fund Types
For the Year Ended June 30, 2014

	Business-Type Activities		Totals
	Water	Sewer	
<u>Cash flows from operating activities:</u>			
Cash received from customers	\$ 381,423	\$ 145,224	\$ 526,647
Cash payments to suppliers for goods and services	(68,316)	(34,430)	(102,746)
Cash payments to employees and professionals	(122,163)	(32,453)	(154,616)
Net cash provided by operating activities	<u>190,944</u>	<u>78,341</u>	<u>269,285</u>
<u>Cash flows from capital and related financing activities:</u>			
Principal paid on capital debt	(95,947)	(4,789)	(100,736)
Interest paid on capital debt	(21,841)	(4,198)	(26,039)
Net cash used for capital and related financing activities	<u>(117,788)</u>	<u>(8,987)</u>	<u>(126,775)</u>
<u>Cash flows from investing activities:</u>			
Interest on investments	1,500	170	1,670
Net cash provided by investing activities	<u>1,500</u>	<u>170</u>	<u>1,670</u>
Net increase (decrease) in cash and cash equivalents	74,656	69,524	144,180
Cash and cash equivalents at July 1, 2013	579,945	50,218	630,163
Cash and cash equivalents at June 30, 2014	<u>\$ 654,601</u>	<u>\$ 119,742</u>	<u>\$ 774,343</u>
<u>Reconciliation of operating income to net cash provided by operating activities:</u>			
Operating income (loss)	\$ 41,311	\$ 23,091	\$ 64,402
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation	137,099	54,614	191,713
Decrease (Increase) in accounts receivable	11,469	195	11,664
(Decrease) Increase in OPEB liability	601	160	761
Decrease in compensated absences payable	464	281	745
Net cash provided by operating activities	<u>\$ 190,944</u>	<u>\$ 78,341</u>	<u>\$ 269,285</u>

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

CITY OF THOMPSON FALLS, SANDERS COUNTY, MONTANA

Fiduciary Funds
 Statement of Fiduciary Net Position
 June 30, 2014

	Pension Trust Funds	Agency Funds
	<u> </u>	<u> </u>
Assets		
Cash and Investments	\$ 18,098	\$ 64,624
Taxes Receivable	13	-
Total Assets	<u>\$ 18,111</u>	<u>\$ 64,624</u>
Liabilities		
Warrants Payable	\$ -	\$ 62,583
Due to Other Governments	-	2,041
Total Liabilities	<u>-</u>	<u>64,624</u>
Net Position		
Held in Trust for Pension Benefits and Other Purposes	<u>\$ 18,111</u>	<u>\$ -</u>

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

CITY OF THOMPSON FALLS, SANDERS COUNTY, MONTANA

Fiduciary Funds
 Statement of Changes in Fiduciary Net Position
 For the Fiscal Year Ended June 30, 2014

	Pension Trust Funds
Additions:	
Contributions:	
Property Taxes	\$ 22
Insurance Premium Apportionment	1,962
Donations	160
Investment Earnings	52
Total Additions	<u>2,196</u>
Deductions:	
Benefit Payments	8,640
Total Deductions	<u>8,640</u>
Change in Net Position	(6,444)
Net Position July 1, 2013	24,555
Net Position June 30, 2014	<u>\$ 18,111</u>

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

CITY OF THOMPSON FALLS, SANDERS COUNTY, MONTANA

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Introduction

The financial statements of the City of Thompson Falls, Montana (the City) have been prepared in conformity with generally accepted accounting principles as applied to government entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The accounting and reporting framework and the significant accounting principles and practices of the City are discussed in the sections of this Note. The remaining Notes are organized to provide explanations, including required disclosures, of the City's financial activities for the fiscal year ended June 30, 2014.

B. Reporting Entity

The City is a political subdivision of the State of Montana, incorporated in 1910. The City is governed by a Mayor and six Council members, elected at large by voters of the City.

The City is considered a primary government because it is a general-purpose local government. Further, it meets the following criteria: (a) it has a separately elected governing body (b) it is legally separate and (c) it is fiscally independent from the State and other local governments. The City has no component units.

C. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The government-wide financial statements include the Statement of Net Position and the Statement of Activities. These statements report financial information for the primary government (the City). These statements include the financial activities of the overall government, except for fiduciary activities.

These statements distinguish between the *governmental* and *business-type activities* of the City. Governmental activities generally are financed primarily through taxes, intergovernmental revenues and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for services provided.

The Statement of Activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees, fines, assessments and charges paid by the recipients of good or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

City of Thompson Falls, Sanders County, Montana
Notes to the Financial Statements (Continued)
June 30, 2014

Certain eliminations have been made as prescribed by GASB 34 in regard to inter-fund activities, payables and receivables. All internal balances in the Statement of Net Position have been eliminated.

Fund Financial Statements

Fund financial statements of the City are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. Funds are organized into three categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. Each major fund is displayed in a separate column in the governmental funds statements. All of the remaining funds are aggregated and reported in a single column as non-major funds. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise funds are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or
- c. If an individual fund has met the minimum criteria for mandatory major fund reporting in some years but not in others, the City may elect to always report it as a major fund to enhance consistency from year to year.

The City reports the following major governmental funds:

General Fund. This is the City's primary operating fund, which accounts for all financial resources of the City except those required to be accounted for in other funds. It accounts for many of the City's general and administrative services, such as legislative, financial, legal, police, fire and parks.

Library Fund. This special revenue fund accounts for the financial resources of the Thompson Falls Public Library.

The City reports the following major enterprise funds:

Water Fund. This fund accounts for the operating revenues and expenses of the public water utility system. This fund is maintained on the full accrual basis of accounting

Sewer Fund. This fund accounts for the operating revenues and expenses of the public sewer system. This fund is maintained on the full accrual basis of accounting.

Additionally, the City reports the following fiduciary and agency fund types:

Fiduciary. The City accounts for the Fire Relief Association Disability and Pension Fund as a fiduciary fund. The City is financially accountable, by law, to ensure that the Fire Relief Association and Pension Fund is properly funded based upon actuarial valuation of the liability to pay the retirement and disability benefits to the City's volunteer firefighters. The City is also responsible for the collection of taxes and intergovernmental revenues as well as making benefit payments to participants.

Agency. The City has two agency funds: Payroll and Claim Funds. Agency funds have no measurement focus.

D. Measurement Focus, Basis of Presentation and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

Government-wide statements and Proprietary Statements. The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time the liability is incurred, regardless of the timing of related cash flows.

Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, includes property taxes, grants, entitlements, and donations. On the accrual basis, revenues from property taxes are recognized in the fiscal year for which the taxes are levied. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which eligibility requirements have been met.

The City generally applies restricted resources to expenses incurred before using unrestricted resources when both restricted and unrestricted resources are available. Reimbursements are reported as reductions to expenses.

Governmental Fund Financial Statements. Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay current liabilities. The City considers revenues to be available if they are collected within sixty days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general long-term debt principal and interest which are reported as expenditures to the extent they have matured. Additionally, expenditures related to compensated absences and claims and judgments are recorded only when payment is due. General capital acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

Major revenue sources susceptible to accrual include property taxes, intergovernmental revenues, and investment income. Property and local option taxes not meeting the revenue recognition criteria at year-end have been reported as deferred revenue. Expenditure-driven grants are

recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. In general, other revenues are recognized when cash is received.

Proprietary funds distinguish between operating revenues and expenses and non-operating items. Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

E. Assets, Liabilities, and Net Position or Equity

1. Cash and Investments

Cash and investments may include cash and cash items; demand, time, savings, and fiscal agent deposits; investments in the State Short-Term Investment Pool (STIP); repurchase agreements, U.S. government treasury bills, notes, bonds, and other treasury obligations such as state and local government series; general obligations of certain agencies of the United States such as Federal Home Loan Bank; and U.S. government security money market funds if the fund meets certain conditions. Cash resources of the individual funds are combined to form a pool of cash and investments that is managed by the City Clerk. Investments of the pooled cash consist primarily of demand deposits and certificates of deposit. Interest income earned as a result of pooling is distributed monthly to the appropriate funds based on the month-end balance of cash in each fund.

The City issues checks in payment of its obligations. Cash balances in all funds are reported net of outstanding checks.

Investments are recorded at fair value in accordance with GASB Statement 31 with all investment income, including changes in the fair value of investments, reported as revenue in the financial statements.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the City considers all funds, including restricted assets, held in the City's cash management pool to be cash equivalents.

2. Receivables and Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. Outstanding receivables and payables are classified as "due to/from other funds" (current portion) or "advances to/from other funds" (non-current portion) on the fund balance sheets. All amounts are eliminated in the Statement of Net Position other than any outstanding balances between governmental-type and business-type that are classified as "internal balances."

All trade, taxes and assessment receivables are shown net of an allowance for uncollectibles. Receivables are reviewed prior to year-end and written off if older than 360 days and not secured

City of Thompson Falls, Sanders County, Montana
Notes to the Financial Statements (Continued)
June 30, 2014

by real property. Water and wastewater receivables constitute a lien on the property. The lien must be paid before property is transferred to a new property owner. The only uncollectible accounts incurred in these funds are immaterial. As such, the balance of the allowance as of June 30 was \$ - 0 -.

Real Property taxes are levied and collected by Sanders County and are payable in two installments due November 30 and May 31. The county assesses penalty and interest after these dates and pursues collection through the statutory tax deed process when necessary. Uncollectible taxes result from protested taxes. Decisions by the tax appeal board on protested taxes are generally made prior to fiscal year-end for that year's taxes. All remaining receivables constitute a lien on the property and are eventually collected. As of June 30, there were no taxes receivable considered uncollectible.

3. Inventories and Prepaid Items

Inventories of supplies and other expendable items are expensed at the time of purchase in the governmental fund types. The City does not maintain any material inventories within the enterprise funds and therefore expenses any items at the time of purchase. Prepaid expenses, if any, represent payments to vendors that benefit future reporting periods and are reported on the consumption basis.

4. Restricted Assets

Certain proceeds of the City's enterprise fund revenue bonds and loans, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

The City's policy for using restricted or unrestricted cash reflects the bond covenant restrictions, grant requirements or City Policy. Other long-term reserves are invested as allowed and are not used for any type of expenditure except as allowed by the bond covenants, Trust Document or City Policy.

5. Capital Assets, Depreciation, and Amortization

The accounting and reporting treatment applied to the capital assets associated with a fund is determined by its measurement focus. Capital assets used in governmental fund types are recorded as expenditures in the governmental funds and capitalized in the Statement of Net Position. Capital assets of propriety funds are capitalized in the fund in which they are used.

All purchased capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair market value on the date received. City policy has set the capitalization threshold for reporting capital assets at \$5,000 with a useful life greater than one year. Streets, alleys and sidewalks are capitalized by specified criteria and not by a dollar threshold. The costs of normal maintenance and repairs that do not add to the value of the asset, or materially extend the assets' useful life, are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

City of Thompson Falls, Sanders County, Montana
Notes to the Financial Statements (Continued)
June 30, 2014

Depreciation of all governmental fund capital assets, except land and construction in progress, is charged as an expense to the proper function in the Statement of Activities, but not in the governmental fund statements in accordance with generally accepted accounting principles. Depreciation of all capital assets, except land, easements and construction in progress, used by proprietary funds is charged as an expense against their operations. Capital Assets are reported net of accumulated depreciation on the Statement of Net Position.

Depreciation on assets is provided over their estimated useful lives on the straight-line method. The useful lives of these assets have been estimated as follows:

Buildings.....	50 years
Improvements.....	5 – 30 years
Equipment.....	5 – 20 years
Infrastructure.....	20 – 50 years
Utility System.....	40 years

GASB Statement 51 requires governments to record the value of easements it owns. Based on Montana statute, the City concluded that the estimated historical value of easements which the City would own, are not material and accordingly, did not record the value of easements. In most instances, the easements are recorded on the property without transfer of ownership.

6. Deferred Outflows of Resources and Deferred Inflows of Resources

The City adopted the provisions of GASB Statement No. 65 *Items Previously Reported as Assets and Liabilities*. This statement is effective for periods beginning after December 15, 2012. This statement defines new financial statement items referred to as deferred inflows of resources and deferred outflows of resources, and reclassifies certain items previously classified as assets or liabilities as deferred outflows or deferred inflows, respectively. The impact of implementing GASB Statement No. 65 on the City was items that were previously referred to as deferred revenue in the governmental fund financial statements which mainly consists of property taxes receivable, is now reported as a deferred inflow of resources rather than as a liability. The City did not have any items that were required to be reported as deferred outflows of resources as of June 30, 2014.

7. Compensated Absences

It is the City’s policy and state law to permit employees to accumulate a limited amount of earned but unused vacation benefits, which will be paid to employees upon separation from City service. Employees are allowed to accumulate and carry over a maximum of two times their annual accumulation of vacation, but no more than 90 days into the new calendar year. There is no restriction of the amount of sick leave that may be accumulated. Upon separation, employees are paid 100 percent of accumulated vacation and 25 percent of accumulated sick leave. The liability associated with governmental fund-type employees is reported in the governmental activities, while the liability associated with proprietary fund-type employees is recorded in the respective fund and the business-type activities.

8. Long-term Debt

In the Statement of Net Position and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts,

City of Thompson Falls, Sanders County, Montana
Notes to the Financial Statements (Continued)
June 30, 2014

as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium, discount, or bond issuance costs.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

9. Nets Position/Fund Balance

Net position in government-wide and propriety fund financial statements show the amount of the capital assets less any outstanding debt issued to fund them as “net investment in capital assets.” Restricted net position are net assets that have constraints placed on them either by external parties or imposed by law or enabling legislation.

GASB Statement 54 requires governmental fund balances to be allocated to categories as follows:

- Nonspendable – funds that are not in spendable form (i.e. inventory);
- Restricted – externally enforceable legal restrictions exist, such as state law or bond covenants;
- Committed – constraint formally imposed by the City Commission by the end of the reporting period;
- Assigned – constraint imposed by the City Administration by the reporting date;
- Unassigned – remaining balance.

There are times when the City will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. The City considers restricted fund balance to have been depleted before using any of the components of unrestricted fund balance, unless external requirements stipulate otherwise.

10. Grant Revenue

The City recognizes grant income on government-mandated and voluntary non-exchange transactions when all eligibility requirements have been met. Cash or other assets provided in advance are reported as unearned grant revenue until all eligibility requirements have been met.

11. Interfund Transactions

Interfund services provided and used are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions, except interfund services provided and used are reported as transfers.

F. Stewardship, accountability and compliance

1. Budgetary Data

The State of Montana's budget law stipulates that money, other than payments from agency funds, may not be drawn from the treasury of a municipality except pursuant to an appropriation. Therefore, a legally adopted budget is required for all funds, with the exception of agency funds. The City legally adopts a budget for the required funds.

2. Budget Process

The City Clerk is responsible for preparation of the preliminary annual budget. The City Council approves and/or modifies the budget. The City Council must meet prior to the budget adoption for the purpose of holding a public hearing on the final budget. This hearing can be continued until the budget is finally approved and adopted, and tax levies set, on or before the second Monday in August or within 45 calendar days after receiving certified taxable values from the State Department of Revenue. The total value of property within the City as determined by the County Assessor is the assessed valuation.

The appropriated budget is prepared by fund and department (function). City departments may spend up to the appropriation limit within each function, although they may not alter budgetary appropriations for personnel costs or capital outlay without Council approval. Although the legal level of budget appropriation is the fund level, a management plan is prepared by fund, function and line item. The City maintains budgetary controls whose objective is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council.

State law permits the City Council to transfer any part of an unencumbered balance of an appropriation to a purpose or object for which the appropriation for the current year is insufficient. The City Council may also appropriate any accruing revenue of the municipality not appropriated, and any balance at any time remaining after the purpose of the appropriation has been satisfied or abandoned to other uses that do not conflict with any uses for which specifically the revenue was accrued. A public hearing is required for an overall increase in appropriation within a fund except as authorized by State law. The 2014 budget was not amended; therefore there were no additional appropriations made during the year that required a public hearing.

The City's assessed valuation and mill value as certified by the MT Department of Revenue in August 2013 were \$49,549,284 and \$1,307,863, respectively. The City's mill levy totaled 240.64 mills. State law limits the number of mills the City can levy permissively to the amount of property tax dollars levied in the prior fiscal year adjusted by an inflation factor plus newly taxable property as certified by the MT Department of Revenue and for the Permissive Medical Levy.

The City Clerk forwards a copy of the final budget to the State Department of Administration no later than October 1st of each year. A copy of the final budget is available for review in the City Clerk's office located at 108 Fulton Street, Thompson Falls, MT 59873.

The tax levies are forwarded to the County Treasurer for collection. Property tax levies are approved on or before the second Monday in August or within 45 calendar days of receiving certified taxable values from the Department of Revenue. Real property and certain attached

City of Thompson Falls, Sanders County, Montana
Notes to the Financial Statements (Continued)
June 30, 2014

personal property taxes are billed no later than October 31st and are due in equal installments on November 30 and the following May 31. After those dates they become delinquent and a lien upon the property. After three years, the County may exercise tax deed and take title to the property. Special assessments are billed in two equal installments due November 30 and the following May 31. Personal property taxes other than those billed with real estate are generally billed no later than the second Monday in July, normally in May or June, based on the prior November levies. Personal property taxes, other than mobile homes, are due thirty days after billing. Mobile home taxes are billed in two halves, the first due thirty days after the billing, the second due September 30. The tax billings are considered past due after the respective due date and are subject to penalty (two percent of the tax charge) and monthly interest (ten percent annually of the tax charge). All appropriations lapse at the end of the year.

2. CASH AND INVESTMENTS

A summary of cash and investments at June 30, 2014 was as follows:

	<u>Total</u>
Cash on Hand	\$ 150
Demand Deposits	720,670
Certificates of Deposit	<u>600,000</u>
Total	<u>\$1,320,820</u>

The ownership of cash and investments is as follows at June 30, 2014:

	<u>Total</u>
City Government Funds	\$ 526,338
City Proprietary Funds	774,343
Fiduciary Funds	<u>20,139</u>
Total	<u>\$1,320,820</u>

Cash and Investments

Deposits

Custodial Credit Risk for deposits is the risk that in the event of bank failure, the City's deposits may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. The City's deposits are required to be insured by an agency of the United States Government and deposits in excess of insurance are required to have pledged securities in compliance with section 7-6-207 of the Montana Code Annotated (MCA), which requires the City obtain securities for the uninsured portion of the deposits equal to 50% of such deposits if the institution in which the deposits are made has a net worth to total asset ratio of 6% or more or securities equal to 100% of uninsured deposits if the institution in which the deposits are made has a net worth to total asset ratio of less than 6%. State statute does not specify in whose custody or name the collateral is to be held. Third party safekeeping of collateral is mandatory and pledged securities are valued at market rather than face value. The amount of collateral held for the City's pooled deposits as of June 30, 2014 was \$1,799,465 which exceeds the amount required by statute. At June 30, 2014, 100% of the City's deposits were insured or collateralized.

City of Thompson Falls, Sanders County, Montana
Notes to the Financial Statements (Continued)
June 30, 2014

Investments

Credit Risk is the risk that an issuer or other counterpart to an investment will not fulfill its obligations. Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Concentration of Credit Risk is the risk of loss attributed to the magnitude of the City's investments in a single issuer.

Other than demand deposits the City's cash is invested in certificates of deposit and are fully collateralized. The City does not have formal cash and investment policies in addition to what is required by statute.

3. CAPITAL ASSETS

Changes in general government capital assets were as follows:

	Balance June 30, 2013	Additions	Retirements	Balance June 30, 2014
Capital assets not subject to depreciation:				
Land	\$ 286,456	\$ -	\$ -	\$ 286,456
Other capital assets:				
Buildings	968,971		-	968,971
Improvements other than Buildings	160,726	76,520	-	237,246
Machinery and Equipment	881,911	209,973	-	1,091,884
Infrastructure	698,675	-	-	698,675
Total capital assets at historical cost	2,996,739	286,493	-	3,283,232
Less: Accumulated Depreciation	(1,785,919)	(114,392)	-	(1,900,311)
Total	<u>\$ 1,210,820</u>	<u>\$ 172,101</u>	<u>\$ -</u>	<u>\$ 1,382,921</u>

Changes in proprietary funds capital assets were as follows:

	Balance June 30, 2013	Additions	Retirements	Balance June 30, 2014
Capital assets not subject to depreciation:				
Land	\$ 7,500	\$ -	\$ -	\$ 7,500
Other capital assets:				
Buildings	12,200		-	12,200
Improvements other than Buildings	40,400		-	40,400
Machinery and Equipment	167,771		-	167,771
Source of Supply	1,032,479		-	1,032,479
Pumping Plant	120,967		-	120,967
Treatment Plant	971,172		-	971,172
Transmission and Distribution	4,961,285		-	4,961,285
General Plant	32,062		-	32,062
Total capital assets at historical cost	7,345,836		-	7,345,836
Less: Accumulated Depreciation	(3,601,051)	(191,712)	-	(3,792,763)
Total	<u>\$ 3,744,785</u>	<u>\$ (191,712)</u>	<u>\$ -</u>	<u>\$ 3,553,073</u>

City of Thompson Falls, Sanders County, Montana
Notes to the Financial Statements (Continued)
June 30, 2014

Governmental activities depreciation expense was charged to functions as follows:

Governmental Activities:	
General Government	\$ 4,576
Public Safety	16,015
Public Works	77,787
Culture and Recreation	<u>16,015</u>
Total governmental activities depreciation	<u>\$ 114,392</u>

4. LONG-TERM DEBT

Long-term Debt Supporting Government Activities

Intercap Loans as of June 30, 2014, were as follows:

Purpose:	Issue Date	Interest Rate	Term	Maturity Date	Debt Issued	Balance June 30, 2014
Front End Loader	3/20/2008	1.25%-4.25%	10 yrs	2/15/2018	\$ 82,997	\$ 37,013
Server	6/25/2010	1.25%-1.95%	5 yrs	8/15/2015	7,562	4,276
Total					<u>\$ 90,559</u>	<u>\$ 41,289</u>

Changes in long-term debt were as follows:

	Balance June 30, 2013	Change	Balance June 30, 2014	Amount due in 2015
Intercap Loans	\$ 50,658	\$ (9,369)	\$ 41,289	\$ 9,475
Compensated Absences	72,011	11,466	83,477	65,112
Other Post Employment Benefits	6,630	2,734	9,364	-
Total	<u>\$ 129,299</u>	<u>\$ 4,831</u>	<u>\$ 134,130</u>	<u>\$ 74,587</u>

Annual requirement to amortize Intercap loan debt:

For Fiscal Year Ended	Principal	Interest
2015	\$9,475	\$320
2016	10,413	280
2017	11,180	261
2018	10,221	162
2019 and beyond	-	-
Total	<u>\$41,289</u>	<u>\$1,023</u>

City of Thompson Falls, Sanders County, Montana
Notes to the Financial Statements (Continued)
June 30, 2014

Long-term Debt Supporting Business-type Activities

Long-term debt outstanding as of June 30, 2014 was as follows:

Purpose:	Issue Date	Interest Rate	Term	Maturity Date	Bond Amount	Annual Payment	Balance June 30, 2014
2005A Water Revenue Bonds	8/15/2005	2.75%	20 yrs	7/1/2025	\$ 500,000	Varies	\$ -
2005B Water Revenue Bonds	8/15/2005	3.75%	20 yrs	7/1/2025	897,596	Varies	-
SRF Water Revenue Bond	7/15/2008	2.75%	20 yrs	7/1/2028	128,694	Varies	-
Sewer Revenue Bond Ser 1998	4/6/1999	4.75%	40 yrs	10/28/2039	251,800	14,088	-
Refunding Water Revenue Bonds	7/24/2013	2.25%	15 yrs	7/1/2028	331,000	Varies	307,000
Refunding Water Revenue Bonds	7/24/2013	2.25%	12 yrs	7/1/2025	617,000	Varies	571,000
Refunding Water Revenue Bonds	7/24/2013	2.25%	12 yrs	7/1/2025	94,000	Varies	88,000
Water Development Loan Refinance	9/16/2013	3.00%	20 yrs	8/1/2033	205,744	\$13,755	201,854
Water Pumphouse Intercap	6/25/2010	1.95%	5 yrs	8/15/2015	78,563	Varies	19,875
Total							<u>\$ 1,187,729</u>

Refunding Bonds: The City of Thompson Falls had a Sewer Revenue Bond Series 1998 issued by USDA Rural Development. The State of Montana Department of Natural Resources agreed to refinance the Series 1998 revenue bond, amending the interest rate from 4.75% to 3% and maturity date from September 29, 2038 to August 1, 2033 through the Coal Severance Tax Loan program. The refinancing results in a savings of \$59,071 to the Sewer Fund.

The City also refunded the Drinking Water Loans Series 2005A, 2005B and 2008. The interest rates for the Series 2005A and 2008 revenue bonds were amended from 2.75% to 2.25%. The interest rate for the Series 2005B revenue bonds were amended from 3.75% to 2.25%. The refinancing results in a savings of \$79,022 to the Water Fund.

The refinancing was complete on September 16, 2013.

The City pledges income derived from the acquired or constructed assets to pay debt service.

Changes in long-term debt were as follows:

	Balance June 30, 2013	Change	Balance June 30, 2014	Amount due in 2015
Revenue Bonds	\$ 1,254,200	\$ (86,346)	\$ 1,167,854	\$ 84,754
Intercap Loan	34,822	(14,947)	19,875	14,546
Compensated Absences	24,282	744	25,026	16,593
Other Post Employment Benefits	2,167	761	2,928	-
Total	<u>\$ 1,315,471</u>	<u>\$ (99,788)</u>	<u>\$ 1,215,683</u>	<u>\$ 115,893</u>

Revenue bond resolutions include various restrictive covenants. 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

City of Thompson Falls, Sanders County, Montana
Notes to the Financial Statements (Continued)
June 30, 2014

timely reporting of financial information to bond holders and the registrar. The City was in compliance with applicable covenants as of June 30, 2014.

The debt covenant requires that net revenues, commencing with the fiscal year ending 2014, must not be less than 110%, and for fiscal years thereafter not less than 120% of the maximum annual principal and interest payable on any outstanding bonds on the current or any future fiscal year. The calculation for fiscal year 2014 is below:

	Water	Sewer
Debt Service Coverage:		
Operating Revenues	\$ 369,954	\$ 110,044
Operating Expenses	191,543	67,324
Net Revenue	\$ 178,411	\$ 42,720
110% Max Debt Service	\$ 75,720	\$ 15,130
Percent Coverage	236%	282%

Annual requirement to amortize long-term debt:

For Fiscal Year Ended	Principal	Interest
2015	\$ 99,300	\$ 25,012
2016	93,317	23,147
2017	88,230	21,306
2018	90,479	19,447
2019	92,735	17,540
Thereafter	723,668	77,908
Total	\$ 1,187,729	\$ 184,360

5. EMPLOYEE BENEFIT PLANS

State Retirement Plans

All full-time, qualifying part-time and elective City employees are covered by one of the following retirement plans: Montana Public Employees Retirement System (PERS) and Municipal Police Officers' Retirement System (MPORS). The plans are established by State law and administered by the State of Montana. The plans are cost-sharing, multiple-employer defined benefit or defined contribution plans that provide retirement, disability and death benefits to plan members and beneficiaries, with amounts determined by the State.

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

City of Thompson Falls, Sanders County, Montana
Notes to the Financial Statements (Continued)
June 30, 2014

MT Public Employees Retirement Administration, P.O. Box 200131, Helena, Montana
59620-0131, Telephone: (406) 444-3154.

Contribution rates are as follows:

	<u>Employer</u>	<u>Employee</u>	<u>State</u>	<u>Total</u>
MPORS	14.41%	9.00%	29.37%	52.78%
PERS	8.07%	7.9%	0.10%	16.07%

The State contribution is a payment made on behalf of the City. The on behalf payments were recorded in the City's financial statements.

The amounts contributed to MPORS and PERS during the years ended June 30, 2012, 2013, and 2014 were equal to the required contribution for each year. The amounts contributed by the City were as follows:

	<u>2012</u>	<u>2013</u>	<u>2014</u>
MPORS	\$12,001	\$ 9,247	\$14,590
PERS	\$19,483	\$20,156	\$24,036

Beginning with fiscal year 2012 the City's public safety employees elected to participate in MPORS whereas in prior years these employees elected to participate in PERS.

Local Retirement Plans

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

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.

Effective during fiscal year 2005, State law required the City to ensure that the Fire Department Relief Association Disability and Pension Fund is soundly funded.

Post Employment Benefits Other than Pensions

The City accounts for postemployment benefit obligations in accordance with Governmental Accounting Standards Board (GASB) Statement No. 45 "Accounting and Financial Reporting by Employer for Postemployment Benefits Other Than Pensions." Accordingly, the City reported the "implied rate subsidy" liability as required by GASB Statement No. 45 for the first time in fiscal year 2010. As required by state law, the City provides employees who retire and their spouses and dependents the option to continue to participate in the City's group health insurance plan. The City 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). To continue coverage, retirees are required to pay the full cost of the benefits. State law

City of Thompson Falls, Sanders County, Montana
Notes to the Financial Statements (Continued)
June 30, 2014

requires the City to offer insurance to retirees but it does not require the City to offer it at the same rate as all participants. Furthermore, there are no legal or contractual agreements requiring the City to pay any portion of a retiree’s insurance or to offer the insurance at a specified rate. Rates are charged according to the annual actuarial valuation provided by the City’s insurer, Montana Municipal Interlocal Authority.

Plan Description: The City of Thompson Falls provides employee medical insurance through a multi-employer plan administered by the Montana Municipal Interlocal Authority.

Funding Policy: The City of Thompson Falls provides no direct subsidy to the health insurance premiums for retirees. Retirees pay the entire cost of the actuarially determined health insurance premium. Eligible retirees must be enrolled in the City’s medical insurance prior to retiring and must elect to continue coverage within 30 days of retirement. As of June 30, 2014, the City had no retired employees or their spouses electing to participate in the City’s medical insurance plan.

Annual OPEB Cost Obligation: The City’s other postemployment benefit (OPEB) cost (expense) is calculated based on the projected unit credit cost method. The objective under this method is to fund each participant’s benefits under the plan as they accrue. Thus, the total benefit to which each participant is expected to become entitled at retirement is broken down into units, each associated with a year of past or future credited service. Typically, when this method is introduced, there will be an initial liability for benefits credited for service prior to that date, and to the extent that the liability is not covered by assets of the plan, there is an unfunded liability to be funded over a stipulated period in accordance with an amortization schedule. It is important to note that the accrued liability and the annual required contribution (ARC) are highly sensitive to the participation rate assumption. For the City of Thompson Falls, based on historical data, the City used a 10% participation rate, which matches the thirty-year trend for the City’s retirees’ participation. The calculation is also sensitive to the age of the City’s employees.

Funded Status and Funding Progress: As calculated using the alternative method for smaller governments effective June 30, 2014, the actuarial accrued liability (AAL) for benefits was \$12,293, all of which was unfunded. The City will continue to fund this liability on a pay-as-you-go basis. Based on the City’s thirty-year participation rate, this liability is not material with respect to the City’s financial statements.

6. INTERFUND RECEIVABLES AND PAYABLES

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund (Major)	Non-major Fund	\$2,276

7. RESTRICTED CASH AND INVESTMENTS

In compliance with debt covenants the enterprise funds restricted cash at June 30, 2014 was as follows:

Fund	Description	Amount
Water (Major)	Replacement/Depreciation	111,618
Water (Major)	Reserved for Future Debt Service	99,553
Sewer (Major)	Replacement/Depreciation	15,742
Sewer (Major)	Reserved for Future Debt Service	6,874
	Total	\$ 233,787

8. GOVERNMENT FUND BALANCE REPORTING

The basic financial statements present the fund balance classifications in the aggregate. The table presented below further displays the fund balances by major purposes.

Fund Balances:	Major			Total
	General	Special Revenue Library	Other	
Restricted:				
State statute	\$ -	\$ 88,381	\$ 63,960	\$ 152,341
Committed:				
Reserved by Council in				
Budget process	-	-	49,353	49,353
Assigned:				
Reserved by Council	87,958			87,958
Un-assigned	235,227	-	-	235,227
Total Fund Balances	\$ 323,185	\$ 88,381	\$ 113,313	\$ 524,879

The City spends restricted amounts first. When an expenditure is incurred for purposes for which committed, assigned or unassigned funds are available, the City spends first committed, then assigned, and finally unassigned funds.

The Mayor and City Council are the City's highest level of decision-making authority, and must adopt an ordinance or resolution to establish (and modify or rescind) a fund balance commitment. Assigned fund balances include purchase commitments and the intent of the Mayor and City Council to assign funds for a specific purpose.

9. RISK MANAGEMENT

The City faces a number of risks of loss including (a) loss or damage to property, (b) employee torts, (c) professional liability, i.e., errors and omissions, (d) environmental damage, (e) worker's compensation, i.e., employee injuries, and (f) medical insurance costs of employees. Commercial policies through the Montana Municipal Interlocal Authority, transfer all risk of loss, except for relatively small deductible amounts, are purchased for commercial property and boiler insurance. The City participates in a statewide public risk pool operated by the Montana Municipal Interlocal

City of Thompson Falls, Sanders County, Montana
Notes to the Financial Statements (Continued)
June 30, 2014

Authority (MMIA) for business auto, contractors’ equipment, bonding of public officials, workers’ compensation and for tort liability coverage. In addition the Montana Municipal Insurance Authority provides the City employee medical, dental and vision benefit plans. MMIA provides an environmental damages fund of five million each year for all participants on a first come, first served basis. The City has no coverage for potential losses from environmental damages once the five million is expended. The City has not had any such claims in any of the past four fiscal years.

10. SERVICES PROVIDED FROM OTHER GOVERNMENTS

Sanders County provides various financial services to the City. The County serves as cashier and treasurer for the City for tax and assessment collections and other revenues received by the County. The collections made by the County on behalf of the City are accounted for in an agency fund in the City’s name and are periodically remitted to the City by the County Treasurer. No service charges have been recorded by either the City or the County.

11. INTERLOCAL LIBRARY CONTRACT

Sanders County and the City of Thompson Falls entered into a contract June 13, 2011 to update previous agreements entered into January 11, 1993 and December 11, 2000, whereby a free public library will be assured a continuous existence for all residents of the Library District from a central facility located within the City and operated by the joint efforts and authority of both the City and County. In accordance with MCA Sections 22-1-305 through 22-1-317, the Thompson Falls Public Library is governed by a Board of Trustees composed of five members. The City of Thompson Falls appoints two of the Trustee and Sanders County Commissioners appoint two members and the City and County jointly appoint the fifth member. The Board of Trustees submit the Library’s budget proposal to the City Council and the Board of County Commissioners in sufficient time for each to include in their annual budget. The library is financed by a district-wide levy as set by the voters. The property of the library district, both real and personal is held in the name of the City of Thompson Falls. In the event of termination of the Thompson Falls Public Library, the building, furniture, equipment, monies, and other assets acquired prior to the effective date, shall be disbursed by the Board of Trustees with the consent of the City Council and County Board of Commissioners.

12. INCREASE IN RATES AND CHARGES FOR THE WASTEWATER SYSTEM

Effective October 1, 2013 the City’s wastewater rates increased. The monthly base rate charge per EDU will be \$38 for residential and \$45 for commercial as indicated as follows:

Size	EDU Multiplier	Base Rate	Total Cost
Up to 3/4 inch	1.00	Residential - \$38	\$38
		Commercial - \$45	\$45
1 inch	1.79	\$45	\$80.55
1 1/2 inch	4.00	\$45	\$180
2 inch	7.14	\$45	\$321.30

Residential rental units using the System will be charged a base rate of \$25 per month. In addition to the monthly base rate, the City adopted a “Use Rate” of \$4.00 per 1,000 gallons of wastewater

assumed to be used per month in excess of the amount included in the base rate based on the water meter reading.

13. RECENT ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board (GASB) has recently issued several new accounting statements. Below is the effective date and brief description of each Statement.

Statement No. 67, Financial Reporting for Pensions Plans – an amendment of GASB Statement No. 25,” effective beginning in FY 2015; and Statement No. 68, “Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27,” effective for the City beginning in FY 2016. The objective of these statements is to improve financial reporting by state and local governmental pension plans replacing the requirements of Statements No. 25, No. 27 and No. 50 as they relate to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria.

Statement No. 69, Government Combinations and Disposals of Government Operations, effective beginning in FY 2015. This statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations.

Statement No. 70, “Accounting and Financial Reporting for Nonexchange Financial Guarantees”, effective for the City fiscal year 2014. This statement establishes accounting and financial reporting guidance to state and local governments that either offer or receive nonexchange financial guarantees.

Statement No. 71, “Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment to GASB Statement No. 68”, effective for the City fiscal year 2015. The objective of this statement is to address an issue regarding application of the transition provisions of Statement No. 68, “Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27”.

The City does not believe Statements No. 69 and No. 70 will have any effect on its basic financial statements. The City believes Statements 67, 68, and 71 will have a material impact on its financial statements but will not be able to determine the amount until the State of Montana provides the estimated liability for the pension plans.

* * * * *

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF THOMPSON FALLS, SANDERS COUNTY, MONTANA

Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
For the Year Ended June 30, 2014

	-----General Fund-----			-----Library-----		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
Revenues:						
Property Taxes	\$ 202,634	\$ 202,634	\$ 199,354	\$ 86,250	\$ 86,250	\$ 74,980
Local Option Taxes	32,906	32,906	33,575	-	-	-
Licenses and Permits	2,061	2,061	2,186	-	-	-
Intergovernmental	308,198	533,709	562,718	14,353	14,353	17,054
Charges for Services	65,090	65,090	65,813	-	-	-
Fines and Forfeitures	13,002	13,002	8,776	-	-	-
Miscellaneous	5,562	11,692	20,169	9,000	9,000	13,613
Investment Earnings	1,000	1,000	664	50	50	48
Total Revenues	<u>630,453</u>	<u>862,094</u>	<u>893,255</u>	<u>109,653</u>	<u>109,653</u>	<u>105,695</u>
Expenditures:						
General Government	138,618	142,618	133,217	-	-	-
Public Safety	251,552	251,552	276,283	-	-	-
Public Works	120,315	121,815	106,038	-	-	-
Public Health	1,065	1,065	1,187	-	-	-
Culture and Recreation	124,532	124,532	95,305	99,844	99,844	93,552
Miscellaneous	-	-	-	7,500	7,500	2,597
Capital Outlay	74,000	306,631	268,908	-	-	6,255
Debt Service:						
Principal	8,433	8,433	9,369	-	-	-
Interest	434	434	454	-	-	-
Total Expenditures	<u>718,949</u>	<u>957,080</u>	<u>890,761</u>	<u>107,344</u>	<u>107,344</u>	<u>102,404</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(88,496)</u>	<u>(94,986)</u>	<u>2,494</u>	<u>2,309</u>	<u>2,309</u>	<u>3,291</u>
Excess (Deficiency) of Revenues over Expenditures and Other sources (Uses)	(88,496)	(94,986)	2,494	2,309	2,309	3,291
Fund Balance						
Beginning of the Year	320,690	320,690	320,690	85,090	85,090	85,090
End of the Year	<u>\$ 232,194</u>	<u>\$ 225,704</u>	<u>\$ 323,184</u>	<u>\$ 87,399</u>	<u>\$ 87,399</u>	<u>\$ 88,381</u>

The accompanying notes are an integral part of this schedule.

CITY OF THOMPSON FALLS, SANDERS COUNTY, MONTANA

NOTES TO THE BUDGET AND ACTUAL SCHEDULE JUNE 30, 2014

Budget Process – The State of Montana’s budget law stipulates that money, other than payments from agency funds, may not be drawn from the treasury of a municipality except pursuant to an appropriation. Therefore, a legally adopted budget is required for all funds, with the exception of agency funds. The City legally adopts a budget for the required funds.

Budgets are prepared on the modified accrual basis of accounting. Budgeted fund expenditures are limited by State law to the total budgeted amount which may be amended as defined by State law. Amendments to the budget can be made for unanticipated revenue with the approval of the City Council.

The City Council must meet prior to the budget adoption for the purpose of holding a public hearing on the final budget. This hearing can be continued until the budget is finally approved and adopted, and tax levies set, on or before the second Monday in August or within 45 calendar days after receiving certified taxable values from the State Department of Revenue. The total value of the property within the City as determined by the County Assessor is the assessed valuation.

The City budgets may also include encumbrances, which represent commitments to expend funds under current budget appropriations. All appropriations lapse at the end of the fiscal year except for accounts payable and encumbrances. There were no encumbrances in 2014.

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INDEPENDENT AUDITOR'S 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*

Mayor and City Council
City of Thompson Falls
Sanders County
Thompson Falls, Montana

We have audited, in accordance with the auditing standards 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 City of Thompson Falls, Sanders County, Montana (the "City") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 30, 2015.

Internal Control Over Financial Reporting

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

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

deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and is described below as items 2014-1.

2014-1 Fire Department Relief Association Disability and Pension Fund – Repeat

Condition: The City is responsible to ensure that the Fire Department Relief Association Disability and Pension Fund is soundly funded pursuant to Montana Code Annotated (MCA) section 19-18-503.

Criteria: Section 19-18-503 MCA requires the City to soundly fund the Fire Department Relief Association Disability and Pension Fund for the City's volunteer firefighters.

The fund is considered soundly funded if:

- (a) assets in the fund are maintained at a level equal to at least .21% but no more than .52% of the total assessed value of taxable property, determined as provided in 15-8-111 MCA, within the limits of the City; or
- (b) funding is maintained at a level determined by an actuarial valuation to be sufficient to keep the fund actuarially sound.

An actuarial valuation may be requested only by a city, town or association. Once an actuarial valuation has been conducted, funding must continue to be based on actuarial determinations rather than on the total assessed value of taxable property pursuant to subsection (a) above.

Effect: The City is out of compliance with 19-18-503 MCA and the City's Fire Department Relief Association Disability and Pension Fund is not soundly funded.

Cause: Management oversight.

Recommendation: It is our understanding that the City’s management is working on a plan to ensure that the Fire Department Relief Association and Disability and Pension Fund is soundly funded and we continue to recommend that management ensure that the Fire Department Relief Association Disability and Pension Fund is soundly funded based on the criteria outlined above.

Auditee Response:

The City’s management is proactive in developing a plan to ensure compliance with the criteria outlined in the Montana Code Annotated (MCA) 19-18-503 & 19-18-504 regarding the City’s responsibility to ensure the City’s Fireman Disability and Pension Fund is soundly funded. The City’s management has developed a time table to ensure the Fireman Disability and Pension Fund is soundly funded to comply with statute.

The City’s response to the finding identified in our audit is described in the “Auditee Response” above. We did not audit the City’s response, and accordingly, we express no opinion on it.

We noted other matters reported to management of the City in a separate letter dated June 30, 2015.

Prior Year Audit Findings

The prior audit report contained two audit recommendations. The actions taken on the recommendations are as follows:

2013-1 – Revenue Bond Requirements - Implemented

2013-2 – Fire Department Relief Association Disability and Pension Fund – Repeated 2014-1

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.

Dafre & Associates, P.C.

Lolo, Montana
June 30, 2015