



RUDD & COMPANY PLLC
certified public accountants | business consultants

CITY OF THREE FORKS, MONTANA

Annual Financial Report

June 30, 2014

giving direction to your future

City of Three Forks, Montana

Table of Contents

June 30, 2014

Organization of Entity..... 1

Independent Auditors’ Report..... 2 to 4

Management Discussion and Analysis 5 to 9

Financial Statements

Government-Wide Financial Statements

Statement of Net Position 10 and 11

Statement of Activities..... 12 and 13

Fund Financial Statements

Governmental Funds

Balance Sheet – Governmental Funds 14

Reconciliation of the Balance Sheet of Governmental Funds to the
Statement of Net Position 15

Statement of Revenues, Expenditures and Changes in Fund Balances –
Governmental Funds 16

Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities 17

Proprietary Fund Financial Statements

Statement of Net Position – Proprietary Funds..... 18 and 19

Statement of Revenues, Expenses and Changes in Net Position –
Proprietary Funds..... 20

Statement of Cash Flows – Proprietary Funds..... 21 and 22

Fiduciary Fund Financial Statements

Statement of Fiduciary Net Position 23

Notes to the Financial Statement 24 to 49

City of Three Forks, Montana
Table of Contents (Continued)
June 30, 2014

Required Supplemental Information

Statement of Revenues, Expenditures, and Changes in Fund Balances –
Budget and Actual – General Fund.....50

Statement of Revenues, Expenditures, and Changes in Fund Balances –
Budget and Actual – Headwaters Community Fairgrounds Special Revenue Fund51

Schedules of Funding Progress – Other Post-Employment Benefits52

Notes to the Required Supplemental Information53

Supplemental Information

Combining Financial Statements

Combining Balance Sheet - Nonmajor Governmental Funds..... 54 to 60

Combining Statement of Revenues, Expenditures, and Changes in
Fund Balance - Nonmajor Governmental Funds 61 to 68

**Report on Internal Control Over Financial Reporting and on Compliance and other
Matters**

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.....69 and 70

Schedule of Findings..... 71 to 73

Status of Prior Year Findings.....74

CITY OF THREE FORKS, MONTANA
2013 to 2014
ORGANIZATION

CITY COMMISSIONERS

Steven Hamilton
Edward A. Tharp
Dennis Nelson
Victoria Kosevich
Dennis Nelson
Crystal Turner

CITY OFFICIALS

Gene L. Townsend, Mayor

J. Robert Planalp, Attorney

Darcy Perrenoud, Clerk/Treasurer

Wanda Drusch, City Judge

Kelly Smith, Deputy Clerk

Randy R. Johnston, Water/Sewer Superintendent

Steven Johnston, Assistant Water/Sewer Superintendent

Wendall R. Ewan, Street Superintendent

Lori Hendrickson, Court Clerk

Debra Kramer, Library Director



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INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and City Council
City of Three Forks, Montana

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Three Forks, 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 Controller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Three Forks, Montana, 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 and Schedule of Funding Progress, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2015, on our consideration of the City of Three Forks, Montana's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing 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's internal control over financial reporting and compliance.

Rudd + Company, PLLC

Bozeman, Montana
June 23, 2015

MANAGEMENT DISCUSSION AND ANALYSIS

**City of Three Forks, Montana
Management Discussion and Analysis
For the Year Ended June 30, 2014**

As management of the City of Three Forks, we offer readers of the City of Three Forks' financial statements this narrative overview and analysis of the financial activities of the City of Three Forks for the fiscal year ended June 30, 2014. Readers are encouraged to consider the information presented here in conjunction with additional information that has been furnished in the financial statements.

Financial Highlights

Using this financial report

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

Government-wide Financial Statements

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

The Statement of Net Position presents information on all of the City of Three Forks' assets and liabilities, with the difference between the following activities:

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

Fund Financial Statements

Fund financial statements report detailed information about the City. The emphasis of fund financial statements is to maintain control over resources that have been segregated for specific activities or objectives. The fund financial statements provide detailed information about the most significant funds. The City's major governmental funds are the General Fund and Headwaters Community Fair Grounds. The City's major proprietary funds are the Water and Sewer Funds.

Governmental Funds

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

Proprietary Funds

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

Reporting the City as a Whole

The City is providing financial information for fiscal year 2014 and 2013 as detailed in the reports. The following analysis focuses on changes in net position of the City's governmental and business-type activities.

Governmental Activities

The cost of all Governmental activities for fiscal year 2014 was \$981,534. The largest portion of that expense was for Public Safety (Law Enforcement & Fire Control) \$361,301, Culture and Recreation \$247,444, and Public Works \$182,436. The amount that our Taxpayers financed for total expenses through City's taxes was \$369,031. Grants and contributions not restricted to specific programs was \$160,703. Net position of governmental activities was \$1,935,279 and total capital assets was \$1,268,479.

The cost of all Governmental activities for fiscal year 2013 year was \$915,981. The largest portion of that expense was for Public Safety (Law Enforcement & Fire Control) \$309,685, Public Works \$209,029 and Culture and Recreation \$234,811. The amount that our Taxpayers financed for total expenses through City's taxes was \$442,827. Grants and contributions not restricted to specific programs was \$167,531. Net position of governmental activities was \$1,966,703 and total capital assets was \$1,388,417.

Business-type Activities

The cost of all proprietary (business-type) activities for fiscal year 2014 was \$849,954. As shown in the Statement of Activities, the amount paid by users of the system was \$1,013,823 (Water \$409,926 and Sewer \$603,897). Total Net Position was \$4,428,490, which consisted of Capital Assets net of related debt of \$2,737,853 and restricted for debt service of \$89,314 and Unrestricted of \$1,601,323. The user fees of the sewer and water system did increase during the current year, due to the currently pending projects on both the water and wastewater systems. The rate increases were calculated to meet debt coverage requirements of current and upcoming debt on the systems. User fees will continue to be monitored to meet increased costs for O & M and also debt requirements.

The cost of all proprietary (business-type) activities for fiscal year 2013 was \$728,791. As shown in the Statement of Activities, the amount paid by users of the system was \$819,299; (Water \$367,311 and Sewer \$451,988). Total Net Position was \$4,007,848, which consisted of Capital Assets net of related debt of \$2,807,464, Restricted for debt service of \$94,004 and Unrestricted of \$1,106,380. The user fees of the sewer and water system did not change during the 2013 fiscal year.

The City's Funds

The following is an analysis of balances in the City's major funds for 2014. General Fund Assets \$265,672: Cash and cash equivalents \$242,387, Property taxes receivable \$13,038, Due from other governments \$10,247 – Liabilities and fund balances \$265,672: Deferred inflows \$13,038 and Unassigned fund balance \$252,634. Headwaters Community Fairgrounds Assets \$62,924: Cash and cash equivalents \$47,921 and Investments \$15,003, Liabilities and fund balances \$62,924: Committed fund balance \$62,924.

The following is an analysis of balances in the City's major funds for 2013. General Fund Assets \$159,877: Cash and cash equivalents \$146,228, Property taxes receivable \$5,190, Due from other governments \$8,459 – Liabilities and fund balances \$159,877: Deferred inflows \$5,190 and Unassigned fund balance \$154,687. Headwaters Community Fairgrounds Assets \$60,676, Total revenues \$102,227. General Obligation Bond New City Fire Truck balance was \$155,000, though not a major fund, at June 30, 2013.

Revenues for fiscal years ended June 30, 2014 and 2013

| | <u>2014</u> | <u>2013</u> |
|----------------------------------|-------------|-------------|
| General Fund | \$ 504,698 | \$ 471,617 |
| Headwaters Community Fairgrounds | \$ 101,709 | \$ 102,227 |
| Other Governmental Funds | \$ 376,037 | \$ 428,906 |

Expenditures for fiscal years ended June 30, 2014 and 2013

| | <u>2014</u> | <u>2013</u> |
|----------------------------------|-------------|-------------|
| General Fund | \$ 501,047 | \$ 527,240 |
| Headwaters Community Fairgrounds | \$ 93,181 | \$ 106,525 |
| Other Governmental Funds | \$ 319,908 | \$ 479,144 |

Proprietary Funds

The City has two Enterprise Funds, Water and Sewer, both of which are considered major funds. The basic financial statements for the major funds are included in this report.

Operating revenue for fiscal year 2014 for the water fund was \$409,946 and for the sewer fund was \$603,937.

Operating revenue for fiscal year 2013 for the water fund was \$367,311 and for the sewer fund was \$451,988.

Debt Administration

Debt in the governmental activities decreased in the fiscal years ended June 30, 2014 and 2013 by \$110,282 and \$16,191, respectively. Debt payable combined for both the governmental and business-type activities was \$1,619,348 and \$1,147,892 at June 30, 2014 and 2013, respectively. The balance in capital leases payable for governmental activities was \$68,358 and \$77,499 at June 30, 2014 and 2013, respectively. The combined balance in compensated absences for both the governmental activities and business-type activities at June 30, 2014 and 2013 was \$63,191 and \$53,687, respectively.

Debt in the governmental activities for the fiscal years ended June 30, 2014 and 2013; current portion long-term debt is \$45,894 and \$46,003, respectively, and liabilities due in more than one year is \$123,756 and \$167,929, respectively. For the fiscal years ended June 30, 2014 and 2013, the current portion of capital leases is \$10,556 and \$12,851, respectively, and long-term portion of capital leases is \$57,802 and \$64,648, respectively. Debt in the business-type activities for fiscal years ended June 30, 2014 and 2013, outstanding balance due in more than one year is \$1,383,638 and \$867,960, respectively, and current portion is \$66,000 and \$66,000, respectively.

Capital Assets

The City's net investment in capital assets for its governmental and business-type activities as of June 30, 2014 and 2013 was \$5,569,781 and \$5,129,841, respectively. Governmental Activities capital assets, net of depreciation at June 30, 2014 and 2013 was \$1,268,479 and \$1,388,417, respectively, business-type activities capital assets net of depreciation at June 30, 2014 and 2013 was \$4,301,302 and \$3,741,424, respectively.

The Council established a minimum of \$1,000 before items are capitalized for fiscal year 2013, but increased this threshold to \$5,000 for fiscal year 2014 and subsequent years.

Economic Factors and Next Year's Budget & Rates

The City of Three Forks' financial position in the General Fund for 2013-2014 does show an increase in 'Taxable Valuation', but the General Fund budget continues to be somewhat tight.

Contact for Further Information

This financial report is designed to provide our citizens, taxpayers and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the resources it receives. If you have questions about this report or need additional information, contact the City Clerk, at City of Three Forks, PO Box 187, Three Forks, MT 59752.

FINANCIAL STATEMENTS

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GOVERNMENT – WIDE FINANCIAL STATEMENTS

City of Three Forks, Montana
Statement of Net Position
June 30, 2014

| | Governmental Activities | Business-type Activities | Total |
|---------------------------------|----------------------------|-----------------------------|---------------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | \$ 858,038 | \$ 1,338,154 | \$ 2,196,192 |
| Investments | 15,003 | 75,521 | 90,524 |
| Receivables, net | 36,656 | 101,207 | 137,863 |
| Other receivables | 29,814 | - | 29,814 |
| Due from other governments | 12,644 | 168,349 | 180,993 |
| Total current assets | <u>952,155</u> | <u>1,683,231</u> | <u>2,635,386</u> |
| Other assets | | | |
| Restricted cash and investments | - | 89,274 | 89,274 |
| Total other assets | <u>-</u> | <u>89,274</u> | <u>89,274</u> |
| Capital Assets | | | |
| Land | 49,878 | 143,000 | 192,878 |
| Construction in progress | - | 887,633 | 887,633 |
| Other capital assets | 2,325,848 | 6,544,205 | 8,870,053 |
| Less: accumulated depreciation | <u>(1,107,247)</u> | <u>(3,273,536)</u> | <u>(4,380,783)</u> |
| Net property and equipment | <u>1,268,479</u> | <u>4,301,302</u> | <u>5,569,781</u> |
| Total assets | <u>\$ 2,220,634</u> | <u>\$ 6,073,807</u> | <u>\$ 8,294,441</u> |

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

| | Governmental Activities | Business-type Activities | Total |
|---|----------------------------|-----------------------------|---------------------|
| Liabilities | | | |
| Current liabilities | | | |
| Accounts payable and accrued expenses | \$ 110 | \$ 129,266 | \$ 129,376 |
| Deposits payable | - | 4,794 | 4,794 |
| Compensated absences, current portion | 1,340 | 4,979 | 6,319 |
| Capital leases, current portion | 10,556 | - | 10,556 |
| Note payable, current portion | 45,894 | 66,000 | 111,894 |
| | <u>57,900</u> | <u>205,039</u> | <u>262,939</u> |
| Noncurrent liabilities | | | |
| Compensated absences | 12,062 | 44,810 | 56,872 |
| Note payable, noncurrent | 123,756 | 1,383,698 | 1,507,454 |
| Capital leases | 57,802 | - | 57,802 |
| Other post employment liability | 3,835 | 11,770 | 15,605 |
| | <u>197,455</u> | <u>1,440,278</u> | <u>1,637,733</u> |
| Total liabilities | <u>255,355</u> | <u>1,645,317</u> | <u>1,900,672</u> |
| Deferred Inflows of Resources | | | |
| Deferred inflows of resources | 30,000 | - | 30,000 |
| | <u>30,000</u> | <u>-</u> | <u>30,000</u> |
| Net Position | | | |
| Invested in capital assets, net of related debt | 1,030,471 | 2,737,853 | 3,768,324 |
| Restricted for: | | | |
| General government | 642 | - | 642 |
| Public safety | 125,522 | - | 125,522 |
| Public works | 226,884 | - | 226,884 |
| Culture and recreation | 64,777 | - | 64,777 |
| Debt service | 112,624 | 89,314 | 201,938 |
| Unrestricted | 374,359 | 1,601,323 | 1,975,682 |
| | <u>374,359</u> | <u>1,601,323</u> | <u>1,975,682</u> |
| Total net position | <u>\$ 1,935,279</u> | <u>\$ 4,428,490</u> | <u>\$ 6,363,769</u> |

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

City of Three Forks, Montana
Statement of Activities
For the Year Ended June 30, 2014

| Functions/Programs | Expenses | Program Revenues | |
|---------------------------------------|--------------|----------------------|------------------------------------|
| | | Charges for Services | Operating Grants and Contributions |
| Primary Government: | | | |
| Governmental activities: | | | |
| General government | \$ 122,698 | \$ 31,148 | \$ - |
| Public safety | 361,301 | 4,285 | 3,553 |
| Public works | 182,436 | 161,083 | 48,865 |
| Public health | 6,512 | - | - |
| Culture and recreation | 247,444 | 103,523 | 69,129 |
| Housing and community development | 5,031 | - | - |
| Other | 8,350 | - | - |
| Interest and fiscal fees | 9,522 | - | - |
| Unallocated depreciation* | 38,240 | - | - |
| Total governmental activities: | 981,534 | 300,039 | 121,547 |
| Business-type activities | | | |
| Water | 409,693 | 409,926 | - |
| Sewer | 440,261 | 603,897 | - |
| Total business-type activities: | 849,954 | 1,013,823 | - |
| Total primary governmental activities | \$ 1,831,488 | \$ 1,313,862 | \$ 121,547 |

* This amount excludes the depreciation that is included in the direct expenses of the various functions.

General revenues:

Property taxes, levied for general purposes
Grants and contributions, not restricted to programs

Unrestricted investment earnings

Miscellaneous

Loss on disposal of assets

Total general revenues

Changes in net position

Net position, beginning of year as previously reported

Prior period adjustments

Net position, restated

Net position, end of year

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

Net (Expense) Revenue and Changes in Net Position

Primary Government

| <u>Governmental Activities</u> | <u>Business-type Activities</u> | <u>Total</u> |
|------------------------------------|-------------------------------------|---------------------|
| \$ (91,550) | \$ - | \$ (91,550) |
| (353,463) | - | (353,463) |
| 27,512 | - | 27,512 |
| (6,512) | - | (6,512) |
| (74,792) | - | (74,792) |
| (5,031) | - | (5,031) |
| (8,350) | - | (8,350) |
| (9,522) | - | (9,522) |
| (38,240) | - | (38,240) |
| <u>(559,948)</u> | <u>-</u> | <u>(559,948)</u> |
| - | 233 | 233 |
| - | 163,636 | 163,636 |
| <u>-</u> | <u>163,869</u> | <u>163,869</u> |
| <u>(559,948)</u> | <u>163,869</u> | <u>(396,079)</u> |
| 369,031 | - | 369,031 |
| 160,703 | 252,669 | 413,372 |
| 2,138 | 4,094 | 6,232 |
| 2,480 | 60 | 2,540 |
| (5,868) | - | (5,868) |
| <u>528,484</u> | <u>256,823</u> | <u>785,307</u> |
| <u>(31,464)</u> | <u>420,692</u> | <u>389,228</u> |
| 1,966,703 | 4,007,848 | 5,974,551 |
| 40 | (50) | (10) |
| <u>1,966,743</u> | <u>4,007,798</u> | <u>5,974,541</u> |
| <u>\$ 1,935,279</u> | <u>\$ 4,428,490</u> | <u>\$ 6,363,769</u> |

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

FUND FINANCIAL STATEMENTS

GOVERNMENTAL FUND FINANCIAL STATEMENTS

City of Three Forks, Montana
Balance Sheet – Governmental Funds
June 30, 2014

| | <u>General Fund</u> | <u>Headwaters Community Fairgrounds</u> | <u>Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|---------------------|---|--|---|
| Assets | | | | |
| Cash and cash equivalents | \$ 242,387 | \$ 47,921 | \$ 567,730 | \$ 858,038 |
| Investments | - | 15,003 | - | 15,003 |
| Property tax receivable | 13,038 | - | 6,759 | 19,797 |
| Special assessment receivable | - | - | 16,859 | 16,859 |
| Other government receivable | - | - | 29,814 | 29,814 |
| Due from other City funds | - | - | 11,317 | 11,317 |
| Due from other governments | 10,247 | - | 2,397 | 12,644 |
| | <u>10,247</u> | <u>-</u> | <u>2,397</u> | <u>12,644</u> |
| Total assets | <u>\$ 265,672</u> | <u>\$ 62,924</u> | <u>634,876</u> | <u>\$ 963,472</u> |
| Liabilities, Deferred Inflows and Fund Balance | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ - | \$ - | \$ 110 | \$ 110 |
| Due to other City funds | - | - | 11,317 | 11,317 |
| | <u>-</u> | <u>-</u> | <u>11,427</u> | <u>11,427</u> |
| Total liabilities | <u>-</u> | <u>-</u> | <u>11,427</u> | <u>11,427</u> |
| Deferred Inflows of Resources: | | | | |
| Deferred inflows of resources | - | - | 30,000 | 30,000 |
| Deferred inflows of tax revenues | 13,038 | - | 23,686 | 36,724 |
| | <u>13,038</u> | <u>-</u> | <u>53,686</u> | <u>66,724</u> |
| Total deferred inflows of resources | <u>13,038</u> | <u>-</u> | <u>53,686</u> | <u>66,724</u> |
| Fund balances: | | | | |
| Nonspendable | - | - | - | - |
| Restricted | - | - | 530,449 | 530,449 |
| Committed | - | 62,924 | 31,098 | 94,022 |
| Assigned | - | - | 8,216 | 8,216 |
| Unassigned | 252,634 | - | - | 252,634 |
| | <u>252,634</u> | <u>-</u> | <u>-</u> | <u>252,634</u> |
| Total fund balances | <u>252,634</u> | <u>62,924</u> | <u>569,763</u> | <u>885,321</u> |
| Total liabilities, deferred inflows, and fund balances | <u>\$ 265,672</u> | <u>\$ 62,924</u> | <u>\$ 634,876</u> | <u>\$ 963,472</u> |

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

City of Three Forks, Montana
Reconciliation of the Balance Sheet of Governmental Funds to the
Statement of Net Position
June 30, 2014

Amounts reported for governmental activities in the statement of net position are different because:

| | |
|--|---------------------|
| Total fund balances - governmental funds | \$ 885,321 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$2,375,726 and the accumulated depreciation is \$1,107,247. | 1,268,479 |
| Property tax revenue is recognized when earned (and the claim to resources is established) rather than when "available". All of the unearned property tax revenue reported in the governmental funds is not available. | 36,724 |
| Long term liabilities including: bonds payable, capital lases, other post employment benefits and compensated absences are not due and payable in the current period and therefore are not reported in the funds. | <u>(255,245)</u> |
| Total net position - governmental activities | <u>\$ 1,935,279</u> |

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

| | General Fund | Headwaters Community Fairgrounds | Nonmajor Governmental Funds | Total Governmental Funds |
|---|----------------|--|-----------------------------------|--------------------------------|
| Revenues: | | | | |
| Taxes | \$ 308,407 | \$ - | \$ 150,220 | \$ 458,627 |
| Licenses and permits | 10,705 | - | - | 10,705 |
| Intergovernmental | 158,127 | - | 124,123 | 282,250 |
| Charges for services | 8,506 | 101,661 | 6,052 | 116,219 |
| Fines and forfeitures | 12,412 | - | 250 | 12,662 |
| Interest on investments | 709 | 48 | 1,381 | 2,138 |
| Other | 5,832 | - | 94,011 | 99,843 |
| Total revenues | 504,698 | 101,709 | 376,037 | 982,444 |
| Expenditures: | | | | |
| Current: | | | | |
| General government | 116,790 | - | - | 116,790 |
| Public safety | 316,046 | - | 6,214 | 322,260 |
| Public works | 17,096 | - | 118,250 | 135,346 |
| Public health | 57 | - | 6,455 | 6,512 |
| Culture and recreation | 25,098 | 93,181 | 103,072 | 221,351 |
| Housing and community development | 749 | - | 4,264 | 5,013 |
| Other | 7,320 | - | 1,030 | 8,350 |
| Capital outlay | - | - | 35,569 | 35,569 |
| Debt service | | | | |
| Principal payments | 15,141 | - | 38,282 | 53,423 |
| Interest and fiscal fees | 2,750 | - | 6,772 | 9,522 |
| Total expenditures | 501,047 | 93,181 | 319,908 | 914,136 |
| Excess (deficiency) of revenues over expenditures | 3,651 | 8,528 | 56,129 | 68,308 |
| Other financing sources (uses): | | | | |
| Operating transfers | 94,296 | (6,320) | (87,976) | - |
| Total other financing sources (uses) | 94,296 | (6,320) | (87,976) | - |
| Excess of revenues over expenditures and other financing sources (uses) | 97,947 | 2,208 | (31,847) | 68,308 |
| Fund balances, July 1, 2013 | 154,687 | 60,676 | 601,610 | 816,973 |
| Prior period adjustment | - | 40 | - | 40 |
| Fund balances, restated | 154,687 | 60,716 | 601,610 | 817,013 |
| Fund balances, June 30, 2014 | \$ 252,634 | \$ 62,924 | \$ 569,763 | \$ 885,321 |

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

City of Three Forks, 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

Amounts reported for governmental activities in the statement of activities are different because:

| | |
|---|--------------------|
| Net change in fund balances - total governmental funds | \$ 68,308 |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeds capital outlay. | (114,070) |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | (26,505) |
| Repayment of principal is an expenditure in the governmental funds, but this repayment reduces long-term liabilities in the statement of net position. | 53,423 |
| Gains or losses on the sale or disposal of assets are not reported as revenues in the funds. | (5,868) |
| The current period net increase in compensated absences and other postemployment benefits payable did not require the use of current financial resources and, therefore, generated no expenditure to be reported in the governmental funds. | <u>(6,752)</u> |
| Change in net position of governmental activities | <u>\$ (31,464)</u> |

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

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PROPRIETARY FUND FINANCIAL STATEMENTS

City of Three Forks, Montana
Statement of Net Position-Proprietary Funds
June 30, 2014

| | Business-type Activities Enterprise Funds | | |
|---|---|---------------------|---------------------|
| | Water Fund | Sewer Fund | Total |
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | \$ 669,072 | \$ 669,082 | \$ 1,338,154 |
| Investments | 47,477 | 28,044 | 75,521 |
| Customer receivable, net | 42,648 | 58,559 | 101,207 |
| Due from other governments | - | 168,349 | 168,349 |
| Total current assets | <u>759,197</u> | <u>924,034</u> | <u>1,683,231</u> |
| Other assets | | | |
| Restricted cash and investments | <u>47,986</u> | <u>41,288</u> | <u>89,274</u> |
| Total other assets | <u>47,986</u> | <u>41,288</u> | <u>89,274</u> |
| Property, plant and equipment | | | |
| Land | 87,500 | 55,500 | 143,000 |
| Construction in progress | 576,021 | 311,612 | 887,633 |
| Buildings | 98,085 | 1,814,028 | 1,912,113 |
| Other structures and improvements | 97,141 | 57,487 | 154,628 |
| Machinery and equipment | 161,541 | 300,756 | 462,297 |
| Source of supply | 198,025 | - | 198,025 |
| Transmission and distribution | 2,010,200 | 1,297,211 | 3,307,411 |
| General plant | 390,587 | 119,144 | 509,731 |
| Accumulated depreciation and amortization | <u>(1,397,070)</u> | <u>(1,876,466)</u> | <u>(3,273,536)</u> |
| Net property, plant and equipment | <u>2,222,030</u> | <u>2,079,272</u> | <u>4,301,302</u> |
| Total assets | <u>\$ 3,029,213</u> | <u>\$ 3,044,594</u> | <u>\$ 6,073,807</u> |

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

| | <u>Water Fund</u> | <u>Sewer Fund</u> | <u>Total</u> |
|---|---------------------|---------------------|---------------------|
| Liabilities | | | |
| Current Liabilities | | | |
| Accounts Payable | \$ 72,846 | \$ 56,420 | \$ 129,266 |
| Compensated absences, current | 2,426 | 2,553 | 4,979 |
| Deposits payable | 4,794 | - | 4,794 |
| Bonds, notes and loans payable, current | 36,000 | 30,000 | 66,000 |
| Total current liabilities | <u>116,066</u> | <u>88,973</u> | <u>205,039</u> |
| Noncurrent Liabilities | | | |
| Compensated absences, noncurrent | 21,827 | 22,983 | 44,810 |
| Revenue bonds, noncurrent | 958,698 | 425,000 | 1,383,698 |
| OPEB liability | 5,797 | 5,973 | 11,770 |
| Total noncurrent liabilities | <u>986,322</u> | <u>453,956</u> | <u>1,440,278</u> |
| Total liabilities | <u>1,102,388</u> | <u>542,929</u> | <u>1,645,317</u> |
| Net Position | | | |
| Net investment in capital assets | 1,161,359 | 1,576,494 | 2,737,853 |
| Restricted for debt service | 48,026 | 41,288 | 89,314 |
| Unrestricted | 717,440 | 883,883 | 1,601,323 |
| Total net position | <u>1,926,825</u> | <u>2,501,665</u> | <u>4,428,490</u> |
| Total liabilities and net position | <u>\$ 3,029,213</u> | <u>\$ 3,044,594</u> | <u>\$ 6,073,807</u> |

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

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City of Three Forks, Montana
Statement of Revenues, Expenses, and Changes in Net Position-
Proprietary Funds
For the Year Ended June 30, 2014

| | Business-type Activities Enterprise Funds | | |
|---|---|---------------------|---------------------|
| | Water Fund | Sewer Fund | Total |
| Operating revenues: | | | |
| Charges for services | \$ 409,926 | \$ 603,897 | \$ 1,013,823 |
| Miscellaneous revenues | 20 | 40 | 60 |
| Total operating revenues | <u>409,946</u> | <u>603,937</u> | <u>1,013,883</u> |
| Operating expenses: | | | |
| Personal services | 161,918 | 164,912 | 326,830 |
| Depreciation and amortization | 76,743 | 76,215 | 152,958 |
| Supplies, service, materials | 161,825 | 188,350 | 350,175 |
| Total operating expenses | <u>400,486</u> | <u>429,477</u> | <u>829,963</u> |
| Operating income | <u>9,460</u> | <u>174,460</u> | <u>183,920</u> |
| Non-operating revenues (expenses) | | | |
| Interest income | 2,010 | 2,084 | 4,094 |
| Interest expense | (9,207) | (10,784) | (19,991) |
| Intergovernmental revenue | - | 252,669 | 252,669 |
| Total non-operating revenues (expenses) | <u>(7,197)</u> | <u>243,969</u> | <u>236,772</u> |
| Income before transfers | 2,263 | 418,429 | 420,692 |
| Transfers in (out) | <u>(75,000)</u> | <u>75,000</u> | <u>-</u> |
| Change in net position | <u>(72,737)</u> | <u>493,429</u> | <u>420,692</u> |
| Net position, July 1, 2013 | 1,999,562 | 2,008,286 | 4,007,848 |
| Prior period adjustments | - | (50) | (50) |
| Net position, restated | <u>1,999,562</u> | <u>2,008,236</u> | <u>4,007,798</u> |
| Net position, June 30, 2014 | <u>\$ 1,926,825</u> | <u>\$ 2,501,665</u> | <u>\$ 4,428,490</u> |

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

City of Three Forks, Montana
Statement of Cash Flows – Proprietary Funds
For the Year Ended June 30, 2014

| | <u>Business-type Activities Enterprise Funds</u> | | |
|--|--|-------------------|---------------------|
| | <u>Water Fund</u> | <u>Sewer Fund</u> | <u>Total</u> |
| Increase in Cash and Cash Equivalents | | | |
| Cash Flows from Operations | | | |
| Receipts from customers | \$ 407,448 | \$ 591,821 | \$ 999,269 |
| Payments to suppliers | (88,979) | (131,930) | (220,909) |
| Payments to employees | (154,479) | (157,284) | (311,763) |
| Net Cash Provided by Operating Activities | <u>163,990</u> | <u>302,607</u> | <u>466,597</u> |
| Cash Flows from Noncapital Financing Activities | | | |
| Transfers from (to) other funds | (75,000) | 75,000 | - |
| Subsidies from taxes and other governments | - | 84,319 | 84,319 |
| Net Cash Provided (Used) by Capital and Related Financing Activities | <u>(75,000)</u> | <u>159,319</u> | <u>84,319</u> |
| Cash Flows from Financing Activities | | | |
| Purchases of property, plant and equipment | (396,169) | (316,670) | (712,839) |
| Purchase of investments | (47,477) | (28,044) | (75,521) |
| Principal payments on bonds and loans | (36,000) | (30,000) | (66,000) |
| Proceeds from debt | 581,738 | - | 581,738 |
| Interest paid on debt | (5,862) | (5,968) | (11,830) |
| Other financing costs | (3,386) | (4,775) | (8,161) |
| Net Cash Provided (Used) by Financing Activities | <u>92,844</u> | <u>(385,457)</u> | <u>(292,613)</u> |
| Cash Flows from Investing Activities | | | |
| Interest Earnings | 2,010 | 2,084 | 4,094 |
| Net Cash Provided by Investing Activities | <u>2,010</u> | <u>2,084</u> | <u>4,094</u> |
| Net Increase in Cash and Cash Equivalents | <u>183,844</u> | <u>78,553</u> | <u>262,397</u> |
| Cash and Cash Equivalents, Beginning of Year | <u>533,214</u> | <u>631,817</u> | <u>1,165,031</u> |
| Cash and Cash Equivalents, End of Year | <u>\$ 717,058</u> | <u>\$ 710,370</u> | <u>\$ 1,427,428</u> |
| Classified As: | | | |
| Current Assets | \$ 669,072 | \$ 669,082 | \$ 1,338,154 |
| Restricted Assets | 47,986 | 41,288 | 89,274 |
| Total Cash and Cash Equivalents | <u>\$ 717,058</u> | <u>\$ 710,370</u> | <u>\$ 1,427,428</u> |

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

| | <u>Water Fund</u> | <u>Sewer Fund</u> | <u>Total</u> |
|--|-------------------|-------------------|-------------------|
| Operating Income | \$ 9,460 | \$ 174,460 | \$ 183,920 |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities | | | |
| Depreciation and amortization | 76,743 | 76,215 | 152,958 |
| Increase in accounts receivable | (3,675) | (12,115) | (15,790) |
| Increase in accounts payable | 72,846 | 56,420 | 129,266 |
| Increase in deposits payable | 1,175 | - | 1,175 |
| Increase in accrued employee benefits payable | 2,946 | 3,029 | 5,975 |
| Increase in OPEB payables | 4,495 | 4,598 | 9,093 |
| Net cash provided operating activities | <u>\$ 163,990</u> | <u>\$ 302,607</u> | <u>\$ 466,597</u> |

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

FIDUCIARY FUND FINANCIAL STATEMENTS

City of Three Forks, Montana
Statement of Fiduciary Net Position
June 30, 2014

| | <u>Agency Fund</u> |
|---------------------------|--------------------|
| Assets | |
| Cash and cash equivalents | \$ 84,494 |
| Taxes receivable | 4,222 |
| Total assets | <u>\$ 88,716</u> |
| | |
| Liabilities | |
| Warrants payable | \$ 81,393 |
| Due to other governments | 7,323 |
| Total liabilities | <u>\$ 88,716</u> |

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

NOTES TO THE FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

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

The accompanying financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB), the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

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

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

Reporting Entity

As required by generally accepted accounting principles, these financial statements present the City (the primary government) and its blended component unit. The blended component unit is included in the City's reporting entity because of the significance of its operational and financial relationship with the City, as described below.

The following is a blended component unit of the City:

City of Three Forks Library: The operations of the library are included in the financial statements as a Special Revenue Fund. The library is governed by a library board which consists of five members. The library is financed by tax revenues of both the City, as well as by interest earnings and library fines. By agreement, the City levies 3.63 mills in support of the library, and the City and County have entered into a contract which provides up to \$38,972 of County taxes in support of the library. A citizen vote approved 3 additional mills to be levied for the City of Three Forks Library. The City levied 6.63 mills for the fiscal year ended June 30, 2014 and received \$14,689 in tax revenue.

1. Summary of Significant Accounting Policies (continued)

Basis of Accounting/Measurement Focus

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

Government-Wide Financial Statements

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

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

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

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

The City applies all applicable GASB pronouncements (including all National Council on Governmental Accounting Statements and Interpretations currently in effect) as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) of the Committee on Accounting Procedure. In addition, the City applies all applicable FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements to its business-type activities.

1. Summary of Significant Accounting Policies (continued)

Governmental Fund Financial Statements

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

All governmental funds are accounted for on a spending or “*current financial resources*” measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheets. The Statement of Revenues, Expenditures, and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources which have been treated as susceptible to accrual by the City are property tax, intergovernmental revenues, and other taxes. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Proprietary Fund Financial Statements

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

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

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

1. Summary of Significant Accounting Policies (continued)

Fiduciary Fund Financial Statements

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

Funds

As mentioned, the Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balances for all major governmental funds and nonmajor funds aggregated.

The following major funds are presented in a separate column on the Governmental Fund Financial Statements:

The *General Fund* is the primary operating unit of the City. It accounts for all financial resources of the City, except those required to be accounted for in another fund.

The *Headwaters Community Fairgrounds* is managed by the Fair Board, who is appointed by the City Council. They manage the Fairgrounds operations, pay all the bills and schedule all events.

The following major funds are presented in a separate column on the Proprietary Fund Financial Statements:

The Water Fund accounts for the City's water utility operations.

The Sewer Fund accounts for the City's sewer utility operations.

Use of Restricted/Unrestricted Net Position

When an expense is incurred for purposes for which both restricted and unrestricted net positions are available, the City's policy is to apply restricted net position first.

Subsequent Events

Subsequent events have been evaluated through June 23, 2015 the date the report was available to be issued.

1. Summary of Significant Accounting Policies (continued)

Budgets and Budgetary Accounting

An annual appropriated operating budget is adopted each fiscal year for the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Funds on the modified accrual basis. An annual appropriated operating budget is adopted each fiscal year for the Proprietary Funds on the accrual basis.

The final budget is legally enacted by the City Commission on the second Monday in August, after holding public hearings as required by State statutes.

The operating budgets cannot be increased except through a public hearing or for a public emergency, which could not have been reasonably foreseen at the time of adoption of the budget. Budget appropriation transfers may be made between the general classifications of salaries and wages, maintenance and operation and capital outlay.

Capital Assets

The City's assets are capitalized at historical cost or estimated historical cost. Effective July 1, 2013, the City increased their capitalization threshold for reporting capital assets from \$1,000 to \$5,000. Gifts or contributions of capital assets are recorded at fair market value when received. Depreciable capital assets are reported on the Statement of Net Position, net of applicable accumulated depreciation. Capital assets which are not depreciable, such as land and construction in progress are reported separately. Depreciation expense is reported in the Statement of Activities and is calculated using the straight-line method based on the assets estimated useful life.

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

| | |
|--------------------------------|----------------|
| Building and structures | 20 to 50 years |
| Improvements | 10 to 25 years |
| Machinery and equipment | 5 to 30 years |
| Utility lines and improvements | 25 to 50 years |

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

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

1. Summary of Significant Accounting Policies (continued)

Capital Assets (continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Enterprise Accounts Receivable

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

Inventories

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

Assessments

Unpaid special improvement district assessments are reflected as special assessments receivable and deferred inflows in the various funds. Revenue is not recognized until collection of these fees.

Compensated Absences Payable

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

Interfund Transactions

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

Cash and Cash Equivalents

For purposes of the statement of cash flows, the City considers all investments with original maturities of three months or less to be highly liquid investments and, therefore, cash equivalents.

Restricted Cash

Certain resources in the Water and Sewer Funds are classified as restricted assets on the statement of net position because their use is limited by applicable bond covenants.

1. Summary of Significant Accounting Policies (continued)

Investments

Investments are comprised of certificates of deposits (“CD”) that have an original maturity of greater than three months.

Fund Balance/Net Position

Fund Balance

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

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

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

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

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

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

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

1. Summary of Significant Accounting Policies (continued)

Minimum General Fund – Fund Balance

The City does not maintain a stabilization fund.

Fund Balance/Net Position (continued)

Net Position

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

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

During the year, the City implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, (“GASB No. 65”), which amends or supersedes the accounting and financial reporting guidance for certain items previously required to be reported as assets or liabilities. The objective is to either properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses) or inflows of resources (revenues). Under GASB No. 65, unearned tax revenue is reported as a Deferred Inflows of Resources instead of as liability.

2. Cash and Investments

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

As of June 30, 2014, the carrying amount of the City's deposits with financial institutions was \$2,460,848 and the bank balance was \$2,424,543. These deposits include demand and savings deposits, and certificates of deposit. Interest bearing accounts are covered by the Federal Depository Insurance Corporation (FDIC) up to \$250,000, per bank, per depositor. The uninsured portion was fully secured by pledged securities held by the financial institutions or by their trust departments or agents, but not in the City's name (class 3 collateral).

2. Cash and Investments (continued)

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

As noted above, statutes authorize the City to invest in direct obligations of the United States Government and securities issued by agencies of the United States, repurchase agreements, and the State Short-Term Investment Pool (STIP). The City had no such investments as of June 30, 2014. The City's investments as of June 30, 2014 consisted entirely of certificates of deposits with maturities from 12 to 24 months and effective annual interest rates of 0.05% to 0.55%. These investments are recorded at cost, which approximates market value at year end.

Custodial credit risk for deposits is the risk that in the event of a financial institution failure, the City's deposits may not be returned or the City will not be able to recover the collateral securities in the possession of the outside party. The City minimizes custodial credit risk by restrictions set forth in City policy and state law. The City's policy requires deposits to be 102 percent secured by collateral valued at market value. The City Clerk maintains a listing of financial institutions, which are approved for investment purposes. Types of securities that may be pledged as collateral are detailed in Section 17-6-103 of the Montana Code Annotated (MCA). City policy requires that specific safeguards against risk of loss be evidenced when the City does not physically hold the securities.

Credit risk is defined as the risk that an issuer or other counterpart to an investments will not fulfill its obligation. The above credit risk rating indicates the probability that the issuer may default in making timely principal and interest payments. The credit ratings presented in the previous tables are provided by Standard and Poor's Corporation (S&P). The City's investment policy is to hold investments to maturity with the contractual understanding that these investments are low risk, locked in to a guaranteed rate of return, are therefore not impacted significantly by changes in short term interest rates.

3. Taxes and Assessments Receivable

Property tax levies are set in August in connection with the budget process and are based on taxable values listed as of January 1 for all property located in the City's jurisdiction. Taxable values are established by the Montana Department of Revenue based on market values. A re-evaluation of all property is required to be completed on a periodic basis. Taxable value is defined by state statute as a fixed percentage of market value.

Real property taxes and special assessments are generally billed in October and are payable 50% by November 30 and 50% by May 31. After these dates, taxes and assessments become delinquent and the City may file a lien on the related property. Personal property is assessed and personal property taxes are billed throughout the year, with a significant portion generally billed in May, June, and July. Personal property taxes are based on levies set during the prior August. These taxes become delinquent 30 days after billing.

Taxes and assessments that become delinquent are charged interest at the rate of 5/6 of 1% per month plus a penalty of 2%. Real property on which taxes and assessments remain delinquent and unpaid may be seized and sold at tax sales. In the case of personal property, the property may be seized and sold after the taxes become delinquent. The City is permitted by state statutes to levy taxes up to certain fixed limits for various purposes.

The taxes levied by the City for the year ended June 30, 2014, were within legal limits. The tax levies were based upon a taxable valuation of \$2,368,827.

City of Three Forks, Montana
Notes to the Financial Statements
June 30, 2014

4. Capital Assets

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

| | As of June 30, 2013 | Additions | Retirements | Transfers | As of June 30, 2014 |
|---|------------------------|---------------------|-------------------|-------------|------------------------|
| Governmental Activities | | | | | |
| Capital assets not subject to depreciation: | | | | | |
| Land | \$ 49,878 | \$ - | \$ - | \$ - | \$ 49,878 |
| Capital assets subject to depreciation: | | | | | |
| Machinery and equipment | 848,597 | - | (49,407) | - | 799,190 |
| Buildings | 584,764 | - | - | - | 584,764 |
| Other structures and improvements | 700,044 | 35,569 | - | - | 735,613 |
| Infrastructure | 206,281 | - | - | - | 206,281 |
| Total capital assets | 2,389,564 | 35,569 | (49,407) | - | 2,375,726 |
| Accumulated depreciation | | | | | |
| Machinery and equipment | (515,216) | (59,655) | 43,539 | - | (531,332) |
| Buildings | (168,780) | (13,105) | - | - | (181,885) |
| Other structures and improvements | (187,820) | (47,973) | - | - | (235,793) |
| Infrastructure | (129,331) | (28,906) | - | - | (158,237) |
| Accumulated depreciation | (1,001,147) | (149,639) | 43,539 | - | (1,107,247) |
| Total governmental activities | \$ 1,388,417 | \$ (114,070) | \$ (5,868) | \$ - | \$ 1,268,479 |
| Business-type Activities | | | | | |
| Capital assets not subject to depreciation: | | | | | |
| Land | \$ 143,000 | \$ - | \$ - | \$ - | \$ 143,000 |
| Construction in progress | 207,238 | 680,395 | - | - | 887,633 |
| Capital assets subject to depreciation: | | | | | |
| Machinery and equipment | 445,436 | 16,861 | - | - | 462,297 |
| Buildings | 1,896,984 | 15,129 | - | - | 1,912,113 |
| Other structures and improvements | 154,628 | - | - | - | 154,628 |
| Source of supply | 198,025 | - | - | - | 198,025 |
| Transmission and distribution | 3,307,411 | - | - | - | 3,307,411 |
| General plant | 509,280 | 451 | - | - | 509,731 |
| Total capital assets | 6,862,002 | 712,836 | - | - | 7,574,838 |
| Accumulated depreciation | | | | | |
| Machinery and equipment | (358,773) | (17,888) | - | - | (376,661) |
| Buildings | (1,118,928) | (39,774) | - | - | (1,158,702) |
| Other structures and improvements | (113,082) | (4,557) | - | - | (117,639) |
| Source of supply | (119,272) | (7,465) | - | - | (126,737) |
| Transmission and distribution | (1,186,070) | (70,389) | - | - | (1,256,459) |
| General plant | (224,453) | (12,885) | - | - | (237,338) |
| Accumulated depreciation | (3,120,578) | (152,958) | - | - | (3,273,536) |
| Total business-type activities | \$ 3,741,424 | \$ 559,878 | \$ - | \$ - | \$ 4,301,302 |
| Total capital assets | \$ 5,129,841 | \$ 445,808 | \$ (5,868) | \$ - | \$ 5,569,781 |

City of Three Forks, Montana
Notes to the Financial Statements
June 30, 2014

4. Capital Assets (continued)

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

| | |
|---------------------------|-------------------|
| Governmental Activities: | |
| General government | \$ 2,104 |
| Public safety | 38,796 |
| Public works | 44,812 |
| Culture and recreation | 25,687 |
| Unallocated depreciation | 38,240 |
| | <u>\$ 149,639</u> |
| Business-type Activities: | |
| Water | \$ 76,743 |
| Sewer | 76,215 |
| | <u>\$ 152,958</u> |

5. Compensated Absences

The City's policy relating to compensated absences is described in Note 1. As shown in the table below, the long-term portion of the debt, amounting to \$12,062 for governmental activities and \$44,810 for business-type activities at June 30, 2014, is expected to be paid in future years from future resources. In prior years, compensated absences have been liquidated primarily by the general fund and the proprietary funds. The total amounts outstanding at June 30, 2014, were \$13,402 for governmental activities and \$49,789 for business-type activities.

| | Governmental Activities | Business-type Activities | Total |
|----------------------------|----------------------------|-----------------------------|-------------------|
| | <u> </u> | <u> </u> | <u> </u> |
| Balance July 1, 2013 | \$ 9,872 | \$ 43,815 | \$ 53,687 |
| Additions | 3,530 | 5,974 | 9,504 |
| Balance June 30, 2014 | <u>\$ 13,402</u> | <u>\$ 49,789</u> | <u>\$ 63,191</u> |
| Current portion | \$ 1,340 | \$ 4,979 | \$ 6,319 |
| Long term portion | <u>12,062</u> | <u>44,810</u> | <u>56,872</u> |
| Total Compensated Absences | <u>\$ 13,402</u> | <u>\$ 49,789</u> | <u>\$ 63,191</u> |

City of Three Forks, Montana
Notes to the Financial Statements
June 30, 2014

6. Long-Term Debt

Governmental Activities Long-Term Debt

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

| | General Obligation Bond | Special Assessment Debt | Intercap Loans Payable | Total |
|-----------------------|----------------------------|----------------------------|---------------------------|-------------------|
| Balance July 1, 2013 | \$ 155,000 | \$ 4,000 | \$ 54,932 | \$ 213,932 |
| Reductions | (30,000) | - | (14,282) | (44,282) |
| Balance June 30, 2014 | <u>\$ 125,000</u> | <u>\$ 4,000</u> | <u>\$ 40,650</u> | <u>\$ 169,650</u> |
| Current portion | \$ 30,000 | \$ 4,000 | \$ 11,894 | \$ 45,894 |
| Long term portion | 95,000 | - | 28,756 | 123,756 |
| | <u>\$ 125,000</u> | <u>\$ 4,000</u> | <u>\$ 40,650</u> | <u>\$ 169,650</u> |

General Obligation Bonds – The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations of the City and are backed by the full faith and credit of the City. General obligation bonds currently outstanding and debt service requirements to maturity are as follows:

| General Obligation Bond - Fire Truck Bonds, Series 2007, serial maturities through 2019 | | | |
|--|-------------------|------------------|---------------|
| | Principal | Interest | Interest Rate |
| FY2015 | \$ 30,000 | \$ 4,320 | 3.30% |
| FY2016 | 30,000 | 3,330 | 3.40% |
| FY2017 | 30,000 | 2,310 | 3.50% |
| FY2018 | 35,000 | 1,260 | 3.60% |
| | <u>\$ 125,000</u> | <u>\$ 11,220</u> | |

City of Three Forks, Montana
Notes to the Financial Statements
June 30, 2014

6. Long-Term Debt (Continued)

Special assessment bonds are secured by a lien on the assessed properties. The primary source of repayment is the assessments levied against the benefiting properties. However, the City is liable, to an extent, for repayment of these special assessment bonds. The City is authorized or required by state law to establish, and has established, a revolving fund to ensure the payment of debt service on the bonds in the event that assessed property owners are in default. Annual debt service requirements to maturity for special assessment bonds are as follows:

| | Special Assessment Bond - Paving #33 | | |
|--------|--------------------------------------|----------|---------------|
| | Principal | Interest | Interest Rate |
| FY2015 | \$ 4,000 | \$ 133 | 3.30% |

Substantially all special assessment bonds mature eighteen to twenty years after issuance but are redeemable at the option of the City whenever cash is available in the respective funds for each issue. The City follows the policy of early redemption on these bonds. Accordingly, a schedule of future interest payments through maturity of the bonds is deemed to be not meaningful and has been excluded.

Intercap loans payable – The following is a summary of the City’s intercap loan activity as of June 30, 2014:

| | Intercap Loans Payable | | |
|-------------|------------------------|-----------------|---------------|
| | Principal | Interest | Interest Rate |
| FY2015 | \$ 11,894 | \$ 377 | 1% |
| FY2016 | 7,789 | 258 | 1% |
| FY2017 | 3,647 | 202 | 1% |
| FY2018 | 3,719 | 164 | 1% |
| FY2019 | 3,792 | 127 | 1% |
| FY2025-2029 | 9,809 | 149 | 1% |
| | <u>\$ 40,650</u> | <u>\$ 1,277</u> | |

City of Three Forks, Montana
Notes to the Financial Statements
June 30, 2014

6. Long-Term Debt (continued)

Business-type Activities Long Term Debt

Revenue bonds – Revenue bonds outstanding at June 30, 2014 are as follows:

| | Water System Revenue Bonds, Series 2004, serial maturities through 2019 | Water System Revenue Bonds, Series 2006, serial maturities through 2026 | Waste Water System Revenue Bonds, Series 2007, serial maturities through 2027 | Water System Revolving Loan, ARRA B | Total |
|-----------------------|---|---|--|---|-------------------|
| Balance July 1, 2013 | \$ 162,000 | \$ 223,000 | \$ 484,960 | \$ 64,000 | \$ 933,960 |
| Reductions | (26,000) | (6,000) | (30,000) | (4,000) | (66,000) |
| Balance June 30, 2014 | <u>\$ 136,000</u> | <u>\$ 217,000</u> | <u>\$ 454,960</u> | <u>\$ 60,000</u> | <u>\$ 867,960</u> |
| Current portion | \$ 26,000 | \$ 6,000 | \$ 30,000 | \$ 4,000 | \$ 66,000 |
| Long term portion | <u>110,000</u> | <u>211,000</u> | <u>424,960</u> | <u>56,000</u> | <u>801,960</u> |
| | <u>\$ 136,000</u> | <u>\$ 217,000</u> | <u>\$ 454,960</u> | <u>\$ 60,000</u> | <u>\$ 867,960</u> |

The City has pledged future water and sewer net revenues to repay \$1,005,600 in water and waste water system revenue bonds issued on November 28, 2012 and November 13, 2009. Proceeds from the bonds provided financing for various water and sewer projects. The bonds are payable solely from water and sewer net revenues and are payable at various maturity dates from July 1, 2019 through July 1, 2030. The total principal and interest remaining to be paid on the water and sewer bonds as of June 30, 2014 is \$465,515 and \$527,174, respectively. Principal and interest paid during the year ended June 30, 2014 for water and sewer were \$45,208 and \$40,744, respectively. Total net revenues paid during the year ended June 30, 2014 for water and sewer were \$409,926 and \$603,897, respectively. The following is a summary of the revenue bonds:

| | Water System Revenue Bonds, Series 2004, serial maturities through 2019 | Water System Revenue Bonds, Series 2006, serial maturities through 2026 | Water System Revolving Loan, ARRA B | Total | Waste Water System Revenue Bonds, Series 2007, serial maturities through 2027 |
|---------------------|---|---|---|------------|--|
| Date issued | 11/28/2012 | 11/28/2012 | 11/13/2009 | | 11/28/2012 |
| Final maturity | 7/1/2019 | 1/1/2026 | 7/1/2030 | | 7/1/2027 |
| Amount of issue | \$ 188,000 | \$ 228,000 | \$ 75,600 | \$ 491,600 | \$ 514,000 |
| Debt service | \$ 29,110 | \$ 10,995 | \$ 5,103 | \$ 45,208 | \$ 40,744 |
| Future debt service | \$ 143,600 | \$ 253,776 | \$ 68,139 | \$ 465,515 | \$ 527,174 |

City of Three Forks, Montana
Notes to the Financial Statements
June 30, 2014

6. Long-Term Debt (continued)

Revenue bond debt service requirements to maturity are as follows:

| | Revenue Bonds | | |
|-------------|-------------------|-------------------|---------------|
| | Principal | Interest | Interest Rate |
| FY2015 | \$ 66,000 | \$ 18,540 | 1.75%-2.25% |
| FY2016 | 69,000 | 17,129 | 1.75%-2.25% |
| FY2017 | 71,000 | 15,651 | 1.75%-2.25% |
| FY2018 | 72,000 | 14,133 | 1.75%-2.25% |
| FY2019 | 81,000 | 12,592 | 1.75%-2.25% |
| FY2020-2024 | 331,000 | 40,164 | 1.75%-2.25% |
| FY2025-2029 | 177,960 | 6,521 | 1.75%-2.25% |
| | <u>\$ 867,960</u> | <u>\$ 124,730</u> | |

Anticipation note – On November 26, 2013 the City entered into a \$640,000 bond anticipation note for designing, engineering, construction of the facilities, and improvements of the City’s water system. The note has an interest rate of 1.25% and a maturity date of January 1, 2016. In August 2014, the City paid off the bond anticipation note by issuing \$1,281,000 of water revenue bonds consisting of \$500,000 subordinate lien taxable series 2014A bond, \$681,000 series 2014B bond and \$100,000 series 2014C bond. The anticipation note outstanding at June 30, 2014 is as follows:

| | |
|-----------------------|-------------------|
| Balance July 1, 2013 | \$ - |
| Additions | <u>581,738</u> |
| Balance June 30, 2014 | <u>\$ 581,738</u> |
| Current portion | \$ - |
| Long term portion | <u>581,738</u> |
| | <u>\$ 581,738</u> |

City of Three Forks, Montana
Notes to the Financial Statements
June 30, 2014

7. Leases

On November 6, 2009, the City entered into a lease for PUMA equipment for the City's police cars. The lease term is five years payable in annual installments of \$1,280 including interest at 8.961%. The total amount capitalized of \$4,937 represents the present value of the future lease payments. The payments of this obligation are being recorded in the general fund.

On March 12, 2013, the City entered into a lease for two 2013 Interceptor police cars. The lease term is eight years payable in semi-annual installments of \$5,786 including interest at 2.95%. The total amount capitalized of \$82,896 represents the present value of the future lease payments. The payments of this obligation are being recorded in the general fund.

The capital lease balance outstanding for government activities at June 30, 2014 is as follows:

| | Puma Audit Recorder Packages | Police Cars - Interceptors | Total |
|-----------------------|------------------------------------|-------------------------------|-------------------|
| | <u> </u> | <u> </u> | <u> </u> |
| Balance July 1, 2013 | \$ 1,113 | \$ 76,386 | \$ 77,499 |
| Reductions | - | (9,141) | (9,141) |
| Balance June 30, 2014 | <u>\$ 1,113</u> | <u>\$ 67,245</u> | <u>\$ 68,358</u> |
| Current portion | \$ 1,113 | \$ 9,443 | \$ 10,556 |
| Long term portion | - | 57,802 | 57,802 |
| | <u>\$ 1,113</u> | <u>\$ 67,245</u> | <u>\$ 68,358</u> |

The following is a schedule, by year, of future minimum lease payments under capital lease, together with the present value of minimum lease payments at June 30, 2014:

| | |
|--|------------------|
| FY2015 | \$ 12,851 |
| FY2016 | 11,572 |
| FY2017 | 11,572 |
| FY2018 | 11,572 |
| FY2019 | 11,572 |
| FY2020-2021 | 17,357 |
| Less: interest | (8,138) |
| Present value of future minimum lease payments | <u>\$ 68,358</u> |

8. Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, which is available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency. In accordance with Governmental Accounting Standards Board Statement No. 32, the City has removed the balances from their financial statements related to the deferred compensation plan, as these amounts represent neither assets nor liabilities to the City, and the plan is administered by an independent third party.

9. Segment Information For Enterprise Funds

Because both of the City's enterprise funds are each reported as a major fund in the fund statements, segment disclosures herein are not required.

10. Retirement Plans

Public Employees' Retirement System (PERS)

The Public Employees' Retirement System (PERS), a state wide defined contribution retirement plan established in 1945 and governed by Title 19, Chapter 3 of the Montana Code Annotated, provides retirement services to substantially all public employees. PERS is a mandatory multiple-employer, cost sharing plan. Benefit eligibility is age 60 with at least five years of service; age 65 regardless of service; or 30 years of service regardless of age. Actuarially reduced benefits may be taken with 25 years of service or at age 50 with at least five years of service. Monthly retirement benefits are determined by taking $1/56$ times the number of years of service times the highest 36 consecutive months.

Members' rights become vested after five years of service. The authority to establish, amend or provide cost of living adjustments for the plan is assigned to the State legislature.

PERS financial information is reported in the Public Employees' Retirement Board's *Comprehensive Annual Financial Report* for the fiscal year end. It is available from the Public Employees' Retirement Division, 1712 Ninth Avenue, PO Box 200131, Helena, MT 59620-0131, (406) 444-3154.

Contribution rates for the plan are required and determined by State law. As of July 1, 2013, PERS employee contribution rates increased from fiscal year 2013 to 7.9 percent of compensation for all employees and 7.8 percent for employer contributions. The employer contribution will continue to increase by 0.1 percent each fiscal year through fiscal year 2024. Covered payroll for the year ended June 30, 2014, was \$302,632. Whether the State of Montana or the local government employers are ultimately responsible for any underfunding of PERS is unclear in State law.

City of Three Forks, Montana
Notes to the Financial Statements
June 30, 2014

10. Retirement Plans (continued)

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

| | | |
|------|----|--------|
| 2012 | \$ | 56,729 |
| 2013 | \$ | 46,192 |
| 2014 | \$ | 47,982 |

In accordance with GASB Statement No. 24, on-behalf payments of fringe benefits and salaries for the City are recognized as revenues and expenditures in the fund financial statements.

Fire Department Relief Association Disability and Pension Fund

City volunteer fire fighters are covered by the Fire Department Relief Association Disability and Pension Fund, which is established by state law. The Association is managed by a board of trustees made up of members of the fire department, and the Disability and Pension Fund is considered an independent reporting entity which is not included in the City's financial statements. The City does maintain a Fire Department Relief Association Disability and Pension Fund as an agency fund; however, this fund is only used to account for contributions until they are remitted to the separate Disability and Pension Fund. A member of a volunteer fire department who has served 20 years or more is entitled to benefits regardless of age. Volunteers serving less than 20 years but more than 10 years may receive reduced benefits.

The amount of the pension benefits are set by the Association's Board of Trustees.

The City contributes from 1 to 4 mills to the fund when it contains an amount less than 4% of the City's taxable valuation. The City's contribution to the plan for the fiscal year ended June 30, 2014 was \$38,404. The State contributes, out of monies received for insurance premium taxes, an amount equal to 1-1/2 mills times the total taxable value of the City, but not less than \$100. The state's contribution to the plan for fiscal year ended June 30, 2014 was \$3,553.

An actuarial valuation report was prepared by Patricia Ann Kahle F.S.A., Principal and Consulting Actuary, Milliman Inc., 1099 Eighteenth Street, Denver, CO 80202-1931 for the Three Forks Fire Department Relief Association Disability and Pension Fund. Due to the actuarial valuation, 10 Mills for ten years has been approved by the Voters to attempt to make the Fire Department Relief Association Disability and Pension Fund whole.

11. Other Post Employment Benefits

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

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

Funding Policy. The City of Three Forks does provide Group Health Insurance – Medical and Dental – through MMIA. The premiums for Medical are: \$491 for single, \$982 for employee and spouse, \$859 for employee and children and \$1,350 for employee and family. The premiums for MMIA Dental are: \$41 for single, \$82 for employee and spouse, \$72 for employee and children and \$113 for employee and family. The City pays 100% of the premiums for the librarian. The City pays 90% of the premiums for all other employees and their dependents. City Council members have the option to sign up for the Group Health Insurance and pay 100% of their own premiums. The City does not have any retired members receiving the Group Health Insurance benefits, but will offer the insurance benefits to retirees if they chose to stay on the plan at their own cost.

Annual OPEB Cost and Net OPEC Obligation. The City's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*. The City has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

City of Three Forks, Montana
Notes to the Financial Statements
June 30, 2014

11. Other Post Employment Benefits (continued)

MMIA, as the plan administrator for many Montana cities and towns, engaged an actuary to assist the cities, including the City of Three Forks, with the alternative measurement method for June 30, 2014. MMIA allows members to stay on the City's plan after age 65. The rate MMIA charges for individuals with Medicare (age 65) is less than an employee or retiree under 65; however, with Medicare being primary for benefit payments, the costs end up being even lower than the premium amounts. MMIA's actuary assumes all members will stay on the plan for their entire life expectancy. With the life expectancy at 78 and the assumed retirement age at 62, this results in more years after 65 than before.

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

| | |
|--|------------------|
| Annual required contribution (ARC) | \$ 9,651 |
| Interest on net OPEB obligation | 193 |
| Adjustment to annual required contribution | <u>2,471</u> |
| Annual OPEB Cost | 12,315 |
| Contributions made | <u>-</u> |
| Change in net OPEB obligation | 12,315 |
| | |
| Net OPEB obligation - beginning of year | <u>3,290</u> |
| Net OPEB obligation - end of year | <u>\$ 15,605</u> |

| | <u>Water</u> | <u>Sewer</u> | <u>Governmental</u> | <u>Total</u> |
|------------------------|-----------------|-----------------|---------------------|------------------|
| Prior year OPEB liab | \$ 1,302 | \$ 1,375 | \$ 613 | \$ 3,290 |
| Current year OPEB liab | <u>5,797</u> | <u>5,973</u> | <u>3,835</u> | <u>15,605</u> |
| Change | <u>\$ 4,495</u> | <u>\$ 4,598</u> | <u>\$ 3,222</u> | <u>\$ 12,315</u> |

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

11. Other Post Employment Benefits (continued)

Actuarial Methods and Assumptions. For the actuarial valuation performed as of June 30, 2014, the following key assumptions were chosen by the actuary of MMIA and agreed to by the City:

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

The calculated actuarial liability is as follows:

| | | |
|---|----|--------|
| Actuarial Accrued Liability (AAL) | \$ | 69,660 |
| Actuarial Value of Assets (AVA) | | - |
| Unfunded Actuarial Accrued Liability (UAAL) | \$ | 69,660 |

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point.

The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

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

12. Classification of Net Position

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

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

Restricted – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional or enabling legislation. Additionally, this category presents restrictions placed on the categories of Capital Projects, Debt Service, and specific projects and programs established by the City Council.

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

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

13. Risk Management

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

A variety of methods are used to provide insurance for these risks. Commercial policies, transferring all risks of losses, except for relatively small deductible amounts, are purchased for property and content damage, employee medical costs, and professional liabilities.

The City participates in two state-wide public risk pools operated by the Montana Municipal Interlocal Authority (MMIA), for workers' compensation and for tort liability coverage. And, given the lack of coverage available, the City has no coverage for potential losses from environmental damages.

Coverage limits and the deductibles on the commercial policies have stayed relatively constant for the last several years. The premiums for the policies are allocated between the City's enterprise funds and an Insurance (special revenue) Fund based on total appropriations. The Insurance Fund has a special-purpose property tax levy for this purpose. Settled claims resulting from these risks did not exceed commercial insurance coverage during 2014.

13. Risk Management (continued)

In 1986, the City joined together with other Montana cities to form MMIA, which established a workers' compensation plan and a tort liability plan. Both public entity risk pools currently operate as common risk management and insurance programs for the member governments.

The liability limits for damages in tort action are \$750,000 per claim and \$1.5 million per occurrence, and \$12.5 million per occurrence for any claim that is not subject to the limitations on government liability, as described in Montana Code Annotated Section 2-9-108 (the Statute) or any successor statute, either as matter of law, by operation of the Statute, or by a judicial determination that the Statute is inapplicable or is otherwise invalid, with a \$750 deductible per occurrence. State tort law limits the City's liability to \$1.5 million. The City pays premiums for its employee injury insurance coverage, which is allocated to the employer funds based on total salaries and wages.

The agreements for formation of the pools provide that they will be self-sustaining through member premiums. The tort liability plan and workers' compensation program issued \$4.41 million and \$6.155 million, respectively, of bonds to immediately finance the necessary insurance reserves. All members signed a contingent note for a pro rata share of this liability in case operating revenues were insufficient to cover the debt service; these notes were retired in 2011.

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

City of Three Forks, Montana
Notes to the Financial Statements
June 30, 2014

14. Major Purpose Presentation

The table presented below displays the City's fund balances by major purpose, as displayed on page 14 on the governmental funds balance sheet. Statement 54 requires the disclosure of the purpose of each Major Special Revenue Fund.

| | <u>General Fund</u> | <u>Headwaters Community Fairgrounds</u> | <u>Nonmajor Governmental Funds</u> | <u>Total</u> |
|----------------------------------|---------------------|---|--|-------------------|
| Restricted for: | | | | |
| General government | \$ - | \$ - | \$ 642 | \$ 642 |
| Public safety | - | - | 125,522 | 125,522 |
| Public works | - | - | 226,882 | 226,882 |
| Culture and recreation | - | - | 64,777 | 64,777 |
| Debt service | - | - | 112,626 | 112,626 |
| Subtotal Restricted Fund Balance | <u>-</u> | <u>-</u> | <u>530,449</u> | <u>530,449</u> |
| Committed to: | | | | |
| General government | - | - | 175 | 175 |
| Public safety | - | - | 23,477 | 23,477 |
| Culture and recreation | - | 62,924 | - | 62,924 |
| Debt service | - | - | 7,446 | 7,446 |
| Subtotal Committed Fund Balance | <u>-</u> | <u>62,924</u> | <u>31,098</u> | <u>94,022</u> |
| Assigned to: | | | | |
| Culture and recreation | <u>-</u> | <u>-</u> | <u>8,216</u> | <u>8,216</u> |
| Subtotal Assigned Fund Balance | <u>-</u> | <u>-</u> | <u>8,216</u> | <u>8,216</u> |
| Unassigned: | <u>252,634</u> | <u>-</u> | <u>-</u> | <u>252,634</u> |
| Total Fund Balances | <u>\$ 252,634</u> | <u>\$ 62,924</u> | <u>\$ 569,763</u> | <u>\$ 885,321</u> |

15. Interfund Transfers

The interfund transfers for the fiscal year ended June 30, 2014 were as follows:

| | <u>Interfund Receivables</u> | <u>Interfund Payables</u> |
|-------------------------|----------------------------------|-------------------------------|
| Nonmajor Funds | | |
| Headwaters Trail System | \$ - | \$ 11,317 |
| SID 30 Fund | 11,317 | |
| | <u>\$ 11,317</u> | <u>\$ 11,317</u> |

City of Three Forks, Montana
Notes to the Financial Statements
June 30, 2014

15. Interfund Transfers (continued)

| Major Funds | Interfund Revenues | Interfund Expenditures |
|-----------------------------------|-----------------------|---------------------------|
| General Fund | \$ 99,798 | \$ 5,502 |
| Headwaters Fund | - | 6,320 |
| | | |
| Nonmajor Funds | | |
| Library Reserve | 5,502 | - |
| Health Insurance-Employer | - | 56,328 |
| Permissive Medical Levy | - | 4,860 |
| Control Crime Division | - | 205 |
| Community Transportation | - | 1,304 |
| City Planning/Zoning | - | 11,965 |
| General Improvements | | 13 |
| Comprehensive Liability Insurance | - | 18,803 |
| | <u>\$ 105,300</u> | <u>\$ 105,300</u> |
| | | |
| Business Activity Funds | | |
| Water | - | 75,000 |
| Sewer | 75,000 | - |
| | <u>\$ 75,000</u> | <u>\$ 75,000</u> |

The transfer from the General Fund to the Library Reserve Fund was for operating purposes. The transfer from Headwaters Fund to the General Fund was for a debt payment paid by the General Fund on behalf of the Headwaters Fund. The transfers from all other nonmajor funds to the General Fund were made to close out inactive nonmajor funds.

16. Subsequent Events

In September 2009, the City received its first notice of violation for discharging waste water into a river. After numerous meetings with the Montana Rural Water Systems, and many public hearings including presentations by Great West Engineering, the Council voted on April 10, 2012 to replace the existing wastewater lagoon system with a complete mix and partial mix lagoon system with polishing reactor. The total project cost came in at \$6,181,000. The City was awarded grants totaling \$1,250,000: \$750,000 from TSEP, \$100,000 from DNRC, and roughly \$400,000 from WRDA. The City will pay \$136,000 out of reserves, the remaining will be funded by a State Revolving Fund Loan in the amount of \$4,891,000. This loan will be backed by Series 2015 Bonds issued in May 2015 at an interest rate of 2.5% and a maturity date of July 1, 2035. The City has increased sewer rates above the 400 cubic feet base from \$2.71 for each additional 100 cubic feet, to \$6.97 to cover the costs of the loan payments and subsequent O&M.

As of the issuance date of the financial statements, the City has spent approximately \$408,300 on the water project since June 30, 2014. The City expects to spend an additional \$500,000 on the water project in fiscal year 2015.

REQUIRED SUPPLEMENTAL INFORMATION

City of Three Forks, Montana
Statement of Revenues, Expenditures and Changes in Fund Balances –
Budget and Actual - General Funds
For the Year Ended June 30, 2014

| | General Fund | |
|------------------------------------|----------------------------|-------------------|
| | Original & Final Budget | Actual |
| Revenues: | | |
| Taxes | \$ 314,308 | \$ 308,407 |
| Licenses and permits | 9,600 | 10,705 |
| Intergovernmental | 154,681 | 158,127 |
| Charges for services | 1,405 | 8,506 |
| Fines and forfeitures | 17,376 | 12,412 |
| Interest on investments | 433 | 709 |
| Other | 15,950 | 5,832 |
| Total revenues | <u>513,753</u> | <u>504,698</u> |
| Expenditures: | | |
| Current: | | |
| General government | 131,084 | 116,790 |
| Public safety | 314,791 | 316,046 |
| Public works | 15,270 | 17,096 |
| Public health | 1,200 | 57 |
| Culture and recreation | 21,386 | 25,098 |
| Housing and community development | - | 749 |
| Other | 7,321 | 7,320 |
| Debt service | 32,427 | 17,891 |
| Total expenditures | <u>523,479</u> | <u>501,047</u> |
| Revenues over (under) expenditures | <u>\$ (9,726)</u> | \$ 3,651 |
| Operating transfers, in (out) | | 94,296 |
| Fund balances, July 1, 2013 | | 154,687 |
| Prior period adjustments | | <u>-</u> |
| Fund balances June 30, 2014 | | <u>\$ 252,634</u> |

See Independent Auditors' Report.
The accompanying notes are an integral part of the required supplemental information.

City of Three Forks, Montana
Statement of Revenues, Expenditures and Changes in Fund Balances –
Budget and Actual – Headwaters Community Fairgrounds Special Revenue Fund
For the Year Ended June 30, 2014

| | Headwaters Community Fairgrounds Special Revenue | |
|------------------------------------|---|------------------|
| | Original & Final | |
| | Budget | Actual |
| Revenues: | | |
| Taxes | \$ - | \$ - |
| Licenses and permits | - | - |
| Intergovernmental | - | - |
| Charges for services | 101,059 | 101,661 |
| Fines and forfeitures | - | - |
| Interest on investments | 643 | 48 |
| Other | - | - |
| Total revenues | <u>101,702</u> | <u>101,709</u> |
| Expenditures: | | |
| Current: | | |
| General government | - | - |
| Public safety | - | - |
| Public works | - | - |
| Public health | - | - |
| Culture and recreation | 122,325 | 93,181 |
| Housing and community development | - | - |
| Other | - | - |
| Debt service | - | - |
| Total expenditures | <u>122,325</u> | <u>93,181</u> |
| Revenues over (under) expenditures | <u>\$ (20,623)</u> | \$ 8,528 |
| Operating transfers, in (out) | | (6,320) |
| Fund balances, July 1, 2013 | | 60,676 |
| Prior period adjustments | | <u>40</u> |
| Fund balances June 30, 2014 | | <u>\$ 62,924</u> |

See Independent Auditors' Report.
The accompanying notes are an integral part of the required supplemental information.

City of Three Forks, Montana
Schedule of Funding Progress – Other Post-Employment Benefits
For the Year Ended June 30, 2014

The annual OPEB costs, the percentage of OPEB cost contributed to the plan and the net OPEB obligation for June 30, 2014 and 2013, respectively, for the retiree Health Plan are as follows:

| Fiscal Year Ended | Annual OPEB Cost | % of Annual OPEB Cost Contributed | Net OPEB Obligation |
|----------------------|---------------------|---|------------------------|
| June 30, 2013 | \$ 3,290 | 0.00% | \$ 3,290 |
| June 30, 2014 | \$ 12,315 | 0.00% | \$ 15,605 |

The funded status of the plan was as follows:

Actuarial Valuation

| | |
|---|------------------|
| Actuarial Accrued Liability (AAL) | \$ 69,660 |
| Actuarial Value of Assets (AVA) | <u>-</u> |
| Unfunded Actuarial Accrued Liability (UAAL) | <u>\$ 69,660</u> |
| Funded Ratio (AVA/UAAL) | 0% |
| Covered Payroll | Not Available |
| UAAL as a Percentages of Covered Payroll | Not Available |

See Independent Auditors' Report.
The accompanying notes are an integral part of the required supplemental information.

City of Three Forks, Montana
Notes to Required Supplemental Information
For the Year Ended June 30, 2014

1. Budgets

State law permits the inclusion of obligations for construction in progress and obligations for the purchase of personal property as expenditures for budget purposes (MCA 20-9-121). However, the City does not use encumbrances, so there is no difference between Budget Basis and GAAP Basis for expenditures.

Budget authority may be transferred between expenditure classifications within the same fund. Budgeted amounts shown are the original and final budgeted amounts and reflect line item budget transfers within the funds during the year (if any).

2. Other Post-Employment Benefits (OPEB)

The schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. This schedule is based on actuarial values as of June 30, 2014.

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SUPPLEMENTAL INFORMATION

**City of Three Forks, Montana
Combining Balance Sheet
Nonmajor Governmental Funds
For the Year Ended June 30, 2014**

| | Special Revenue | | | |
|---|--------------------------|--|---------------------------------------|-------------------------|
| | <u>Library Operating</u> | <u>Bridging The Gap/After School</u> | <u>Street Lighting District 1</u> | <u>Library Memorial</u> |
| Assets | | | | |
| Cash and cash equivalents | \$ 5,270 | \$ 1,737 | \$ 13,519 | \$ 8,216 |
| Property tax receivable | 2,075 | - | - | - |
| Special assessment receivable | - | - | 1,455 | - |
| Other government receivable | - | - | (35) | - |
| Due from other City funds | - | - | - | - |
| Due from other governments | 549 | - | - | - |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total assets | \$ 7,894 | \$ 1,737 | \$ 14,939 | \$ 8,216 |
| Liabilities, Deferred Inflows, and Fund Balances | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 110 | \$ - | \$ - | \$ - |
| Due to other City funds | - | - | - | - |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total liabilities | 110 | - | - | - |
| Deferred inflows of resources: | | | | |
| Deferred inflows of resources | - | - | - | - |
| Deferred inflows of tax revenues | 2,075 | - | 1,485 | - |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total deferred inflows of resources | 2,075 | - | 1,485 | - |
| Fund balances: | | | | |
| Nonspendable | - | - | - | - |
| Restricted | 5,709 | 1,737 | 13,454 | - |
| Committed | - | - | - | - |
| Assigned | - | - | - | 8,216 |
| Unassigned | - | - | - | - |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total fund balances | 5,709 | 1,737 | 13,454 | 8,216 |
| Total liabilities, deferred inflows, and fund balances | \$ 7,894 | \$ 1,737 | \$ 14,939 | \$ 8,216 |

See Independent Auditors' Report.

| | Special Revenue | | | |
|---|-------------------------|----------------------------|-----------------------|---------------------------------|
| | Bertagnolli Memorial | Police Reserve Training | Street Maintenance | Ridgeview Street Maintenance |
| Assets | | | | |
| Cash and cash equivalents | \$ 950 | \$ 7,050 | \$ 83,991 | \$ 9,898 |
| Property tax receivable | - | - | - | - |
| Special assessment receivable | - | - | 1,775 | 187 |
| Other government receivable | - | - | (151) | - |
| Due from other City funds | - | - | - | - |
| Due from other governments | - | - | - | - |
| Total assets | \$ 950 | \$ 7,050 | \$ 85,615 | \$ 10,085 |
| Liabilities, Deferred Inflows, and Fund Balances | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ - | \$ - | \$ - | \$ - |
| Due to other City funds | - | - | - | - |
| Total liabilities | - | - | - | - |
| Deferred inflows of resources: | | | | |
| Deferred inflows of resources | - | - | - | - |
| Deferred inflows of tax revenues | - | - | 1,813 | 187 |
| Total deferred inflows of resources | - | - | 1,813 | 187 |
| Fund balances: | | | | |
| Nonspendable | - | - | - | - |
| Restricted | 950 | 7,050 | 83,802 | 9,898 |
| Committed | - | - | - | - |
| Assigned | - | - | - | - |
| Unassigned | - | - | - | - |
| Total fund balances | 950 | 7,050 | 83,802 | 9,898 |
| Total liabilities, deferred inflows, and fund balances | \$ 950 | \$ 7,050 | \$ 85,615 | \$ 10,085 |

See Independent Auditors' Report.

City of Three Forks, Montana
Combining Balance Sheet
Nonmajor Governmental Funds (Continued)
For the Year Ended June 30, 2014

| | Special Revenue | | | |
|---|--|--------------------------|-----------------------------|------------------|
| | Fire Control Capital Improvement | Gas Tax Apportionment | Headwaters Trails System | Drug Forfeitures |
| Assets | | | | |
| Cash and cash equivalents | \$ 118,107 | \$ 108,464 | \$ 22,583 | \$ 1,600 |
| Property tax receivable | 2,835 | - | - | - |
| Special assessment receivable | - | - | - | - |
| Other government receivable | - | - | - | - |
| Due from other City funds | - | - | - | - |
| Due from other governments | 366 | - | - | - |
| Total assets | \$ 121,308 | \$ 108,464 | \$ 22,583 | \$ 1,600 |
| Liabilities, Deferred Inflows, and Fund Balances | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ - | \$ - | \$ - | \$ - |
| Due to other City funds | - | - | 11,317 | - |
| Total liabilities | - | - | 11,317 | - |
| Deferred inflows of resources: | | | | |
| Deferred inflows of resources | - | - | - | - |
| Deferred inflows of tax revenues | 2,835 | - | - | - |
| Total deferred inflows of resources | 2,835 | - | - | - |
| Fund balances: | | | | |
| Nonspendable | - | - | - | - |
| Restricted | 118,473 | 108,464 | 11,266 | - |
| Committed | - | - | - | 1,600 |
| Assigned | - | - | - | - |
| Unassigned | - | - | - | - |
| Total fund balances | 118,473 | 108,464 | 11,266 | 1,600 |
| Total liabilities, deferred inflows, and fund balances | \$ 121,308 | \$ 108,464 | \$ 22,583 | \$ 1,600 |

See Independent Auditors' Report.

| | Special Revenue | | | |
|---|------------------------|----------------------------|---------------|-------------------|
| | Fire Impact Fees | Permissive Medical Levy | CDBG | Total |
| Assets | | | | |
| Cash and cash equivalents | \$ 21,876 | \$ - | \$ 642 | \$ 403,903 |
| Property tax receivable | - | 3,355 | - | 8,265 |
| Special assessment receivable | - | - | - | 3,417 |
| Other government receivable | - | - | - | (186) |
| Due from other City funds | - | - | - | - |
| Due from other governments | - | 176 | - | 1,091 |
| Total assets | \$ 21,876 | \$ 3,531 | \$ 642 | \$ 416,490 |
| Liabilities, Deferred Inflows, and Fund Balances | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ - | \$ - | \$ - | \$ 110 |
| Due to other City funds | - | - | - | 11,317 |
| Total liabilities | - | - | - | 11,427 |
| Deferred inflows of resources: | | | | |
| Deferred inflows of resources | - | - | - | - |
| Deferred inflows of tax revenues | - | 3,355 | - | 11,750 |
| Total deferred inflows of resources | - | 3,355 | - | 11,750 |
| Fund balances: | | | | |
| Nonspendable | - | - | - | - |
| Restricted | - | - | 642 | 361,445 |
| Committed | 21,876 | 176 | - | 23,652 |
| Assigned | - | - | - | 8,216 |
| Unassigned | - | - | - | - |
| Total fund balances | 21,876 | 176 | 642 | 393,313 |
| Total liabilities, deferred inflows, and fund balances | \$ 21,876 | \$ 3,531 | \$ 642 | \$ 416,490 |

See Independent Auditors' Report.

City of Three Forks, Montana
Combining Balance Sheet
Nonmajor Governmental Funds (Continued)
For the Year Ended June 30, 2014

| | Debt Service Funds | | | | |
|---|---------------------------|---------------------|------------------|------------------|-------------------|
| | G.O. Bonds | S.I.D. Revolving | S.I.D. 30 | S.I.D. 33 | Total |
| Assets | | | | | |
| Cash and cash equivalents | \$ 75,449 | \$ 7,446 | \$ 18,118 | \$ 6,435 | \$ 107,448 |
| Property tax receivable | (1,506) | - | - | - | (1,506) |
| Special assessment receivable | - | - | 285 | 13,157 | 13,442 |
| Other government receivable | - | - | - | - | - |
| Due from other City funds | - | - | 11,317 | - | 11,317 |
| Due from other governments | 1,306 | - | - | - | 1,306 |
| | <u>75,249</u> | <u>7,446</u> | <u>29,720</u> | <u>19,592</u> | <u>132,007</u> |
| Total assets | <u>\$ 75,249</u> | <u>\$ 7,446</u> | <u>\$ 29,720</u> | <u>\$ 19,592</u> | <u>\$ 132,007</u> |
| Liabilities, Deferred Inflows, and Fund Balances | | | | | |
| Liabilities: | | | | | |
| Accounts payable | \$ - | \$ - | \$ - | \$ - | \$ - |
| Due to City funds | - | - | - | - | - |
| | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total liabilities | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Deferred inflows of resources: | | | | | |
| Deferred inflows of resources | - | - | - | - | - |
| Deferred inflows of tax revenues | (1,506) | - | 285 | 13,157 | 11,936 |
| | <u>(1,506)</u> | <u>-</u> | <u>285</u> | <u>13,157</u> | <u>11,936</u> |
| Total deferred inflows of resources | <u>(1,506)</u> | <u>-</u> | <u>285</u> | <u>13,157</u> | <u>11,936</u> |
| Fund balances: | | | | | |
| Nonspendable | - | - | - | - | - |
| Restricted | 76,755 | - | 29,435 | 6,435 | 112,625 |
| Committed | - | 7,446 | - | - | 7,446 |
| Assigned | - | - | - | - | - |
| Unassigned | - | - | - | - | - |
| | <u>76,755</u> | <u>7,446</u> | <u>29,435</u> | <u>6,435</u> | <u>120,071</u> |
| Total fund balances | <u>76,755</u> | <u>7,446</u> | <u>29,435</u> | <u>6,435</u> | <u>120,071</u> |
| Total liabilities, deferred inflows, and fund balances | <u>\$ 75,249</u> | <u>\$ 7,446</u> | <u>\$ 29,720</u> | <u>\$ 19,592</u> | <u>132,007</u> |

See Independent Auditors' Report.

| | Capital Project Funds | |
|---|------------------------------|------------------|
| | <u>Library Reserve</u> | <u>Total</u> |
| Assets | | |
| Cash and cash equivalents | \$ 56,379 | \$ 56,379 |
| Property tax receivable | - | - |
| Special assessment receivable | - | - |
| Other government receivable | 30,000 | 30,000 |
| Due from other City funds | - | - |
| Due from other governments | - | - |
| | <hr/> | <hr/> |
| Total assets | <u>\$ 86,379</u> | <u>\$ 86,379</u> |
| Liabilities, Deferred Inflows, and Fund Balances | | |
| Liabilities: | | |
| Accounts payable | \$ - | \$ - |
| Due to other City funds | - | - |
| | <hr/> | <hr/> |
| Total liabilities | <hr/> | <hr/> |
| Deferred inflows of resources: | | |
| Deferred inflows of resources | 30,000 | 30,000 |
| Deferred inflows of tax revenues | - | - |
| | <hr/> | <hr/> |
| Total deferred inflows of resources | <u>30,000</u> | <u>30,000</u> |
| Fund balances: | | |
| Nonspendable | - | - |
| Restricted | 56,379 | 56,379 |
| Committed | - | - |
| Assigned | - | - |
| Unassigned | - | - |
| | <hr/> | <hr/> |
| Total fund balances | <u>56,379</u> | <u>56,379</u> |
| Total liabilities, deferred inflows, and fund balances | <u>\$ 86,379</u> | <u>\$ 86,379</u> |

See Independent Auditors' Report.

City of Three Forks, Montana
Combining Balance Sheet
Nonmajor Governmental Funds (Continued)
For the Year Ended June 30, 2014

| | Total Nonmajor Governmental |
|---|--|
| Assets | |
| Cash and cash equivalents | \$ 567,730 |
| Property tax receivable | 6,759 |
| Special assessment receivable | 16,859 |
| Other government receivable | 29,814 |
| Due from other City funds | 11,317 |
| Due from other governments | 2,397 |
| | <hr/> |
| Total assets | \$ 634,876 |
| | <hr/> |
| Liabilities, Deferred Inflows, and Fund Balances | |
| Liabilities: | |
| Accounts payable | \$ 110 |
| Due from other City funds | 11,317 |
| | <hr/> |
| Total liabilities | 11,427 |
| | <hr/> |
| Deferred inflows or resources: | |
| Deferred inflows of resources | 30,000 |
| Deferred inflows of tax revenues | 23,686 |
| | <hr/> |
| Total deferred inflows of resources | 53,686 |
| | <hr/> |
| Fund balances: | |
| Nonspendable | - |
| Restricted | 530,449 |
| Committed | 31,098 |
| Assigned | 8,216 |
| Unassigned | - |
| | <hr/> |
| Total fund balances | 569,763 |
| | <hr/> |
| Total liabilities, deferred inflows, and fund balances | \$ 634,876 |
| | <hr/> |

See Independent Auditors' Report.

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City of Three Forks, Montana
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2014

| | Special Revenue Funds | | | |
|---|---|----------------------|-------------------------|----------------------------------|
| | Comprehensive Liability Insurance | Library Operating | City Planning/Zoning | Health Insurance- Employer |
| Revenues: | | | | |
| Taxes | \$ - | \$ 16,555 | \$ - | \$ - |
| Intergovernmental | - | 57,905 | - | - |
| Charges for services | - | 1,436 | 604 | - |
| Fines and forfeitures | - | - | - | - |
| Interest on investments | 6 | 10 | 5 | 19 |
| Other | - | 4,663 | - | - |
| Total revenues | 6 | 80,569 | 609 | 19 |
| Expenditures: | | | | |
| Current: | | | | |
| Public safety | - | - | - | 5,030 |
| Public works | - | - | - | - |
| Public health | - | - | - | 6,455 |
| Culture and recreation | - | 88,438 | - | - |
| Housing and community development | - | - | 4,264 | - |
| Other | - | - | - | - |
| Capital outlay | - | - | - | - |
| Debt service | | | | |
| Principal payments | - | - | - | - |
| Interest and fiscal fees | - | - | - | - |
| Total expenditures | - | 88,438 | 4,264 | 11,485 |
| Revenues over (under) expenditures | 6 | (7,869) | (3,655) | (11,466) |
| Other financing sources (uses): | | | | |
| Operating transfers | (18,803) | - | (11,965) | (56,328) |
| Total other financing sources (uses) | (18,803) | - | (11,965) | (56,328) |
| Excess of revenues over expenditures and other financing sources (uses) | (18,797) | (7,869) | (15,620) | (67,794) |
| Fund balances, July 1, 2013 | 18,797 | 13,578 | 15,620 | 67,794 |
| Fund balances June 30, 2014 | \$ - | \$ 5,709 | \$ - | \$ - |

See Independent Auditors' Report.

| | Special Revenue Funds | | | |
|--|--|---------------------------------------|-------------------------|---------------------------------|
| | <u>Bridging The Gap/After School</u> | <u>Street Lighting District 1</u> | <u>Library Memorial</u> | <u>Bertagnolli Memorial</u> |
| Revenues: | | | | |
| Taxes | \$ - | \$ 30,642 | \$ - | \$ - |
| Intergovernmental | 13,800 | - | - | - |
| Charges for services | - | - | - | - |
| Fines and forfeitures | - | - | - | - |
| Interest on investments | - | 55 | 26 | 2 |
| Other | 300 | - | 1,405 | 400 |
| Total revenues | <u>14,100</u> | <u>30,697</u> | <u>1,431</u> | <u>402</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Public safety | - | - | - | - |
| Public works | - | 31,924 | - | - |
| Public health | - | - | - | - |
| Culture and recreation | 13,442 | - | 1,192 | - |
| Housing and community development | - | - | - | - |
| Other | - | - | - | - |
| Capital outlay | - | - | - | - |
| Debt service | | | | |
| Principal payments | - | - | - | - |
| Interest and fiscal fees | - | - | - | - |
| Total expenditures | <u>13,442</u> | <u>31,924</u> | <u>1,192</u> | <u>-</u> |
| Revenues over (under) expenditures | <u>658</u> | <u>(1,227)</u> | <u>239</u> | <u>402</u> |
| Other financing sources (uses): | | | | |
| Operating transfers | - | - | - | - |
| Total other financing sources (uses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Excess of revenues over expenditures and other financing sources (uses) | 658 | (1,227) | 239 | 402 |
| Fund balances, July 1, 2013 | <u>1,079</u> | <u>14,681</u> | <u>7,977</u> | <u>548</u> |
| Fund balances, June 30, 2014 | <u>\$ 1,737</u> | <u>\$ 13,454</u> | <u>\$ 8,216</u> | <u>\$ 950</u> |

See Independent Auditors' Report.

City of Three Forks, Montana
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds (Continued)
For the Year Ended June 30, 2014

| | Special Revenue Funds | | | |
|---|------------------------------|-----------------------|---|-------------------------|
| | Police Reserve Training | Street Maintenance | Ridgeview Street Maintenance Dist. #2 | Fire Control Capital |
| Revenues: | | | | |
| Taxes | \$ - | \$ 39,576 | \$ 2,998 | \$ 10,902 |
| Intergovernmental | 3,553 | - | - | - |
| Charges for services | - | - | - | - |
| Fines and forfeitures | - | - | - | - |
| Interest on investments | 19 | 265 | - | - |
| Other | - | - | - | - |
| Total revenues | 3,572 | 39,841 | 2,998 | 10,902 |
| Expenditures: | | | | |
| Current: | | | | |
| Public safety | 1,184 | - | - | - |
| Public works | - | 31,524 | 680 | - |
| Public health | - | - | - | - |
| Culture and recreation | - | - | - | - |
| Housing and community development | - | - | - | - |
| Other | - | - | - | - |
| Capital outlay | - | - | - | - |
| Debt service | | | | |
| Principal payments | - | - | - | - |
| Interest and fiscal fees | - | - | - | - |
| Total expenditures | 1,184 | 31,524 | 680 | - |
| Revenues over (under) expenditures | 2,388 | 8,317 | 2,318 | 10,902 |
| Other financing sources (uses): | | | | |
| Operating transfers | - | - | - | - |
| Total other financing sources (uses) | - | - | - | - |
| Excess of revenues over expenditures and other financing sources (uses) | 2,388 | 8,317 | 2,318 | 10,902 |
| Fund balances, July 1, 2013 | 4,662 | 75,485 | 7,580 | 107,571 |
| Fund balances, June 30, 2014 | \$ 7,050 | \$ 83,802 | \$ 9,898 | \$ 118,473 |

See Independent Auditors' Report.

| | Special Revenue Funds | | | |
|---|------------------------------|--------------------------|-----------------------------|---------------------|
| | Community Transportation | Gas Tax Apportionment | Headwaters Trails System | Drug Forfeitures |
| Revenues: | | | | |
| Taxes | \$ - | \$ - | \$ - | \$ - |
| Intergovernmental | - | 48,865 | - | - |
| Charges for services | - | - | - | - |
| Fines and forfeitures | - | - | - | 250 |
| Interest on investments | - | 307 | 75 | - |
| Other | - | - | 87,243 | - |
| Total revenues | - | 49,172 | 87,318 | 250 |
| Expenditures: | | | | |
| Current: | | | | |
| Public safety | - | - | - | - |
| Public works | - | 17,879 | 36,243 | - |
| Public health | - | - | - | - |
| Culture and recreation | - | - | - | - |
| Housing and community development | - | - | - | - |
| Other | - | - | - | - |
| Capital outlay | - | - | 35,569 | - |
| Debt service | | | | |
| Principal payments | - | 8,282 | - | - |
| Interest and fiscal fees | - | 188 | - | - |
| Total expenditures | - | 26,349 | 71,812 | - |
| Revenues over (under) expenditures | - | 22,823 | 15,506 | 250 |
| Other financing sources (uses): | | | | |
| Operating transfers | (1,304) | - | - | - |
| Total other financing sources (uses) | (1,304) | - | - | - |
| Excess of revenues over expenditures and other financing sources (uses) | (1,304) | 22,823 | 15,506 | 250 |
| Fund balances, July 1, 2013 | 1,304 | 85,641 | (4,240) | 1,350 |
| Fund balances, June 30, 2014 | \$ - | \$ 108,464 | \$ 11,266 | \$ 1,600 |

See Independent Auditors' Report.

City of Three Forks, Montana
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds (Continued)
For the Year Ended June 30, 2014

| | Special Revenue Funds | | | | Total |
|---|------------------------------|---------------------------|----------------------------|----------|----------------|
| | Fire Impact Fees | Control Crime Division | Permissive Medical Levy | CDBG | |
| Revenues: | | | | | |
| Taxes | \$ - | \$ - | \$ 5,036 | \$ - | \$ 105,709 |
| Intergovernmental | - | - | - | - | 124,123 |
| Charges for services | 4,012 | - | - | - | 6,052 |
| Fines and forfeitures | - | - | - | - | 250 |
| Interest on investments | 65 | - | - | - | 854 |
| Other | - | - | - | - | 94,011 |
| Total revenues | 4,077 | - | 5,036 | - | 330,999 |
| Expenditures: | | | | | |
| Current: | | | | | |
| Public safety | - | - | - | - | 6,214 |
| Public works | - | - | - | - | 118,250 |
| Public health | - | - | - | - | 6,455 |
| Culture and recreation | - | - | - | - | 103,072 |
| Housing and community development | - | - | - | - | 4,264 |
| Other | - | - | - | - | - |
| Capital outlay | - | - | - | - | 35,569 |
| Debt service | | | | | |
| Principal payments | - | - | - | - | 8,282 |
| Interest and fiscal fees | - | - | - | - | 188 |
| Total expenditures | - | - | - | - | 282,294 |
| Revenues over (under) expenditures | 4,077 | - | 5,036 | - | 48,705 |
| Other financing sources (uses): | | | | | |
| Operating transfers | - | (205) | (4,860) | - | (93,465) |
| Total other financing sources (uses) | - | (205) | (4,860) | - | (93,465) |
| Excess of revenues over expenditures and other financing sources (uses) | 4,077 | (205) | 176 | - | (44,760) |
| Fund balances, July 1, 2013 | 17,799 | 205 | - | 642 | 438,073 |
| Fund balances, June 30, 2014 | \$ 21,876 | \$ - | \$ 176 | \$ 642 | \$ 393,313 |

See Independent Auditors' Report.

| | Debt Service Funds | | | | |
|--|---------------------------|---------------------|-----------|--------------|---------------|
| | G.O. Bonds | S.I.D. Revolving | S.I.D. 30 | S.I.D. 33 | Total |
| Revenues: | | | | | |
| Taxes | \$ 39,976 | \$ - | \$ - | \$ 4,535 | \$ 44,511 |
| Intergovernmental | - | - | - | - | - |
| Charges for services | - | - | - | - | - |
| Fines and forfeitures | - | - | - | - | - |
| Interest on investments | 263 | 24 | 53 | 14 | 354 |
| Other | - | - | - | - | - |
| Total revenues | 40,239 | 24 | 53 | 4,549 | 44,865 |
| Expenditures: | | | | | |
| Current: | | | | | |
| Public safety | - | - | - | - | - |
| Public works | - | - | - | - | - |
| Public health | - | - | - | - | - |
| Culture and recreation | - | - | - | - | - |
| Housing and community development | - | - | - | - | - |
| Other | - | - | - | - | - |
| Capital outlay | - | - | - | - | - |
| Debt service | | | | | |
| Principal payments | 30,000 | - | - | - | 30,000 |
| Interest and fiscal fees | 5,544 | - | - | 1,040 | 6,584 |
| Total expenditures | 35,544 | - | - | 1,040 | 36,584 |
| Revenues over (under) expenditures | 4,695 | 24 | 53 | 3,509 | 8,281 |
| Other financing sources (uses): | | | | | |
| Operating transfers | - | - | - | - | - |
| Total other financing sources (uses) | - | - | - | - | - |
| Excess of revenues over expenditures and other financing sources (uses) | 4,695 | 24 | 53 | 3,509 | 8,281 |
| Fund balances, July 1, 2013 | 72,060 | 7,422 | 29,382 | 2,926 | 111,790 |
| Fund balances, June 30, 2014 | \$ 76,755 | \$ 7,446 | \$ 29,435 | \$ 6,435 | \$ 120,071 |

See Independent Auditors' Report.

City of Three Forks, Montana
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds (Continued)
For the Year Ended June 30, 2014

| | Capital Project Funds | | |
|---|------------------------------|------------------|------------------|
| | General Improvements | Library Reserve | Total |
| Revenues: | | | |
| Taxes | \$ - | \$ - | \$ - |
| Intergovernmental | - | - | - |
| Charges for services | - | - | - |
| Fines and forfeitures | - | - | - |
| Interest on investments | - | 173 | 173 |
| Other | - | - | - |
| Total revenues | <u>-</u> | <u>173</u> | <u>173</u> |
| Expenditures: | | | |
| Current: | | | |
| Public safety | - | - | - |
| Public works | - | - | - |
| Public health | - | - | - |
| Culture and recreation | - | - | - |
| Housing and community development | - | - | - |
| Other | - | 1,030 | 1,030 |
| Capital outlay | - | - | - |
| Debt service | | | |
| Principal payments | - | - | - |
| Interest and fiscal fees | - | - | - |
| Total expenditures | <u>-</u> | <u>1,030</u> | <u>1,030</u> |
| Revenues over (under) expenditures | <u>-</u> | <u>(857)</u> | <u>(857)</u> |
| Other financing sources (uses): | | | |
| Operating transfers | (13) | 5,502 | 5,489 |
| Total other financing sources (uses) | <u>(13)</u> | <u>5,502</u> | <u>5,489</u> |
| Excess of revenues over expenditures and other financing sources (uses) | (13) | 4,645 | 4,632 |
| Fund balances, July 1, 2013 | <u>13</u> | <u>51,734</u> | <u>51,747</u> |
| Fund balances, June 30, 2014 | <u>\$ -</u> | <u>\$ 56,379</u> | <u>\$ 56,379</u> |

See Independent Auditors' Report.

| | Total Nonmajor Governmental Funds |
|---|--|
| Revenues: | |
| Taxes | \$ 150,220 |
| Intergovernmental | 124,123 |
| Charges for services | 6,052 |
| Fines and forfeitures | 250 |
| Interest on investments | 1,381 |
| Other | 94,011 |
| Total revenues | <u>376,037</u> |
| Expenditures: | |
| Current: | |
| Public safety | 6,214 |
| Public works | 118,250 |
| Public health | 6,455 |
| Culture and recreation | 103,072 |
| Housing and community development | 4,264 |
| Other | 1,030 |
| Capital outlay | 35,569 |
| Debt service | |
| Principal payments | 38,282 |
| Interest and fiscal fees | 6,772 |
| Total expenditures | <u>319,908</u> |
| Revenues over (under) expenditures | <u>56,129</u> |
| Other financing sources (uses): | |
| Operating transfers | (87,976) |
| Total other financing sources (uses) | <u>(87,976)</u> |
| Excess of revenues over expenditures and other financing sources (uses) | (31,847) |
| Fund balances, July 1, 2013 | <u>601,610</u> |
| Fund balances, June 30, 2014 | <u>\$ 569,763</u> |

See Independent Auditors' Report.

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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*

To the Honorable Mayor and City Council
City of Three Forks, Montana:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Three Forks, Montana (the "City"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise City of Three Forks, Montana basic financial statements and have issued our report thereon dated June 23, 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider to be significant deficiencies (2014-1 through 2014-5).

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 which is described in the accompanying schedule of findings as item 2014-6.

City of Three Forks, Montana's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying schedule of findings. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Rudd + Company, PLLC

Bozeman, Montana
June 23, 2015

City of Three Forks, Montana
Schedule of Findings
For the Year Ended June 30, 2014

Internal Control Findings:

- 2014-1 Criteria: There should be adequate documentation for all expenditures.
- Condition: The City did not have adequate documentation for home internet reimbursements for city employees. The employee expense reimbursements were made verbally in prior years and no written contract was recorded. In addition, a set amount is paid every month. Therefore, no documentation of the monthly expenses incurred has been required in the past.
- Recommendation: The City should create a written agreement stating the terms of the reimbursement and should require a copy of the employee's internet bill each month.
- Client Response: The City will include the reimbursement amounts in the salary resolutions for employees each year going forward.
- 2014-2 Criteria: The Headwaters Community Fairgrounds' books should match the Headwaters Community Fairgrounds' Fund detail recorded on the City's books.
- Condition: The City and the Headwaters fund maintain two separate sets of books. To record the Headwaters activity on the City's books, the City Clerk uses the transactions per the Headwaters bank statement. She does not receive a copy of the Headwaters' books to reconcile the two set of books. Due to the lack of comparing the two separate set of books, the City's books do not agree with the Headwaters Fund.
- Recommendation: A copy of the Headwaters Community Fairgrounds' books should be provided to the City Clerk each month to reconcile to the balances on the City's books.
- Client Response: The City has started to record the receipts and expenditures based on the mail (receipts/invoices) received at City Hall. The bank statements are used to help reconcile the remaining difference. The City will also review and compare the Fairgrounds' QuickBooks files at least annually.
- 2014-3 Criteria: The fixed asset listing should agree to the fixed asset accounts on the trial balance.
- Condition: The fixed asset listing was updated with new fixed additions but the additions were never added to the trial balance. Due to the lack of comparing the fixed asset listing to the fixed asset accounts per the trial balance after additions and deletion of assets, the fixed asset listing does not match the trial balance.
- Recommendation: The City should reconcile the fixed asset listing to the trial balance at year end.
- Client Response: The City will review the subsidiary ledger and reconcile it to the general ledger at least annually.

City of Three Forks, Montana
Schedule of Findings
For the Year Ended June 30, 2014

2014-4 Criteria: GASB 54 requires special revenue funds to have either a Committed or Assigned net position balance unless a resolution is made to classify the net position balance as Assigned.

Condition: The Library Memorial fund is the only special revenue fund that has an Assigned net position balance instead of a Committed or Restricted balance and the revenues each year are not substantially from a Committed or Restricted source.

Recommendation: The fund should either be discontinued and merged with the General Fund, merged with the Library Operating fund, or the Council should adopt a resolution that allows the net position balance to be classified as Committed.

Client Response: The City Council will discuss to determine a resolution to commit, dissolve, or merge the Library Memorial fund net position into the General Fund or the Library Operating fund.

2014-5 Criteria: There should be adequate documentation for all expenditures.

Condition: The Headwaters Community Fairgrounds' fund paid multiple contractors without having documentation to support the expenditures. The contractors in question started working with the Headwaters Community Fairgrounds several years ago and no documentation of a contractor agreement has been kept on hand.

Recommendation: The Headwaters Community Fairgrounds Board should reconfirm compensation to these contractors on a yearly basis and document the confirmation in the board minutes.

Client Response: The Headwaters Community Fairgrounds will reconfirm the subcontractor payment amounts in their board minutes annually.

City of Three Forks, Montana
Schedule of Findings
For the Year Ended June 30, 2014

Compliance and Other Matters:

2014-6 Criteria: Per MCA 19-18-503, the City is required to soundly fund the Volunteer Fire Department pension plan. The plan is considered to be funded soundly if: (a) assets in the fund are maintained at a level equal to at least 0.21% but no more than 0.52% of the total assessed value of taxable property, determined as provided in 15-8-111, within the limits of the city or town; or (b) funding is maintained at a level determined by an actuarial valuation to be sufficient to keep the fund actuarial sound. Further, per MCA 19-18-504, whenever the fund contains an amount that is less than the minimum amount required to keep the fund pursuant to 19-18-503, the city or town council shall, subject to 15-10-420, levy an annual tax on the taxable value of all taxable property within the city or town.

Condition: The City was following the old law and contributing from one to four mills to the fund when it contains an amount less than 4% of the City's taxable valuation. The result is an unfunded pension liability. Council approved a Resolution to be on the ballot November 3, 2009 for Voters to approve or not approve 10 mills for 10 Years for the Fire Department Relief Association; Voters did approve 10 mills for 10 years for the Volunteer Fire Department Pension (Relief Association). The City obtained an actuarial valuation during the fiscal year ended June 30, 2009 for the Fire Relief Association pension plan which indicates an unfunded liability of \$254,850 (per option (b) above). An annual required contribution of \$24,668 was calculated and the City contributed \$38,404 during the year ended June 30, 2014. Voter approved 10 Mills plus 4 Mills from the City will help with the unfunded liability requirements. Voter approved 10 Mills will sunset in 10 years, but with careful planning will be a ballot issue again for at least 10 more years. The City is at the maximum 'Mill Levy' and borrowed 2 Mills from Comp Liability Insurance fund #2190 to make sure 4 Mills were available to the Fire Relief Association pension plan with the 10 Mills.

The City plans to obtain another actuarial valuation, once the voter approved 10 Mills sunsets in 2020, to provide better information on supporting the unfunded liability of \$254,850 and helping to determine the necessary Mills to ask Voters to approve again.

Recommendation: Council continues to fund the Fire Relief Association pension plan to the full extent possible.

Client Response: The City Council will continue to fund the Fire Relief Association pension plan to the fullest extent possible. Further, an actuarial study will be included in the FY2016 budget.

**City of Three Forks, Montana
Status of Prior Year Findings
For the Year Ended June 30, 2014**

Prior Year Findings:

2013 – I1 Finding: Recording government expenditures as capital outlay.
Status: Implemented

2013 – I2 Finding: Lack of segregation of duties - Headwaters Community Fairgrounds’
cash receipts.
Status: Implemented

2013 – C1 Finding: Underfunding of the Volunteer Fire Department Pension Plan
Status: See current year finding 2014-6.