

City of Troy, Montana

**Fiscal Year Ended
June 30, 2014
Audit Report**

CITY OF TROY, MONTANA
Fiscal Year Ended June 30, 2014

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CITY OF TROY, MONTANA

**ORGANIZATION
June 30, 2014**

MAYOR

Darren Coldwell

CITY COUNCIL

Crystal Denton, President

Joe Arts

Dallas Carr

Kimberly Rowse

CITY OFFICIALS

Heather McDougall

Attorney

Tracy Rebo

Clerk/Treasurer

Terrie Lenhart

City Judge

Robert McLeod

Chief of Police

Nicole M. Noonan, CPA, P.C.

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INDEPENDENT AUDITOR'S REPORT

Mayor and City Council
City of Troy
Troy, Montana

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Troy, Montana, 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

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my 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 Troy, 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.

Change in Accounting Principle

As described in Note 1 to the financial statements, in fiscal year 2014, the City adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. My opinion is not modified with respect to this matter.

Other Matters - Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4-9 and page 34 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated July 27, 2015, on my consideration of the City of Troy, Montana's internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Troy, Montana's internal control over financial reporting and compliance.

Nicole M. Noonan, CPA, P.C.

Nicole M. Noonan, CPA, P.C.
St. Regis, Montana
July 27, 2015

CITY OF TROY
June 30, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis provides an overview of the City's financial activities for the fiscal year ended June 30, 2014. Please read it along with the City's financial statements, which begin on page 10.

FINANCIAL HIGHLIGHTS

The City's net position (on an entity wide basis) **decreased** by \$147,216 in 2013-2014. Governmental net position increased \$66,948 and business type net position decreased by \$214,164.

USING THE ANNUAL REPORT

The annual report consists of financial statements for the city as a whole with detailed information for certain City funds. The Statement of Net Position and the Statement of Activities (pages 10 and 11) provide information about the activities of the City as a whole (Government-wide basis) and present a long-term view of the City's finances (they include capital assets and long-term liabilities).

Fund financial statements (pages 12 through 18) present a short-term view of the City's activities. They include only current assets expected to be collected in the very near future and liabilities expected to be paid in the very near future. Generally accepted accounting principles require that only major funds be disclosed separately in the fund financial statements. Therefore, these statements only provide detailed information about the City's general fund, and the City's utility (business-type) funds, which qualify as major funds.

THE CITY AS A WHOLE

One important question asked about the City's finances is, "Is the City better or worse off as a result of the year's activities?" The information in the government-wide financial statements (pages 10 & 11) helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, with the addition of reporting depreciation on capital assets. This is similar to the basis of accounting used by most private-sector companies.

The change in net position over time is one indicator of whether the City's financial health is improving or deteriorating. The City, as noted above, had a decrease in net position for the year. However, there are other non-financial factors that influence the City's fiscal health, such as changes in the economy and changes in the City's tax base which has decreased from fiscal year 2012-2013, etc. The tax base for FYE2014 was 778,978 and for FYE 2013 was only 786,058.

CITY-WIDE FINANCIAL ANALYSIS

Net position As noted earlier, net position may serve over time as a useful indicator of a government's financial position.

The following table provides a summary comparison of the City's governmental and business-type net position (on a City-wide basis) for the fiscal year ended June 30, 2014.

**Table I
The City of Troy Net Position**

		Governmental Activities	Business-Type Activities	Total
Assets				
	Current and other assets	\$492,765	\$1,284,643	\$1,777,408
	Capital assets	1,058,709	9,462,198	10,520,907
	Total Assets	1,551,474	10,746,841	12,298,315
Liabilities				
	Current and other liabilities	100,374	176,257	276,631
	Long-term liabilities	7,498	3,846,825	3,854,323
	Total Liabilities	107,872	4,023,082	4,130,954
Net Position				
	Net Investment in capital assets	1,058,709	5,549,128	6,607,837
	Restricted	128,149	225,659	353,808
	Unrestricted	256,744	948,972	1,205,716
	Total Net Position	\$1,443,602	\$6,723,759	\$8,167,361

A significant portion of the city's net position reflects its investment in capital assets. These assets include land, building, machinery, and equipment. Capital assets are used to provide services to citizens; consequently, they are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt would need to be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

Changes in Net Position Governmental and Business-type activities **decreased** the City's net position by \$147,216 in 2013-2014. Table II below (in summary form) presents the revenues, expenditures, and the changes in net position for governmental and business-type activities in 2013-2014. Table III presents the same information for the City in a format that compares fiscal year 2013 to 2014.

Table II
The City of Troy
Changes in Net Position

	Governmental Activities	Business-Type Activities	Total
Revenues			
Program revenues			
Charges for services	77,673	1,584,677	1,662,350
Operating grants and contributions	47,114	-	47,114
Capital grants and contributions	91,918	-	91,918
General Revenues			
Property Taxes	166,966	-	166,966
Intergovernmental revenue	159,711	-	159,711
Other revenues	66,015	30,417	96,432
Total revenues	609,397	1,615,094	2,224,491
Expenses			
General government	131,610	-	131,610
Public safety	244,241	-	244,241
Public works	66,692	-	66,692
Public health	140	-	140
Culture and recreation	59,506	-	59,506
Social services & miscellaneous	40,260	-	40,260
Water	-	248,697	248,697
Sewer	-	353,260	353,260
Electric	-	1,227,301	1,227,301
Total expenses	542,449	1,829,258	2,371,707
Increase (Decrease) in Net Position			
	66,948	(214,164)	(147,216)

Table III

Assets	2014	2013
Currents and other assets	\$ 1,777,408	\$ 1,849,479
Capital Assets	10,520,907	10,604,282
Total Assets	12,298,315	12,453,761
Liabilities		
Current and other liabilities	276,631	180,860
Long-term liabilities	3,854,323	3,934,225
Total Liabilities	4,130,954	4,115,085
Net Position		
Net investment in capital assets	6,607,837	6,615,857
Restricted	353,808	318,862
Unrestricted	1,205,716	1,403,957
Total Net Position	\$ 8,167,361	\$ 8,338,676
Revenue and Transfers		
Program revenues:		
Charges for services	\$ 1,662,350	\$ 1,642,312
Operating grants and contributions	47,114	59,017
Capital grants and contributions	91,918	201,875
General Revenues:		
Property Taxes	166,966	166,655
Intergovernmental revenue	159,711	153,777
Other Revenues	96,432	122,316
Transfers	-	-
Total Revenues and transfers	2,224,491	2,345,952
Expenses and Transfers		
General government	131,610	133,406
Public safety	244,241	266,774
Public works	66,692	63,472
Public health	140	670
Culture and recreation	59,506	68,518
Miscellaneous	40,260	48,178
Water	248,697	233,127
Sewer	353,260	353,339
Electric	1,227,301	1,118,452
Transfers	-	-
Total expenses and transfers	2,371,707	2,285,936
Decrease in Net Position	\$ (147,216)	\$ 60,016

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets for the enterprise funds decreased because of depreciation. There were changes to the capital assets for water line improvements, these improvements were paid for through self-funding of \$ 80,000 for line replacement.

FUND FINANCIAL STATEMENTS

The fund financial statements provide detailed information about the City's major funds. Major funds are defined as the general fund and any other fund where the assets, liabilities, revenues, or expenditures/expenses exceed 10% of total governmental fund amounts or 10% of total enterprise fund amounts and 5% of total governmental and enterprise fund amounts combined.

For the 2013-2014 the electric, water and sewer enterprise funds exceeded these thresholds.

The governmental funds provide a short-term view of the City's operations. They are reported using an accounting method called modified accrual accounting which measures amounts using only cash and other short-term assets and liabilities (receivables and payables) that will soon be converted to cash or will soon be paid with cash.

The variations between the budgeted and actual revenues and expenditures for the general fund are detailed in the supplemental schedule on page 34. In the general fund, revenues were under budget by approximately \$23,471 primarily due to budgeted revenues of approximately \$85,000 from federal and state grants that were not received. Total expenditures of the general fund were approximately \$50,924 less than budgeted expenditures.

THE FUTURE OF THE CITY

Economy and Financial Management - There are several factors that will need to be taken into consideration. The most significant is the slowing of the economy and the unpredictable impact of the market as concerns infrastructure funding, housing, industry and general commerce. The City will have to be cautious with its spending while dealing with expected revenue shortfalls in the enterprise funds that will require increases in the basic rates which will affect those already seeing a downturn in their livelihood.

The basic rate for the electric utility funds at this time is adequate. The increase from Bonneville Power in October 2013 has been absorbed, but with an aging distribution system the necessity of placing overhead lines to underground is becoming more required, which could lead to an increase in the base rate which currently is \$10.00 per month per meter.

Approximately 75% of the water main lines have been replaced. There are still a few more little minor leaks that the City looks forward to getting repaired in the near future. The leakage for the City of Troy water department is approximately 22%. Financially the water department is holding its own and is doing fairly well.

The wastewater fund is continuing to improve and as of the end of fiscal year 2014 no longer has a deficit in its operating cash.

The City is currently working with DNRC to refinance the water and wastewater loans that are originally financed through Rural Development. Hoping for a shorter term and less interest.

BASIC

FINANCIAL

STATEMENTS

CITY OF TROY, MONTANA
Statement of Net Position
June 30, 2014

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and investments	\$ 380,041	\$ 769,148	\$ 1,149,189
Receivables:			
Taxes and assessments	35,291	-	35,291
Utility accounts	-	156,404	156,404
Due from other governments	77,433	-	77,433
Restricted assets:			
Cash	-	225,659	225,659
Inventory	-	133,432	133,432
Nondepreciable capital assets	218,860	107,876	326,736
Depreciable capital assets, net of accumulated depreciation	839,849	9,354,322	10,194,171
Total Assets	1,551,474	10,746,841	12,298,315
 Liabilities			
Accounts payable	80,084	41,384	121,468
Deposits payable	-	35,357	35,357
Compensated absences:			
Due in less than one year	20,290	24,953	45,243
Due in more than one year	7,498	8,318	15,816
Long-term liabilities:			
Due in less than one year	-	74,563	74,563
Due in more than one year	-	3,838,507	3,838,507
Total Liabilities	107,872	4,023,082	4,130,954
 Net Position			
Net investment in capital assets	1,058,709	5,549,128	6,607,837
Restricted	128,149	225,659	353,808
Unrestricted	256,744	948,972	1,205,716
Total Net Position	\$ 1,443,602	\$ 6,723,759	\$ 8,167,361

See Accompanying Notes to the Financial Statements.

CITY OF TROY, MONTANA
Statement of Activities
For the Year Ended June 30, 2014

Program Activities	Expenses	Program Revenues			Net (Expenses) Revenue and Changes in Net Position		
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:							
General government	\$ 131,610	\$ 9,421	\$ -	\$ -	\$ (122,189)	\$ -	\$ (122,189)
Public safety	244,241	1,168	25,219	-	(217,854)	-	(217,854)
Public works	66,692	67,084	21,895	-	22,287	-	22,287
Public health	140	-	-	-	(140)	-	(140)
Cultural and recreational	59,506	-	-	91,918	32,412	-	32,412
Miscellaneous	40,260	-	-	-	(40,260)	-	(40,260)
Total governmental activities	<u>542,449</u>	<u>77,673</u>	<u>47,114</u>	<u>91,918</u>	<u>(325,744)</u>	<u>-</u>	<u>(325,744)</u>
Business-type activities:							
Water	248,697	264,847	-	-	-	16,150	16,150
Sewer	353,260	255,373	-	-	-	(97,887)	(97,887)
Electric	1,227,301	1,064,456	-	-	-	(162,845)	(162,845)
Total business-type activities	<u>1,829,258</u>	<u>1,584,676</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(244,582)</u>	<u>(244,582)</u>
Total government	<u>\$ 2,371,707</u>	<u>\$ 1,662,349</u>	<u>\$ 47,114</u>	<u>\$ 91,918</u>	<u>(325,744)</u>	<u>(244,582)</u>	<u>(570,326)</u>
General revenues:							
Property taxes					136,008	-	136,008
Local option taxes					21,521	-	21,521
Licenses and permits					9,437	-	9,437
Unrestricted state shared revenues					159,711	-	159,711
Unrestricted grants and contributions					1,103	-	1,103
Unrestricted investment earnings					1,623	4,485	6,108
Miscellaneous					63,289	25,933	89,222
Total general revenues					<u>392,692</u>	<u>30,418</u>	<u>423,110</u>
Change in net position					66,948	(214,164)	(147,216)
Net position at beginning of year					1,375,185	6,963,491	8,338,676
Restatements					1,469	(25,568)	(24,099)
Net position at beginning of year, restated					<u>1,376,654</u>	<u>6,937,923</u>	<u>8,314,577</u>
Net position at end of year					<u>\$ 1,443,602</u>	<u>\$ 6,723,759</u>	<u>\$ 8,167,361</u>

See Accompanying Notes to the Financial Statements.

CITY OF TROY, MONTANA
Balance Sheet
Governmental Funds
June 30, 2014

	Major Fund		Other Governmental Funds		Total Governmental Funds
	General Fund		Funds		Funds
Assets					
Cash and Investments	\$ 129,213		\$ 250,828		\$ 380,041
Taxes and Assessments Receivable	23,359		11,932		35,291
Due from Other Governments	77,433		-		77,433
Total Assets	\$ 230,005		\$ 262,760		\$ 492,765
Liabilities, Deferred Inflows, and Fund Balances					
Liabilities					
Accounts Payable	\$ 80,084		\$ -		\$ 80,084
Deferred Inflows of Resources					
Deferred tax revenue	23,359		11,932		35,291
Fund Balances					
Restricted	-		116,216		116,216
Committed	-		134,612		134,612
Assigned	6,914		-		6,914
Unassigned	119,648		-		119,648
Total Fund Balances	126,562		250,828		377,390
Total Liabilities, Deferred Inflows, and Fund Balances	\$ 230,005		\$ 262,760		\$ 492,765

Reconciliation of the Balance Sheet to the Statement of Net Position

Total fund balance for governmental funds	\$ 377,390
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	1,058,709
Taxes receivable are not available for current-period expenditures and, therefore, are deferred in the funds.	35,291
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(27,788)
Net position of governmental activities	\$ 1,443,602

See Accompanying Notes to the Financial Statements.

CITY OF TROY, MONTANA
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2014

	<u>Major Fund</u>		Total Governmental Funds
	General Fund	Other Governmental Funds	
Revenues			
Taxes/Special Assessments	\$ 110,794	\$ 50,195	\$ 160,989
Licenses and Permits	9,437	-	9,437
Intergovernmental Revenue	256,894	44,121	301,015
Charges for Services	67,114	-	67,114
Fines and Forfeitures	9,390	-	9,390
Miscellaneous	51,115	-	51,115
Investment Earnings	970	652	1,622
Total Revenue	<u>505,714</u>	<u>94,968</u>	<u>600,682</u>
Expenditures			
Current:			
General Government	115,710	-	115,710
Public Safety	208,697	17,308	226,005
Public Works	31,798	28,499	60,297
Public Health	140	-	140
Culture & Recreation	51,111	-	51,111
Miscellaneous	-	40,260	40,260
Capital Outlay	90,653	-	90,653
Total Expenditures	<u>498,109</u>	<u>86,067</u>	<u>584,176</u>
Net Change in Fund Balances	7,605	8,901	16,506
Fund Balances, July 1, 2013	118,328	241,087	359,415
Restatements	629	840	1,469
Fund Balances, July 1, 2013, restated	<u>118,957</u>	<u>241,927</u>	<u>360,884</u>
Fund Balances, June 30, 2014	<u>\$ 126,562</u>	<u>\$ 250,828</u>	<u>\$ 377,390</u>

See Accompanying Notes to the Financial Statements.

CITY OF TROY, 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

Net change in fund balance-total governmental funds (page 13)	\$ 16,506
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:	
Capital assets purchased	106,353
Depreciation expense	(62,450)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:	
Change in deferred revenue	8,714
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:	
Change in accrued compensated absences	(2,175)
Change in net position in governmental activities (page 11)	\$ 66,948

See Accompanying Notes to the Financial Statements.

CITY OF TROY, MONTANA
Balance Sheet
Proprietary Funds
June 30, 2014

	Major Funds			Total
	Water Fund	Sewer Fund	Electric Fund	
Assets				
Current Assets				
Cash and Investments	\$ 236,801	\$ 14,161	\$ 518,186	\$ 769,148
Utility Accounts Receivable	30,781	29,279	96,344	156,404
Restricted Cash and Investments	83,647	142,012	-	225,659
Inventory	-	-	133,432	133,432
Total Current Assets	351,229	185,452	747,962	1,284,643
Noncurrent Assets				
Nondepreciable Capital Assets	26,420	69,000	12,456	107,876
Depreciable Capital Assets	5,010,375	4,107,597	236,350	9,354,322
Total Noncurrent Assets	5,036,795	4,176,597	248,806	9,462,198
Total Assets	\$ 5,388,024	\$ 4,362,049	\$ 996,768	\$ 10,746,841
Liabilities and Net Position				
Liabilities:				
Current Liabilities				
Accounts Payable	\$ -	\$ -	\$ 41,384	\$ 41,384
Deposits Payable	3,255	4,569	27,533	35,357
Compensated Absences, current portion	2,216	2,216	20,521	24,953
Long-Term Debt, current portion	31,282	43,281	-	74,563
Total Current Liabilities	36,753	50,066	89,438	176,257
Noncurrent Liabilities				
Compensated Absences, noncurrent portion	739	739	6,840	8,318
Long-Term Debt, noncurrent portion	1,910,354	1,928,153	-	3,838,507
Total Noncurrent Liabilities	1,911,093	1,928,892	6,840	3,846,825
Total Liabilities	1,947,846	1,978,958	96,278	4,023,082
Net Position:				
Net Investment in Capital Assets	3,095,159	2,205,163	248,806	5,549,128
Restricted for Debt Service	83,647	142,012	-	225,659
Unrestricted	261,372	35,916	651,684	948,972
Total Net Position	3,440,178	2,383,091	900,490	6,723,759
Total Liabilities and Net Position	\$ 5,388,024	\$ 4,362,049	\$ 996,768	\$ 10,746,841

See Accompanying Notes to the Financial Statements.

CITY OF TROY, MONTANA
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Year Ended June 30, 2014

	Major Funds			Total
	Water Fund	Sewer Fund	Electric Fund	
Operating Revenues				
Charges for Services	\$ 263,200	\$ 254,056	\$ 1,058,434	\$ 1,575,690
Miscellaneous	233	-	25,700	25,933
Total Operating Revenues	<u>263,433</u>	<u>254,056</u>	<u>1,084,134</u>	<u>1,601,623</u>
Operating Expenses				
Personal Services	68,431	52,080	343,993	464,504
Supplies	25,569	9,086	68,788	103,443
Purchased Services	21,763	32,740	744,725	799,228
Fixed Charges	4,330	2,549	37,450	44,329
Depreciation	52,889	166,912	32,345	252,146
Total Operating Expenses	<u>172,982</u>	<u>263,367</u>	<u>1,227,301</u>	<u>1,663,650</u>
Net Operating Income (Loss)	<u>90,451</u>	<u>(9,311)</u>	<u>(143,167)</u>	<u>(62,027)</u>
Non-Operating Revenues (Expenses)				
Interest Revenue	3,104	1,867	8,500	13,471
Interest Expense	(75,715)	(89,893)	-	(165,608)
Total Non-Operating Revenues (Expenses)	<u>(72,611)</u>	<u>(88,026)</u>	<u>8,500</u>	<u>(152,137)</u>
Change in Net Position	17,840	(97,337)	(134,667)	(214,164)
Net Position, July 1, 2013	3,422,338	2,480,428	1,060,725	6,963,491
Restatements	-	-	(25,568)	(25,568)
Net Position, July 1, 2013, restated	<u>3,422,338</u>	<u>2,480,428</u>	<u>1,035,157</u>	<u>6,937,923</u>
Net Position, June 30, 2014	<u>\$ 3,440,178</u>	<u>\$ 2,383,091</u>	<u>\$ 900,490</u>	<u>\$ 6,723,759</u>

See Accompanying Notes to the Financial Statements.

CITY OF TROY, MONTANA
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2014

	Major Funds			Total
	Water Fund	Sewer Fund	Electric Fund	
Cash Flows from Operating Activities				
Receipts from Customers	\$ 263,287	\$ 253,350	\$ 1,052,343	\$ 1,568,980
Payments to Employees	(68,759)	(52,408)	(345,138)	(466,305)
Payments to Suppliers	(51,662)	(44,374)	(868,844)	(964,880)
Other Cash Received	233	-	25,700	25,933
Net Cash Provided (Used) by Operations	<u>143,099</u>	<u>156,568</u>	<u>(135,939)</u>	<u>163,728</u>
Cash Flows from Capital and Related Financing Activities				
Purchase of Capital Assets	(82,768)	-	(42,101)	(124,869)
Principal Paid on Debt	(34,160)	(41,195)	-	(75,355)
Interest Paid on Debt	(75,715)	(89,893)	-	(165,608)
Net Cash Used by Capital and Related Financing Activities	<u>(192,643)</u>	<u>(131,088)</u>	<u>(42,101)</u>	<u>(365,832)</u>
Cash Flows from Investing Activities				
Interest on Investments	3,104	1,867	8,500	13,471
Net Increase (Decrease) in Cash	(46,440)	27,347	(169,540)	(188,633)
Cash and Cash Equivalents at Beginning of Year	<u>366,888</u>	<u>128,826</u>	<u>687,726</u>	<u>1,183,440</u>
Cash and Cash Equivalents at End of Year	<u>\$ 320,448</u>	<u>\$ 156,173</u>	<u>\$ 518,186</u>	<u>\$ 994,807</u>
Reconciliation of Cash and Cash Equivalents to Balance Sheet				
Cash and Investments	\$ 236,801	\$ 14,161	\$ 518,186	\$ 769,148
Restricted Cash and Investments	83,647	142,012	-	225,659
Cash and Cash Equivalents	<u>\$ 320,448</u>	<u>\$ 156,173</u>	<u>\$ 518,186</u>	<u>\$ 994,807</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Operating Income (Loss)	\$ 90,451	\$ (9,311)	\$ (143,167)	\$ (62,027)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	52,889	166,913	32,345	252,147
(Increase) Decrease in Accounts Receivable	(210)	(712)	(4,456)	(5,378)
(Increase) Decrease in Inventory	-	-	(4,411)	(4,411)
Increase (Decrease) in Customer Deposits	297	6	(1,635)	(1,332)
Increase (Decrease) in Accounts Payable	-	-	(13,470)	(13,470)
Increase (Decrease) in Compensated Absences Payable	(328)	(328)	(1,145)	(1,801)
Net Cash Provided (Used) by Operations	<u>\$ 143,099</u>	<u>\$ 156,568</u>	<u>\$ (135,939)</u>	<u>\$ 163,728</u>

See Accompanying Notes to the Financial Statements.

CITY OF TROY, MONTANA
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2014

	Agency Funds
Assets	
Cash	\$ 59,607
Liabilities	
Warrants payable	57,402
Due to others	2,205
Total Liabilities	59,607
Net Position	\$ -

See Accompanying Notes to the Financial Statements.

CITY OF TROY, MONTANA
Notes to the Financial Statements
June 30, 2014

1. **Summary of Significant Accounting Policies**

The City follows U.S. generally accepted accounting principles (GAAP), which includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. The City has adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* in fiscal year 2014. This statement defines new financial statement items called deferred inflows of resources and deferred outflows of resources, and reclassifies certain items previously classified as assets or liabilities. For the City, the statement required the reclassification of deferred revenues from a liability to a deferred inflow of resources in the governmental fund financial statements.

In fiscal year 2015, the City will adopt the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This statement addresses accounting and financial reporting for pensions that are provided to the employees of state and local governments, establishing standards for measuring and recognizing net pension liabilities, deferred inflows and outflows of resources, and expenses/expenditures. For defined benefit pension plans, this statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. The statement is effective for fiscal years beginning after June 15, 2014. The effect of adoption of this statement cannot be determined at this time.

The following is a summary of the City's significant accounting policies:

Reporting Entity

The City of Troy was incorporated in 1915 as a municipal corporation. It operates under the Mayor-Council form of government. Four members are elected to the City Council for four-year terms with half elected every other year. The Mayor is elected for a four-year term. The City provides the usual range of services to its citizens including a volunteer fire department, police department, water, sewer, and electric utilities, recreation, cultural, building safety, and general administration. Although the City may levy taxes for the Fire Department Relief Association, it has no control or authority over the association. The Relief Association is therefore not included in these financial statements. The City has no component units.

Basis of Presentation

Government-wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the City as a whole. They include all funds of the reporting entity except for fiduciary funds. The activities of internal service funds and certain interfund transactions are eliminated to avoid overstating revenues and expenses. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed by fees charged to external parties for goods or services.

CITY OF TROY, MONTANA
Notes to the Financial Statements
June 30, 2014

1. **Summary of Significant Accounting Policies - continued**

The Statement of Net Position presents the financial condition of the governmental and business-type activities of the City at year end. The Statement of Activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental and business-type activities. Direct expenses are those that are specifically associated with a service, program, or department. Program revenues include charges paid by the recipient for the goods or services offered by the program and grants and contributions that are restricted for the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the City. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City. Generally, the City uses restricted net position first, when both restricted and unrestricted net position is available for an expense.

Fund Financial Statements:

Fund financial statements of the City are organized into funds, each of which is considered a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

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

Governmental Funds

Governmental funds are those through which most governmental functions of the City are financed. Governmental fund reporting focuses on the sources, use, and balances of current financial resources. The City reports the following major governmental fund:

General Fund – The primary operating fund of the City and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

CITY OF TROY, MONTANA
Notes to the Financial Statements
June 30, 2014

1. **Summary of Significant Accounting Policies - continued**

Proprietary Funds

Enterprise Funds - Used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The City's three enterprise funds account for user charges and program expenses for utility services. They are the water fund, sewer fund, and electric fund, which are all considered major funds of the City.

Fiduciary Funds

Trust and Agency Funds - Used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. These may include (a) private-purpose trust funds, (b) investment trust funds, (c) pension trust funds and (d) agency funds.

Basis of Accounting and Measurement Focus

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus as defined in item b. below.

- a) All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b) The proprietary funds utilize an "economic resources" measurement focus. The accounting objectives of this measurement focus is the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.

CITY OF TROY, MONTANA
Notes to the Financial Statements
June 30, 2014

1. **Summary of Significant Accounting Policies - continued**

Basis of Accounting

In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when “measurable and available”. Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are generally charges for utility services. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the proprietary fund. Revenues and expenses that do not meet these criteria are considered non-operating and reported as such.

Budgets and Budgetary Accounting

An annual appropriated operating budget is adopted each fiscal year for all of the City’s funds on the modified accrual basis of accounting. The final budget is legally enacted by the City on the second Monday in August or within 45 days of receiving certified taxable values from the State Department of Revenue after holding public hearings as required by State statutes.

The operating budgets can be increased when additional revenues are available, as specified by State statutes. Budget appropriation transfers may be made between the general classifications of salaries and wages, maintenance and operation and capital outlay.

Encumbrances

All appropriations, except for construction in progress, lapse at the end of the fiscal year. The City does not utilize a formal encumbrance accounting system, and there were no encumbrances as of June 30, 2014.

CITY OF TROY, MONTANA
Notes to the Financial Statements
June 30, 2014

1. **Summary of Significant Accounting Policies - continued**

Capital Assets

Capital assets, including infrastructure and intangibles, with a cost of \$5,000 or more are capitalized. The accounting treatment for capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Financial Statements

In the government-wide financial statements, all capital assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method. The range of estimated useful lives by type of asset is as follows:

Buildings	20-40 years
Improvements	10-50 years
Machinery and Equipment	3-25 years
Utility System	20-50 years
Infrastructure	20-50 years

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary funds operations are accounted for in the same manner as in the government-wide financial statements.

Taxes and Assessments

An allowance for uncollectible accounts was not maintained for real and personal property taxes and special assessments receivable, as any such allowance is not considered to be material.

Enterprise Account Receivable

No allowance for estimated uncollected accounts receivable is maintained, as an allowance is not considered material. Accounts receivable as reported includes revenues collected in advance. The City has passed a resolution so that unpaid water and sewer accounts receivable can be attached as a lien on property.

Inventories

Inventories of materials and supplies for the electric utility enterprise fund are recorded at cost at the time of purchase and are annually adjusted to the lower of cost or market on the first-in, first-out (FIFO) basis. Inventories of materials and supplies for the water and sewer utility funds are not maintained. Inventories for these funds were not, however, considered material.

CITY OF TROY, MONTANA
Notes to the Financial Statements
June 30, 2014

1. **Summary of Significant Accounting Policies - continued**

Compensated Absences

The City's policies regarding vacation and sick leave permit employees to accumulate earned but unused vacation and sick leave. The liability for compensated absences is recorded in the government-wide financial statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while the proprietary funds report the liability as it is incurred.

Long-Term Debt

The accounting treatment of long-term debt depends on whether the liability relates to governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The City's long-term debt consists primarily of revenue bonds payable and accrued compensated absences.

Long-term debt for governmental funds is not reported as a liability in the fund financial statements. The debt proceeds are reported as other financing sources and payments of principal and interest are reported as expenditures. The accounting for proprietary funds is the same in the fund financial statements as it is in the government-wide financial statements.

Equity Classifications

Government-wide Financial Statements

Equity is classified as net position and displayed in three components:

- a) Net investment in capital assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b) Restricted net position – Consists of net position with constraints placed on use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c) Unrestricted net position – All other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

CITY OF TROY, MONTANA
Notes to the Financial Statements
June 30, 2014

1. **Summary of Significant Accounting Policies - continued**

Fund Financial Statements

The City categorizes fund balance of the governmental funds into the following categories:

Nonspendable – resources not in spendable form, such as inventory, or those legally required to be maintained intact, such as the principal portion of permanent funds.

Restricted – constraint is externally imposed by a third party, State Constitution or enabling legislation.

Committed – constraint is internally imposed by the City Council by resolution or majority vote.

Assigned – constraint is internally expressed intent by the City Clerk/Treasurer, Mayor or City Council through the budget approval process or express assignment.

Unassigned – negative fund balance in all funds or fund balance with no constraints in the General fund.

When more than one category of resources is available, the City spends restricted resources first, then committed, assigned, and finally unassigned resources.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include all cash and investment accounts, since investment accounts are all considered highly liquid. Restricted cash is also considered cash and cash equivalents for cash flow reporting purposes since it is available to meet current needs.

2. **Property Taxes and Assessments**

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

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 become a lien on the property. Personal property is assessed by the County Assessor, an agent of the State of Montana. Valuations are determined under State law and submitted to the County Treasurer in May/June with payments due in June/July. These taxes become delinquent 30 days after billing.

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

CITY OF TROY, MONTANA
Notes to the Financial Statements
June 30, 2014

2. **Property Taxes and Assessments - continued**

The City is permitted by State statutes to levy taxes up to certain fixed limits for various purposes. The taxes levied by the City for the year ended June 30, 2014, were within the legal limits. The tax levy for the fiscal year ended June 30, 2014, was based on a taxable value of \$778,978.

The City also assesses fees for street maintenance. These amounts are billed out and collected with real property taxes by the County. Amounts due to the City for these special taxes are recorded as assessments receivable. The City receives information on taxes and assessments receivable from the County Treasurer.

3. **Cash and Investments**

The City maintains a cash and investment pool for all funds under the control of the Treasurer. Cash and investments may include cash and cash items; demand, time, savings, and fiscal agent deposits; investments in the State Short-Term Investment Pool (STIP); repurchase agreements; U.S. government treasury bills, notes, bonds, and other treasury obligations such as state and local government series; general obligation of certain agencies of the United States such as Federal Home Land Bank; and U.S. government security money market funds if the funds meet certain conditions.

The State short-term investment pool is an external investment pool administered by the State of Montana in a manner similar to money market funds under SEC Rule 2a7. Montana statutes (MCA Title 17, chapter 6) and related administrative rules govern the operation of STIP, which is managed by the Montana Board of Investments. The reported share value of STIP (\$1) is equal to the fair value of its underlying investments.

During the fiscal year ended June 30, 2014, the City's cash was kept in demand and savings accounts with local banks. The City had investments in certificates of deposit and the State's short-term investment pool (STIP). The City has an investment policy which limits its exposure to credit risk (the risk that an issuer or other counter party to an investment will not fulfill its obligation) by following state law as well as diversifying the City's portfolio by financial instrument, financial institution and maturities. The City's policy also requires 100% pledged securities when demand deposits are not FDIC insured.

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 exceeded the amount required by State statutes.

CITY OF TROY, MONTANA
Notes to the Financial Statements
June 30, 2014

3. **Cash and Investments - continued**

Custodial credit risk 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 State law, as noted above, and City policy. At June 30, 2014, the bank balance of the City's demand deposits and certificates of deposit with local financial institutions was \$1,312,952. Of the bank balance, \$606,362 was covered by federal depository insurance and \$706,590 was collateralized by pledged securities held by a safekeeping agent in the City's name.

Interest rate risk is the risk that the fair value of investments could decrease in a rising interest rate environment. To limit exposure to this risk, the City's investment policy emphasizes diversification of maturity dates of investments.

The City's investments contain an element of concentration of credit risk since each investment represents over 5% of the City's total investments. The City does not further diversify investments because the investments are conservative and further diversification does not significantly reduce credit risk for the City.

Credit risk information is required to be disclosed for external investment pools. Although STIP has not been rated, its investment portfolio has been rated as detailed below:

Short Term Investment Pool	<u>June 30, 2014</u>	
Asset Backed Commercial Paper	\$ 777,417,680	A1
Corporate Commercial Paper	138,958,389	A1
Corporate Variable Rate	658,894,083	A1
Certificates of Deposit Fixed Rate	100,000,000	A1
Certificates of Deposit Variable Rate	391,996,239	A1+
Other Asset Backed	38,440,281	Not Rated
U.S. Government Agency Fixed	75,003,275	A1+
U.S. Government Agency Variable Rate	200,003,406	A1+
Money Market Funds (Unrated)	133,439,814	Not Rated
Money Market Funds (Rated)	21,000,000	A1+
	<u>\$ 2,535,153,167</u>	A1

The A1+ rating is the highest short term rating provided by Standard and Poors.

The City's cash and investments consisted of the following:

	<u>June 30, 2014</u>	
Cash on Hand	\$ 400	
Demand Deposits	750,668	
Certificates of Deposits	562,501	
State Short-Term Investment Pool	120,886	
Total Cash and Investments	<u>\$ 1,434,455</u>	

CITY OF TROY, MONTANA
Notes to the Financial Statements
June 30, 2014

4. **Capital Assets**

A summary of changes in capital assets follows:

	Balance				Balance
	July 1, 2013	Additions	Deletions	Transfers	June 30, 2014
<u>Governmental Activities</u>					
Nondepreciable Capital Assets					
Land	\$ 123,076	\$ -	\$ -	\$ -	\$ 123,076
Construction in progress	-	80,084	-	-	80,084
Total Nondepreciable Capital Assets	<u>\$ 123,076</u>	<u>\$ 80,084</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 203,160</u>
Depreciable Capital Assets					
Buildings	\$ 472,016	\$ -	\$ -	\$ -	\$ 472,016
Improvements	728,408	5,569	-	-	733,977
Machinery and equipment	397,150	5,000	(22,000)	(23,026)	357,124
Total	<u>1,597,574</u>	<u>10,569</u>	<u>(22,000)</u>	<u>(23,026)</u>	<u>1,563,117</u>
Less accumulated depreciation	(705,844)	(62,450)	22,000	23,026	(723,268)
Net Depreciable Capital Assets	<u>\$ 891,730</u>	<u>\$ (51,881)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 839,849</u>
<u>Business-type Activities</u>					
Nondepreciable Capital Assets					
Land	<u>\$ 107,876</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 107,876</u>
Depreciable Capital Assets					
Buildings	\$ 190,321	\$ -	\$ -	\$ -	\$ 190,321
Machinery and equipment	455,941	42,100	-	23,026	521,067
Source of supply	65,582	-	-	-	65,582
Treatment plant	1,406,816	-	-	-	1,406,816
Transmission and distribution	10,966,307	82,768	-	-	11,049,075
Total	<u>13,084,967</u>	<u>124,868</u>	<u>-</u>	<u>23,026</u>	<u>13,232,861</u>
Less accumulated depreciation	(3,603,367)	(252,146)	-	(23,026)	(3,878,539)
Net Depreciable Capital Assets	<u>\$ 9,481,600</u>	<u>\$ (127,278)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,354,322</u>

Depreciation expense was allocated to the following functions for governmental activities in the statement of activities:

General Government	\$ 15,899
Public Safety	11,061
Public Works	6,396
Culture and Recreation	29,094
Total	<u>\$ 62,450</u>

CITY OF TROY, MONTANA
Notes to the Financial Statements
June 30, 2014

5. Long-Term Liabilities

An analysis of the changes in long-term liabilities during the year ended June 30, 2014 follows:

CHANGES IN LONG-TERM LIABILITIES

	Beginning Balance July 1, 2013	Increases	Reductions	Ending Balance June 30, 2014	Due Within One Year
Business-type Activities					
Revenue Bonds	\$ 3,988,425	\$ -	\$ (75,355)	\$ 3,913,070	\$ 74,563
Compensated Absences	35,072	-	(1,801)	33,271	24,953
Total Business-type	\$ 4,023,497	\$ -	\$ (77,156)	\$ 3,946,341	\$ 99,516
Governmental Activities					
Compensated Absences	\$ 25,613	\$ 2,175	\$ -	\$ 27,788	\$ 20,290

In prior years the general fund has been used to liquidate compensated absences.

At June 30, 2014, unmatured principal on long-term debt consisted of the following:

Business-Type Activities

Water Fund

*USDA Rural Development Series 2007A and 2007B

Revenue Bonds, 40 years, 4.125% interest rate, monthly payments of \$8,207, through March 2047.

\$ 1,763,636

*SRF Revenue Bond Series 2010B, 20 years, .75% interest rate, variable semi-annual payments, through January 2030.

178,000

Total Water Fund

1,941,636

Sewer Fund

*USDA Rural Development Series 1999A and 1999B

Revenue Bonds, 40 years, 4.5% interest rate, monthly payments of \$8,210, through December 2038.

1,463,066

*USDA Rural Development Series 2001 Revenue Bonds, 40 years, 4.5% interest rate, monthly payments of \$2,714, through May 2041.

508,368

Total Sewer Fund

1,971,434

Total Business-type Activities

\$ 3,913,070

* Revenue bonds are payable from service revenues generated in the related funds.

CITY OF TROY, MONTANA
Notes to the Financial Statements
June 30, 2014

5. **Long-Term Liabilities** – continued

The annual debt service requirements for the year ended June 30, 2014 are as follows:

BUSINESS-TYPE ACTIVITIES

Revenue Bonds

Year	Principal	Interest	Total
2015	\$ 74,563	\$ 161,362	\$ 235,925
2016	82,657	158,194	240,851
2017	85,888	154,888	240,776
2018	89,263	151,438	240,701
2019	93,788	147,837	241,625
2020-2024	532,571	679,227	1,211,798
2025-2029	647,493	562,054	1,209,547
2030-2034	742,422	417,505	1,159,927
2035-2039	864,249	239,797	1,104,046
2040-2044	461,609	95,055	556,664
2045-2047	238,567	17,646	256,213
Total	\$ 3,913,070	\$ 2,785,003	\$ 6,698,073

6. **Bond Agreements**

The agreements for the water and sewer revenue bonds require the City to maintain adequate rates and charges; maintain certain cash accounts; maintain cash reserve accounts; provide customary types of insurance; and provide annual reports. The City was in substantial compliance with these provisions.

7. **Pledged Revenues**

Charges for services revenues in the Water and Sewer funds are pledged for the payment of revenue bonds. These revenues are pledged until each revenue bond matures, which is disclosed in Note 5. For fiscal year 2014, the principal and interest payments on revenue bonds for the water fund were \$109,875 with pledged revenues of \$263,200. The Sewer fund had revenue bond principal and interest payments of \$131,088 with pledged revenues of \$254,056.

CITY OF TROY, MONTANA
Notes to the Financial Statements
June 30, 2014

8. State-Wide Retirement Plans

The City participates in two state-administered cost-sharing multiple-employer defined benefit retirement plans. The plans provide retirement, death, and disability benefits to plan members and beneficiaries in amounts determined by the State of Montana. Police officers are covered under the Municipal Police Officers' Retirement System (MPORS). Substantially all other employees are covered by the Montana Public Employees' Retirement System (PERS). The PERS plan has an option for newly hired employees to make an irrevocable transfer to a defined contribution plan within the first year of employment. The contribution rates are the same for both PERS plans. The financial information for both retirement plans are reported in the Public Employees' Retirement Board's comprehensive annual financial report. This report is available from MPERA at 100 North Park Ave, P.O. Box 200131, Helena, MT 59620-0131, (406)444-3154 or www.mpera.mt.gov.

Contribution rates for the plans are required and determined by State law. The contribution rates, expressed as a percentage of covered payroll for the fiscal year ended June 30, 2014, were:

	<u>PERS</u>	<u>MPORS</u>
Employee	7.9%	9.0%
Employer	8.07%	14.41%
State	.10%	29.37%

The City's contributions for the years ended June 30, 2014, 2013, and 2012, as listed below, were equal to the required contributions for each year.

	<u>PERS</u>	<u>MPORS</u>
2014	\$ 34,570	\$ 11,909
2013	31,445	14,252
2012	31,229	14,851

The amounts reported above do not include the state contribution.

9. Post Employment Benefits

Retirees may remain on the City's health plan until age 65, provided they pay the monthly premiums. State law requires the City to provide this benefit. The City pays an implicit rate subsidy since generally there are higher medical costs for retirees, which results in higher premium rates for all members of the plan. The cost of providing this benefit has been estimated and is considered immaterial to the City's financial statements. There are no retired employees participating in the plan at June 30, 2014.

CITY OF TROY, MONTANA
Notes to the Financial Statements
June 30, 2014

10. **Local Retirement Plans**

City volunteer firefighters are covered by the Fire Department Relief Association Disability and Pension Fund, which is established by State Law. The Association is managed by a Board of Trustees made up of members of the fire department. The City contributes mills to the fund when it contains an amount less than .21% of the assessed value of the City's taxable property. The State contributes, out of moneys 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 activity of the Fire Department Relief Association is not reported in these financial statements.

11. **Risk Management**

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

In 1989, the City joined together with other Montana cities to form the Montana Municipal Insurance Authority which established a workers' compensation plan and a 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 with a \$750 deductible per occurrence. State tort law limits the City's liability to \$1.5 million. The City pays an annual premium for its employee injury insurance coverage, which is allocated to the employer funds based on total salaries and wages. The agreements for formation of the pools provide that they will be self-sustaining through member premiums. The tort liability plan and workers' compensation program issued bonds in the amount of \$4.4 million and \$7.610 million, respectively, 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. Based on the plans' current financial position, the City does not expect to make any payments on these notes.

12. **Restricted Cash and Net Position**

As of June 30, 2014, the City had restricted cash and net position of \$83,647 and \$142,012, respectively, for water and sewer revenue bond debt reserves in the proprietary fund financial statements and business-type activities in the government-wide financial statements.

CITY OF TROY, MONTANA
Notes to the Financial Statements
June 30, 2014

13. **Fund Balance**

Governmental fund equity is classified as fund balance. Fund balance is further classified as unassigned, assigned, committed, restricted, or nonspendable. The purpose of the financial statement classification is shown below:

<u>Fund Balance</u>	<u>Amount</u>	<u>Reason</u>
<i>Restricted</i>		
General Government	\$ 8,804	Tax revenues restricted by state statute to health insurance costs
Public Safety	73,844	State 911 emergency funds restricted by state statute
Public Works	33,568	Gas tax and assessments restricted by state statute to streets
<i>Committed</i>		
Economic Development	134,612	Committed by council action
<i>Assigned</i>		
Culture and Recreation	6,914	Assigned by placement in Museum Fund
<i>Unassigned</i>		
General Fund	119,648	Remainder of fund balance
Total Fund Balance	<u>\$ 377,390</u>	

14. **County Provided Services**

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

15. **Restatements**

During fiscal year 2014, the City restated beginning fund balance in the General fund by \$629 and the Health Insurance fund by \$840 to correct prior year expenditures. Governmental activities net position in the government-wide financial statements was increased by \$1,469 for these two changes. Beginning net position for the Electric fund and business-type activities in the government-wide financial statements was decreased by \$25,568 to reflect a correction of prior year expenses for electricity costs.

16. **Subsequent Events**

During September 2014, the City refunded \$1,764,199 of outstanding water revenue bonds bearing interest of 4.125% with a refunding revenue bond bearing 2.5% interest. In December 2014, sewer revenue bonds were refunded to reduce the interest rate from 4.5% to 3.0%, on an outstanding balance of \$1,959,481.

In March 2015, the City replaced a well pump for \$31,113 in the Water fund.

REQUIRED

SUPPLEMENTARY

INFORMATION

CITY OF TROY, MONTANA
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual-General Fund
For the Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Taxes/Special Assessments	\$ 125,040	\$ 125,040	\$ 110,794	\$ (14,246)
Licenses and Permits	10,058	10,058	9,437	(621)
Intergovernmental Revenue	262,912	262,912	256,894	(6,018)
Charges for Services	63,875	63,875	67,114	3,239
Fines and Forfeitures	11,500	11,500	9,390	(2,110)
Miscellaneous	54,150	54,150	51,115	(3,035)
Investment Earnings	1,650	1,650	970	(680)
Total Revenues	<u>529,185</u>	<u>529,185</u>	<u>505,714</u>	<u>(23,471)</u>
Expenditures				
Current:				
General Government	128,398	128,823	115,710	13,113
Public Safety	208,193	230,907	208,697	22,210
Public Works	46,698	46,698	31,798	14,900
Public Health	1,000	1,000	140	860
Culture & Recreation	63,884	63,884	51,111	12,773
Capital Outlay	72,721	77,721	90,653	(12,932)
Total Expenditures	<u>520,894</u>	<u>549,033</u>	<u>498,109</u>	<u>50,924</u>
Net Change in Fund Balances	<u>\$ 8,291</u>	<u>\$ (19,848)</u>	7,605	<u>\$ 27,453</u>
Fund Balance, July 1, 2013			118,328	
Restatement			<u>629</u>	
Fund Balances July 1, 2013, restated			118,957	
Fund Balance, June 30, 2014			<u>\$ 126,562</u>	

See accompanying notes

CITY OF TROY, MONTANA
Notes to the Budgetary Comparison Schedule
June 30, 2014

1. **Basis of Presentation**

The accompanying budgetary comparison schedule is presented on the modified accrual basis of accounting.

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**Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

Mayor and City Council
City of Troy
Troy, Montana

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Troy, Montana, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City of Troy, Montana's basic financial statements, and have issued my report thereon dated July 27, 2015.

Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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. I consider the deficiencies described in the accompanying schedule of findings and responses as items 2014-001 and 2014-002 to be material weaknesses.

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. I consider the deficiency described in the accompanying schedule of findings and responses as item 2014-003 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Troy, Montana's financial statements are free from material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Troy, Montana's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of my 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.

Nicole M. Noonan, CPA, P.C.

Nicole M. Noonan, CPA, P.C.
St. Regis, Montana
July 27, 2015

CITY OF TROY, MONTANA
Schedule of Findings and Responses
June 30, 2014

2014-001 Construction in Progress

As capital assets are constructed they should be added to construction in progress. Costs capitalized should include accrued costs and all engineering costs related to the project. In fiscal year 2014, expenses accrued for the Safe Routes to School (SRTS) project of \$80,084 were not included in construction in progress at year end. In addition, \$15,700 of engineering costs coded to object 354 were also not added to construction in progress. This resulted in an overstatement of expenses and understatement of capital assets in the government-wide financial statements of \$95,784. The City did not know that these costs needed to be recorded as capital assets under generally accepted accounting standards. The government-wide financial statements were corrected for this error. In the future, all costs related to a construction project should be recorded as construction in progress until the project is complete.

City Response

I will be more aware of this situation. Since this was the first time the City had the clerk do the AFR it was simply overlooked.

2014-002 Accrual Adjustments

There were errors noted related to accrual adjustments that were found during the audit. Specific information is below:

- Accounts payable and accounts receivable are used to record payments and receipts after year end that are for the prior fiscal year. For example, payment of invoices in July that are for June services. The accounts payable or accounts receivable balance should be reversed during the subsequent fiscal year when payment is made or funds are received. During the audit we noted a fiscal year 2013 accounts payable of \$29,826 in the Electric fund that was not reversed in fiscal year 2014. There was also a fiscal year 2013 accounts receivable of \$5,214 in the 911 Emergency fund that was not reversed in fiscal year 2014. This resulted in a \$29,826 overstatement of accounts payable and expenditures in the Electric fund and a \$5,214 overstatement of accounts receivable and revenues in the 911 Emergency fund. These errors were both corrected for the audit report. These errors occurred because management is new to recording accrual adjustments and an ending balance review process was not in place. Agreeing the ending balance in accounts payable and accounts receivable to supporting documentation will uncover these types of errors and is recommended.
- Payments for supplies are generally paid consistently each year so a timing difference (i.e. payment made in July for June services) may not be significant since each annual period contains an appropriate number of monthly payments. In fiscal year 2014, the City changed the timing of payment for the electricity supply bill and accrued the June bill into fiscal year 2014, instead of recording the expense in July. This treatment is proper, but since the fiscal year 2013 bill was not accrued, it created 13 months of expense in

CITY OF TROY, MONTANA
Schedule of Findings and Responses
June 30, 2014

fiscal year 2014, which was not corrected. The change in treatment is an improvement, but lack of knowledge regarding correction of the prior year effect created a misstatement. Expenses in the Electric fund were overstated by \$25,568, the June 2013 bill that was paid in fiscal year 2014. This error was corrected for the audited financial statements. When the City changes timing of payments, the overall effect on the fiscal year should be determined and if there is a significant impact to annual expenses an adjustment should be made to correct the current year expense.

City Response

The adjustments have been made to correct this. I will be more aware of those changes that need to be done.

2014-003 Cost Allocation Plan for Administrative Personnel

Costs utilized by more than one fund should be allocated using a reasonable and consistent basis. The allocation basis should be used consistently from year to year. During fiscal year 2014, personnel costs for administrative employees were not allocated on a reasonable and consistent basis. The percentage of costs charged to each fund changed from the previous year with no specific reason for the change. A written cost allocation plan should be developed by the City and approved by the City Council for administrative personnel. The plan should allocate personnel costs based on a reasonable estimate of work performed for each fund.

City Response

The City Clerk is in the process of coming up with a time study to run for the month to determine where the City Clerk and the Deputy Clerk wages would be paid from.

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REPORT ON PRIOR AUDIT REPORT RECOMMENDATIONS

Mayor and City Council
City of Troy
Troy, Montana

The prior audit report contained three recommendations. The action taken on these recommendations is as follows:

<u>Number</u>	<u>Recommendation</u>	<u>Action Taken</u>
2013-1	Sewer Bond Covenants	Implemented
2013-2	911 Emergency Revenues	Implemented
2013-3	Capital Assets	Implemented

Nicole M. Noonan, CPA, P.C.

Nicole M. Noonan, CPA, P.C.
St. Regis, Montana
July 27, 2015

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July 27, 2015

Mayor and City Council
City of Troy
Troy, Montana

In planning and performing my audit of the financial statements of the City of Troy, Montana for the year ended June 30, 2014, I considered its internal control in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide assurance on the internal control. This letter does not affect my report on those financial statements dated July 27, 2015.

However, I noted certain matters involving internal control and its operation that I consider opportunities for improvement. These and other matters are summarized below.

Museum Fund

The Museum fund uses a 1004 fund number to indicate it is part of the General fund for reporting. In the City's Annual Financial Report, the Museum fund is not reported as part of the General fund, but as part of Other Governmental Funds instead. This is because the Black Mountain software system is not combining the two funds for reporting purposes. The City should determine if their accounting software has the capability of combining the two funds or if other reporting options will need to be researched.

City Response

I called Black Mountain Software and they had me run a report with just the two funds and combine the total together. I was not satisfied with this. I then searched into the program and discovered the fund was not listed as a major fund. Hopefully this will solve the problem.

Findings from the June 30, 2013 management letter are shown below with their status as of June 30, 2014.

<u>Finding</u>	<u>Status</u>
City Court Bond Account	Implemented
Payroll Clearing Fund	Implemented

* * * * *

This letter is intended solely for the information and use of management, City Council, others within the entity, and the State of Montana and is not intended to be and should not be used by anyone other than these specified parties.

Nicole M. Noonan, CPA, P.C.

Nicole M. Noonan, CPA, P.C.