

TOWN OF TWIN BRIDGES
MADISON COUNTY, MONTANA
Fiscal Year Ended June 30, 2014

AUDIT REPORT

Denning, Downey & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

TOWN OF TWIN BRIDGES
MADISON COUNTY, MONTANA
Fiscal Year Ended June 30, 2014

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TOWN OF TWIN BRIDGES
MADISON COUNTY, MONTANA

ORGANIZATION

Fiscal Year Ended June 30, 2014

Thomas O. Hyndman

Mayor

CITY COUNCIL

Matthew Greemore

Council President

Annette McLean

Council Member

David Smith

Council Member

Joe Willauer

Council Member

Dave Banks

Council Member

CITY OFFICIALS

Lori Hashbarger

Attorney

Cathy Grose

Clerk / Treasurer

Samual C. Novich

Water/Sewer/Garbage Collection

Denning, Downey & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

1740 U.S. Hwy 93 South, P.O. Box 1957, Kalispell, MT 59903-1957

INDEPENDENT AUDITOR'S REPORT

Town Council
Town of Twin Bridges
Madison County
Twin Bridges, Montana

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Qualified
Business-Type Activities	Unmodified
General Fund	Unmodified
Library Fund	Unmodified
Water Fund	Qualified
Sewer Fund	Unmodified
All other aggregate funds	Unmodified

Basis for Qualified Opinion on Governmental Activities and Water Fund

Management has not reported Other Post-Employment Benefit (OPEB) liability as required by Governmental Accounting Standards Board statement number 45 (GASB-45). Accounting principles generally accepted in the United States of America require that this liability be based on the alternative measurements method for implicit rate subsidy for the Town of Twin Bridges. The amount by which this departure would affect the liabilities, net position and expenses of the governmental activities and the Water fund has not been determined.

Qualified Opinion

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinion on Governmental Activities and Water Fund” paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and Water Fund of Town of Twin Bridges, Madison County, 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.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund other than the Water Fund, and the aggregate remaining fund information of Town of Twin Bridges, Madison County, Montana, as of and for the year ended 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 2014, the Town of Twin Bridges, Madison County, Montana adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Emphasis of Matter Cash Reconciliations

As described in Note 1 to the financial statements, the Town of Twin Bridges, Madison County, Montana does not have policies or procedures in place requiring the Town's cash be balanced to the supporting bank statements. In a small office, this lack of internal control increases the risk of misappropriation of assets and error. Our 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 budgetary comparison information on pages 32 through 33 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.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2015, on our consideration of the Town of Twin Bridges, Madison County, Montana's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Twin Bridges, Madison County, Montana's internal control over financial reporting and compliance.

Derringer, Downey and Associates, CPA's, P.C.

June 26, 2015

Town of Twin Bridges, Madison County, Montana
Statement of Net Position
June 30, 2014

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and investments	\$ 296,814	\$ 130,732	\$ 427,546
Taxes and assessments receivable, net	8,573	-	8,573
Accounts receivable - net	-	41,471	41,471
Total current assets	<u>\$ 305,387</u>	<u>\$ 172,203</u>	<u>\$ 477,590</u>
Noncurrent assets			
Restricted cash and investments	\$ -	\$ 117,341	\$ 117,341
Capital assets - land	17,029	48,288	65,317
Capital assets - depreciable, net	162,188	3,819,617	3,981,805
Total noncurrent assets	<u>\$ 179,217</u>	<u>\$ 3,985,246</u>	<u>\$ 4,164,463</u>
Total assets	<u>\$ 484,604</u>	<u>\$ 4,157,449</u>	<u>\$ 4,642,053</u>
LIABILITIES			
Current liabilities			
Accounts payable	\$ 1,779	\$ 19	\$ 1,798
Revenues collected in advance	-	2,683	2,683
Current portion of long-term capital liabilities	2,046	27,213	29,259
Current portion of compensated absences payable	8,837	6,910	15,747
Total current liabilities	<u>\$ 12,662</u>	<u>\$ 36,825</u>	<u>\$ 49,487</u>
Noncurrent liabilities			
Deposits payable	\$ -	\$ 30	\$ 30
Noncurrent portion of long-term capital liabilities	4,616	1,000,284	1,004,900
Noncurrent portion of compensated absences	5,162	3,132	8,294
Total noncurrent liabilities	<u>\$ 9,778</u>	<u>\$ 1,003,446</u>	<u>\$ 1,013,224</u>
Total liabilities	<u>\$ 22,440</u>	<u>\$ 1,040,271</u>	<u>\$ 1,062,711</u>
NET POSITION			
Net investment in capital assets	\$ 172,555	\$ 2,840,408	\$ 3,012,963
Restricted for capital projects	42,192	-	42,192
Restricted for debt service	-	117,341	117,341
Restricted for special projects	123,947	-	123,947
Unrestricted	123,470	159,429	282,899
Total net position	<u>\$ 462,164</u>	<u>\$ 3,117,178</u>	<u>\$ 3,579,342</u>

See accompanying Notes to the Financial Statements

Town of Twin Bridges, Madison County, Montana
Statement of Activities
For the Fiscal Year Ended June 30, 2014

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Position</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government</u>		
					<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Primary government:							
Governmental activities:							
General government	\$ 42,572	\$ -	\$ -	\$ -	\$ (42,572)	\$ -	\$ (42,572)
Public safety	13,956	-	-	-	(13,956)	-	(13,956)
Public works	72,254	-	-	-	(72,254)	-	(72,254)
Social and economic services	6,809	-	-	-	(6,809)	-	(6,809)
Culture and recreation	93,693	4,317	1,480	-	(87,896)	-	(87,896)
Debt service - interest	1,000	-	-	-	(1,000)	-	(1,000)
Total governmental activities	\$ <u>230,284</u>	\$ <u>4,317</u>	\$ <u>1,480</u>	\$ <u>-</u>	\$ <u>(224,487)</u>	\$ <u>-</u>	\$ <u>(224,487)</u>
Business-type activities:							
Water	\$ 123,946	\$ 127,362	\$ -	\$ -	\$ -	\$ 3,416	\$ 3,416
Sewer	180,094	138,701	-	50,884	-	9,491	9,491
	-	-	-	-	-	-	-
Total business-type activities	\$ <u>304,040</u>	\$ <u>266,063</u>	\$ <u>-</u>	\$ <u>50,884</u>	\$ <u>-</u>	\$ <u>12,907</u>	\$ <u>12,907</u>
Total primary government	\$ <u>534,324</u>	\$ <u>270,380</u>	\$ <u>1,480</u>	\$ <u>50,884</u>	\$ <u>(224,487)</u>	\$ <u>12,907</u>	\$ <u>(211,580)</u>
General Revenues:							
Property taxes for general purposes				\$ 81,552	\$ -	\$ -	\$ 81,552
Licenses and permits				3,149	-	-	3,149
Miscellaneous				29,335	-	-	29,335
Interest/investment earnings				207	190	-	397
Local option taxes				34,944	-	-	34,944
Unrestricted federal/state shared revenues				365	-	-	365
State entitlement				36,274	-	-	36,274
Grants and entitlements not restricted to specific programs				11,422	-	-	11,422
Contributions & donations				5,382	-	-	5,382
Transfers - net				(1,300)	1,300	-	-
Total general revenues, special items and transfers				\$ <u>201,330</u>	\$ <u>1,490</u>	\$ <u>-</u>	\$ <u>202,820</u>
Change in net position				\$ <u>(23,157)</u>	\$ <u>14,397</u>	\$ <u>-</u>	\$ <u>(8,760)</u>
Net position - beginning				\$ 485,291	\$ 3,113,467	\$ -	\$ 3,598,758
Restatements				30	(10,686)	-	(10,656)
Net position - beginning - restated				\$ <u>485,321</u>	\$ <u>3,102,781</u>	\$ <u>-</u>	\$ <u>3,588,102</u>
Net position - end				\$ <u>462,164</u>	\$ <u>3,117,178</u>	\$ <u>-</u>	\$ <u>3,579,342</u>

See accompanying Notes to the Financial Statements

Town of Twin Bridges, Madison County, Montana
Balance Sheet
Governmental Funds
June 30, 2014

	General	Library	Other Governmental Funds	Total Governmental Funds
ASSETS				
Current assets:				
Cash and investments	\$ 128,920	\$ 72,348	\$ 95,546	\$ 296,814
Taxes and assessments receivable, net	8,573	-	-	8,573
Total assets	\$ 137,493	\$ 72,348	\$ 95,546	\$ 305,387
Current liabilities:				
Accounts payable	\$ 24	\$ 5	\$ 1,750	\$ 1,779
Total liabilities	\$ 24	\$ 5	\$ 1,750	\$ 1,779
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows of resources	\$ 8,573	\$ -	\$ -	\$ 8,573
Total deferred inflows of resources	\$ 8,573	\$ -	\$ -	\$ 8,573
FUND BALANCES				
Restricted	\$ -	\$ 72,343	\$ 51,604	\$ 123,947
Committed	-	-	42,192	42,192
Unassigned fund balance	128,896	-	-	128,896
Total fund balance	\$ 128,896	\$ 72,343	\$ 93,796	\$ 295,035

See accompanying Notes to the Financial Statements

Town of Twin Bridges, Madison County, Montana
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Position
June 30, 2014

Total fund balances - governmental funds	\$ 295,035
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	179,217
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.	8,573
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.	(20,661)
Total net position - governmental activities	\$ <u>462,164</u>

See accompanying Notes to the Financial Statements

Town of Twin Bridges, Madison County, Montana
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2014

	General	Library	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes and assessments	\$ 77,078	\$ -	\$ 1,970	\$ 79,048
Licenses and permits	2,348	-	-	2,348
Intergovernmental	37,074	1,875	11,422	50,371
Charges for services	822	44,003	-	44,825
Miscellaneous	28,192	5,674	-	33,866
Investment earnings	131	70	6	207
Total revenues	\$ 145,645	\$ 51,622	\$ 13,398	\$ 210,665
EXPENDITURES				
General government	\$ 34,747	\$ -	\$ -	\$ 34,747
Public safety	11,512	-	-	11,512
Public works	55,656	-	10,894	66,550
Social and economic services	6,809	-	-	6,809
Culture and recreation	27,810	58,072	-	85,882
Debt service - principal	4,158	-	-	4,158
Debt service - interest	1,000	-	-	1,000
Total expenditures	\$ 141,692	\$ 58,072	\$ 10,894	\$ 210,658
Excess (deficiency) of revenues over expenditures	\$ 3,953	\$ (6,450)	\$ 2,504	\$ 7
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 3,500	\$ 4,000	\$ -	\$ 7,500
Transfers out	(8,800)	-	-	(8,800)
Total other financing sources (uses)	\$ (5,300)	\$ 4,000	\$ -	\$ (1,300)
Net Change in Fund Balance	\$ (1,347)	\$ (2,450)	\$ 2,504	\$ (1,293)
Fund balances - beginning	\$ 130,243	\$ 74,763	\$ 91,292	\$ 296,298
Restatements	-	30	-	30
Fund balances - beginning, restated	\$ 130,243	\$ 74,793	\$ 91,292	\$ 296,328
Fund balance - ending	\$ 128,896	\$ 72,343	\$ 93,796	\$ 295,035

See accompanying Notes to the Financial Statements

Town of Twin Bridges, Madison County, Montana
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Fiscal 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	\$ (1,293)
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:	
- Depreciation expense	(16,568)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:	
- Long-term receivables (deferred revenue)	(2,238)
The change in compensated absences is shown as an expense in the Statement of Activities	(7,216)
Repayment of debt principal is an expenditures in the governmental funds, but the repayment reduces long-term debt in the Statement of Net Position:	
- Long-term debt principal payments	4,158
Change in net position - Statement of Activities	\$ <u><u>(23,157)</u></u>

See accompanying Notes to the Financial Statements

Town of Twin Bridges, Madison County, Montana
Statement of Net Position
Proprietary Funds
June 30, 2014

	Business-Type Activities - Funds		Enterprise
	Water	Sewer	Totals
ASSETS			
Current assets:			
Cash and investments	\$ 53,934	\$ 76,798	\$ 130,732
Accounts receivable - net	22,043	19,428	41,471
Total current assets	<u>\$ 75,977</u>	<u>\$ 96,226</u>	<u>\$ 172,203</u>
Noncurrent assets:			
Restricted cash and investments	\$ 40,830	\$ 76,511	\$ 117,341
Capital assets - land	-	48,288	48,288
Capital assets - depreciable, net	828,002	2,991,615	3,819,617
Total noncurrent assets	<u>\$ 868,832</u>	<u>\$ 3,116,414</u>	<u>\$ 3,985,246</u>
Total assets	<u>\$ 944,809</u>	<u>\$ 3,212,640</u>	<u>\$ 4,157,449</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 10	\$ 9	\$ 19
Revenues collected in advance	1,426	1,257	2,683
Current portion of long-term capital liabilities	10,000	17,213	27,213
Current portion of compensated absences payable	3,455	3,455	6,910
Total current liabilities	<u>\$ 14,891</u>	<u>\$ 21,934</u>	<u>\$ 36,825</u>
Noncurrent liabilities:			
Deposits payable	\$ 30	\$ -	\$ 30
Noncurrent portion of long-term capital liabilities	49,000	951,284	1,000,284
Noncurrent portion of compensated absences	1,566	1,566	3,132
Total noncurrent liabilities	<u>\$ 50,596</u>	<u>\$ 952,850</u>	<u>\$ 1,003,446</u>
Total liabilities	<u>\$ 65,487</u>	<u>\$ 974,784</u>	<u>\$ 1,040,271</u>
NET POSITION			
Net investment in capital assets	\$ 769,002	\$ 2,071,406	\$ 2,840,408
Restricted for debt service	40,830	76,511	117,341
Unrestricted	69,490	89,939	159,429
Total net position	<u>\$ 879,322</u>	<u>\$ 2,237,856</u>	<u>\$ 3,117,178</u>
Total liabilities and net position	<u>\$ 944,809</u>	<u>\$ 3,212,640</u>	<u>\$ 4,157,449</u>

See accompanying Notes to the Financial Statements

Town of Twin Bridges, Madison County, Montana
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Fiscal Year Ended June 30, 2014

	Business-Type Activities - Funds		Enterprise
	Water	Sewer	Totals
OPERATING REVENUES			
Charges for services	\$ 127,362	\$ 136,050	\$ 263,412
Total operating revenues	<u>\$ 127,362</u>	<u>\$ 136,050</u>	<u>\$ 263,412</u>
OPERATING EXPENSES			
Personal services	\$ 37,756	\$ 37,762	\$ 75,518
Supplies	6,107	4,776	10,883
Purchased services	36,179	34,946	71,125
Fixed charges	3,223	3,116	6,339
Depreciation	36,476	79,574	116,050
Total operating expenses	<u>\$ 119,741</u>	<u>\$ 160,174</u>	<u>\$ 279,915</u>
Operating income (loss)	<u>\$ 7,621</u>	<u>\$ (24,124)</u>	<u>\$ (16,503)</u>
NON-OPERATING REVENUES (EXPENSES)			
Intergovernmental revenue	\$ -	\$ 53,535	\$ 53,535
Interest revenue	112	78	190
Debt service interest expense	(2,807)	(19,920)	(22,727)
Miscellaneous Expenses	(1,398)	-	(1,398)
Total non-operating revenues (expenses)	<u>\$ (4,093)</u>	<u>\$ 33,693</u>	<u>\$ 29,600</u>
Income (loss) before contributions and transfers	\$ 3,528	\$ 9,569	\$ 13,097
Transfers in	400	900	1,300
Change in net position	<u>\$ 3,928</u>	<u>\$ 10,469</u>	<u>\$ 14,397</u>
Net Position - Beginning of the year	\$ 877,491	\$ 2,235,976	\$ 3,113,467
Restatements	(2,097)	(8,589)	(10,686)
Net Position - Beginning of the year - Restated	<u>\$ 875,394</u>	<u>\$ 2,227,387</u>	<u>\$ 3,102,781</u>
Net Position - End of the year	<u>\$ 879,322</u>	<u>\$ 2,237,856</u>	<u>\$ 3,117,178</u>

See accompanying Notes to the Financial Statements

**Town of Twin Bridges
Statement of Cash Flows
Proprietary Funds
Fiscal Year Ended June 30, 2014**

Business - Type Activities- Enterprise Funds

	Water	Sewer	Totals
Cash flows from operating activities:			
Cash received from providing services	\$ 126,025	\$ 136,162	\$ 262,187
Cash payments to suppliers	(8,285)	(6,956)	(15,241)
Cash payments for professional services	(39,402)	(38,062)	(77,464)
Cash payments to employees	(41,767)	(41,773)	(83,540)
Net cash provided (used) by operating activities	\$ 36,571	\$ 49,371	\$ 85,942
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	-	(38,669)	(38,669)
Principal paid on debt	(102,000)	(16,440)	(118,440)
Interest paid on debt	(2,807)	(19,920)	(22,727)
Proceeds from bonds, loans and advances	67,000	-	67,000
Net cash provided (used) by capital and related financing activities	\$ (37,807)	\$ (75,029)	\$ (112,836)
Cash flows from non-capital financing activities:			
Interfund transfers	400	900	1,300
Cash received from/due to other governments	1,334	53,536	54,870
Cash paid to other sources	(1,398)	-	(1,398)
Net cash provided (used) from non-capital financing activities	\$ 336	\$ 54,436	\$ 54,772
Cash flows from investing activities:			
Interest on investments	112	78	190
Net cash provided (used) by investing activities	\$ 112	\$ 78	\$ 190
Net increase (decrease) in cash and cash equivalents	\$ (788)	\$ 28,856	\$ 28,068
Cash and cash equivalents at beginning	95,552	124,453	220,005
Cash and cash equivalents at end	\$ 94,764	\$ 153,309	\$ 248,073
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ 7,621	\$ (24,124)	\$ (16,503)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation	36,476	79,574	116,050
Changes in assets and liabilities:			
Accounts receivable	(1,337)	112	(1,225)
Accounts Payable	(2,178)	(2,180)	(4,358)
Compensated Absences	(4,011)	(4,011)	(8,022)
Net cash provided (used) by operating activities	\$ 36,571	\$ 49,371	\$ 85,942

See accompanying notes to the financial statements

Town of Twin Bridges, Madison County, Montana
Statement of Net Position
Fiduciary Funds
June 30, 2014

		<u>Agency Funds</u>
ASSETS		
Cash and short-term investments	\$	60,306
Taxes receivable		203
Total assets	\$	<u>60,509</u>
LIABILITIES		
Warrants payable	\$	60,340
Due to others		169
Total liabilities	\$	<u>60,509</u>

NET POSITION

See accompanying Notes to the Financial Statements

TOWN OF TWIN BRIDGES
MADISON COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements.

GASBS No. 65, *Items Previously Reported as Assets and Liabilities*, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This standard is effective for fiscal year ending June 30, 2014.

Financial Reporting Entity

In determining the financial reporting entity, the Town complies with the provisions of GASB statement No. 14, *The Financial Reporting Entity*, as amended by GASB statement No. 61, *The Financial Reporting Entity: Omnibus*, and includes all component units of which the Town appointed a voting majority of the component units' board; the Town is either able to impose its' will on the unit or a financial benefit or burden relationship exists. In addition, the Town complies with GASB statement No. 39 *Determining Whether Certain Organizations Are Component Units* which relates to organizations that raise and hold economic resources for the direct benefit of the Town.

Primary Government

The Town is a political subdivision of the State of Montana governed by an elected Mayor and Council duly elected by the registered voters of the Town. The Town is considered a primary government because it is a general purpose local government. Further, it meets the following criteria: (a) It has a separately elected governing body (b) It is legally separate and (c) It is fiscally independent from the State and other local governments.

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Basis of Presentation, Measurement Focus and Basis of Accounting.

Government-wide Financial Statements:

Basis of Presentation

The Government-wide Financial Statements (the Statement of Net Position and the Statement of Activities) display information about the reporting government as a whole and its component units. They include all funds of the reporting entity except fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. Eliminations have been made in the consolidation of business-type activities.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function. The Town does not charge indirect expenses to programs or functions. The types of transactions reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity and 2) operating grants and contributions, and 3) capital grants and contributions. Revenues that are not classified as program revenues, including all property taxes, are presented as general revenues.

Certain eliminations have been made as prescribed by GASB 34 in regards to inter-fund 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. In the Statement of Activities, internal service fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated.

Measurement Focus and Basis of Accounting

Government-Wide Financial Statements

On the government-wide Statement of Net Position and the Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus and 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 regardless of the timing of the cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The Town generally applies restricted resources to expenses incurred before using unrestricted resources when both restricted and unrestricted net assets are available.

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Fund Financial Statements:

Basis of Presentation

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

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

Measurement Focus and Basis of Accounting

Governmental Funds

Modified Accrual

All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Measurable" means the amount of the transaction can be determined. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

The Town defined the length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements to be upon receipt. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources. General capital asset acquisitions are reported as expenditures in governmental funds and proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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Property taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. All other revenue items are considered to be measurable and available only when cash is received by the government.

Major Funds:

The Town reports the following major governmental funds:

General Fund – This is the Town’s primary operating fund and it accounts for all financial resources of the Town except those required to be accounted for in other funds.

Library Fund – A special revenue fund that was established to account for the activity of the Town’s Library.

Proprietary Funds:

All proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Revenues are recognized when earned and expenses are recognized when incurred. Allocations of costs, such as depreciation, are recorded in proprietary funds.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connections with a proprietary fund’s principal ongoing operations. The principal operating revenues for enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the Town’s policy to use restricted resources first, then unrestricted resources as they are needed.

Major Funds:

The Town reports the following major proprietary funds:

Water Fund – An enterprise fund that accounts for the activities of the Town’s water distribution operations.

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Sewer Fund – An enterprise fund that accounts for the activities of the Town’s sewer collection and treatment operations and includes the storm sewer system.

Fiduciary Funds

Fiduciary funds presented using the economic resources measurement focus and the accrual basis of accounting (except for the recognition of certain liabilities of defined benefit pension plans and certain postemployment healthcare plans). The required financial statements are a statement of fiduciary net position and a statement of changes in fiduciary net assets. The fiduciary funds are:

Agency Funds – To report resources held by the reporting government in a purely custodial capacity (assets equal liabilities). This fund primarily consist of assets held by the Town as an agent for individuals, private organizations, other local governmental entities and the Town’s claims and payroll clearing funds

NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash Balancing

The Town has not balanced cash for several reporting periods. The controls over cash have not included a formal bank reconciliation of the cash balances reported by the Town and the bank statements. The lack of controls in a small office increases the possibility of theft and errors not being discovered. Also, Town has not had accurate information to make informed decisions.

Cash Composition

Composition of cash, deposits and investments at fair value on June 30, 2014, are as follows:

	<u>Primary Government</u>
<u>Cash on hand and deposits:</u>	
Cash in banks:	
Demand deposits	\$ 348,016
Savings deposits	74,398
Time deposits	182,779
Total	<u>\$ 605,193</u>

Credit Risk

Section 7-6-202, MCA, limits investments of public money of a local government in the following eligible securities:

(a) United States government treasury bills, notes and bonds and in the United States treasury obligations, such as state and local government series (SLGLS), separate trading of registered interest and principal of securities (STRIPS), or similar United States treasury obligations;

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(b) United States treasury receipts in a form evidencing the holder's ownership of future interest or principal payments on specific United States treasury obligations that, in the absence of payment default by the United States, are held in a special custody account by an independent trust company in a certificate or book entry form with the federal reserve bank of New York; or

(c) Obligations of the following agencies of the United States, subject to the limitations in subsection 2 (not included):

- (i) federal home loan bank;
- (ii) federal national mortgage association;
- (iii) federal home mortgage corporation; and
- (iv) federal farm credit bank.

With the exception of the assets of a local government group self-insurance program, investments may not have a maturity date exceeding 5 years except when the investment is used in an escrow account to refund an outstanding bond issue in advance.

Section 7-6-205 and Section 7-6-206, MCA, state that demand deposits may be placed only in banks and Public money not necessary for immediate use by a county, city, or town that is not invested as authorize in Section 7-6-202 may be placed in time or savings deposits with a bank, savings and loan association, or credit union in the state or place in repurchase agreements as authorized in Section 7-6-213.

Section 7-6-202, MCA, as amended, now limits authorized investments in certain securities that previously were permissible investments. The amendment does not apply to and does not require the sale of securities that were legal investments before the effective date of this act. However, the investments reported as collateralized mortgage obligations above are not authorized investments at the current time.

The government has no investment policy that would further limit its investment choices.

The government has no investments that require credit risk disclosure.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. All deposits are carried at cost plus accrued interest. As of June 30, 2014 the government's bank balance was exposed to custodial credit risk as follows:

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	June 30, 2014
	<u>Balance</u>
<u>Depository Account</u>	
Insured	\$ 503,871
- Collateral held by the pledging bank's trust department but not in the Town's name.	82,071
- Uninsured and Uncollateralized	19,736
Total deposits and investments	\$ <u><u>605,678</u></u>

Deposit Security

Section 7-6-207, MCA, states (1) The local governing body may require security only for that portion of the deposits which is not guaranteed or insured according to law and, as to such unguaranteed or uninsured portion, to the extent of:

- (a) 50% of such deposits if the institution in which the deposit is made has a net worth of total assets ratio of 6% or more; or
- (b) 100% if the institution in which the deposit is made has a net worth of total assets ratio of less than 6%.

The amount of collateral held for Town deposits at June 30, 2014, met the amount required by State statutes.

Cash equivalents

For purposes of the statement of cash flows, the enterprise funds consider all funds (including restricted assets) held in the Town's cash management pool to be cash equivalents.

NOTE 3. RESTRICTED CASH/INVESTMENTS

The following restricted cash/investments were held by the Town as of June 30, 2014. These amounts are reported within the cash/investment account on the Statement of Net Position.

<u>Description</u>	<u>Amount</u>
Water fund	
Current Debt Service	\$ 19,430
Future Debt Service	21,400
Sewer fund	
Future Debt Service	35,011
Repair and Replacement	<u>41,500</u>
	\$ <u><u>117,341</u></u>

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NOTE 4. RECEIVABLES

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

Real property (and certain attached personal property) taxes are billed within ten days after the third Monday in October and are due in equal installments on November 30 and the following May 31. After those dates, they become delinquent (and a lien upon the property). After three years, the County may exercise the lien and take title to the property. Special assessments are either billed in one installment due November 30 or two equal installments due November 30 and the following May 31. Personal property taxes (other than those billed with real estate) are generally billed no later than the second Monday in July (normally in May or June), based on the prior November's levies. Personal property taxes, other than mobile homes, are due thirty days after billing. Mobile home taxes are billed in two halves, the first due thirty days after billing; the second due September 30. The tax billings are considered past due after the respective due dates and are subject to penalty and interest charges.

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

NOTE 5. INVENTORIES

The costs of inventories are recorded as expenditure when purchased.

NOTE 6. CAPITAL ASSETS

The Town's assets are capitalized at historical cost or estimated historical cost. Town policy has set the capitalization threshold for reporting capital assets at \$5,000. Gifts or contributions of capital assets are recorded at fair market value when received. The costs of normal maintenance and repairs are charged to operations as incurred. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable. Depreciation is recorded on a straight-line basis over the useful lives of the assets as follows:

Buildings	20 – 50 years
Improvements	10 – 25 years
Machinery and Equipment	5 – 30 years
Utility Lines and Improvements	20 – 40 years

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In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 which requires the inclusion of infrastructure capital assets in local governments' basic financial statements. In accordance with Statement No. 34, the Town has included the value of all infrastructure into the 2014 Basic Financial Statements. The government has elected not to retroactively report general infrastructure assets.

A summary of changes in governmental capital assets was as follows:

Governmental activities:

	Balance <u>July 1, 2013</u>	<u>Additions</u>	Balance <u>June 30, 2014</u>
Capital assets not being depreciated:			
Land	\$ 17,029	\$ -	\$ 17,029
Other capital assets:			
Buildings	\$ 396,097	\$ -	\$ 396,097
Improvements other than buildings	201,995	-	201,995
Machinery and equipment	70,120	-	70,120
Total other capital assets at historical cost	\$ 668,212	\$ -	\$ 668,212
Less: accumulated depreciation	\$ (489,456)	\$ (16,568)	\$ (506,024)
Total	<u>\$ 195,785</u>	<u>\$ (16,568)</u>	<u>\$ 179,217</u>

Governmental activities depreciation expense was charged to functions as follows:

Governmental Activities:	
General government	\$ 609
Public safety	2,444
Public works	5,704
Culture and recreation	<u>7,811</u>
Total governmental activities depreciation expense	<u>\$ 16,568</u>

A summary of changes in business-type capital assets was as follows:

Business-type activities:

	Balance <u>July 1, 2013</u>	<u>Additions</u>	<u>Restatements</u>	Balance <u>June 30, 2014</u>
Capital assets not being depreciated:				
Land	\$ 48,288	\$ -	\$ -	\$ 48,288
Other capital assets:				
Buildings	\$ 4,721,810	\$ 40,000	\$ -	\$ 4,761,810
Machinery and equipment	69,139	-	-	69,139
Total other capital assets at historical cost	\$ 4,790,949	\$ 40,000	\$ -	\$ 4,830,949
Less: accumulated depreciation	\$ (891,442)	\$ (116,050)	\$ (3,840)	\$ (1,011,332)
Total	<u>\$ 3,947,795</u>	<u>\$ (76,050)</u>	<u>\$ (3,840)</u>	<u>\$ 3,867,905</u>

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NOTE 7. LONG TERM DEBT OBLIGATIONS

In the governmental-wide and proprietary financial statements, outstanding debt is reported as liabilities. Bond issuance costs, bond discounts or premiums, are expensed at the date of sale.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

Changes in Long-Term Debt Liabilities - During the year ended June 30, 2014, the following changes occurred in liabilities reported in long-term debt:

Governmental Activities:

	Balance			Balance		Due Within
	<u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2014</u>	<u>One Year</u>	
General obligation bonds	\$ 10,820	\$ -	\$ (4,158)	\$ 6,662	\$ 2,046	
Compensated absences	6,783	7,216	-	13,999	8,837	
Total	<u>\$ 17,603</u>	<u>\$ 7,216</u>	<u>\$ (4,158)</u>	<u>\$ 20,661</u>	<u>\$ 10,883</u>	

In prior years the general fund was used to liquidate compensated absences and claims and judgments.

Business-type Activities:

	Balance			Balance		Due Within
	<u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2014</u>	<u>One Year</u>	
General obligation bonds	\$ -	\$ 67,000	\$ (8,000)	\$ 59,000	\$ 10,000	
Revenue bonds	1,078,937	-	(110,440)	968,497	17,213	
Compensated absences	18,064	-	(8,022)	10,042	6,910	
Total	<u>\$ 1,097,001</u>	<u>\$ 67,000</u>	<u>\$ (126,462)</u>	<u>\$ 1,037,539</u>	<u>\$ 34,123</u>	

General Obligation Bonds - The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the Town. General obligation bonds outstanding as of June 30, 2014 were as follows:

<u>Purpose</u>	<u>Origination Date</u>	<u>Interest Rate</u>	<u>Term</u>	<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Annual Payment</u>	<u>Balance June 30, 2014</u>
Fire Hall Bays (1)	8/3/04	6.50%	20 yrs	12/31/23	\$ 30,000	\$ 2,623	\$ 6,662
Drinking Water - Refunding (2)	5/29/13	1.25%	7 yrs	7/1/17	<u>67,000</u>	Varies	<u>59,000</u>
					<u>\$ 97,000</u>		<u>\$ 65,662</u>

(1) Reported in the governmental activities.

(2) Reported in business-type activities.

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Annual requirement to amortize debt:

<u>For Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 12,046	\$ 727
2016	11,178	570
2017	12,320	405
2018	9,118	229
2019	10,000	53
2020	11,000	28
Total	<u>\$ 65,662</u>	<u>\$ 2,010</u>

Revenue Bonds - The Town also issues bonds where the Town pledges income derived from the acquired or constructed assets to pay debt service. Revenue bonds outstanding at year-end were as follows:

<u>Purpose</u>	<u>Origination Date</u>	<u>Interest Rate</u>	<u>Bond Term</u>	<u>Maturity Date</u>	<u>Bonds Amount</u>	<u>Annual Payment</u>	<u>Balance June 30, 2014</u>
RD Loan Refinancing	5/23/12	2.00%	40 yrs	5/23/52	\$ <u>1,000,000</u>	Varies	\$ <u>968,497</u>

Revenue bond resolutions include various restrictive covenants. The more significant covenants 1) require that cash be restricted and reserved for operations, construction, debt service, and replacement and depreciation; 2) specify minimum required operating revenue; and 3) specific and timely reporting of financial information to bond holders and the registrar. The Town was in compliance with applicable covenants as of June 30, 2014.

Annual requirement to amortize debt:

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For Fiscal <u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 17,213	\$ 19,147
2016	17,560	18,800
2017	17,915	18,445
2018	18,276	18,084
2019	18,645	17,715
2020	19,021	17,339
2021	19,405	16,955
2022	19,797	16,563
2023	20,197	16,163
2024	20,604	15,756
2025	21,020	15,340
2026	21,444	14,916
2027	21,877	14,483
2028	22,319	14,041
2029	22,769	13,591
2030	23,229	13,131
2031	23,698	12,662
2032	24,176	12,184
2033	24,664	11,696
2034	25,162	11,198
2035	25,670	10,690
2036	26,188	10,172
2037	26,716	9,644
2038	27,256	9,104
2039	27,806	8,554
2040	28,367	7,993
2041	28,940	7,420
2042	29,524	6,836
2043	30,120	6,240
2044	30,728	5,632
2045	31,348	5,012
2046	31,981	4,379
2047	32,626	3,734
2048	33,285	3,075
2049	33,957	2,403
2050	34,642	1,718
2051	35,341	1,019
2052	35,011	308
Total	\$ <u>968,497</u>	\$ <u>412,142</u>

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Compensated Absences

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

Advance Refunding of Long-Term Debt

During 2014, the Entity issued \$67,000 in general obligation bonds with an average interest rate of 1.25% to advance refund \$94,000 of outstanding 1998 Drinking Water revenue bonds with an average interest rate of 4.00%.

The Town advance refunded the bonds to reduce its total debt service payments over the next 3 years by approximately \$19,473 and to obtain an economic gain (difference between the present values of the debt service payments of the old and new debt) of \$1,589.

NOTE 8. INTERFUND RECEIVABLES AND PAYABLES

Interfund Transfers

The following is an analysis of operating transfers in and out during fiscal year 2014:

<u>Purpose</u>	<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Yearly library funding	General – Major Governmental	Library – Major Governmental	\$ 4,000
Debit card reimbursement	General – Major Governmental	Water – Major Proprietary	400
Debit card reimbursement	General – Major Governmental	Sewer – Major Proprietary	880
			<u>\$ 5,280</u>

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NOTE 9. STATE-WIDE RETIREMENT PLANS

All full-time Town employees are covered under the Montana Public Employees Retirement System (PERS). The plan is established by State law and administered by the State of Montana. The plan is cost-sharing multiple-employer defined benefit plans that provide retirement, disability and death benefits to plan members and beneficiaries, with amounts determined by the State. However, PERS members may have chosen the defined contribution retirement plan. Under this plan it puts the employee in control of investments options and their retirement is based upon the cash in their investment account.

Contribution rates 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 for the defined benefit plans, were:

<u>PERS**</u>	
Employer	8.07%
Employee	7.90%*
State	0.10%

* For PERS members hired before 7/1/2011 that rate is 6.9%

** For the defined contribution plan all rates are the same except only 4.19% of the employer amount is added to the individuals account.

The State contribution qualifies as an on-behalf payment. These amounts have not been recorded in the Town's financial statements and were considered immaterial.

Publicly available financial reports that include financial statements and required supplementary information may be obtained for the plans by writing or calling: Montana Public Employee Retirement Administration, P.O. Box 200131, Helena, Montana 59620-0131 Phone: 1-406-444-3154.

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

	<u>PERS</u>
2012	\$ 7,552
2013	\$ 7,169
2014	\$ 7,561

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NOTE 10. LOCAL RETIREMENT PLANS

Fire Department Relief Association Disability and Pension Fund

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

A member of a volunteer fire department who has served 20 years or more is entitled to benefits regardless of age. Volunteer 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.

NOTE 11. FUND BALANCE CLASSIFICATION POLICIES AND PROCEDURES

The government considers restricted amounts to have been spent first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available.

The government considers that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Restricted Fund Balance

<u>Major Fund</u>	<u>Amount</u>	<u>Purpose of Restriction</u>
Library	\$ 72,343	Culture and recreation
All Other Aggregate	<u>51,604</u>	Public works
	<u>\$ 123,947</u>	

Committed Fund Balance

<u>Major Fund</u>	<u>Amount</u>	<u>Purpose of Commitment</u>
All Other Aggregate	<u>\$ 42,192</u>	General government capital projects

NOTE 12. RESTATEMENTS

During the current fiscal year, the following adjustments relating to prior years' transactions were made to fund balance and net position.

<u>Fund</u>	<u>Amount</u>	<u>Reason for Adjustment</u>
Library	\$ 30	Prior year revenue
Water	1,331	Prior year expense
Water	(3,428)	Prior year due to other government
Sewer	1,331	Prior year expense
Sewer	(3,840)	Prior year depreciation adjustment
Sewer	<u>6,080</u>	Prior year due from and to other government
Total	<u>\$ (10,656)</u>	

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MADISON COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 13. JOINT VENTURES

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

Library Services

The operations of the Library are included in the financial statements of the Town. The Library is operated under an interlocal agreement between Madison County and the Town of Twin Bridges. The Library operates under the supervision and control of the Library Board. The Board consists of five members, two who are appointed by the Town Council. The County provides 0.5 mills or \$13,355 per year whichever is more to the Library. The Town provides \$4,000. For June 30, 2014, the County contributed \$39,685 and the Town contributed \$10,549 including the \$4,000 transfer, \$1,968 in utilities, and repair of library roof totaling \$4,574.

Law Enforcement Services

The Town participated in a law enforcement service agreement with Madison County for the fiscal year ended June 30, 2014. The Town made payments of \$5,349 for providing law enforcement for the fiscal year ended June 30, 2014.

Maintenance and operation of Machinery, Equipment and Services

The Town entered into an interlocal agreement with other towns in the area commencing July 1, 1994 for the purpose of acquiring, maintaining and operating machinery, equipment and services which may not be practical for one of the Towns to obtain by itself and which may be mutually advantageous for the Towns as a group. The Town paid \$1,500 in membership dues for fiscal year-end June 30, 2014.

NOTE 14. SERVICES PROVIDED BY OTHER GOVERNMENTS

County Provided Services

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

TOWN OF TWIN BRIDGES
MADISON COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 15. RISK MANAGEMENT

The Town faces 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. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Insurance Pools:

The Town participates in the state-wide public safety risk pool, Montana Municipal Insurance Authority for workers' compensation.

In 1986, the Town joined together with other Montana cities to form the Montana Municipal Insurance Authority 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 with a \$3.750 deductible per occurrence. State tort law limits the Town's liability to \$1.5 million. The Town pays an annual premium for its employee injury insurance coverage, which is allocated to the employer funds based on total salaries and wages. The agreements for formation of the pools provide that they will be self-sustaining through member premiums.

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

NOTE 16. SUBSEQUENT EVENTS

During fiscal year 2015, the Town started the project to acquire land and construct a Senior Citizens Center. The Town was approved for a CDBG grant in 2013 which will be the main funding source of the project. The Town was awarded a total amount of \$404,901, and purchased the land totaling \$64,000 in the months subsequent to June 30, 2014.

**REQUIRED SUPPLEMENTAL
INFORMATION**

Town of Twin Bridges, Madison County, Montana
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2014

	General			
	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL	AMOUNTS (BUDGETARY BASIS) See Note A	WITH FINAL BUDGET
RESOURCES (INFLOWS):				
Taxes and assessments	\$ 72,677	\$ 72,677	\$ 77,078	\$ 4,401
Licenses and permits	2,225	2,225	2,348	123
Intergovernmental	449,423	449,423	37,074	(412,349)
Charges for services	1,100	1,100	822	(278)
Miscellaneous	24,789	24,789	28,192	3,403
Investment earnings	150	150	131	(19)
Amounts available for appropriation	<u>\$ 550,364</u>	<u>\$ 550,364</u>	<u>\$ 145,645</u>	<u>\$ (404,719)</u>
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
General government	\$ 42,212	\$ 42,212	\$ 34,747	\$ 7,465
Public safety	16,024	16,024	11,512	4,512
Public works	86,651	86,651	55,656	30,995
Public health	1,075	1,075	-	1,075
Social and economic services	425,026	425,026	6,809	418,217
Culture and recreation	37,450	37,450	27,810	9,640
Debt service - principal	-	-	4,158	(4,158)
Debt service - interest	-	-	1,000	(1,000)
Total charges to appropriations	<u>\$ 608,438</u>	<u>\$ 608,438</u>	<u>\$ 141,692</u>	<u>\$ 466,746</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ -	\$ -	\$ 3,500	\$ 3,500
Transfers out	(6,360)	(6,360)	(8,800)	(2,440)
Total other financing sources (uses)	<u>\$ (6,360)</u>	<u>\$ (6,360)</u>	<u>\$ (5,300)</u>	<u>\$ 1,060</u>
Net change in fund balance			<u>\$ (1,347)</u>	
Fund balance - beginning of the year			\$ 130,243	
Restatements			-	
Fund balance - beginning of the year - restated			<u>\$ 130,243</u>	
Fund balance - end of the year			<u><u>\$ 128,896</u></u>	

Town of Twin Bridges, Madison County, Montana
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2014

	Library			
	BUDGETED AMOUNTS		ACTUAL AMOUNTS (BUDGETARY BASIS) See Note A	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL		
RESOURCES (INFLOWS):				
Taxes and assessments	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-
Intergovernmental	40,644	40,644	1,875	(38,769)
Charges for services	650	650	44,003	43,353
Miscellaneous	11,135	11,135	5,674	(5,461)
Investment earnings	44	43	70	27
Amounts available for appropriation	\$ 52,473	\$ 52,472	\$ 51,622	\$ (850)
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
General government	\$ -	\$ -	\$ -	\$ -
Public safety	-	-	-	-
Public works	-	-	-	-
Public health	-	-	-	-
Social and economic services	-	-	-	-
Culture and recreation	56,473	56,473	58,072	(1,599)
Debt service - principal	-	-	-	-
Debt service - interest	-	-	-	-
Total charges to appropriations	\$ 56,473	\$ 56,473	\$ 58,072	\$ (1,599)
OTHER FINANCING SOURCES (USES)				
Transfers in	4,000	\$ 4,000	\$ 4,000	\$ -
Transfers out	-	-	-	-
Total other financing sources (uses)	\$ 4,000	\$ 4,000	\$ 4,000	\$ -
Net change in fund balance			\$ (2,450)	
Fund balance - beginning of the year			\$ 74,763	
Restatements			30	
Fund balance - beginning of the year - restated			\$ 74,793	
Fund balance - end of the year			\$ 72,343	

Denning, Downey & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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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**

Town Council
Town of Twin Bridges
Madison County
Twin Bridges, 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, business-type activities, each major fund, and the aggregate remaining fund information of Town of Twin Bridges, Madison County, Montana, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town of Twin Bridges's basic financial statements and have issued our report thereon dated June 26, 2015, which was qualified for governmental activities and the Water fund, because the Town does not report Other Post Employment Benefits.

Internal Control Over Financial Reporting

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

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. However, as described below, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described below to be material weaknesses as identified as items 2014-001 through 2014-004.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described below to be significant deficiencies as identified as item 2014-005.

2014-001 Other Post Employment Liability (repeat of prior year finding 13-1, 12-5, 11-4, and 10-6)

Condition:

The Town elected not to follow Governmental Accounting Standards Board Statement number 45 (GASB-45) which requires the recording of an Other Post Employment Benefit (OPEB) liability for future costs associated with retirees remaining on the Town's health insurance plan. The understatement of liabilities is not able to be determined but is estimated to be material to the Town.

Context:

We reviewed the financial statements and benefits provided to employees and determined GASB-45 applied to the Town.

Criteria:

The Town elected not to follow Governmental Accounting Standards Board Statement number 45 (GASB-45) which requires the recording of an Other Post Employment Benefit (OPEB) liability for future costs associated with retirees remaining on the Town's health insurance plan. The understatement of liabilities is not able to be determined but is estimated to be material to the Town. The Estimated amounts for fiscal year 2014 are as follows for each opinion unit:

Effect:

Without recording the OPEB, the Town is in violation of GASB-45 and has understated liabilities and expenses. These amounts are not able to be determined but are estimated to be material to the Town.

Cause:

The Town has elected not to follow GASB-45.

Recommendation:

We recommend that the Town have the alternative measurements method performed to determine the extent of the OPEB liability and record this liability on the financial statements as required by GASB-45.

Auditee Response:

The Town plans to hire a consultant to perform the alternative measurements method calculating the OPEB liability and ARC.

2014-002 Cash Reconciliation

Condition:

As of June 30, 2014 the Town did not have a process in place requiring monthly bank reconciliation of the book cash to bank cash. This is a repeat finding from the prior year.

Context:

During our substantive tests of cash, we found that the Town did not have a reconciliation to support the cash balances. Per further inquiry we found that the Town did not have a reconciliation process for the cash.

Criteria:

Basic cash controls require that cash reconciliations be prepared between financial statements and bank accounts monthly at a minimum. Any differences in bank and book cash must be investigated and reconciled.

Effect:

Weakness in internal controls was noted. Reconciling total cash to the financials should be a priority of the Town Clerk. Failure to do so opens up the possibility of theft and/or accounting errors that are not discovered. In addition failure to balance cash can result in management making decisions based on faulty cash balance information.

Cause:

The Town was not reconciling cash monthly as part of the monthly procedures.

Recommendation:

We recommend that the Town immediately implement cash balancing controls for balancing bank statements monthly and reviewing the cash balancing prepared. We also recommend tracking any differences with the bank and book balances and making any corrections as necessary.

Auditee Response:

The Town plans to implement policies and procedures requiring a monthly cash reconciliation be performed by the Clerk and presented to the Council by the 15th of each month for review and approval.

2014-003 Timely Backups

Condition:

The Town was not performing timely back-ups of accounting records. The Town's system crashed causing the Town to lose all accounting records through February 2014.

Context:

We performed review of the Town's internal control system using inquiry and documentation.

Criteria:

Auditing standards require the auditor to assess the design or operation of the Town's internal controls to determine if the controls in place allow management or employees, in the normal course of performing their assigned function, to prevent or detect material misstatements whether due to error or fraud. The components of internal control include: control environment, risk assessment, information and communication, monitoring and control activities.

Effect:

The Town lost a significant amount of accounting records, and was required to re-enter all this information causing an increase in the risk of errors.

Cause:

The Town was not performing timely back-ups of accounting records.

Recommendation:

We recommend the Town implement requirements to perform system back-ups on a daily basis, and ensure this procedure is being enforced.

Auditee Response:

The Town will implement a procedure to have a daily and monthly back performed on external hard drive. The Clerk will give to the Mayor for storage.

2014-004 Utility Billing Reconciliation**Condition:**

During our review of internal controls of the Utility Billing process, and found that the Town was not performing a reconciliation process of the subsidiary ledger receivables to the general ledger accounts receivable.

Context:

We performed a review of the internal controls over the Utility Billing by inquiry, observation, and documentation.

Criteria:

An adequate internal control system requires that a monthly reconciliation be performed to determine that all transactions are performed properly and discover any potential errors.

Effect:

The internal controls of the Town's utility billing are weakened causing an increase risk due to error or misappropriation of assets.

Cause:

The Town has not implemented a procedure requiring a monthly reconciliation of the receivable balances.

Recommendation:

We recommend that the Town implement a process requiring a monthly reconciliation be performed reconciling the Utility billing ledgers to the accounting system.

Auditee Response:

The Town Clerk will perform a monthly reconciliation of the utility billing receivables and present to the Council by the 15th for review and approval.

2014-005 Segregation of Duties

Condition:

During our review of Town of Twin Bridges internal controls we noted in the small office collection locations; there is an absence of segregation of duties due to the size of many of the offices. These offices include the Town Clerk's office and Library office. This is a repeat finding from the prior years.

Context:

We performed an internal control review of the Town Clerk and Library office using inquiry, observation, and documentation.

Criteria:

An adequate internal control system requires the duties of receipting, depositing, and recording to be segregated.

Effect:

The Town's internal controls are weakened due to the segregation of duties issue inherent in having only one office employee for each receipting location.

Cause:

The Town does not have adequate resources to properly segregate duties for the cash receipting and accounting functions of the Town office.

Recommendation:

We recommend that the Town continue to take a proactive approach in monitoring the controls related to the Town Clerk and Library.

Auditee Response:

The Town will continue to actively monitor the activities of the Clerk and Library offices by reviewing all reconciliations, adjustments, deposits, and payments at monthly Council meetings.

Compliance and Other Matters

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

2014-006 Management's Discussion and Analysis (MD&A)

Condition:

The MD& A was not included in the Annual Financial Report.

Context:

The Town did not prepare or provide an MD&A to include in the annual financial report.

Criteria:

Governmental Accounting Standards Board (GASB) statement #34 paragraph 8 requires, "The basic financial statements should be preceded by the MD&A, which is required supplementary information (RSI). The MD&A should provide an objective and easily readable analysis of the government's financial activities based on currently known facts, decisions, or conditions. The financial managers of governments are knowledgeable about the transactions, events, and conditions that are reflected in the government's financial report and of the fiscal policies that govern its operations. The MD&A provides financial managers with the opportunity to present both a short and a long-term analysis of the government's activities."

Effect:

The Town is not in compliance with GASB #34 paragraph 8.

Cause:

The Town did not prepare and or provide an MD&A for the audit report.

Recommendation:

We recommend that he Town prepare the MD&A in future years are required by GASB #34.

Auditee Response:

The Town will take the appropriate measures to ensure the MD&A is completed timely, and implement policies requiring the completion of this analysis.

Town of Twin Bridges's Response to Findings

Town of Twin Bridges's response to the findings identified in our audit is described above. Town of Twin Bridges's response was not subject 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 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.

Denning, Downey and Associates, CPA's, P.C.

June 26, 2015

Denning, Downey & Associates, P.C.
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REPORT ON PRIOR AUDIT REPORT RECOMMENDATIONS

Town Council
Town of Twin Bridges
Madison County
Twin Bridges, Montana

The prior audit report contained six recommendations. The action taken on each recommendation is as follows:

<u>Recommendation</u>	<u>Action Taken</u>
OPEB	Repeated
UB Internal Control	Repeated
Cash Balancing	Repeated
Insufficient Pledged Securities	Implemented
Revenue Bond Requirements	Implemented
Budgeted Cash Reserves	Implemented

Denning, Downey and Associates, CPA's, P.C.

June 26, 2015