

TOWN OF VIRGINIA CITY
MADISON COUNTY, MONTANA
Fiscal Year Ended June 30, 2014

AUDIT REPORT

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

TOWN OF VIRGINIA CITY
MADISON COUNTY, MONTANA
Fiscal Year Ended June 30, 2014

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TOWN OF VIRGINIA CITY
MADISON COUNTY, MONTANA

ORGANIZATION

Fiscal Year Ended June 30, 2014

Bob Erdall

Mayor

CITY COUNCIL

Scott Petersen
Justin Gatewood
Erin Leonard
Scott Kelley

Council President
Council Member
Council Member
Council Member

CITY OFFICIALS

Victor Bunitsky
Nancy Stewart

Attorney
Clerk / Treasurer

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 Virginia City
Madison County
Virginia City, 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 Virginia City, 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.

Basis for Modified Opinion on Other Post Employment Benefits (OPEB)

The Town of Virginia City has elected not to report Other Post Employment Benefits (OPEB) as required by Governmental Accounting Standards Board Statement 45 (GASB-45). This has the effect of understating expenses and liabilities and overstating net position. The amount of the understatement's effect on the liabilities, net position, and expenses of the Governmental Activities, Business-Type Activities, Water Fund, and Sewer Fund has not been determined.

Modified Opinion

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinion on Other Post Employment Benefits paragraph, the financial statements of the referred to above present fairly, in all material respects, the respective financial position of the Governmental Activities, Business-Type Activities, Water Fund, and Sewer Fund information of Town of Virginia City, Madison County, Montana, as of June 30, 2014, and the respective changes in financial position and 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 major governmental fund, and the aggregate remaining fund information of Town of Virginia City, Madison County, Montana, as of and for the year ended June 30, 2014, and the respective changes in financial position 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 Virginia City, Madison County, Montana adopted new accounting guidance, GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Our opinion is not modified with respect to this matter.

Also, as described in Note 1 to the financial statements, in 2014, the Town of Virginia City, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 31 and 32 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 Virginia City, 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 29, 2015, on our consideration of the Town of Virginia City, 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 Virginia City, Madison County, Montana's internal control over financial reporting and compliance.

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

June 29, 2015

Town of Virginia City, Madison County, Montana
Statement of Net Position
June 30, 2014

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and investments	\$ 250,829	\$ 251,177	\$ 502,006
Taxes and assessments receivable, net	2,674	-	2,674
Accounts receivable - net	-	27,067	27,067
Total current assets	<u>\$ 253,503</u>	<u>\$ 278,244</u>	<u>\$ 531,747</u>
Noncurrent assets			
Restricted cash and investments	\$ -	\$ 80,232	\$ 80,232
Capital assets - land	11,184	2,863	14,047
Capital assets - depreciable, net	345,534	2,789,864	3,135,398
Total noncurrent assets	<u>\$ 356,718</u>	<u>\$ 2,872,959</u>	<u>\$ 3,229,677</u>
Total assets	<u>\$ 610,221</u>	<u>\$ 3,151,203</u>	<u>\$ 3,761,424</u>
LIABILITIES			
Current liabilities			
Accounts payable	\$ 670	\$ 531	\$ 1,201
Refunds payable	-	517	517
Current portion of long-term capital liabilities	3,623	59,000	62,623
Current portion of compensated absences payable	4,084	5,740	9,824
Total current liabilities	<u>\$ 8,377</u>	<u>\$ 65,788</u>	<u>\$ 74,165</u>
Noncurrent liabilities			
Noncurrent portion of long-term capital liabilities	\$ 16,702	\$ 638,000	\$ 654,702
Noncurrent portion of compensated absences	1,129	510	1,639
Total noncurrent liabilities	<u>\$ 17,831</u>	<u>\$ 638,510</u>	<u>\$ 656,341</u>
Total liabilities	<u>\$ 26,208</u>	<u>\$ 704,298</u>	<u>\$ 730,506</u>
NET POSITION			
Net investment in capital assets	\$ 336,393	\$ 2,095,727	\$ 2,432,120
Restricted for Special Projects	152,633	80,232	232,865
Unrestricted	94,987	270,946	365,933
Total net position	<u>\$ 584,013</u>	<u>\$ 2,446,905</u>	<u>\$ 3,030,918</u>

See accompanying Notes to the Financial Statements

Town of Virginia City, 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>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Primary government:						
Governmental activities:						
General government	\$ 67,778	\$ 940	\$ 8,225	\$ (58,613)	\$ -	\$ (58,613)
Public safety	17,288	-	-	(17,288)	-	(17,288)
Public works	16,297	-	14,130	(2,167)	-	(2,167)
Public health	2,000	-	-	(2,000)	-	(2,000)
Culture and recreation	42,881	-	-	(42,881)	-	(42,881)
Debt service - interest	1,055	-	-	(1,055)	-	(1,055)
Total governmental activities	\$ <u>147,299</u>	\$ <u>940</u>	\$ <u>22,355</u>	\$ <u>(124,004)</u>	\$ <u>-</u>	\$ <u>(124,004)</u>
Business-type activities:						
Water	\$ 102,749	\$ 109,145	\$ -	\$ -	\$ 6,396	\$ 6,396
Sewer	111,922	129,781	-	-	17,859	17,859
Total business-type activities	\$ <u>214,671</u>	\$ <u>238,926</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>24,255</u>	\$ <u>24,255</u>
Total primary government	\$ <u>361,970</u>	\$ <u>239,866</u>	\$ <u>22,355</u>	\$ <u>(124,004)</u>	\$ <u>24,255</u>	\$ <u>(99,749)</u>
General Revenues:						
Property taxes for general purposes				\$ 94,757	\$ -	\$ 94,757
Miscellaneous				8,731	-	8,731
Interest/investment earnings				259	188	447
State entitlement				24,304	-	24,304
Licenses and permits				8,004	-	8,004
Total general revenues, special items and transfers				\$ <u>136,055</u>	\$ <u>188</u>	\$ <u>136,243</u>
Change in net position				\$ <u>12,051</u>	\$ <u>24,443</u>	\$ <u>36,494</u>
Net position - beginning				\$ 571,962	\$ 2,422,462	\$ 2,994,424
Restatements				-	-	-
Net position - beginning - restated				\$ <u>571,962</u>	\$ <u>2,422,462</u>	\$ <u>2,994,424</u>
Net position - end				\$ <u>584,013</u>	\$ <u>2,446,905</u>	\$ <u>3,030,918</u>

See accompanying Notes to the Financial Statements

Town of Virginia City, Madison County, Montana
Balance Sheet
Governmental Funds
June 30, 2014

	General	Other Governmental Funds	Total Governmental Funds
ASSETS			
Current assets:			
Cash and investments	\$ 192,164	\$ 58,665	\$ 250,829
Taxes and assessments receivable, net	2,300	374	2,674
Total assets	\$ 194,464	\$ 59,039	\$ 253,503
Current liabilities:			
Accounts payable	\$ 670	\$ -	\$ 670
Total liabilities	\$ 670	\$ -	\$ 670
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources	\$ 2,300	\$ 374	\$ 2,674
FUND BALANCES			
Restricted	\$ -	\$ 58,665	\$ 58,665
Unassigned fund balance	191,494	-	191,494
Total fund balance	\$ 191,494	\$ 58,665	\$ 250,159

See accompanying Notes to the Financial Statements

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

Total fund balances - governmental funds	\$ 250,159
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	356,718
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.	2,674
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.	(25,538)
Total net position - governmental activities	\$ <u>584,013</u>

See accompanying Notes to the Financial Statements

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

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES			
Taxes and assessments	\$ 99,587	\$ 3,920	\$ 103,507
Licenses and permits	7,210	-	7,210
Intergovernmental	33,229	14,130	47,359
Charges for services	1,032	-	1,032
Miscellaneous	987	-	987
Investment earnings	165	94	259
Total revenues	<u>\$ 142,210</u>	<u>\$ 18,144</u>	<u>\$ 160,354</u>
EXPENDITURES			
General government	\$ 66,935	\$ -	\$ 66,935
Public safety	8,636	1,650	10,286
Public works	7,226	7,548	14,774
Culture and recreation	36,615	-	36,615
Debt service - principal	3,455	-	3,455
Debt service - interest	1,055	-	1,055
Capital outlay	6,169	-	6,169
Total expenditures	<u>\$ 130,091</u>	<u>\$ 9,198</u>	<u>\$ 139,289</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 12,119</u>	<u>\$ 8,946</u>	<u>\$ 21,065</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	\$ 7,005	\$ -	\$ 7,005
Transfers out	-	(7,005)	(7,005)
Total other financing sources (uses)	<u>\$ 7,005</u>	<u>\$ (7,005)</u>	<u>\$ -</u>
Net Change in Fund Balance	<u>\$ 19,124</u>	<u>\$ 1,941</u>	<u>\$ 21,065</u>
Fund balances - beginning	\$ 65,315	\$ 163,779	\$ 229,094
Restatements	107,055	(107,055)	-
Fund balances - beginning, restated	<u>\$ 172,370</u>	<u>\$ 56,724</u>	<u>\$ 229,094</u>
Fund balance - ending	<u>\$ 191,494</u>	<u>\$ 58,665</u>	<u>\$ 250,159</u>

See accompanying Notes to the Financial Statements

Town of Virginia City, 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	\$ 21,065
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	6,169
- Depreciation expense	(17,396)
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)	(1,004)
The change in compensated absences is shown as an expense in the Statement of Activities	
	(238)
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	3,455
Change in net position - Statement of Activities	\$ <u>12,051</u>

See accompanying Notes to the Financial Statements

Town of Virginia City, 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	\$ 133,032	\$ 118,145	\$ 251,177
Accounts receivable - net	9,624	17,443	27,067
Total current assets	<u>\$ 142,656</u>	<u>\$ 135,588</u>	<u>\$ 278,244</u>
Noncurrent assets:			
Restricted cash and investments	\$ 12,852	\$ 67,380	\$ 80,232
Capital assets - land	2,863	-	2,863
Capital assets - depreciable, net	877,602	1,912,262	2,789,864
Total noncurrent assets	<u>\$ 893,317</u>	<u>\$ 1,979,642</u>	<u>\$ 2,872,959</u>
Total assets	<u>\$ 1,035,973</u>	<u>\$ 2,115,230</u>	<u>\$ 3,151,203</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 61	\$ 470	\$ 531
Refunds payable	517	-	517
Current portion of long-term capital liabilities	9,000	50,000	59,000
Current portion of compensated absences payable	2,870	2,870	5,740
Total current liabilities	<u>\$ 12,448</u>	<u>\$ 53,340</u>	<u>\$ 65,788</u>
Noncurrent liabilities:			
Noncurrent portion of long-term capital liabilities	\$ 145,000	\$ 493,000	\$ 638,000
Noncurrent portion of compensated absences	255	255	510
Total noncurrent liabilities	<u>\$ 145,255</u>	<u>\$ 493,255</u>	<u>\$ 638,510</u>
Total liabilities	<u>\$ 157,703</u>	<u>\$ 546,595</u>	<u>\$ 704,298</u>
NET POSITION			
Net investment in capital assets	\$ 726,465	\$ 1,369,262	\$ 2,095,727
Restricted for bond indenture requirements	12,852	67,380	80,232
Unrestricted	138,953	131,993	270,946
Total net position	<u>\$ 878,270</u>	<u>\$ 1,568,635</u>	<u>\$ 2,446,905</u>
Total liabilities and net position	<u>\$ 1,035,973</u>	<u>\$ 2,115,230</u>	<u>\$ 3,151,203</u>

See accompanying Notes to the Financial Statements

Town of Virginia City, 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
	<u>Water</u>	<u>Sewer</u>	<u>Totals</u>
OPERATING REVENUES			
Charges for services	\$ 109,145	\$ 129,781	\$ 238,926
OPERATING EXPENSES			
Personal services	\$ 21,552	\$ 34,732	\$ 56,284
Supplies	5,838	6,606	12,444
Purchased services	19,482	13,073	32,555
Fixed charges	535	1,480	2,015
Depreciation	54,136	45,848	99,984
Total operating expenses	<u>\$ 101,543</u>	<u>\$ 101,739</u>	<u>\$ 203,282</u>
Operating income (loss)	<u>\$ 7,602</u>	<u>\$ 28,042</u>	<u>\$ 35,644</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest revenue	\$ 94	\$ 94	\$ 188
Debt service interest expense	<u>(1,206)</u>	<u>(10,183)</u>	<u>(11,389)</u>
Total non-operating revenues (expenses)	<u>\$ (1,112)</u>	<u>\$ (10,089)</u>	<u>\$ (11,201)</u>
Change in net position	<u>\$ 6,490</u>	<u>\$ 17,953</u>	<u>\$ 24,443</u>
Net Position - Beginning of the year	\$ 871,780	\$ 1,550,682	\$ 2,422,462
Net Position - End of the year	<u>\$ 878,270</u>	<u>\$ 1,568,635</u>	<u>\$ 2,446,905</u>

See accompanying Notes to the Financial Statements

Town of Virginia City, Madison County, Montana
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	\$ 108,950	\$ 127,062	\$ 236,012
Cash payments to suppliers	(6,312)	(7,616)	(13,928)
Cash payments for professional services	(19,482)	(13,073)	(32,555)
Cash payments to employees	(21,098)	(34,278)	(55,376)
Net cash provided (used) by operating activities	\$ 62,058	\$ 72,095	\$ 134,153
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	\$ (2,500)	\$ (2,500)	\$ (5,000)
Principal paid on debt	(9,000)	(48,000)	(57,000)
Interest paid on debt	(1,206)	(10,183)	(11,389)
Net cash provided (used) by capital and related financing activities	\$ (12,706)	\$ (60,683)	\$ (73,389)
Cash flows from investing activities:			
Interest on investments	\$ 94	\$ 94	\$ 188
Net cash provided (used) by investing activities	\$ 94	\$ 94	\$ 188
Net increase (decrease) in cash and cash equivalents	\$ 49,446	\$ 11,506	\$ 60,952
Cash and cash equivalents at beginning	96,438	174,019	270,457
Cash and cash equivalents at end	\$ 145,884	\$ 185,525	\$ 331,409
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ 7,602	\$ 28,042	\$ 35,644
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation	54,136	45,848	99,984
Changes in assets and liabilities:			
Decrease in accounts receivable	2,513	(2,719)	(206)
Decrease in revenues collected in advance	(2,708)	-	(2,708)
Increase in accounts payable	61	470	531
Increase in compensated absences	454	454	908
Net cash provided (used) by operating activities	\$ 62,058	\$ 72,095	\$ 134,153

See accompanying notes to the financial statements

Town of Virginia City, Madison County, Montana
Statement of Net Position
Fiduciary Funds
June 30, 2014

	Pension Trust Funds	Agency Funds
ASSETS		
Cash and short-term investments	\$ 17,072	\$ 1,900
Total assets	\$ 17,072	\$ 1,900
LIABILITIES		
Warrants payable	\$ -	\$ 1,850
Due to others	-	50
Total liabilities	\$ -	\$ 1,900
NET POSITION		
Assets held in trust	\$ 17,072	

See accompanying Notes to the Financial Statements

Town of Virginia City, Madison County, Montana
Statement of Changes in Net Position
Fiduciary Funds
For the Fiscal Year Ended June 30, 2014

		Pension Trust Funds
ADDITIONS		
Investment earnings:		
Interest and change in fair value of investments	\$	23
Total additions	\$	23
 Change in net position	 \$	 23
 Net Position - Beginning of the year	 \$	 17,049
 Net Position - End of the year	 \$	 17,072

See accompanying Notes to the Financial Statements

TOWN OF VIRGINIA CITY
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.

GASBS No. 54, *Fund Balance Reporting and Governmental Fund Type Definition*, enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. It also establishes fund balance classifications that are based on the extent that a government is bound to observe constraints imposed upon the use of the resources in governmental funds. As of June 30, 2014, the Town has applied GASBS 54 to combine unassigned funds of the Resort Tax Fund with the General Fund. This combination resulted in the General Fund's fund balance to increase \$107,055.

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.

TOWN OF VIRGINIA CITY
MADISON COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

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.

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.

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.

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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:

Pension) Trust Funds – To report resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, other postemployment benefit plans, or other employee benefit plans.

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 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 on hand	\$ 100
Cash in banks:	
Demand deposits	392,538
<u>Investments:</u>	
State Short-Term Investment Pool (STIP)	208,572
Total	<u>\$ 601,210</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.

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Short Term Investment Pool (STIP) Credit Quality ratings by the S&P's rating services as of June 30, 2014:

<u>Security Investment Type</u>	<u>Amortized Cost</u>	<u>Credit Quality Rating</u>	<u>Weighted Average Maturity</u>
Asset Backed Commercial Paper	\$ 777,417,680	A1	30
Corporate Commercial Paper	138,958,389	A1	39
Corporate Variable-Rate	658,894,083	A1	38
Certificates of Deposit Fixed Rate	100,000,000	A1	219
Certificates of Deposit Variable-Rate	391,996,239	A1+	32
Other Asset Backed	38,440,281	NR	NA
U.S. Government Agency Fixed	75,003,275	A1+	194
U.S. Government Agency Variable -Rate	200,003,406	A1+	31
Money Market Funds (Unrated)	133,439,814	NR	1
Money Market Funds (Rated)	21,000,000	A1+	1
 Total Investments	 <u>\$ 2,535,153,167</u>	 A1	 <u>43</u>
 Securities Lending Collateral Investment Pool	 <u>\$ 1,861,748</u>	 NR	 *

“*As of June 30, 2014, the Securities Lending Quality Trust liquidity pool had an average duration of 41 days and an average weighted final maturity of 114 days for U.S. dollar collateral. The duration pool had an average duration of 33 days and an average weighted final maturity of 548 days for U.S. dollar collateral.”

Audited financial statements for the State of Montana's Board of Investments are available at 555 Fuller Avenue in Helena, Montana.

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 \$394,554 of 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	\$ 250,000
- Collateral held by the pledging bank's trust department but not in the Town's name.	144,554
Total deposits and investments	\$ <u><u>394,554</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, did meet 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>
Debt Service – Revenue Bond	\$ 12,852
Debt Service – Revenue Bond	<u>67,380</u>
	\$ <u><u>80,232</u></u>

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.

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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 cost of inventories are recorded as an 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	50 years
Improvements	20 – 25 years
Equipment	5 – 20 years
Infrastructure	30 – 50 years

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. The government has elected not to retroactively report general infrastructure assets.

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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	\$ 11,184	\$ -	\$ 11,184
Other capital assets:			
Buildings	\$ 380,558	\$ -	\$ 380,558
Improvements other than buildings	105,327	-	105,327
Machinery and equipment	91,959	6,169	98,128
Total other capital assets at historical cost	\$ 577,844	\$ 6,169	\$ 584,013
Less: accumulated depreciation	\$ (221,083)	\$ (17,396)	\$ (238,479)
Total	\$ 367,945	\$ (11,227)	\$ 356,718

Governmental activities depreciation expense was charged to functions as follows:

Governmental Activities:	
General government	\$ 605
Public safety	7,002
Public works	1,523
Public health	2,000
Culture and recreation	6,266
Total governmental activities depreciation expense	\$ 17,396

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

Business-type activities:

	Balance <u>July 1, 2013</u>	<u>Additions</u>	Balance <u>June 30, 2014</u>
Capital assets not being depreciated:			
Land	\$ 2,863	\$ -	\$ 2,863
Other capital assets:			
Machinery and equipment	\$ 8,091	\$ 5,000	\$ 13,091
Transmission and distribution	1,856,227	-	1,856,227
General plant	2,443,226	-	2,443,226
Total other capital assets at historical cost	\$ 4,307,544	\$ 5,000	\$ 4,312,544
Less: accumulated depreciation	\$ (1,422,696)	\$ (99,984)	\$ (1,522,680)
Total	\$ 2,887,711	\$ (94,984)	\$ 2,792,727

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.

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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>	
Loans/Contracted debt	\$ 23,780	\$ -	\$ (3,455)	\$ 20,325	\$ 3,623	
Compensated absences	4,975	238	-	5,213	4,084	
Total	<u>\$ 28,755</u>	<u>\$ 238</u>	<u>\$ (3,455)</u>	<u>\$ 25,538</u>	<u>\$ 7,707</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>	
Revenue bonds	\$ 754,000	\$ -	\$ (57,000)	\$ 697,000	\$ 59,000	
Compensated absences	5,342	908	-	6,250	5,740	
Total	<u>\$ 759,342</u>	<u>\$ 908</u>	<u>\$ (57,000)</u>	<u>\$ 703,250</u>	<u>\$ 64,740</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>
Water	10/21/09	0.75%	20 yrs	7/1/29	\$ 183,684	Varies	\$ 147,000
Disinfection B Water System Improvements	8/18/10	0.75%	11 yrs	7/1/21	10,850	Varies	7,000
Sewer Revenue Bond A	8/28/03	2.00%	20 yrs	7/1/23	500,000	Varies	259,000
Sewer Revenue Bond A	10/16/03	2.00%	20 yrs	7/1/23	366,000	Varies	150,000
Wastewater Improvements	10/13/09	0.75%	20 yrs	7/1/29	<u>172,525</u>	Varies	<u>134,000</u>
					<u>\$ 1,233,059</u>		<u>\$ 697,000</u>

Reported in Business type activities

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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.

In the fiscal year ended June 30, 2014, these revenue bonds had a rate reduction. The following states the interest rate change for these revenue bonds.

The Sewer System Revenue Bond A had an interest rate reduction from 2.75% to 2.00%.

The Sewer System Revenue Bond B had an interest rate reduction from 3.75% to 2.00%.

Annual requirement to amortize debt:

For Fiscal <u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 59,000	\$ 8,375
2016	60,000	8,420
2017	62,000	7,557
2018	63,000	6,664
2019	63,000	5,770
2020	64,000	4,860
2021	67,000	3,922
2022	66,000	2,955
2023	68,000	1,991
2024	25,000	1,042
2025	20,000	713
2026	20,000	562
2027	20,000	414
2028	20,000	262
2029	20,000	112
Total	\$ <u>697,000</u>	\$ <u>53,619</u>

Loans/Contracted Debt

Loans/contracted debt 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>Balance June 30, 2014</u>
Office Renovation	6/30/09	4.75%	10 yrs	7/1/19	\$ <u>35,840</u>	\$ <u>20,325</u>

Reported in the governmental activities.

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June 30, 2014

Annual requirement to amortize debt:

For Fiscal <u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 3,623	\$ 887
2016	3,799	711
2017	3,983	527
2018	4,177	333
2019	4,380	130
2020	363	2
Total	<u>\$ 20,325</u>	<u>\$ 2,590</u>

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.

NOTE 8. 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>
Budgetary fund transfer	General – Major Governmental	Permissive Medical Levy – Nonmajor Governmental	\$ <u>7,005</u>

NOTE 9. 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 an agency fund of the town.

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June 30, 2014

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 10. 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>
All other aggregate:	\$ 3,921	General government
	8,331	Public safety
	41,113	Public works
	<u>5,300</u>	Culture and recreation
	<u>\$ 58,665</u>	

NOTE 11. RESTATEMENTS

As noted in footnote 1 the resort tax fund is now reported along with the general fund in accordance with GASB #54. As such, the general fund and the aggregate funds have been restated by \$107,005.

NOTE 12. SERVICES PROVIDED BY OTHER GOVERNMENTS

The Town is provided various financial services by Madison 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 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.

Virginia City Rural Fire District

The Virginia City Rural Fire District provided to the Town fire protection service during the 2014 fiscal year. The Town donated \$8,500 to the Fire District in exchange for fire protection services for a period of one fiscal year.

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NOTE 13. 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 Policies:

Commercial policies transferring all risks of loss, except for relatively small deductible amounts are purchased for property and content damage, employees torts, and professional liabilities. Employee medical insurance is provided for by a commercial carrier. And, given the lack of coverage available, the Town has no coverage for potential losses from environmental damages.

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 City'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.

**REQUIRED SUPPLEMENTAL
INFORMATION**

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

	General			
	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	<u>ORIGINAL</u>	<u>FINAL</u>	AMOUNTS (BUDGETARY BASIS) See Note A	WITH FINAL BUDGET
RESOURCES (INFLOWS):				
Taxes and assessments	\$ 32,122	\$ 32,122	\$ 30,429	\$ (1,693)
Licenses and permits	3,500	3,500	7,210	3,710
Intergovernmental	29,000	29,000	33,229	4,229
Charges for services	400	400	1,032	632
Miscellaneous	2,000	2,000	987	(1,013)
Investment earnings	120	120	94	(26)
Amounts available for appropriation	<u>\$ 67,142</u>	<u>\$ 67,142</u>	<u>\$ 72,981</u>	<u>\$ 5,839</u>
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
General government	\$ 89,966	\$ 89,966	\$ 66,730	\$ 23,236
Public safety	8,650	8,650	8,636	14
Public works	17,680	17,680	7,226	10,454
Culture and recreation	13,410	13,410	4,130	9,280
Debt service - principal	-	-	3,455	(3,455)
Debt service - interest	-	-	1,055	(1,055)
Capital outlay	3,500	3,500	1,169	2,331
Total charges to appropriations	<u>\$ 133,206</u>	<u>\$ 133,206</u>	<u>\$ 92,401</u>	<u>\$ 40,805</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 52,005	\$ 52,005	\$ 52,005	\$ -
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>\$ 52,005</u>	<u>\$ 52,005</u>	<u>\$ 52,005</u>	<u>\$ -</u>
Net change in fund balance			<u>\$ 32,585</u>	
Fund balance - beginning of the year			<u>\$ 65,315</u>	
Fund balance - end of the year			<u><u>\$ 97,900</u></u>	

Town of Virginia City, Madison County, Montana
Budgetary Comparison Schedule
Budget-to-GAAP Reconciliation

Note A - Explanation of differences between budgetary inflows and outflows and GAAP Revenues and Expenditures

		<u>General</u>
Sources/Inflows of resources		
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$	72,981
Combined funds (GASBS 54) revenues		69,229
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances-governmental funds.	\$	<u>142,210</u>
Uses/Outflows of resources		
Actual amounts (Budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$	92,401
Combined funds (GASBS 54) expenditures		37,690
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	\$	<u>130,091</u>

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 Virginia City
Madison County
Virginia City, 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 Virginia City, 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 Virginia City's basic financial statements and have issued our report thereon dated June 29, 2015, which was qualified because the Town has not reported Other Post Employment Benefits as required by Governmental Accounting Standards Board Statement Number 45.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Town of Virginia City, 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 Virginia City, Madison County, Montana's internal control. Accordingly, we do not express an opinion on the effectiveness of Town of Virginia City's 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 and 2014-002.

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 2014-003.

2014-001 OPEB Liability

Condition:

The Town has not recorded the Other Post Employment Benefits Liability otherwise known as OPEB. The Governmental Accounting Standards Board (GASB) issued statement #45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. The purpose of the statement is for governments to recognize the cost of OPEB obligations by requiring governments to have a valuation performed. The Town of Virginia City has not had a valuation nor has it recorded the OPEB obligation as required by the GASB for the last five years

Context:

The Town does not comply with GASB statement #45 as stated above. An estimated liability was calculated.

Criteria:

The Governmental Accounting Standards Board (GASB) issued statement #45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. This statement requires the measurement and disclosure under an accrual basis of accounting of an amount of annual OPEB cost. Annual OPEB cost is equal to an employer's annual required contribution to an employee benefit plan, adjusted for prior years under-or over-contributions to the plan.

Effect:

The Town of Virginia City is not in compliance with the reporting requirements of GASB #45 and has understated liabilities and expenses.

Cause:

The Town has continued to elect not to follow GASB Statement #45.

Recommendation:

The Town should measure and disclose an OPEB liability by performing a valuation of the OPEB liability. Based on the Town's size, the alternative measurement method of determining the OPEB liability is an option and the Town should consider using this method.

Auditee Response:

The Town will discuss options to report the OBEB liability and expense for the future.

2014-002 Segregation of Duties

Condition:

The Town does not adequately segregate the duties, of collecting, receipting, recording, depositing, and reconciling among personnel in the Clerk's office.

Context:

An internal control review was performed in the Clerk's office.

Criteria:

Strong internal controls require that there be adequate segregation of duties of cash receipting, recording, depositing, and reconciling to the extent possible.

Effect:

The Town has an internal control weakness in the Clerk's office which raises the risk of misappropriation of the Town's assets.

Cause:

The Town has a limited amount of personnel and resources to adequately implement proper segregation of Duties in the Clerk's office.

Recommendation:

We recommend that the Town implement segregation of duties to the extent possible and increase monitoring by the mayor in the Clerk's office.

Auditee Response:

The Mayor will continue to actively monitor the cash receipting process.

2014-003 Tax Distribution

Condition:

Property tax revenue was improperly distributed to the General Fund and Permissive Medical Levy fund.

Context:

A revenue distribution test was performed to calculate what amounts should have been recorded in the General fund and Permissive Medical Levy fund.

Criteria:

Property tax revenue should be distributed to each fund based upon the mills levied in each fund.

Effect:

\$2,641 of property tax revenue received in FY 2014 was improperly distributed to the Permissive Medical Levy fund and should have been recorded in the General fund.

Cause:

The mills to be levied by each fund were not updated in the accounting system for FY 2014. The Town was using the prior year distribution rates.

Recommendation:

The Town should ensure that the tax distribution in the accounting system is updated at the beginning of each fiscal year to reflect the mills levied for each fund.

Auditee Response:

The Town has corrected the distribution for FY 2014 and will update the distribution at the beginning of each year.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Virginia City'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 item 2014-004.

2014-004 Management's Discussion and Analysis (MD&A)

Condition:

The Town did not prepare a Management's Discussion and Analysis (MD&A).

Criteria:

Governmental Accounting Standards Board (GASB) statement #34 paragraph 8 requires, "The basic financial statements should be preceded by MD&A, which is required supplementary information (RSI). 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. 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 out of compliance with GASB #34, paragraph 8.

Recommendation:

We recommend that the Town always prepare a Management's Discussion and Analysis as part of the annual reporting process.

Auditee Response:

The Town will prepare an MD&A in future years.

Town of Virginia City's Response to Findings

Town of Virginia City's response to the findings identified in our audit is described above. Town of Virginia City'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 29, 2015

Denning, Downey & Associates, P.C.
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1740 U.S. Hwy 93 South, P.O. Box 1957, Kalispell, MT 59903-1957

REPORT ON PRIOR AUDIT REPORT RECOMMENDATIONS

Town Council
Town of Virginia City
Madison County
Virginia City, Montana

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

<u>Recommendation</u>	<u>Action Taken</u>
Other Post Employment Benefits Liability	Repeated
Cash Reconciliation	Implemented
Segregation of Duties	Repeated
Proprietary Funds Accounts Receivable	Implemented
Pledged Securities	Implemented

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

June 29, 2015