

**CITY OF WHITE SULPHUR SPRINGS
MEAGHER COUNTY
WHITE SULPHUR SPRINGS, MONTANA**

FINANCIAL AND COMPLIANCE REPORT

Fiscal year Ended June 30, 2014

Strom & Associates, P. C.
PO BOX 1980
Billings, Montana 59103

City of White Sulphur Springs
Meagher County
White Sulphur Springs, Montana 59645

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City of White Sulphur Springs
Meagher County
White Sulphur Springs, Montana 59645

ORGANIZATION

CITY OFFICIALS

Julian Theriault	Mayor
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CITY COUNCIL

Heith Stidham	President
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George Kirkwood	Member
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Sara Driemeyer	Member
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Mike Eby	Member
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OFFICIALS

Cindy Younkin	Attorney
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Michelle Stidham	City Clerk/Manager
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STROM & ASSOCIATES, PC
Certified Public Accountants
P.O. Box 1980
Billings, Montana 59103

INDEPENDENT AUDITOR'S REPORT

City Council
City of White Sulphur Springs
Meagher County
White Sulphur Springs, Montana 59645

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of White Sulphur Springs as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the city's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information (pages 25 - 26) 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 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 inquires 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.

Management has omitted the 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 basic 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 11, 2015 on our consideration of City of White Sulphur Springs 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 City of White Sulphur Springs internal control over financial reporting and compliance.

Strom & Associates, P.C.

STROM & ASSOCIATES, PC
Billings, Montana
June 11, 2015

STATEMENT OF NET POSITION
 June 30, 2014

	Governmental Activities	Business-type Activities	Total
ASSETS:			
Current Assets:			
Cash and Cash Equivalents	\$ 501,432	\$ 506,905	\$ 1,008,337
Taxes Receivable	7,536	-	7,536
Accounts Receivable - Net	-	50,244	50,244
Total Current Assets	508,968	557,149	1,066,117
Noncurrent Assets:			
Restricted Cash and Cash Equivalents	-	113,768	113,768
Capital Assets:			
Land	4,000	-	4,000
Construction in Progress	-	1,210,312	1,210,312
Net Depreciable Assets	131,834	2,352,679	2,484,513
Total Noncurrent Assets	135,834	3,676,759	3,812,593
Total Assets	\$ 644,802	\$ 4,233,908	\$ 4,878,710
LIABILITIES:			
Current Liabilities			
Accounts Payable	\$ 3,836	\$ -	\$ 3,836
Due to Other Governments	1,597	-	1,597
Current Portions Compensated Absences	3,645	4,666	8,311
Current Portion Long-Term Capital Obligations	2,966	66,631	69,597
Total Current Liabilities	12,044	71,297	83,341
Noncurrent Liabilities:			
Compensated Absences	3,645	4,666	8,311
Long-Term Capital Obligations	-	1,859,903	1,859,903
Total Noncurrent Liabilities	3,645	1,864,569	1,868,214
Total Liabilities	15,689	1,935,866	1,951,555
NET POSITION:			
Net investment in capital assets	132,868	1,636,457	1,769,325
Restricted	224,197	113,768	337,965
Unrestricted (Deficit)	272,048	547,817	819,865
Total Net Position	629,113	2,298,042	2,927,155
Total Liabilities and Net Position	\$ 644,802	\$ 4,233,908	\$ 4,878,710

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

STATEMENT OF ACTIVITIES
 For the Year Ended June 30, 2014

	Program Revenues				Net (Expenses) Revenues and Changes in Net Position		
	Expenses	Charge for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
GOVERNMENT OPERATIONS							
General Government	\$ 109,072	\$ 12,759	\$ -	\$ -	\$ (96,313)		\$ (96,313)
Public Safety	52,994	-	-	-	(52,994)		(52,994)
Public Works	125,079	7,256	34,332	-	(83,491)		(83,491)
Public Health	4,466	165	-	-	(4,301)		(4,301)
Culture and Recreation	22,793	-	750	-	(22,043)		(22,043)
Miscellaneous	36,309	-	294	-	(36,015)		(36,015)
Debt Service							
Interest and other charges	94	-	-	-	(94)		(94)
Total Governmental Activities	<u>350,807</u>	<u>20,180</u>	<u>35,376</u>	<u>-</u>	<u>(295,251)</u>		<u>(295,251)</u>
BUSINESS-TYPE ACTIVITIES							
Water	\$ 261,220	\$ 628,316	\$ -	\$ 35,000		\$ 402,096	402,096
Sewer	74,592	109,546	-	542,237		577,191	577,191
Total Business-type activities	<u>335,812</u>	<u>737,862</u>	<u>-</u>	<u>577,237</u>		<u>979,287</u>	<u>979,287</u>
Total Primary Government	<u>\$ 686,619</u>	<u>\$ 758,042</u>	<u>\$ 35,376</u>	<u>\$ 577,237</u>	<u>\$ (295,251)</u>	<u>\$ 979,287</u>	<u>\$ 684,036</u>
GENERAL REVENUES							
Property Taxes					167,650	-	167,650
Local Option Taxes					13,833	-	13,833
Unrestricted Federal/State Shared Revenues					135,181	-	135,181
Unrestricted Investment Earnings					544	90	634
Miscellaneous					7,118	6,000	13,118
Total General Revenues					<u>324,326</u>	<u>6,090</u>	<u>330,416</u>
Change in Net Position					29,075	985,377	1,014,452
Net Position							
Beginning of the Year					599,957	1,316,674	1,916,631
Prior Period Adjustments					81	(4,009)	(3,928)
End of the Year					<u>\$ 629,113</u>	<u>\$ 2,298,042</u>	<u>\$ 2,927,155</u>

* Excludes depreciation included in direct expenses of the various functions

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

BALANCE SHEET
 GOVERNMENTAL FUNDS
 June 30, 2014

	<u>MAJOR</u>		
	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS:			
Current Assets:			
Cash and Cash Equivalents	\$ 227,230	\$ 274,202	\$ 501,432
Taxes Receivable	5,453	2,083	7,536
Total Current Assets	<u>232,683</u>	<u>276,285</u>	<u>508,968</u>
Noncurrent Assets:			
Restricted Cash and Cash Equivalents	-	-	-
Total Assets	<u>\$ 232,683</u>	<u>\$ 276,285</u>	<u>\$ 508,968</u>
LIABILITIES:			
Current Liabilities			
Accounts Payable	3,836	-	3,836
Due to Other Governments	-	1,597	1,597
Total Liabilities	<u>3,836</u>	<u>1,597</u>	<u>5,433</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable Property Taxes Receivable	5,453	2,083	7,536
Total Deferred Inflows of resources	<u>5,453</u>	<u>2,083</u>	<u>7,536</u>
FUND BALANCE:			
Fund Balances:			
Restricted	-	272,605	272,605
Unassigned:	223,394	-	223,394
Total Fund Balance	<u>223,394</u>	<u>272,605</u>	<u>495,999</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 232,683</u>	<u>\$ 276,285</u>	<u>\$ 508,968</u>

RECONCILIATION TO THE STATEMENT OF NET POSITION

Total fund balance reported above	\$ 495,999
Governmental Capital Assets	135,834
Long-term Liabilities	
Compensated Absences	(7,290)
Long-Term Capital Obligations	(2,966)
Unavailable Property Taxes Receivable	<u>7,536</u>
Net Position of Governmental Activities	<u>\$ 629,113</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

City of White Sulphur Springs
 Meagher County
 White Sulphur Springs, Montana 59645

STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2014

	MAJOR		
	General	Other Governmental Funds	Total Governmental Funds
REVENUES:			
Taxes/Assessments	\$ 132,025	\$ 50,408	\$ 182,433
Licenses and Permits	2,610	-	2,610
Intergovernmental Revenues	111,955	58,309	170,264
Charges For Services	1,716	-	1,716
Fines and Forfeitures	10,298	-	10,298
Miscellaneous	7,118	5,556	12,674
Investment Earnings	271	567	838
Total Revenues	<u>265,993</u>	<u>114,840</u>	<u>380,833</u>
EXPENDITURES:			
Current			
General Government	97,708	11,038	108,746
Public Safety	35,236	7,602	42,838
Public Works	85,900	31,113	117,013
Public Health	4,466	-	4,466
Culture and Recreation	12,677	10,116	22,793
Miscellaneous	480	35,829	36,309
Debt Service	-	5,878	5,878
Principal	-	94	94
Interest and other charges	-	-	-
Total Expenditures	<u>236,467</u>	<u>101,670</u>	<u>338,137</u>
NET CHANGES IN FUND BALANCES	29,526	13,170	42,696
FUND BALANCE:			
Beginning of the Year	193,868	259,435	453,303
End of the Year	<u>\$ 223,394</u>	<u>\$ 272,605</u>	<u>\$ 495,999</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

City of White Sulphur Springs
Meagher County
White Sulphur Springs, Montana 59645

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014

Net Changes in Fund Balance		\$	42,696
Revenues on the Statement of Activities not included in governmental funds statement:			
Increase (decrease) in taxes receivable			(951)
Expenses on the Statement of Activities not included in the governmental funds statement:			
Depreciation Expense	(18,222)		
(Increase) decrease in compensated absence liability	<u>(326)</u>	(18,548)	
Expenditures reported in the governmental funds statement not included in the Statement of Activities			
Principal payments on bonds	<u>5,878</u>	<u>5,878</u>	
Change in net position reported on the Statement of Activities		\$	<u>29,075</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

STATEMENT OF NET POSITION
 PROPRIETARY FUNDS
 June 30, 2014

	MAJOR		
	Water	Sewer	Total Enterprise Funds
ASSETS:			
Current Assets:			
Cash and Cash Equivalents	\$ 419,696	\$ 87,209	\$ 506,905
Accounts Receivable - Net	36,905	13,339	50,244
Receivable From Other Funds	208,579	-	208,579
Total Current Assets	<u>665,180</u>	<u>100,548</u>	<u>765,728</u>
Noncurrent Assets:			
Restricted Cash and Cash Equivalents	100,805	12,963	113,768
Capital Assets:			
Construction in Progress	293,125	917,187	1,210,312
Net Depreciable Assets	2,348,507	4,172	2,352,679
Total Noncurrent Assets	<u>2,742,437</u>	<u>934,322</u>	<u>3,676,759</u>
Total Assets	<u>\$ 3,407,617</u>	<u>\$ 1,034,870</u>	<u>\$ 4,442,487</u>
LIABILITIES:			
Current Liabilities			
Payable to Other Funds	-	208,579	208,579
Current Portions Compensated Absences	2,672	1,994	4,666
Current Portion Long-Term Capital Obligations	53,375	13,256	66,631
Total Current Liabilities	<u>56,047</u>	<u>223,829</u>	<u>279,876</u>
Noncurrent Liabilities:			
Compensated Absences	2,672	1,994	4,666
Long-Term Capital Obligations	1,697,000	162,903	1,859,903
Total Noncurrent Liabilities	<u>1,699,672</u>	<u>164,897</u>	<u>1,864,569</u>
Total Liabilities	<u>1,755,719</u>	<u>388,726</u>	<u>2,144,445</u>
NET POSITION:			
Net investment in capital assets	891,257	745,200	1,636,457
Restricted for debt service	100,805	12,963	113,768
Unrestricted (Deficit)	659,836	(112,019)	547,817
Total Net Position	<u>1,651,898</u>	<u>646,144</u>	<u>2,298,042</u>
Total Liabilities and Net Position	<u>\$ 3,407,617</u>	<u>\$ 1,034,870</u>	<u>\$ 4,442,487</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

City of White Sulphur Springs
 Meagher County
 White Sulphur Springs, Montana 59645

STATEMENT OF REVENUES, EXPENSES, AND
 CHANGES IN FUND NET POSITION
 PROPRIETARY FUNDS
 For the Year Ended June 30, 2014

	MAJOR		
	Water	Sewer	Total Enterprise Funds
OPERATING REVENUES:			
Charges for Services	460,317	98,425	558,742
Miscellaneous	6,000	-	6,000
Special Assessments	167,999	11,121	179,120
Total Operating Revenues	634,316	109,546	743,862
OPERATING EXPENSES:			
Personal services	48,662	32,918	81,580
Supplies	21,479	8,463	29,942
Purchased services	78,713	32,832	111,545
Depreciation	74,923	379	75,302
Total Operating Expense	223,777	74,592	298,369
OPERATING INCOME (LOSS)	410,539	34,954	445,493
NONOPERATING REVENUES (EXPENSES)			
Interest revenue	69	21	90
Debt service interest expense	(37,443)	-	(37,443)
Total nonoperating revenue (expenses)	(37,374)	21	(37,353)
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS			
Capital contributions	373,165	34,975	408,140
	35,000	542,237	577,237
CHANGE IN NET POSITION	408,165	577,212	985,377
NET POSITION:			
Beginning of the Year	1,247,742	68,932	1,316,674
Prior Period Adjustments	(4,009)	-	(4,009)
End of the Year	\$ 1,651,898	\$ 646,144	\$ 2,298,042

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

City of White Sulphur Springs
 Meagher County
 White Sulphur Springs, MT

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 For the Year Ended June 30, 2014

	Business-type Activities - Enterprise Funds	
	MAJOR	
	Water Utility	Sewer Utility
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from Customers	\$ 648,957	\$ 104,475
Payments to Employees	(48,662)	(32,918)
Payments to Suppliers	(99,600)	(40,965)
Net Cash Provided (Used) by Operating Activities	<u>500,695</u>	<u>30,592</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Operating Subsidies and Transfers Between Funds	(208,579)	208,579
Net Cash Provided (Used) By Noncapital Financing Activities	<u>(208,579)</u>	<u>208,579</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from Capital Debt	153,376	176,159
Capital Contributions	35,000	542,237
Purchases of Capital Assets	(293,125)	(917,187)
Principal Paid on Capital Debt	(64,263)	-
Interest Paid on Capital Debt	(37,443)	-
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(206,455)</u>	<u>(198,791)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest and Dividends	69	21
Net Cash Provided (Used) by Investing Activities	<u>69</u>	<u>21</u>
Net Increase (Decrease) In Cash and Cash Equivalents	85,730	40,401
BALANCE:		
Beginning of the Year	434,771	59,771
End of the Year	<u>\$ 520,501</u>	<u>\$ 100,172</u>

RECONCILIATION OF OPERATING INCOME (LOSS)
 TO NET CASH PROVIDED (USED) BY OPERATING
 ACTIVITIES:

Operating Income (Loss)	\$ 410,539	\$ 34,954
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation Expense	74,923	379
Changes In Assets and Liabilities:		
Accounts Receivable	14,641	(5,071)
Compensated Absences	592	330
Net Cash Provided (Used) by Operating Activities	<u>\$ 500,695</u>	<u>\$ 30,592</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

City of White Sulphur Springs
Meagher County
White Sulphur Springs, Montana 59645

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2014

	<u>Agency Funds</u>
ASSETS:	
Current Assets:	
Cash and Cash Equivalents	\$ 262,135
Total Assets	<u>262,135</u>
LIABILITIES:	
Current Liabilities	
Warrants Payable	258,113
Due to Others	<u>4,022</u>
Total Liabilities	<u>262,135</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

CITY OF WHITE SULPHUR SPRINGS

NOTES TO THE FINANCIAL STATEMENTS
Fiscal Year-Ended June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. a. REPORTING ENTITY

The basic financial statements of City of White Sulphur Springs (City) have been prepared on a prescribed basis of accounting that demonstrates compliance with the accounting and budget laws of the State of Montana, which conforms to generally accepted accounting principles (GAAP). The City applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

During fiscal year 2014 the City adopted the following:

- GASB Statement No. 67 – Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25. The amendment revised existing guidance for financial report of pension systems for state and local government. The statement is applicable for fiscal year 2014. This statement affects the applicable retirement plan administration at the State level and did not have any effect on the City.
- GASB Statement No. 70 – Accounting and Financial Reporting for Nonexchange Financial Guarantees. The statement is applicable for fiscal year 2014. This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The city has not extend any financial guarantees to other parties. This statement has no effect on the financial statements.

The following are a listing of GASB statements which have been issued and the city assessment of effects to the financial statements.

- GASB Statement No. 68 – Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27. This statement revises and establishes new financial reporting requirement that provide employees with pension benefits. The statement is effective for fiscal year 2015. This statement will require the city to expand its pension foot note disclosures. The city plans to implement this in fiscal year 2015 after the State of Montana provides the required information for reporting and disclosure.
- GASB Statement No. 69 – Government Combinations and Disposals of Government Operations. The statement is applicable for fiscal year 2015. The statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The city is not merging with another City or ceasing to exist. This statement has no effect on the financial statements.
- GASB Statement No. 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68. This statement amends paragraph 137 of statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The city plans to implement this in fiscal year 2015 after the State of Montana provides the required information for reporting and disclosure.

The City of White Sulphur Springs was incorporated under the laws of the State of Montana and as required by generally accepted accounting principles, the financial statements of the reporting entity include those of the City of White Sulphur Springs (the primary government) and any component units. The criteria for including organizations as component units within the city's reporting entity is set forth in Section 2100 of the Governmental Accounting Standards Board's (GASB) "Codification of Government Accounting and Financial Reporting Standards." The basic criteria include appointing a voting majority of an organization's governing body, as well as the city's ability to impose its will on that organization, or the potential for the organization to provide specific financial benefit to, or impose specific financial burdens on, the city. Based on those criteria the city has no component units.

1. b. BASIS OF PRESENTATION AND ACCOUNTING

1. b. 1 GOVERNMENT-WIDE STATEMENTS

The government-wide financial statements include the statement of net position and the statement of activities. The governmental activities column incorporates data from governmental funds while business-type activities incorporate data from the government's enterprise funds (primary government). Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

The government-wide financial statements report using the economic resource measurement focus and the accrual basis of accounting generally including the elimination of internal activity between or within funds. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

CITY OF WHITE SULPHUR SPRINGS

NOTES TO THE FINANCIAL STATEMENTS (continued)
Fiscal Year-Ended June 30, 2014

Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. Expenses which are not directly related to a function, indirect expenses, are not charges to a function. Program revenues include:

- Charges for services such as utility billing.
- Operating and Capital grants that are restricted to a particular functional program.

Property taxes, investment earnings, and other revenue sources not properly included with program revenue are reported as general revenues.

1. b. 2 FUND ACCOUNTING

The fund financial statements provide information about the government's funds, including its fiduciary funds. Separate statements for each fund category – governmental, proprietary, and fiduciary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements. The claims and payroll clearing funds are displayed as fiduciary funds. Since the resources in the fiduciary funds cannot be used for City operations, they are not included in the entity-wide statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities, and fund balance are included on the balance sheet. Operating statement of these funds present net increases and decreases in current assets. Revenues are recorded when they are both measurable and available. Available means collectible within the current period anything collected after June 30 are generally not material. Unavailable income are recorded in governmental funds for delinquent taxes. Expenditures are recorded when the related fund liability is incurred except for principal and interest on general long-term debt and compensated absence payments which are recognized when due. Capital assets are functional expenditures in governmental funds and proceeds from long-term debt or capital leases are reported as other financing sources.

Revenues from local sources consist primarily of property taxes. Property tax revenue and revenues received from the State of Montana are recognized when susceptible to accrual. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are measurable and available. Cost reimbursement grant funds are considered to be both measurable and available to the extent of expenditures made under the provisions of the grant and, accordingly, when such funds are received and the expenditure has not been incurred they are recorded as unearned grant revenues because the revenues are available. All other revenue items are considered to be measurable and available only when cash is received by the government.

Proprietary, trust and agency fund financial statements report using the economic resources measurement focus and are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. On an accrual basis, revenue from property taxes and assessments are recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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 connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer are charges to customers for sales and services. The water fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. 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. Resources received for capital acquisition or construction are reported as separate items.

GASB Statement No. 34 requires the general fund be reported as a major fund. Other individual governmental and enterprise funds should be reported in separate columns as major funds based on these criteria:

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

CITY OF WHITE SULPHUR SPRINGS

NOTES TO THE FINANCIAL STATEMENTS (continued)
Fiscal Year-Ended June 30, 2014

In addition to funds that meet the major fund criteria, any other governmental or enterprise fund that government officials believe is particularly important to financial statement users may be reported as a major fund.

The city reports the following major governmental funds:

- General Fund – The General Fund is the general operating fund of the city and accounts for all revenues and expenditures of the city not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund.

The city reports the following major enterprise funds:

- Water Fund – This fund is used to account for financing the activities of the city's water distribution operations and to collect and administer water impact fees.
- Sewer Fund – This fund is used to account for financing the activities of the city's sewer collection and treatment operations and includes the storm sewer system.

1. b. 3 OTHER FUND TYPES

Agency Funds – Account for assets that the city holds on behalf of others as their agent in the payroll and claims clearing funds and employee payroll tax withholdings. Cash is held for warrants which were written but have not been paid by the County Treasurer. A warrant is an order by which the drawer (the person with authority to make the order) commands the city trustee to pay a particular sum of money to a payee (person or entity) from funds in the city treasury which are or may become available. This fund primarily consists of revenues collected by the County on behalf of other governments.

1. c. ASSETS, LIABILITIES AND NET POSITION (FUND BALANCE)

1. c. 1 CASH AND INVESTMENTS

Cash includes amounts in demand deposits, as well as short-term investments as authorized by State statutes. Montana Code Annotated (MCA) allows Montana local governments to invest public money not necessary for immediate use in United States government treasury bills, notes, bonds; certain United States treasury obligations; United States government security money market fund if investments consist of those listed above; time or savings deposits with a bank, savings and loan association, or credit union which is FDIC, FSLIC, or NCUA insured and are located in the state; or in repurchase agreements as authorized by MCA, or Montana Board of Investments Short Term Investment Pool (STIP). Interest earned on the pooled investments is distributed to each contributing entity and fund on a pro rata basis. Investments are recorded at fair market value.

Information regarding the collateral and security for cash is not available to the city. However, State statute requires that United States government securities or agencies be held as collateral to secure deposits of public funds in excess of Federal Deposit Insurance Corporation (FDIC) insurance. The external investment pool is audited as part of Meagher County County's financial statements. This investment pool is not registered with or monitored by the Securities and Exchange Commission (SEC).

For purposes of the statement of cash flows, the city considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

1. c. 2 TAXES

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

Property taxes are collected by the County Treasurer who credits to the city funds their respective share of the collections. The tax levies are collectible in two installments, which become delinquent after November 30 and May 31. Property taxes are liens upon the property being taxed. After a period of three years, the County may begin foreclosure proceedings and sell the property at auction. The city receives its share of the sale proceeds of any such auction.

CITY OF WHITE SULPHUR SPRINGS

NOTES TO THE FINANCIAL STATEMENTS (continued)
Fiscal Year-Ended June 30, 2014

Taxes and special assessments that become delinquent are charged interest at the rate of 5/6 of 1% per month plus a penalty of 2%. After a period of three years, the County may begin foreclosure proceedings and sell real property at auction. In the case of personal property, the property may be seized and sold after the taxes become delinquent.

1. c. 3 INVENTORIES

Materials, supplies and food inventory at year end was not material. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased.

1. c. 4 CAPITAL ASSETS

The city's property, plant, equipment, and infrastructure (e.g. roads, bridges, sidewalks, lighting, and similar items) with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. Historical cost was established at the initial booking of the capital assets by determining actual costs or estimating using standard costing procedures. The city considers capital assets to be items in excess of \$5,000 with a useful life in excess of one year. The costs of normal maintenance and repair are not capitalized. Land and construction in progress are not depreciated. Depreciation on the other capital assets is provided over their estimated useful lives on the straight-line method. The useful lives of these assets have been estimated as follows:

<u>Capital Asset Classes</u>	<u>Lives</u>
Buildings	10 – 50 years
Utility Lines & Improvements	6 - 50 years
Machinery and Equipment	6 – 50 years
Source & Supply	20 – 40 years

1.c. 5 DEFERRED INFLOWS OF RESOURCES

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting, which qualifies for reporting in this category. Accordingly, the item, unavailable, is reported only in the governmental funds balance sheet. The governmental funds report unavailable from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

1.c. 6 VACATION AND SICK LEAVE

Classified City employees accumulate vacation and sick leave for later use or for payment upon termination, death, or retirement. Classified City employees earn vacation leave at the rate of 15 days per year during the first 10 years of employment, and at increasing rates thereafter to a maximum of 24 days per year after 20 years of employment. There is no requirement that vacation leave be taken, but the maximum permissible accumulation is the amount earned in the most recent two-year period. At termination, employees are paid for any accumulated vacation leave at the current rate of pay. Classified City employees earn sick leave at the rate of one day per month. There is no limit on the accumulation of unused sick leave. However, upon termination, only 25% of accumulated sick leave is paid at the current rate of pay.

Liabilities incurred because of unused vacation and sick leave accumulated by employees are reflected in the financial statements. Expenditures for unused leave are recorded when paid in governmental funds and when accrued on the statement of activities. The amount expected to be paid within one year is \$8,311 and it is paid out of the general, water, and sewer funds.

1.c. 7 NET POSITION AND FUND BALANCE

Statement of Net Position include the following:

- Net Investment in Capital Assets – The component of net position that reports the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt that is directly attributable to the acquisition, construction, or improvement of these capital assets.
- Restricted – The component of net position that is either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.
- Unrestricted – The difference between the assets and liabilities that is not reported in the other element of net position.

CITY OF WHITE SULPHUR SPRINGS

NOTES TO THE FINANCIAL STATEMENTS (continued)
Fiscal Year-Ended June 30, 2014

Governmental fund financial statements include the following fund balances:

- Restricted – Includes amounts that can be spent only for the specific purposes stipulated by the constitution, external resource providers, or through enabling legislation.
- Unassigned – Amounts that are available for any purpose; these amounts are reported only in the general fund.

As of June 30, 2014, fund balance components other than unassigned fund balance consist of the following:

<u>Purpose</u>	<u>Restricted</u>
General Government	\$ 23,764
Public Safety	15,319
Public Works	137,325
Culture and Recreation	2,635
Housing and Community Development	86,313
Debt Service	7,249
Total	<u>\$ 272,605</u>

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the city considers restricted funds to have been spent first.

1. d. OTHER

1. d. 1 USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

1.d. 2 COUNTY PROVIDED SERVICES

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

NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

At June 30, 2014, the summary of cash, cash equivalents for governmental and business-type activities, and fiduciary funds is as follows:

<u>Account Type</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash and Cash Equivalents	\$ 501,432	\$ 620,673	\$ 262,135	\$ 1,384,240

The carrying amount of cash on hand, deposits and investments at June 30, 2014, is as follows:

	<u>Amount</u>
Cash on Hand	\$ 350
Demand Accounts	1,150,937
Time Deposits	232,953
Total	<u>\$ 1,384,240</u>

Custodial Credit Risk – Deposits: Custodial credit risk is the risk that in the event of a bank failure, the city's deposits may not be returned to it. The city does not have a deposit policy for custodial credit risk. As of June 30, 2014, \$776,592 of the city's bank balance of \$1,383,890 was exposed to custodial credit risk as follows:

CITY OF WHITE SULPHUR SPRINGS

NOTES TO THE FINANCIAL STATEMENTS (continued)
Fiscal Year-Ended June 30, 2014

<u>Deposits</u>	<u>Fair Value</u>
Collateral held by the pledging bank's trust department but not in the Entity's name. (most investments)	\$ 727,000
Uninsured and uncollateralized	49,592
Total	<u>\$ 776,592</u>

Interest Rate Risk: The city does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from rising interest rates. The city's investment policy is to hold investments to maturity with the contractual understanding that these investments are low risk, locked in to a guaranteed rate of return, are therefore not impacted significantly by changes in short term interest rates. As a means of limiting its exposure to fair value losses arising from rising interest rates all of the city's investment portfolio is made up of securities whose maturities are less than 10 years.

NOTE 3. TAXES RECEIVABLE

The city is permitted by State statutes to levy taxes up to certain fixed limits for various purposes. The assessed value of the roll as of January 1, 2013, upon which the levy for the 2014 fiscal year was based, was \$1,064,878 for the City. The tax rates assessed for the year ended June 30, 2014 to finance City operations and applicable taxes receivable follows:

	<u>Mill Levies</u>	<u>Taxes Receivable</u>
General*	113.67	\$ 5,453
Airport	1.50	71
Liability and Comp Ins	9.00	424
Library	9.50	450
Volunteer Fire Dept	4.00	189
PERS	7.00	330
Group insurance	8.00	382
Bond Series Fund	0.00	237
Total	<u>152.67</u>	<u>\$ 7,536</u>

* Denotes Major Funds

NOTE 4. ACCOUNTS RECEIVABLE

	<u>Accounts Receivable</u>	<u>Allowance for Uncollectable</u>	<u>Unbilled but Paid in Ad- vance</u>	<u>Net Accounts Receivable</u>
Water*	\$ 36,905	\$ 0	\$ 0	\$ 36,905
Sewer*	13,339	0	0	13,339
Total	<u>\$ 50,244</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 50,244</u>

* Denotes Major Funds

NOTE 5. INTERFUND RECEIVABLES/PAYABLES

<u>Interfund Receivable</u>	<u>Amount</u>	<u>Interfund Payable</u>	<u>Reason</u>
Water*	\$ 208,579	Sewer*	Cover negative cash balance

* Denotes Major Funds

NOTE 6. CAPITAL ASSETS, DEPRECIATION AND NET CAPITAL ASSETS

6. a. At June 30, 2014, the schedule of changes in general capital assets follows:

<u>Governmental Activities:</u>	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Balance June 30, 2014</u>
<u>Non-depreciable:</u>			
Land	\$ 4,000	\$ 0	\$ 4,000
Total Non-depreciable	<u>\$ 4,000</u>	<u>\$ 0</u>	<u>\$ 4,000</u>

CITY OF WHITE SULPHUR SPRINGS

NOTES TO THE FINANCIAL STATEMENTS (continued)
Fiscal Year-Ended June 30, 2014

Governmental Activities:	Balance		Balance
	July 1, 2013	Additions	
<u>Depreciable:</u>			
Buildings	\$ 117,804	\$ 0	\$ 117,804
Machinery and equipment	470,731	0	470,731
Total Depreciable	<u>\$ 588,535</u>	<u>\$ 0</u>	<u>\$ 588,535</u>
<u>Accumulated Depreciation:</u>			
Buildings	\$ (111,933)	\$ (196)	\$ (112,129)
Machinery and equipment	(326,546)	(18,026)	(344,572)
Total Depreciation	<u>\$ (438,479)</u>	<u>\$ (18,222)</u>	<u>\$ (456,701)</u>
Net Depreciable Assets	150,056	(18,222)	131,834
Net General Capital Assets	<u>\$ 154,056</u>	<u>\$ (18,222)</u>	<u>\$ 135,834</u>

6. b. General capital asset depreciation expense was charged to governmental functions as follows:

Function	Amount
Public Safety	\$ 10,156
Public Works	8,066
Total Depreciation Expense	<u>\$ 18,222</u>

6. c. At June 30, 2014, the schedule of changes in enterprise capital assets follows:

Business-type Activities:	Balance			Balance
	July 1, 2013	Additions	Transfers	
<u>Non-depreciable:</u>				
Construction in Progress	\$ 1,795,748	\$ 1,210,312	\$ (1,795,748)	\$ 1,210,312
Total Non-depreciable	<u>\$ 1,795,748</u>	<u>\$ 1,210,312</u>	<u>\$ (1,795,748)</u>	<u>\$ 1,210,312</u>
<u>Depreciable:</u>				
Machinery and equipment	\$ 37,497	\$ 0	\$ 0	\$ 37,497
Source of supply	974,417	0	0	974,417
Pumping plant	13,374	0	0	13,374
Transmission and distribution Infrastructure	741,800	0	0	741,800
	0	0	1,795,748	1,795,748
Total Depreciable	<u>\$ 1,767,088</u>	<u>\$ 0</u>	<u>\$ 1,795,748</u>	<u>\$ 3,562,836</u>
<u>Accumulated Depreciation:</u>				
Machinery and equipment	\$ (37,497)	\$ 0	\$ 0	\$ (37,497)
Source of supply	(511,540)	(23,729)	0	(535,269)
Pumping plant	(13,374)	0	0	(13,374)
Transmission and distribution Infrastructure	(572,444)	(13,546)	0	(585,990)
	0	(38,027)	0	(38,027)
Total Depreciation	<u>\$ (1,134,855)</u>	<u>\$ (75,302)</u>	<u>\$ 0</u>	<u>\$ (1,210,157)</u>
Net Depreciable Assets	632,233	(75,302)	1,795,748	2,352,679
Net General Capital Assets	<u>\$ 2,427,981</u>	<u>\$ 1,135,010</u>	<u>\$ 0</u>	<u>\$ 3,562,991</u>

NOTE 7. CHANGES IN LONG-TERM DEBT

7. a. At June 30, 2014, the schedule of changes in general long-term debt follows:

Governmental Activities	Balance	New Debt	Principal	Balance	Due within
	July 1, 2013	Additions	and Other		
			Reductions		
<u>Bonds and Notes Payable:</u>					
Long term notes	\$ 8,925	\$ 0	\$ (5,959)	\$ 2,966	\$ 2,966
Total Bonds and Notes Payable	<u>\$ 8,925</u>	<u>\$ 0</u>	<u>\$ (5,959)</u>	<u>\$ 2,966</u>	<u>\$ 2,966</u>

CITY OF WHITE SULPHUR SPRINGS

NOTES TO THE FINANCIAL STATEMENTS (continued)
Fiscal Year-Ended June 30, 2014

<u>Governmental Activities</u>	<u>Balance</u> <u>July 1, 2013</u>	<u>New Debt</u> <u>and Other</u> <u>Additions</u>	<u>Principal</u> <u>Payments</u> <u>and Other</u> <u>Reductions</u>	<u>Balance</u> <u>June 30, 2014</u>	<u>Due within</u> <u>One Year</u>
<u>Other Liabilities:</u>					
Compensated Absences	\$ 6,964	\$ 326	\$ 0	\$ 7,290	\$ 3,645
Total Other Liabilities	<u>\$ 6,964</u>	<u>\$ 326</u>	<u>\$ 0</u>	<u>\$ 7,290</u>	<u>\$ 3,645</u>
Total Governmental Activities - Long-Term Debt:	<u>\$ 15,889</u>	<u>\$ 326</u>	<u>\$ (5,959)</u>	<u>\$ 10,256</u>	<u>\$ 6,611</u>
<u>Business-type Activities</u>	<u>Balance</u> <u>July 1, 2013</u>	<u>New Debt</u> <u>and Other</u> <u>Additions</u>	<u>Principal</u> <u>Payments</u> <u>and Other</u> <u>Reductions</u>	<u>Balance</u> <u>June 30, 2014</u>	<u>Due within</u> <u>One Year</u>
<u>Bonds and Notes Payable:</u>					
Revenue bonds	\$ 1,657,254	\$ 333,544	\$ (64,264)	\$ 1,926,534	\$ 66,631
Total Bonds and Notes Payable	<u>\$ 1,657,254</u>	<u>\$ 333,544</u>	<u>\$ (64,264)</u>	<u>\$ 1,926,534</u>	<u>\$ 66,631</u>
<u>Other Liabilities:</u>					
Compensated Absences	\$ 8,410	\$ 922	\$ 0	\$ 9,332	\$ 4,666
Total Other Liabilities	<u>\$ 8,410</u>	<u>\$ 922</u>	<u>\$ 0</u>	<u>\$ 9,332</u>	<u>\$ 4,666</u>
Total Business-type Activities - Long-Term Debt:	<u>\$ 1,665,664</u>	<u>\$ 334,466</u>	<u>\$ (64,264)</u>	<u>\$ 1,935,866</u>	<u>\$ 71,297</u>

7. b. LONG TERM NOTES

The City entered into a loan with The Bank of the Rockies of White Sulphur Springs in prior years for the acquisition of a Fire truck. This loan was issued for the terms indicated in the following schedule:

<u>Description</u>	<u>Issue Date</u>	<u>Interest Rate</u>	<u>Length of Loan</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Outstanding June 30, 2014</u>
Fire truck loan	1994	5.25%	20 years	2015	\$ 85,875	\$ 2,966

Debt service requirements to maturity for principal and interest for all bonded long term obligations are as follows:

For the year ended 6/30:		
2015	Principal \$ 2,966	Interest \$ 38

7. c. REVENUE BONDS

Revenue Bonds constitute special obligations of the city solely secured by a lien on and pledge of the net revenues of the water system and sewer system. These bonds were issued for the terms and payment schedules indicated in the following schedule:

<u>Description</u>	<u>Issue Date</u>	<u>Interest Rate</u>	<u>Length of Loan</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Outstanding June 30, 2014</u>
Water system revenue bonds*	9/13/2012	3.75%	20 years	5/1/2031	\$ 2,073,000	\$ 1,649,375
Waste-water revenue bonds	6/17/2014	3.00%	20 years	7/1/2034	423,000	277,159
					<u>\$ 2,496,000</u>	<u>\$ 1,926,534</u>

* - City of White Sulphur Springs has received notice in October of 2014 that \$500,000 of this bond is forgiven

CITY OF WHITE SULPHUR SPRINGS

NOTES TO THE FINANCIAL STATEMENTS (continued)
Fiscal Year-Ended June 30, 2014

Debt service requirements to maturity for principal and interest for all bonded long term obligations are as follows:

For the year ended 6/30:	Principal	Interest
2015	\$ 66,631	\$ 55,560
2016	80,000	53,220
2017	83,000	50,805
2018	86,000	48,285
2019	88,000	45,691
2020-2024	479,000	187,081
2025-2029	<u>543,903</u>	<u>110,080</u>
Totals	<u>\$ 1,426,534</u>	<u>\$ 550,722</u>

The revenue bonds are collateralized by the revenues of the water and sewer systems and the various special funds established by the bond ordinances. The ordinances provide that the revenues of the systems are to be used first to pay operating and maintenance expenses of the systems and second to establish and maintain the revenue bond funds. Any remaining revenues may then be used for any lawful purpose.

The bond ordinances also require that water rates be sufficient to provide for operations, maintenance and 125% of the maximum amount of principal and interest requirements in any future fiscal year of the city. 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 city was in compliance with the applicable covenants.

NOTE 8. DEFERRED INFLOWS OF RESOURCES

8. a. PROPERTY TAXES

<u>Elementary Fund</u>	<u>Amount</u>	<u>Reason</u>
General*	\$ 5,453	Taxes Receivable
Airport	71	Taxes Receivable
Liability and Comp Ins	424	Taxes Receivable
Library	450	Taxes Receivable
Volunteer Fire Dept	189	Taxes Receivable
PERS	330	Taxes Receivable
Group Insurance	382	Taxes Receivable
Bond Series Fund	237	Taxes Receivable
Total	<u>\$ 7,536</u>	

* Denotes Major Funds

NOTE 9. PRIOR PERIOD ADJUSTMENTS

	<u>Amount</u>	<u>REASON</u>
Water*	(4,009)	Adjustment of long-term debt balances
Total	<u>\$ (4,009)</u>	
* Denotes Major Funds		
Governmental Type Activities	81	Adjustment of long-term debt balances
Total	<u>\$ 3,928</u>	

NOTE 10. RESTRICTED ASSETS

The following Restricted Cash was held by the City Treasurer as of June 30, 2014:

<u>Fund Name</u>	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Restricted for Debt Service	<u>\$ 100,805</u>	<u>\$ 12,963</u>	<u>\$ 113,768</u>

CITY OF WHITE SULPHUR SPRINGS

NOTES TO THE FINANCIAL STATEMENTS (continued)
Fiscal Year-Ended June 30, 2014

The ordinances authorizing the water and sewer system revenue bonds requires that the City establish sinking funds or cash restricted for payment of principal and interest on all revenue bonds. At June 30, 2014, the sinking fund balance is sufficient to satisfy such bond ordinance requirements.

NOTE 11. OTHER POST EMPLOYMENT BENEFITS

The city allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the local government is subsidizing the retirees because each participant is charged a level of premium regardless of age. The city uses a single premium for both active and retired employees resulting in an implicit rate subsidy (the older retiree benefits from the city's blended premium). The city has not recorded a liability for the implicit rate subsidy as based on an analysis of the cost it is not material to the city's financial statements. At June 30, 2014 the city had no retired employees on the group insurance plan.

NOTE 12. RISK MANAGEMENT

The City faces a considerable number of risks of loss, including damage to and loss of property and contents, employee torts, professional liability, (i.e. errors and omission), environmental damage, workers' compensation, and medical insurance costs of employees. A variety of methods are used to provide insurance for these risks. Commercial policies, transferring all risk of loss except for relatively small deductible amounts, are purchased for property and content damage and professional liabilities. Given the lack of coverage available, the City has no coverage for potential losses from environmental damages. The City participates in three statewide public risk pools operated by the Montana Municipal Interlocal Authority, for workers' compensation, tort liability and property coverage.

Coverage limits and the deductibles in the commercial policies have stayed relatively constant for the last several years. The premiums for the policies are allocated between the City's general fund and other funds based upon the insurance needs of the funds. Settled claims resulting from these risks did not exceed commercial insurance coverage for each of the past three years.

In 1986, the City joined other Montana cities in the Montana Municipal Interlocal Authority which established a workers' compensation plan and a tort liability plan. In 1996, the Montana Municipal Interlocal Authority created a property insurance plan. The public entity risk pools currently operate as common risk management and insurance programs for the member governments. The liability limits for damages in tort action are \$750,000 per claim and \$1.5 million per occurrence with a \$750 deductible per government. State tort law limits the City's liability to \$1.5 million. The City pays an annual premium for its employee injury insurance coverage, which is allocated to the employer funds based on total salaries and wages. The agreements for formation of the pools provide that they will be self-sustaining through member premiums.

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

NOTE 13. EMPLOYEE RETIREMENT SYSTEM

The city participates in a state-wide, cost-sharing multiple employer defined benefit retirement plan which covers all City employees, the Public Employee Retirement System (PERS). The plan is established under State law and administered by the State of Montana.

The plan issues publicly available annual reports that include financial statements and required supplemental information for the plan. Those reports may be obtained from the following:

Public Employees Retirement System
P.O. Box 200131
1712 Ninth Avenue
Helena, MT 59620-0131
Phone: 406-444-3154
www.state.mt.us/doa/perb/prb.htm

The PERS defined benefit contribution rates for employees was 7.9%. The PERS rate for the State was set at 0.10%. For the defined contribution plan the rates are the same except only 4.19% of the employer amount is added to the employee account. Employees who elect the defined contribution plan are in control of their investments and the retirement is based upon the cash in their fund. The PERS rate for employers was 8.07%

CITY OF WHITE SULPHUR SPRINGS

NOTES TO THE FINANCIAL STATEMENTS (continued)
Fiscal Year-Ended June 30, 2014

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

	<u>2012</u>	<u>2013</u>	<u>2014</u>
PERS	\$ <u>18,414</u>	\$ <u>18,936</u>	\$ <u>22,651</u>

NOTE 14 LOCAL RETIREMENT PLAN

City volunteer firefighters are covered by the Fire Department Relief Association Disability and Pension Fund, which is established by State Law. A member of a volunteer fire department who has served 20 years or more is entitled to benefits after attaining age 50. Volunteers serving less than 20 years but more than 10 years may receive reduced benefits. The amount of the pension benefits are set by the Association's Council.

Montana law requires that the disability and pension fund contain at least 0.21 % of the total assessed value of taxable property within the City limits but not more than 0.52% of the assessed taxable value. Once the fund contains less than 0.21 % of the assessed value the City council shall levy a tax to be deposited in the fund. The City's contribution to the plan for the fiscal year ended June 30, 2014 was \$0. The State contributes, out of moneys received for insurance premium taxes, an amount equal to 1½ mills times the total taxable value of the City, but not less than \$100. The State's contribution to the plan for the fiscal year was \$0. The plan's benefits are established by the Association's City Council. Total benefits paid in the fiscal year ended June 30, 2014 amounted to \$1,440.

No actuarial valuation or report of unfunded past service costs had been prepared for the Fort Benton Fire Department Relief Association Disability and Pension Fund.

NOTE 15 INTERLOCAL AGREEMENTS

The city makes payments to Meagher County for law enforcement facility. For the year ended June 30, 2014, the City contributed \$32,500. The City also entered into an agreement to support a City/County library (community library). Each entity contributes funds for the participation and maintenance of the community library. For the year ended June 30, 2014, the City contributed \$10,699 for library expenditures.

City of White Sulphur Springs
 Meagher County
 White Sulphur Springs, Montana 59645

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 (Budget and Actual)
 ALL BUDGETED MAJOR GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2014

	General		
	Original Budget	Final Budget	Actual
REVENUES:			
Taxes/Assessments	\$ 131,695	\$ 131,695	\$ 132,025
Licenses and Permits	2,400	2,400	2,610
Intergovernmental Revenues	110,361	110,361	111,955
Charges For Services	1,324	1,324	1,716
Fines and Forfeitures	15,500	15,500	10,298
Miscellaneous	300	300	7,118
Investment Earnings	375	375	271
Total Revenues	261,955	261,955	265,993
EXPENDITURES:			
Current			
General Government	108,035	108,035	97,708
Public Safety	29,000	29,000	35,236
Public Works	165,050	165,050	85,900
Public Health	11,100	11,100	4,466
Culture and Recreation	20,450	20,450	12,677
Miscellaneous	1,000	1,000	480
Total Expenditures	334,635	334,635	236,467
NET CHANGES IN FUND BALANCES	(72,680)	(72,680)	29,526
FUND BALANCE:			
Beginning of the Year			193,868
End of the Year			<u>\$ 223,394</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

CITY OF WHITE SULPHUR SPRINGS

NOTES TO THE BUDGET VS ACTUAL SCHEDULE
Fiscal Year-Ended June 30, 2014

NOTE 1. BUDGETS

1. a. BUDGETS

Budgets are adopted on a basis consistent with the State of Montana budget laws (Title 7, Chapter 6, Part 40, MCA) which are consistent with generally accepted accounting principles (GAAP). Annual appropriated budgets are adopted for all funds of the city. All annual appropriations lapse at fiscal year-end, unless the city elects to encumber supplies and personal property ordered but not received at year end. The Town does not use a formal encumbrance system.

1. a. 1 GENERAL BUDGET POLICIES:

Budgeted funds are those of which a legal budget must be adopted to have expenditures from such funds and are noted above. The Schedule of Revenues, Expenditures, and Changes in Fund Balances, Budget vs. Actual, has been prepared on the modified accrual basis of accounting and contains financial information for only the major budgeted funds. The major funds Water and Sewer are not included in the schedule because they are enterprise funds.

The original budget was not amended so the original budget and the final budget are the same.

1. a. 2 BUDGET OPERATION:

The city operates within the budget requirements for incorporated city or town's as specified by State law. The financial report reflects the following budgetary standards:

- (1) A local government shall submit a complete copy of the final budget together with a statement of tax levies to the Department of Administration by the later of October 1 or 60 days after receipt of taxable values from the Department of Revenue.
- (2) Local government officials may not make a disbursement or an expenditure or incur an obligation in excess of the total appropriations for a fund.
- (3) The governing body may amend the budget during the fiscal year by conducting public hearings at regularly scheduled meetings. Budget amendments providing for additional appropriations must identify the fund reserves, unanticipated revenue, or previously unbudgeted revenue that will fund the appropriations.
- (4) The governing body and each municipal official are limited to the amount of appropriations and by the classifications in the annual appropriation resolution when making disbursements or expenditures or incurring liabilities. Exceptions to this limitation - Appropriations may be adjusted according to procedures authorized by the governing body for:
 - a. debt service funds for obligations related to debt approved by the governing body;
 - b. trust funds for obligations authorized by trust covenants;
 - c. any fund for federal, state, local, or private grants and shared revenue accepted and approved by the governing body;
 - d. any fund for special assessments approved by the governing body;
 - e. the proceeds from the sale of land;
 - f. any fund for gifts or donations; and
 - g. money borrowed during the fiscal year.
- (5) If an expenditure is to be financed from a tax levy required to be authorized and approved at an election, the expenditure may not be made or an obligation may not be incurred against the expenditure until the tax levy is authorized and approved.
- (6) At the end of a fiscal year, unencumbered appropriations lapse unless specifically obligated by the city.

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

INDEPENDENT AUDITOR'S REPORT

City Council
City of White Sulphur Springs
Meagher County
White Sulphur Springs, Montana 59645

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 *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of White Sulphur Springs as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City of White Sulphur Springs's basic financial statements and have issued our report thereon dated June 11, 2015.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses 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 City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses as items 2014-003 and 2014-005.

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 in the accompanying schedule of findings and responses to be significant deficiencies as item 2014-004.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of White Sulphur Springs'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 *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2014-001, 2014-002 and 2014-006.

City of White Sulphur Springs's Response to Findings

The City's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. [Insert name of document containing management's response if other than the schedule of findings and questioned costs] The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Strom & Associates, P.C.

STROM & ASSOCIATES, PC
Billings, Montana
June 11, 2015

CITY OF WHITE SULPHUR SPRINGS
SCHEDULE OF FINDINGS AND RESPONSES
Fiscal Year-Ended June 30, 2014

The following is the status of prior year findings and updated for the fiscal year ended June 30, 2014.

Prior year findings:

FINDING NUMBER 1 – FEDERAL PROGRAMS 2013: - This finding is not repeated

Current year findings:

2014-001 – Annual Financial Report (AFR) Filing:

Criteria: The AFR must be submitted to the State no later than December 31, 2014.
Condition: City of White Sulphur Springs did not complete the AFR until May 29, 2015.
Effect: The City was not in compliance with Montana Code Annotated (MCA).
Context: The AFR must be prepared by the City timely in order to receive a proper audit by the State and Federal mandated deadlines.
Cause: The City obtained third party services to assist in preparing the AFR, which was not completed until May 29, 2015.
Recommendation: We recommend the City prepare the AFR each year by the State mandated deadline.

2014-002 – Fire Department relief association funding:

Criteria: The City is required to soundly fund the fire department relief association. This is defined in Montana Code Annotated (MCA) assets equal to 0.21% of total assessed value of taxable property.
Condition: The Fire Department relief association is currently required to have \$77,715 while the current amount of assets is \$27,070.
Effect: The City is not in compliance with MCA.
Context: The City has not provided adequate funding to the fire department relief association to ensure sound funding.
Cause: The City was not aware of this requirement.
Recommendation: We recommend the City provide sound funding to the fire department relief association in accordance with MCA.

2014-003 – Sewer fund debt:

Criteria: Bond reserve amounts received by the City should be recorded as debt.
Condition: The City recorded \$12,963 in bond reserve receipts as revenues rather than debt.
Effect: Sewer fund revenues were overstated by \$12,963 and debt was understated by \$12,963. This has been corrected for financial reporting.
Context: The City did not properly reclassify the amounts to debt during year end closing.
Cause: The City did not properly classify the debt reserve as debt. This has been corrected for financial reporting.
Recommendation: We recommend all bond reserve amounts be classified as debt.

SCHEDULE OF FINDINGS AND RESPONSES(Continued)

2014-004 – County Report Reconciliation:

Criteria: The City uses upon receipt revenue recognition, and therefore considers revenues to be available when received.

Condition: The City recorded cash and receivables based on the County report received in mid-July and the check received from the County in mid-July. As these amounts were not received until mid-July they were neither measurable or available and should not have been recorded as revenues.

Effect: The effect was an overstatement of cash of \$16,051, and understatement of receivables of \$14,763 and a net overstatement of revenues of \$1,288.

Context: Since the City uses upon receipt revenue recognition, the report and check received from the County in mid-June should be used for the year end reconciliation.

Cause: The City was not aware that the cash received from the County in mid-July should not be recorded as year-end revenue.

Recommendation: We recommend the City record revenues in accordance with the upon receipt revenue recognition policy in place.

2014-005 – Water and Sewer Inter-fund receivables:

Criteria: The Water fund should not transfer funds to the Sewer fund to cover negative cash, and instead should set up a short term inter-fund receivable.

Condition: The Water fund transferred \$208,579 to the Sewer fund. This has been reclassified as a short term receivable/payable for financial reporting.

Effect: Water fund expenses were overstated and receivables were understated by \$208,579. Sewer fund payables were understated \$208,579 and revenues overstated \$208,579.

Context: The City was unaware of the difference between transferring and inter-fund borrowing.

Cause: The Sewer fund required short term borrowing to cover negative cash at year end.

Recommendation: We recommend that borrowing at year end to cover negative cash situations be set up as inter-fund receivables and payables.

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

Criteria: Governmental Accounting Standards Board Statement number 34 (GASB-34) requires an MD&A to be presented in the front of the financial statements.

Condition: The City did not present an MD&A.

Effect: The City is not in compliance with GASB-34 presentation requirements.

Context: The City did not have an MD&A prepared in the current year.

Cause: The City did not present an MD&A.

Recommendation: We recommend the City prepare an MD&A for presentation with the basic financial statements in future years.