

CITY OF BAKER, MONTANA

AUDIT REPORT

Fiscal Year Ended June 30, 2014

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Baker, Montana**

**CITY OF BAKER
BAKER, MONTANA**

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Management's
Discussion and Analysis
June 30, 2014

This discussion and analysis is intended to be a reader friendly analysis of the City of Baker, Montana (City) financial activities based on currently known facts, decisions or conditions. This analysis focuses on current year activities and should be read in conjunction with the financial statements that follow.

Report Layout

Aside from the Management's Discussion and Analysis (MD&A), the report consists of government-wide statements, fund financial statements, notes to the financial statements, combining schedules of non major funds and supplementary information. The first several statements are highly condensed and present a government-wide view of the City's finances. Within this view, all City operations are categorized and reported as either governmental or business-type activities. Governmental activities include basic services such as police, fire, public works, city judicial, parks and recreation, and general government administration. The business-type activities include water, sewer, refuse, and natural gas operating. These government wide statements are intended to be reported in a manner to emulate private business in that all activities are consolidated into a total for the City.

Basic Financial Statements

-The Statement of Net Assets/Position, shown below for comparison, focuses on resources available for future operations. In simple terms, this statement presents an over view of the assets the community owns, the liabilities it owes and the net difference. The net difference is further separated into amounts restricted for specific purposes and unrestricted amounts. The governmental activities reflect capital assets including infrastructure and long-term liabilities. Business-type activities have long reported capital assets and long-term liabilities. The governmental activities are now also reported on an accrual basis for accounting.

-The Statement of Activities, page 6 of the report focuses, on gross and net costs of city programs and the extent to which such programs rely upon general tax and other revenues. This statement summarizes and simplifies the user's analysis to determine the

extent to which programs are self-supporting and/or subsidized by general and enterprise revenues.

-Fund financial statements focus separately on major governmental funds and proprietary (enterprise) funds. Governmental fund statements follow the more traditional presentation of financial statements. The City’s major governmental funds are reported in their own column and the remaining funds are combined into a column titled “Other Governmental Funds.” A budgetary comparison is present for the governmental funds for which a budget is legally adopted. Statements for the City’s proprietary funds follow the governmental funds and include net assets, revenue, expenses, change in net assets, and cash flow.

-The notes to the financial statements, pages 14-31, provide additional disclosures required by governmental accounting standards and provide information to assist the reader in understanding the City’s financial condition.

Readers desiring additional information on non major funds can find it in the Combining Statements of Non major Funds section of this report. Completing the financial section of the report are schedules on capital assets and long term debt schedule.

The MD&A is intended to explain significant changes in financial position and differences in operation between current and prior years. The provider also provides a narrative for the reader of budgetary highlights, capital asset debt administration and economic factors and next year budget and rates.

Government Wide Financial Statements.

Statement of Net Position June 30, 2014 as compared to June 30, 2013.

**CITY OF BAKER
STATEMENT OF NET POSITION
FISCAL YEAR ENDING JUNE 30, 2014**

	Primary Government		Total
	Governmental Activities	Business- type Activities	
ASSETS			
Cash and cash equivalents	2,375,000.00	1,449,129.00	3,824,129.00
Petty Cash	1,600.00	0.00	1,600.00
Taxes/Assessments Receivable - (net of allowance for uncollectibles)	40,564.00	0.00	40,564.00

Accounts/other receivables - (net of allowance for uncollectibles)	4,778.00	32,046.00	36,824.00
Capital assets not being depreciated			
Land	169,569.00	27,251.00	196,820.00
Construction in progress	0.00	43,036.00	43,036.00
Capital assets being depreciated (net of accumulated depreciation)	752,627.00	6,911,603.00	7,664,230.00
Total Assets	3,344,138.00	8,463,065.00	11,807,203.00

LIABILITIES

Accounts payable and other current liabilities	0.00	10,900.00	10,900.00
Revenues collected in advance	1,000.00	0.00	0.00
Noncurrent liabilities:			
Due within one year	0.00	0.00	0.00
Due in more than one year	82,799.00	33,496.00	116,295.00
Total Liabilities	82,799.00	44,396.00	127,195.00

NET POSITION

Net Investment in Capital Assets	902,819.00	6,981,890.00	7,884,709.00
Restricted for:	0.00		0.00
Debt Service			0.00
Bond Indenture Requirements		1,026,377.00	1,026,377.00
Unrestricted	2,357,520.00	410,402.00	2,767,922.00
Total Net Position	3,260,339.00	8,418,669.00	11,679,008.00

City of Baker
STATEMENT OF NET POSITION
FISCAL YEAR ENDING JUNE 30, 2013

	Primary Government		Total
	Governmental Activities	Business- type Activities	
ASSETS			
Cash and cash equivalents	2,026,706.00	2,712,881.00	4,739,587.00
Petty Cash	1,600.00	0.00	1,600.00

Taxes/Assessments Receivable - (net of allowance for uncollectibles)	42,207.00	0.00	42,207.00
Accounts/other receivables - (net of allowance for uncollectibles)	6,545.00	34,598.00	41,143.00
Internal Balances	3,363.00	0.00	3,363.00
Due from other governments	(3,363.00)	0.00	(3,363.00)
Capital assets not being depreciated			
Land	169,543.00	27,251.00	196,794.00
Construction in progress	0.00	4,727,998.00	4,727,998.00
Capital assets being depreciated (net of accumulated depreciation)	726,459.00	1,081,952.00	1,808,411.00
Total Assets	2,973,060.00	8,584,680.00	11,557,740.00

LIABILITIES

Accounts payable and other current liabilities	900.00	10,260.00	11,160.00
Contracts/Loans/Notes Payable	0.00	13,173.00	13,173.00
Noncurrent liabilities:			
Due within one year	0.00	0.00	0.00
Due in more than one year	86,169.00	30,210.00	116,379.00
Total Liabilities	87,069.00	53,643.00	140,712.00

NET POSITION

Net Investment in Capital Assets	876,647.00	5,824,028.00	6,700,675.00
Restricted for:	0.00		0.00
Bond Indenture Requirements		1,727,079.00	1,727,079.00
Unrestricted	2,009,344.00	979,930.00	2,989,274.00
Total Net Position	2,885,991.00	8,531,037.00	11,417,028.00

Governmental Activities.

In comparison with the year ended June 30, 2013 net assets for city governmental operations of 2014 increased by 13% while liabilities decreased by 10%. The increase in assets is largely due to an increase in operating cash and an increase in capital assets purchased. The decrease in liabilities is attributed to existing debt being retired which is recognized in the General Long Term Debt report on page 73 of this report. The City did however add new debt in compensated absences this past fiscal year.

In continuing through the report the city collected governmental revenues of \$1,596,691 in 2014 a 5% decrease from the previous year. This minor change collectively is attributed to lesser revenues in the General Fund, Oil and Gas Severance Fund and the end of collections for SID # 33. City governmental expenditures of \$1,481,564 increased by 20% over the previous year. Much of the increase is accounted for by increase expenditures in the General Fund for capital outlay items most other expenditures reported in the governmental funds fluctuated and appear to be in line with previous year expenditures.

Business-type Activities.

This past fiscal year total net assets in business type activities are reported at \$8,418,669 a slight decrease from the past year In comparison to a 127% increase of the previous period and 120% in the prior. The reason for the substantial increases in prior years compared to currently is due to both the revenue sharing by Fallon County and the investment in infrastructure from TransCanada for installation of water and sewer systems. As reported previously City natural gas sales have been diminished due to sluggish national market and reduced production of City wells. This Fund has become a minor enterprise when compared to the water, sewer and refuse funds. With the abundance of natural gas nationwide natural gas pricing may lag into the foreseeable future. Collections in the water, sewer and refuse have been current and those fund assets remain stable as of this report. The City Council has implemented a substantial rate increase in the water fund of \$5.00 on the Base and 50% on the increments late in FY 2014. The increase in revenues will not be apparent until the next reporting period. Baker City Officials anticipate the need to begin large scale replacement of many existing water mains an upgrade to storage and development of a new water well. The local demand for water sales to the oil and gas industry, including pipeline construction, appears to remain fairly steady. Growth in net position has now been stalled with the end to cash assistance provided by Fallon County and TransCanada even though the assets to liabilities in the Business Type Activities remain favorable. Please refer to the Government Wide Statement of Activities on page 6 of the report for more detailed information.

The proprietary funds experienced an decrease in operating revenues of 74% over the previous year. The decrease in revenues was shared primarily by the Water and Sewer due to the amount of funding assistance, which is reported as operating revenues, previously received by Fallon county and TransCanada. The Refuse fund operating and Natural Gas operating revenues increased slightly over the previous year. The state of

the local economy is generally positive with stable national demand for gasoline and agricultural commodities. Those industries comprise a large share of the economy in the immediate. Collectively the proprietary funds operating expenses decreased by 62% from the preceding year. This is in comparison to the increase of 4% from the previous period. Much of the decrease can be attributed to the completion water and wastewater projects in which funding assistance was received. Sewer main rehabilitation has been completed within the city. In addition a water main, a sewer main and lift station, and a new water storage tank (250,000 gallons) is in operation, and the proposed lagoon cell expansion is expected to be completed next fiscal year in anticipation of a man camp for the Keystone XL pipeline.

As reported previously reported assistance to the City utility funds by both the Fallon County Commissioners and TransCanada has dramatically changed to the financial reports in water and sewer funds over recent years. Presently TransCanada is still awaiting permission from the Department of State to construct the large oil pipeline that will have a temporary impact both economically and socially to this region TransCanada officials had indicated that they expected permission to be granted in the spring of 2014. This however did not materialize so the new target date mentioned for permission is early 2015.

Budgetary Highlights

The City General Fund had received \$77,547 greater in revenues than was anticipated and expended \$42,131 less than was appropriated. Most governmental operations are reported for in General Fund. The other major governmental funds are the Oil and Gas Severance, and SID # 33 Debt Service. All governmental funds were within the budgetary authority requirements for the past period. The Baker City Council as a financial planning tool adopts an operating budget each year for the Enterprise Funds as well.

Capital Assets and Debt Administration

Year end 2014 net capital assets in the Governmental funds was \$922,196 or \$26,194 greater than the previous year. The net amount of capital assets in the proprietary funds was \$6,981,890 or \$1,144,689 more than the previous year. This again is attributable to the capital improvements being made to the water and sewer systems. Government wide net capital assets, less depreciation, was \$7,904,086 More detailed information on capital assets can be found in the General Capital Assets page 25 and on the Proprietary fund statement of Net Position, page 10, of this report.

The City retired debt principal of \$18,355 for intercap loan equipment purchases this past year leaving governmental fund long term debt equal to \$82,799 compared to \$86,169 for the previous year. The City had no new debt in the preceding year excepting compensated absences payable. Further information on City debt can be found in the notes to financial statements beginning on page 26.

Capital Improvements

No formal capital improvement replacement policy exists in the governmental funds. Annually a percentage of proprietary revenues are set aside for the replacement of infrastructure and purchase of capital equipment needs within those funds. At the time of last year report construction in progress in the water fund was \$1,564,021.00 and sewer fund of \$3,163,977.00 pointing to the continuation of several major infrastructure projects that are underway. This year the construction in progress has been reduced to \$4,827.00 and \$38,209.00 respectively. The major projects still underway are the Lagoon Cell expansion, SID # 34 sewer extension, SID # 35 water extension both in the Schell Addition East of Baker Lake to serve residential and County Park areas. The City Council most often reviews any capital equipment purchases for approval at budget time.

Economic Factors

The economic factors in the Baker area, driven mainly by natural resource production and agriculture, are very rarely static. The price of oil has been positive factor for the local economy keeping the unemployment rate low and wages competitive. Agriculture product prices of the past year have remained solid and created a positive impact on the local economy as well. As of June 30, 2014 statewide unemployment is at 4.5 % while Fallon County, one of the lowest in the state, is reported at 2.1%. according to the Bureau of Labor Statistics. The state rate has improved over the previous report while the county rate remains the same. It is clear that the immediate area around Baker is rich in oil and natural gas deposits. With the current demand for fossils fuels this will continue to drive development and production seemingly for some time. This past year as there has been very little exploratory activity in this immediate area however. As reported earlier Denbury Resources, the major oil producer in the region, is planning an oil recovery plan with the use of CO2 which will be delivered by pipeline from Southern Montana and Wyoming. The time line for this has been reportedly delayed to 2015 or 2016. The anticipated impact on the local labor force and economy is estimated at 50 permanent maintenance and 500 temporary construction jobs created by this investment. Another important factor affecting the local economy is the installation of interstate pipelines transporting raw products such as liquid natural gas and oil from the Bakken oil region north of Baker to Kansas, Oklahoma and Texas for processing. This past year pipeline construction continues in this vicinity as evidenced by traffic and construction workers present in the area. The construction of these pipelines tend to have temporary impacts on traffic, housing, and all other local services some positive and some negative.

Population and Housing

At the time of this report the population of Baker is reported at 1741 persons the 2010 census a 3% increase over the 2000 census. The past trend for most of Eastern Montana has been a decreasing and aging population although with the production of Bakken oil field in Eastern Montana and Western North Dakota this trend may reverse with the need for a younger more physical work force with and with the local youth choosing to stay in the region or choose higher education and return to the area. It is recognized that much

of the work force in this industry does not live in Baker but commutes from other communities to their jobs. The City has recently completed a housing rehabilitation program which assisted local residents with both rehabilitation of single family homes and demolition of substandard homes. Housing upgrades will create a more attractive environment for residents and businesses to locate in Baker. In the past year private enterprise has been working on development of newly annexed property of R-4 zoning district with initial plans being reported for a 20 unit housing complex. Although some gains have been made the negative impact of the housing shortage is that low and middle income earners usually encounter a difficult time finding affordable housing if any at all. The City has continued to work with Brosz Engineering of Bowman North Dakota to complete engineering assessments of City infrastructure improvements to accommodate the temporary addition of the upwards of 600 persons at the TransCanada man camp mentioned earlier in this report. At the time of this report a new water storage tank well # 4 rehabilitation, water and sewer mains extending to the camp site are all essentially complete. The plan to expand the lagoon system remains incomplete due to regulatory issues with floodplain elevation inaccuracies but appears to be on track for completion next fiscal year. The goal is to have this project complete before the camp has a full impact on our lagoon system. While the impact to the local economy is generally considered positive matching costs of the impacts to those providing the services is a concern and will be a challenge for the private sector as well as local government officials.

Political Snapshot

The City continues to cost share with Fallon County on 50% of Parks and Recreation Department salary and expenses. The Recreation Department programs provide a variety of activities to all age groups within our community. These programs which range from after school program to various physical sports and adult education are benefit to participants at reasonable fee. The increases in operating costs of General Fund often outpace any increases in revenues supported primarily by a restricted tax levy and state shared revenues. Although some of these revenue sources contain inflationary adjustments in this part of Montana it often lags behind the local inflationary costs experienced in a robust economy. It should also be noted that the slow or complete lack of real growth of taxable value within the City further creates a lag in when funds are available to address necessary services that are demanded. Currently the City Council approves transfers from the Oil and Gas Severance to the General and other Funds to address budget imbalances. Should that revenue source be cut or impaired the current level of services would most likely be impacted. The necessary replacement and maintenance of infrastructure such as, streets, water, sewer and refuse equipment continually impact budgets and financial considerations especially proprietary fund rates. The grant given to the City by the County will give some relief in any anticipated large increases although utility fund rate increases are anticipated to keep up with inflation and retain or build reserve funds in expectation of infrastructure repair and replacement. In 1985 the state law was changed on how oil and gas production tax is distributed locally. It is shared by the County and Schools exclusively. This fact makes it very difficult for Cities affected by impacts related to the oil and gas industry to adequately address growth

or blight as well as provide adequate service to the public such as law enforcement and the court system. It has long been the position of the local City Officials that a portion of that revenue should be set aside by State or the County for City use such as infrastructure needs. City Officials continue to work with the League of Cities and Towns along with other regional stake holders such as Economic Development groups on the task to convince the Legislators to formulate legislation to address this imbalance. It is believed that if a share is given to municipalities that it may be in the form of competitive grants. Current City Officials have indicated the preferred method would be that municipalities be allowed by statute a share of the tax on oil and gas production as was done in the past. In the past legislative session a bill to provide grant funding for impacted local governments was passed. That bill was later vetoed by Governor Bullock to the disappointment of many local government officials and citizens in the Northern and Eastern part of Montana where the impacts are occurring. Upcoming it is hoped State Officials will recognize the need for funding assistance for oil and gas production impacts experienced by the region and offer a reasonable solution to address these continuing issues.

Financial Contact

The City's financial statements are designed to present users (citizens, taxpayers, customers, investors, and creditors) a general overview of the City's finances and to demonstrate the City's accountability. The narrative is intended to give the reader a general opinion of both external and internal factors affecting the City of Baker, Montana and surrounding area and should be interpreted as such. If you have any questions about the report or need additional financial information, please contact the City Clerk/Treasurer at 10 West Fallon Ave. Baker, MT 59313

CITY OF BAKER, MONTANA

ORGANIZATION

Fiscal Year
Ended June 30, 2014

Mr. Clayton Hornung

Mayor

CITY COUNCIL

Mr. Steve Fradenburgh

Councilperson

Mr. Scott Anderson

Councilperson

Ms. Rick Schell

Councilperson

Mr. Brandon Schmidt

Councilperson

CITY OFFICIALS

Ms. Darcy Pankratz

Attorney

Mr. Mike Reddick

Chief of Police

Mr. Kevin J. Dukart

Clerk/Treasurer

Ms. Nicole Benefiel

City Judge

Mr. Lance Wedemeyer

Director of Public
Works



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James J. Wosepka, PC – Certified Public Accountant

Licensed in North Dakota and Montana

INDEPENDENT AUDITOR'S REPORT

To the City Council
Baker, Montana 59313

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 the City of Baker, Montana, as of and for the year ended June 30, 2014, and the related notes to the financial statements which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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 the City of Baker, Montana, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages i – ix and 32 - 34 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

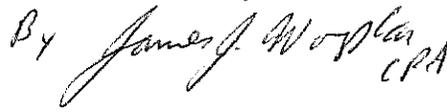
The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information

directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2014, on our consideration of the City of Baker, 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 the City of Baker, Montana's internal control over financial reporting and compliance.

James J. Wosepka, PC

By  CPA

November 14, 2014
Baker, Montana

CITY OF BAKER
Statement of Net Position
June 30, 2014

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 2,375,000	\$ 1,449,129	\$ 3,824,129
Petty cash	1,600	-	1,600
Taxes/assessments receivable	40,564	-	40,564
Accounts/other receivables	4,778	32,046	36,824
Capital assets not being depreciated			
Land	169,569	27,251	196,820
Construction in progress	-	43,036	43,036
Capital assets being depreciated (net of accumulated depreciation)	752,627	6,911,603	7,664,230
Total Assets	3,344,138	8,463,065	11,807,203
LIABILITIES			
Accounts payable and other current liabilities	1,000	10,900	11,900
Noncurrent liabilities:			
Due within one year	10,000	5,000	15,000
Due in more than one year	72,799	28,496	101,295
Total Liabilities	83,799	44,396	128,195
Net Position			
Net Investment in Capital Assets	902,819	6,981,890	7,884,709
Restricted for:			
Debt Service	409,321	-	409,321
Housing Project	6,095	-	6,095
Unrestricted	1,942,104	1,436,779	3,378,883
Total Net Position	\$ 3,260,339	\$ 8,418,669	\$ 11,679,008

The notes to the financial statements are an integral part of this statement.

CITY OF BAKER
Statement of Activities
Fiscal Year Ended June 30, 2014

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for		Primary Government		
		Services, Fines, Forfeitures, etc.	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government:						
Governmental activities:						
General government	\$ 222,000	\$ 8,720	\$ -	\$ (213,280)	\$ -	\$ (213,280)
Public safety	474,620	23,258	-	(451,362)	-	(451,362)
Public works	245,262	1,774	-	(243,488)	-	(243,488)
Public health	14,950	-	-	(14,950)	-	(14,950)
Social and economic services	1,800	-	-	(1,800)	-	(1,800)
Culture and recreation	347,854	101,358	-	(246,496)	-	(246,496)
Housing/Community development	-	-	-	-	-	-
Interest on long-term debt	135	-	-	(135)	-	(135)
Miscellaneous	86,760	-	-	(86,760)	-	(86,760)
Total governmental activities	1,393,381	135,110	-	(1,258,271)	-	(1,258,271)
Business-type activities:						
Water	339,117	283,852	-	-	(55,265)	(55,265)
Sewer	374,751	326,888	-	-	(47,863)	(47,863)
Refuse	252,624	256,352	-	-	3,728	3,728
Natural Gas	38,509	25,541	-	-	(12,968)	(12,968)
Total business-type activities	1,005,001	892,633	-	-	(112,368)	(112,368)
Total primary government	\$ 2,398,382	\$ 1,027,743	\$ -	(1,258,271)	(112,368)	(1,370,639)
General revenues:						
Property taxes				612,791	-	612,791
Licenses and permits				5,993	-	5,993
Unrestricted grants and contributions				822,569	-	822,569
Unrestricted investment earnings				18,170	-	18,170
Miscellaneous				415	-	415
Gain on sale of capital assets				172,681	-	172,681
Transfers				-	-	-
Total general revenues and transfers				1,632,619	-	1,632,619
Change in net position				374,348	(112,368)	261,980
Total net position - July 1, 2013				2,885,991	8,531,037	11,417,028
Total net position - June 30, 2014				\$ 3,260,339	\$ 8,418,669	\$ 11,679,008

The notes to the financial statements are an integral part of this statement.

**CITY OF BAKER
Balance Sheet
Governmental Funds
June 30, 2014**

Description	General	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 1,726,871	\$ 648,129	\$ 2,375,000
Petty cash	1,600	-	1,600
Tax/assessment receivable	37,766	2,798	40,564
Accounts/other receivables	264	4,514	4,778
Total Assets	1,766,501	655,441	2,421,942
LIABILITIES			
Revenues collect in advance	1,000	-	1,000
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue-property taxes	37,766	2,798	40,564
FUND BALANCES			
Restricted:			
Debt service	-	408,169	408,169
Housing Project	-	6,094	6,094
Assigned:			
City Operations	1,555,923	238,380	1,794,303
Unassigned	171,812	-	171,812
Total fund balances	1,727,735	652,643	2,380,378
Total liabilities, deferred inflows of resources and fund balances	\$ 1,766,501	\$ 655,441	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	<u>922,196</u>
Certain property tax collections are not available to pay for current-period expenditures and therefore are reported as deferred inflows of resources in the funds.	<u>40,564</u>
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(82,799)</u>
Net position of governmental funds	<u><u>\$ 3,260,339</u></u>

CITY OF BAKER
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Fiscal Year Ended June 30, 2014

Description	General	Other Governmental Funds	Total Governmental Funds
REVENUES			
Taxes/assessments	\$ 559,947	\$ 54,487	\$ 614,434
Licenses and permits	5,993	-	5,993
Intergovernmental revenues	772,399	50,170	822,569
Charges for services	111,852	-	111,852
Fines and forfeitures	23,258	-	23,258
Miscellaneous	415	-	415
Investment and royalty earnings	17,634	536	18,170
Total Revenues	1,491,498	105,193	1,596,691
EXPENDITURES			
Current:			
General government	207,015	-	207,015
Public safety	428,314	-	428,314
Public works	201,966	24,022	225,988
Public health	14,950	-	14,950
Social and economic services	1,800	-	1,800
Culture and recreation	323,327	-	323,327
Housing/Community development	-	-	-
Debt Service:			
Principal	18,355	-	18,355
Interest	135	-	135
Capital outlay	174,920	-	174,920
Miscellaneous	51,927	34,833	86,760
Total Expenditures	1,422,709	58,855	1,481,564
Excess of revenues (under) over expenditures	68,789	46,338	115,127
OTHER FINANCING SOURCES (USES):			
Sale of capital assets	231,300	-	231,300
Transfers In	58,676	24,000	82,676
Transfers out	(50,000)	(32,676)	(82,676)
Total other financing sources (uses)	239,976	(8,676)	231,300
Net change in fund balances	308,765	37,662	346,427
Fund balances - July 1, 2013	1,418,970	614,981	2,033,951
Fund balances - June 30, 2014	\$ 1,727,735	\$ 652,643	\$ 2,380,378

The notes to the financial statements are an integral part of this statement.

CITY OF BAKER
Reconciliation of the Statement of Revenues, Expenditures,
And Changes in Fund Balances of Governmental Funds
To the Statement of Activities
Fiscal Year Ended June 30, 2014

Net change in fund balances - total governmental funds (page 8)	<u>\$ 346,427</u>
Amounts reported for governmental activities in the statement of activities (page 6) are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:	
Capital assets purchased	<u>174,920</u>
Depreciation expense	<u>(90,107)</u>
In the Statement of Activities, the loss or gain on the sale or disposal of capital assets is recognized. The fund financial statements recognize only the proceeds from the sale of these assets:	
Gain (loss) on the disposal of capital assets	<u>172,681</u>
Proceeds from the sale of capital assets	<u>(231,300)</u>
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:	<u>(1,643)</u>
Repayment of debt principal is and expenditure in the governmental funds, but the repayment reduces long-term debt in the Statement of Net Position:	
Long-term loan/contract principal payments	<u>18,355</u>
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds	
Accrued compensated absences	<u>(14,985)</u>
Change in Net Position in Governmental Activities	<u><u>\$ 374,348</u></u>

CITY OF BAKER
Statement of Net Position
Proprietary Funds
June 30, 2014

Description	Business-type Activities					Totals
	Major Enterprise Funds					
	Water	Sewer	Refuse	Natural Gas	-	
ASSETS						
Current Assets						
Cash and cash equivalents	26,272	1,215,261	109,772	97,824	\$	1,449,129
Accounts/other receivables	10,443	11,150	10,453	-	-	32,046
Due from other funds	-	-	72,000	-	-	72,000
Total Current Assets	36,715	1,226,411	192,225	97,824	\$	1,553,175
Noncurrent Assets						
Capital assets:						
Land	1,150	22,526	3,575	-	-	27,251
Construction in progress	4,827	38,209	-	-	-	43,036
Buildings	162,297	119,881	117,847	2,200	-	402,225
Machinery and equipment	110,734	302,342	159,635	7,980	-	580,691
Infrastructure (utility systems)	2,462,393	5,470,256	-	238,100	-	8,170,749
Less: accumulated depreciation	(585,842)	(1,359,672)	(233,474)	(63,074)	-	(2,242,062)
Capital assets - net of accumulated depreciation	2,155,559	4,593,542	47,583	185,206	-	6,981,890
Total Noncurrent Assets	2,155,559	4,593,542	47,583	185,206	\$	6,981,890
Total Assets	2,192,274	5,819,953	239,808	283,030	\$	8,535,065
LIABILITIES						
Current Liabilities						
Notes payable	-	-	-	-	-	-
Due to other funds	72,000	-	-	-	-	72,000
Deposits payable	10,900	-	-	-	-	10,900
Total Current Liabilities	82,900	-	-	-	\$	82,900
Noncurrent Liabilities						
Compensated absences	16,539	8,653	8,304	-	-	33,496
Total Noncurrent Liabilities	16,539	8,653	8,304	-	\$	33,496
Total Liabilities	99,439	8,653	8,304	-	\$	116,396
NET POSITION						
Net investment in capital assets	2,155,559	4,593,542	47,583	185,206	-	6,981,890
Assigned for:						
Replacement	18,864	926,656	70,016	-	-	1,015,536
Curb stop repair	7,403	-	-	-	-	7,403
Bond reserve	-	3,438	-	-	-	3,438
Unrestricted	(88,991)	287,684	113,905	97,824	-	410,402
Total Net Position	\$ 2,092,835	\$ 5,811,300	\$ 231,504	\$ 283,030	\$	8,418,669

The notes to the financial statements are an integral part of this statement.

CITY OF BAKER
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
Fiscal Year Ended June 30, 2014

Description	Business-type Activities					Totals
	Major Enterprise Funds					
	Water	Sewer	Refuse	Natural Gas		
OPERATING REVENUES						
Charges for services	\$ 283,852	\$ 326,888	\$ 256,352	\$ 25,541	\$	892,633
Total Operating Revenues	283,852	326,888	256,352	25,541		892,633
OPERATING EXPENSES						
Personal services	169,888	191,054	137,501	28,989		527,432
Supplies	63,573	38,846	43,344	-		145,763
Purchased services	46,499	29,896	63,491	317		140,203
Fixed charges	5,000	5,000	5,000	2,000		17,000
Depreciation	53,893	109,856	3,288	7,203		174,240
Total Operating Expenses	338,853	374,652	252,624	38,509		1,004,638
Operating Income (Loss)	(55,001)	(47,764)	3,728	(12,968)		(112,005)
NON-OPERATING REVENUES (EXPENSES)						
Debt service interest expense	(264)	-	(99)	-		(363)
Total Non-Operating Revenues (Expenses)	(264)	-	(99)	-		(363)
Income (Loss) before contributions and transfers	(55,265)	(47,764)	3,629	(12,968)		(112,368)
Transfers in (out)	-	-	-	-		-
Change in net position	(55,265)	(47,764)	3,629	(12,968)		(112,368)
Total net position - July 1, 2013	2,148,100	5,859,064	227,875	295,998		8,531,037
Total net position - June 30, 2014	\$ 2,092,835	\$ 5,811,300	\$ 231,504	\$ 283,030	\$	\$ 8,418,669

The notes to the financial statements are an integral part of this statement.

CITY OF BAKER
Statement of Cash Flows
Proprietary Funds
Fiscal Year Ended June 30, 2014

Description	Business-type Activities					Totals
	Major Enterprise Funds					
	Water	Sewer	Refuse	Natural Gas	-	
CASH FLOWS FROM OPERATING ACTIVITIES						
Cash received from customers	\$ 284,282	\$ 327,814	\$ 257,548	\$ 25,541	\$ -	895,185
Cash paid to suppliers	(114,432)	(73,742)	(111,835)	(2,317)	-	(302,326)
Cash paid to employees	(170,917)	(188,039)	(136,201)	(28,989)	-	(524,146)
Cash paid for interfund services used	-	-	-	-	-	-
Net cash provided (used) by operating activities	(1,067)	66,033	9,512	(5,765)	-	68,713
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Transfers from (to) other funds	-	-	-	-	-	-
Subsidies from other governments	-	-	-	-	-	-
Net cash provided (used) by noncapital financial activities	-	-	-	-	-	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Purchase of capital assets	(365,494)	(953,435)	-	-	-	(1,318,929)
Principal paid on debt	-	-	(13,173)	-	-	(13,173)
Interest paid on debt	(264)	-	(99)	-	-	(363)
Net cash provided (used) by capital and related financing activities	(365,758)	(953,435)	(13,272)	-	-	(1,332,465)
Net increase (decrease) in cash and cash equivalents	(366,825)	(887,402)	(3,760)	(5,765)	-	(1,263,752)
Cash and cash equivalents - July 1, 2013	393,097	2,102,663	113,532	103,589	-	2,712,881
Cash and cash equivalents - June 30, 2014	\$ 26,272	\$ 1,215,261	\$ 109,772	\$ 97,824	\$ -	\$ 1,449,129
Reconciliation of operating income to net cash provided (used) by operating activities:						
Operating income	\$ (55,001)	\$ (47,764)	\$ 3,728	\$ (12,968)	\$ -	(112,005)
Adjustments to reconcile operating income to net cash provided (used) by						
Depreciation expense	53,893	109,856	3,288	7,203	-	174,240
(Increase) decrease in accounts receivable	430	926	1,196	-	-	2,552
Increase (decrease) in customer deposits	640	-	-	-	-	640
Increase (decrease) in compensated absences pay	(1,029)	3,015	1,300	-	-	3,286
Total adjustments	53,934	113,797	5,784	7,203	-	180,718
Net cash provided (used) by operating activities	\$ (1,067)	\$ 66,033	\$ 9,512	\$ (5,765)	\$ -	\$ 68,713

The notes to the financial statements are an integral part of this statement.

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

Description	Agency Funds
ASSETS	
Cash and cash equivalents	\$ 168,336
Total Assets	\$ 168,336
 LIABILITIES	
Due to other governments	\$ 19,214
Warrants payable	149,122
Total Liabilities	\$ 168,336

The notes to the financial statements are an integral part of this statement.

CITY OF BAKER, MONTANA
NOTES TO FINANCIAL STATEMENTS

June 30, 2014

1. Summary of Significant Accounting Policies

The financial statements of the City of Baker, Montana (City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applicable to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting financial reporting principles. The City's significant accounting policies are described below.

Reporting Entity

The City is governed by an elected Mayor and City Council. The City's basic financial statements include the accounts of all City operations. The criteria for including organizations within the City's reporting entity, as set forth in GASB No. 14, "The Financial Reporting Entity", is financial accountability. Financial accountability is defined as appointment of a voting majority of the component unit's board and either the ability to impose will by the primary government or the possibility that the component unit will provide a financial benefit to, or impose a financial burden on the primary government.

There are no component units to be included with the City as reporting entities.

Basic Financial Statements

In accordance with GASB Statement No. 34 (*Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*), the basic financial statements include both government-wide and fund financial statements.

The government-wide financial statements (Statement of Net Position and Statement of Activities) report on the City as a whole excluding fiduciary activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. All activities, both governmental and business-type, are reported in the government-wide financial statements using the economic resources measurement focus and the accrual basis of accounting which includes long-term assets and receivables as well as long-term debt and obligations. The government-wide financial statements focus more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

Generally, the effect of interfund activity has been removed from the government-wide financial statements. Net interfund activity and balances between governmental activities and business-type activities are shown in the government-wide financial statements. The "doubling up" effect of internal service fund activity has been eliminated from the government-wide financial statements with the expenses shown in the various functions and programs on the Statement of Activities.

1. **Summary of Significant Accounting Policies - cont.**
Basic Financial Statements - cont.

The Government-wide Statement of Net Position reports all financial and capital resources of the City excluding fiduciary funds. It is displayed in a format of assets less liabilities equal net position with the assets and liabilities shown in order of their relative liquidity. Net position is required to be displayed in three components: 1) net investment in capital assets, 2) restricted, and 3) unrestricted. Net investment in capital assets is capital assets net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Restricted net position is those with constraints placed on their use by either: 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or 2) imposed by law through constitutional provisions or enabling legislation. All net position, not otherwise classified as restricted, is shown as unrestricted. Generally, the City would first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

The Government-wide Statement of Activities demonstrates the degree to which both direct and indirect expenses of the various functions and programs of the City are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or identifiable activity. Indirect expenses for administrative overhead are allocated among the functions and activities using a full cost allocation approach and are presented separately to enhance comparability of direct expenses between governments that allocate direct expenses and those that do not. Interest on general long-term debt is not allocated to the various functions. Program revenues include: 1) charges to customers or users who purchase, use, or directly benefit from goods, services, or privileges provided by a particular function or program, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or program. Taxes, unrestricted investment income, and other revenues not identifiable with particular functions or programs, are included as general revenues. The general revenues support the net costs of the functions and programs not covered by program revenues.

Also part of the basic financial statements are fund financial statements for governmental funds, proprietary funds, and fiduciary funds even though the latter are excluded from the government-wide financial statements. The focus of the fund financial statements is on major funds as defined by GASB Statement No. 34. Although this reporting model sets forth minimum criteria for determination of major funds (a percentage of assets, liabilities, revenues, or expenditures/expenses of fund category and of the governmental and enterprise funds combined), it also gives governments the option of displaying other funds as major funds. Other non-major funds, as well as the internal service funds, are combined in a single column on the fund financial statements.

1. **Summary of Significant Accounting Policies - cont.**
Basic Financial Statements - cont.

The City reports the following major governmental funds:

General Fund - This fund reports the primary fund of the City. This fund is used to account for all financial resources not reported in other funds.

The Government reports the following major Proprietary Funds:

Water Enterprise Fund - This fund is used to account for the operating and non-operating revenues and expenses of the public water utility system. The fund is maintained on the full accrual basis of accounting.

Sewer Enterprise Fund - This fund is used to account for the operating and non-operating revenues and expenses of the public sewer utility system. The fund is maintained on the full accrual basis of accounting.

Refuse Enterprise Fund - This fund accounts for the operating of refuse pickup and disposal.

Natural Gas Enterprise Fund - This fund accounts for the exploration for natural gas for uses as a utility system.

Measurement Focus and Basis of Accounting

The governmental fund financial statements are prepared on a current financial resources measurement focus and modified accrual basis of accounting. To conform to the modified accrual basis of accounting, certain modifications must be made to the accrual method. These modifications are outlined below:

- A. Revenue is recorded when it becomes both measurable and available (received within 60 days after year-end). Revenue considered susceptible to accrual includes: property taxes, sales and use taxes, transient occupancy taxes, licenses, fees and permits, intergovernmental revenues (including motor vehicle license fees), charges for services, fines, forfeits, and penalties and interest.
- B. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.
- C. Disbursements for the purchase of capital assets providing future benefits are considered expenditures. Bond proceeds are reported as an other financing source.

With this measurement focus, operating statements present increases and decreases in net current assets and unreserved fund balance as a measure of available spendable resources.

1. **Summary of Significant Accounting Policies - cont.**
Measurement Focus and Basis of Accounting – cont.

This is the traditional basis of accounting for governmental funds and also is the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to: 1) demonstrate legal and covenant compliance, 2) demonstrate the sources and uses of liquid resources, and 3) demonstrate how the City's actual revenues and expenditures conform to the annual budget. Since the governmental funds financial statements are presented on a different basis than the governmental activities column of the government-wide financial statements, a reconciliation is provided immediately following each fund statement. These reconciliations briefly explain the adjustments necessary to transform the fund financial statements into the governmental activities column of the government-wide financial statements.

The proprietary funds financial statements are prepared on the same basis (economic resources measurement focus and accrual basis of accounting) as the government-wide financial statements. Therefore, most lines for the total enterprise funds on the proprietary funds financial statements will directly reconcile to the business-type activities column on the government-wide financial statements. Because the enterprise funds are combined into a single business-type activities column on the government-wide financial statements, certain interfund activities between these funds are eliminated in the consolidation for the government-wide financial statements but are included in the fund columns in the proprietary funds financial statements. The net costs of the internal service funds are also partially allocated to the business-type activities column on the government-wide financial statements. A reconciliation of the total enterprise funds on the fund financial statements to the business-type activities column on the government-wide financial statements is provided on the face of the fund financial statements.

Enterprise funds account for operations where the intent of the City is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges and space rentals. Under GASB Statement No. 34, enterprise funds are also required for any activity whose principal revenue sources meet any of the following criteria: 1) any activity that has issued debt backed solely by the fees and charges of the activity, 2) if the cost of providing services for an activity, including capital costs such as depreciation or debt service, must legally be recovered through fees and charges, or 3) it is the policy of the City to establish activity fees or charges to recover the cost of providing services, including capital costs.

On the proprietary funds financial statements, operating revenues are those that flow directly from the operations of the activity (i.e., charges to customers or users who purchase or use the goods or services of that activity). Operating expenses are those that are incurred to provide those goods or services. Non-operating revenues and expenses are items such as investment income and interest expense that are not a result of the direct operations of the activity.

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

Capital Outlay Expenditures

Capital outlay expenditures are reported in a separate capital outlay expenditure category as required by generally accepted accounting principles.

Taxes and Assessments

An allowance for uncollectible accounts was not maintained for real and personal property taxes receivable. The direct write-off method is used for these accounts.

Enterprise Accounts Receivable

No reserve for estimated uncollected accounts receivable is maintained. Accounts receivable are reported as net of revenues collected in advance.

Capital Assets

Capital assets which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, curbs, etc.) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial cost of more than \$5,000 with a useful life of one year or more.

Assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	20
Building improvements	20
Infrastructure	40
Vehicles	7
Equipment other than vehicles	7
Office equipment	7
Computer equipment	7

No provision is being made to capitalize interest on debt to finance construction of assets.

Inventories

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

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

Warrants Payable

The City pays its claims by issuing warrants ordering the City Treasurer to pay the warrants upon presentation. Warrants issued but not presented for payment as of June 30, 2014 totaled \$149,122.

Vacation and Sick Leave

Liabilities incurred because of unused vacation and sick leave accumulated by employees, which is payable upon termination, are reflected in the financial statements. Expenditures for these liabilities are recognized when paid. The liability for unused vacation and sick leave for proprietary fund employees is recorded as a long-term liability in the proprietary funds. The expenses were recorded when the liability was incurred as required by generally accepted accounting principles.

Long-term Debt

The City has un-matured general long-term debt, including special assessment debt, for which the government is obligated in some manner. For more information on the long-term debt of the City, see the long-term debt note.

Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, laws, or regulations of other governments. The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Interfund Transactions

Interfund transactions are reported as loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables, as appropriate, and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers among governmental funds are eliminated in the government-wide financial statements.

Cash and Cash Equivalents

The City considers for purposes of the statement of cash flows, all investments of the proprietary fund to be highly liquid investments and, therefore, cash equivalents.

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

Fund Balances – Governmental Funds

As of June 30, 2014, fund balances of the governmental funds are classified as follows:

Non-spendable – amounts that cannot be spent either because they are in non-spendable form or because they are legally or contractually required to be maintained intact.

Restricted – amounts that can be spent only for specific purposes because of constitutional provisions, charter requirements, or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – amounts that can be used only for specific purposes determined by formal action of the City Council. The City Council is the highest level of decision making authority for the City. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the City Council.

Assigned – amounts that do not meet the criteria to be classified as restricted or committed, but that are intended to be used for specific purposes. Under the City’s adopted policy, only the City Council may assign amounts for specific purposes.

Unassigned – all other spendable amounts.

As of June 30, 2014, fund balances are composed of the following:

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Restricted:			
Housing Project	\$ -	\$ 6,095	\$ 6,095
Debt Service	-	408,169	408,169
Assigned:			
City Operations	-	238,379	238,379
Unassigned Funds	<u>1,727,735</u>	<u>-</u>	<u>1,727,735</u>
 Total fund balances	 <u>\$ 1,727,735</u>	 <u>\$ 652,643</u>	 <u>\$ 2,380,378</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. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the City Council has provided otherwise in its commitment or assignment actions.

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City does not have any of this type of item.

In addition to liabilities, the statement of financial position will sometimes report 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.

2. **Reconciliation of Government-wide and Fund Financial Statements**

Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position

The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds, and net position – governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.” The details of this difference are as follows:

Bonds payable	\$ (1,000)
Compensated absences/sick bank	<u>(81,799)</u>
Net adjustment to reduce fund balance-total governmental funds to arrive at net position-governmental activities	<u>\$ (82,799)</u>

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds, and changes in net position of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this difference are as follows:

Capital purchases	\$ 174,920
Depreciation expense	<u>(90,107)</u>
Net adjustment to increase net changes in fund balances-total governmental funds to arrive at changes in net position of governmental activities	<u>\$ 84,813</u>

2. **Reconciliation of Government-wide and Fund Financial Statements – cont.**

Another element of that reconciliation states that “the issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. The details of this difference are as follows:

Principal repayments:	
General obligation debt	<u>\$ 18,355</u>
Net adjustment to decrease net changes in fund balances- total governmental fund to arrive at changes in net position of governmental activities	<u>\$ 18,355</u>

Another element of that reconciliation states that “Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.” The details of this difference are as follows:

Compensated absences	<u>\$ (14,985)</u>
Net adjustment to decrease net changes in fund balances-total governmental funds to arrive at changes in net position of governmental activities	<u>\$ (14,985)</u>

3. **Property Taxes**

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

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

Taxes that become delinquent are charged interest at the rate of 5/6 of 1% per month plus a penalty of 2%. Real property on which taxes 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.

The City is permitted by state statutes to levy taxes for various purposes. The taxes levied by the City for the year ended June 30, 2014 were within the legal limits. The tax levies were based upon a taxable valuation of \$1,564,023.

4. **Cash and Investments**

The City maintains a cash and investment pool for all funds under the control of the City Treasurer. In addition, investments are separately held for several of the funds.

4. **Cash and Investments – cont.**

Authorized investments allowed by Section 20-9-213, MCA, include direct obligations of the United States Government; savings or time deposits in a state or national bank, building or loan association, or credit union insured by the FDIC or NCUA located in the state, repurchase agreements, and the State Unified Investment Program.

Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer. All of the deposits are held in the City's name as authorized by the State of Montana.

Custodial Credit Risk

The investment policy of the City does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits other than the provision of state law.

Custodial risk for deposits is the risk that in the event of failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Montana law requires 50% security of deposits with financial institutions in excess of the depository insurance coverage limits. Governmental entities' money is insured for each "public unit" based on how the account is titled at the financial institution.

Credit, Interest Rate, and Foreign Currency Risk

The City has no interest rate risk, credit risk, or foreign currency risk of debt securities, as there are no debt securities owned by the City nor does the City own any foreign investments.

The composition of cash and investments on June 30, 2014 was as follows:

Cash on Hand:	
Petty cash	\$ 1,600
Cash in Banks:	
Money market	1,216,012
Time deposits	670,882
Repurchase agreements	500,061
State Short Term Investment Pool (S.T.I.P.)	<u>1,605,509</u>
Total cash	\$ 3,994,064
Agency cash	<u>(168,336)</u>
Total per balance sheet	<u>\$ 3,825,728</u>

Deposits - At year end, the carrying amount of the City's deposits was \$3,992,464 and the bank balance was \$3,992,464. These deposits include demand, time, and savings deposits. Of the bank balance, \$1,150,000 was covered by Federal Depository Insurance and \$2,842,464 was uninsured, but collateralized by securities pledged by the financial institution. This uninsured and collateralized portion was fully covered by collateral held by the financial institutions or by their trust departments or agents in the City's name.

5. **County Provided Services**

The City is provided various financial services by Fallon 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 County Treasurer. No service charges have been recorded by the City or the County.

6. **Pending Litigation**

There was no pending or threatened litigation or unasserted claims or assessments against the City at June 30, 2014.

7. **Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The City participates in the Montana State Worker's Compensation Fund. The City carries commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

8. **Fund Equity**

Assigned retained earnings/fund balances of the City at June 30, 2014 consisted of:

Enterprise Fund:	
Assigned for Water Construction	\$ 18,864
Assigned for Water Repair Depreciation	7,403
Assigned for Sewer Construction	926,656
Assigned for Sewer Reserve - Future Years	3,438
Assigned for Refuse Construction	70,016
Total	\$ <u>1,026,377</u>

9. Capital Assets

	July 1, 2013 <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	June 30, 2014 <u>Balance</u>
Governmental Activities:				
Capital assets not being depreciated				
Land	\$ 169,543	\$ 43,360	\$ 43,334	\$ 169,569
Total capital assets not being depreciated	<u>169,543</u>	<u>43,360</u>	<u>43,334</u>	<u>169,569</u>
Capital assets being depreciated				
Buildings	283,807	-	(66,241)	217,566
Improvements other than buildings	182,592	38,620	(6,414)	214,798
Machinery and equipment	1,441,219	131,200	(521,512)	1,050,907
Infrastructure	303,342	56,900	-	360,242
Total capital assets being depreciated	<u>2,210,960</u>	<u>226,720</u>	<u>(594,167)</u>	<u>1,843,513</u>
Less accumulated depreciation for:				
Buildings	(222,826)	66,241	(3,018)	(159,603)
Improvements other than buildings	(123,460)	1,054	(2,510)	(124,916)
Machinery and equipment	(1,108,857)	416,426	(73,504)	(765,935)
Infrastructure	(29,357)	-	(11,074)	(40,431)
Total accumulated depreciation	<u>(1,484,500)</u>	<u>483,721</u>	<u>(90,106)</u>	<u>(1,090,885)</u>
Net capital assets being depreciated	<u>726,460</u>			<u>752,628</u>
Governmental activities capital assets net	<u>\$ 896,003</u>			<u>\$ 922,197</u>
Business-type activities:				
Capital assets not being depreciated				
Land	\$ 27,250	\$ -	\$ -	\$ 27,250
Construction in progress	4,727,998	-	4,684,962	43,036
Total capital assets not being depreciated	<u>4,755,248</u>	<u>-</u>	<u>4,684,962</u>	<u>70,286</u>
Capital assets being depreciated				
Buildings	386,340	21,836	5,951	402,225
Machinery and equipment	555,740	74,900	49,949	580,691
Source of supply	303,433	277,004	-	580,437
Pumping plant Revalued Equip	89,636	-	-	89,636
Treatment plant	423,873	-	-	423,873
Transmission and distribution	1,369,832	5,492,438	-	6,862,270
General plant	76,818	137,716	-	214,534
Total capital assets being depreciated	<u>3,205,672</u>	<u>6,003,894</u>	<u>55,900</u>	<u>9,153,666</u>
Less accumulated depreciation for:				
Buildings	(259,749)	5,951	(5,145)	(258,943)
Machinery and equipment	(463,526)	49,949	(23,623)	(437,200)
Source of supply	(146,371)	-	(12,634)	(159,005)
Revalued equipment	(89,637)	-	-	(89,637)
Treatment plant	(294,722)	-	(6,512)	(301,234)
Transmission and distribution	(824,583)	-	(117,413)	(941,996)
General plant	(45,136)	-	(8,913)	(54,049)
Total accumulated depreciation	<u>(2,123,724)</u>	<u>55,900</u>	<u>(174,240)</u>	<u>(2,242,064)</u>
Net capital assets being depreciated	<u>1,081,948</u>			<u>6,911,602</u>
Business type activities assets net	<u>\$ 5,837,196</u>			<u>\$ 6,981,888</u>

9. **Capital Assets – cont.**

Depreciation expense was charged to functions/programs of the government as follows:

Governmental Activities:

Public safety	\$ 46,306
Public works	19,273
Culture and recreation	<u>24,527</u>
Total depreciation expense - governmental activities	<u>\$ 90,106</u>

Business-type activities:

Water utilities	\$ 53,893
Sewer utilities	109,856
Solid waste services	3,288
Natural gas operating	<u>7,203</u>
Total depreciation expense - business-type activities	<u>\$ 174,240</u>

10. **Long-term Debt**

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

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2014</u>
Special Assessment				
Bonds	\$ 1,000	\$ -	\$ -	\$ 1,000
Note Payable	18,355	-	18,355	-
Compensated Absences				
Payable	<u>66,814</u>	<u>14,985</u>	<u>-</u>	<u>81,799</u>
Total	<u>\$ 86,169</u>	<u>\$ 14,985</u>	<u>\$ 18,355</u>	<u>\$ 82,799</u>

Total interest paid during the current fiscal year was \$135.

Bonded Debt

Bonds payable at June 30, 2014 are as follows:

Special Assessment Bonds (S.I.D.)

<u>Issue</u> <u>Date</u>	<u>Interest</u> <u>Rate</u>	<u>Term of</u> <u>Bond</u>	<u>Maturity</u> <u>Date</u>	<u>Serial</u> <u>Final</u> <u>Bonds</u> <u>Issued</u>	<u>Outstanding</u> <u>June 30, 2014</u>	<u>Annual</u> <u>Series</u> <u>Payment</u>
1980	10.00%	15 Yrs.	1995	<u>\$195,000</u>	<u>\$1,000</u>	Varies

\$1,000 is available in Debt Service Funds to service the special assessment bonds.

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

10. **Long-term Debt – cont.**
Loans/Contracts Debt – Governmental Funds

<u>Purpose</u>	<u>Issue Date</u>	<u>Interest Rate</u>	<u>Term</u>	<u>Due Date</u>	<u>Principal Amount</u>	<u>Outstanding June 30, 2014</u>
Motor Grader	12/29/06	1.25%	7 Yrs.	2/15/14	\$ 118,000	\$ -

Requirements to Amortize Debt

The annual requirements to amortize all long-term debt outstanding, except compensated absences payable, as of June 30, 2014:

Annual Requirements to Amortize Long-term Debt

<u>June 30, 2014</u>		
<u>Year Ending June 30</u>	<u>Special Assessment Bonds</u>	<u>Total Debt</u>
2015	\$ 1,000	\$ 1,000

Loans/Contracts Debt – Proprietary Funds

The Refuse Fund financed the purchase of a garbage truck and packer in February 2007 for \$92,157 at 4.85% due in semi-annual payments of \$6,582 plus interest to February 2014. The interest rate is variable and to be adjusted annually. This was paid off during the current fiscal year.

Compensated Absences Payable

Compensated absences payable, which represent vacation and sick leave earned by employees which is payable upon termination, were as follows:

June 30, 2013	\$ 97,024
Change	18,272
June 30, 2014	\$ 115,296

The compensated absences are due \$81,799 from the Governmental Funds and \$33,497 from the Proprietary Funds.

Compensated absences are shown as a net change because changes in salary prohibit exact calculations of additions and reductions.

11. **Statewide Retirement Plans**
Municipal Police Officers Retirement System (MPORS)

City Police Officers are covered under the MPORS, a cost sharing multiple-employer retirement plan. The plan also provides death and disability benefits with amounts determined by the State of Montana. A member may retire with a retirement benefit after completing, at least, five years of membership service and reaching age 50, or with 20 years of membership service regardless of age.

The retirement benefit, payable monthly for life, is based on the following formulas:

1. For members hired prior to July 1, 1977:
Average monthly compensation of final year of service

11. **Statewide Retirement Plans - cont.**
Municipal Police Officers Retirement System (MPORS) – cont.

2. For members hired after July 1, 1977:

Average monthly compensation for last 36 consecutive months

The covered payroll for the MPORS was \$214,177. Required employee, employer, and State contribution rates were 9.0%, 14.41%, and 29.37%, respectively. The City contributed \$30,863, employees contributed \$19,276, and the State contributed \$62,904 for the fiscal year. The City's contribution was \$22,387 and \$27,513 in fiscal years ending June 30, 2012 and 2013, respectively.

Public Employees Retirement Plan

As of July 1, 2002, the City of Baker started coverage of employees under the State of Montana Public Employees Retirement Plan.

All of the City's employees that work more than the equivalent of 120 working days per fiscal year are required by state law to participate in the Public Employees Retirement System (PERS). Employees who retire: (1) at or after age 60 with five years of creditable service, (2) at or after age 65 regardless of years of service, or (3) with 30 or more years of creditable service, are entitled to a retirement benefit payable monthly for the life of the member and/or beneficiary. The benefit amount is the number of years of creditable service divided by 56 and multiplied by the final compensation. The final compensation is a member's highest average annual compensation during any three consecutive years of membership service. Benefits fully vest after five years of service. Vested employees may retire at age 50 or with 25 years of service and receive reduced benefits.

Required employee and employer contribution rates and the covered payroll for the plan are as follows:

	<u>PERS</u>
Covered Payroll	\$ <u>645,503</u>
Employee hired before 7/1/11	6.9%
Employee hired after 7/1/11	7.9%
Employer	7.07%

The State of Montana makes "on-behalf" payments for PERS employees' monthly compensation of .10%.

The City's contribution requirement for the fiscal year ended June 30, 2014, including additional contributions from employees, is as follows:

	<u>PERS</u>
Employer	\$ 52,054
Employee	51,033
Total	<u>\$ 103,087</u>

The contribution requirement for the plan was less than 1% of total contribution requirements for all participating employers.

The City's contribution was \$35,283 and \$40,758 for fiscal years ending June 30, 2012 and 2013, respectively.

12. **Local Retirement Plans**

Fire Department Relief Association Disability and Pension Fund

City volunteer firefighters are covered by the Fire Department Relief Association Disability and Pension Fund which is established by state law. The Association is managed by a Board of Trustees made up of members of the Fire Department and the Disability and Pension Fund is considered an independent reporting entity which is not included in the City's financial statements. The City does maintain a Fire Department Relief Association Disability and Pension Fund as an agency fund; however, this fund is only used to account for contributions until they are remitted to the separate Disability and Pension Fund.

A member of a volunteer fire department, who has served 20 years, or more, is entitled to benefits regardless of age. Volunteers serving less than 20 years, but more than 10 years, may receive reduced benefits. The amount of pension benefits is set by the Association's Board of Trustees.

Effective April 7, 2005, each disability and pension fund must be soundly funded. The fund is soundly funded if: (1) assets in the fund are maintained at a level equal to, at least, 0.21%, but no more than 0.52% of the total assessed value of taxable property determined as provided in 15-8-111, within the limits of the city or town, or (2) funding is maintained at a level determined by an actuarial valuation to be sufficient to keep the fund actuarially sound.

The City made no contribution to the plan for the fiscal year ended June 30, 2014. However, the City collected and passed through to the Fire Department Relief Association Disability and Pension Fund \$2,346 from the State of Montana.

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

Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional. These assets are handled by a third party trustee in the name of the individual employees. The City no longer reports these assets on their financial statements.

13. **Joint Ventures**

Joint ventures are independently constituted entities generally created by two or more governments for a specific purpose.

Airport

The City-County Airport is owned and operated jointly by Fallon County and the City of Baker. The operation of the City-County Airport is accounted for by Fallon County within the Special Revenue Funds.

The City-County Airport is administered by a five member board comprised of two members appointed for the County and one member appointed at large by both the

13. Joint Ventures – Airport – cont.

City and County. Airport Board members are appointed for three years. The original budget is approved by the controlling governments with the City budgeting for its share within its budget. The controlling governments do not exercise specific control over the City-County Airport operations. Airport revenues may be derived from tax levies by the City of Baker and Fallon County, user fees, federal and state grants or loans, and investment income. The fixed assets are accounted for by the County. The City's contribution to the City-County Airport for the fiscal year ended June 30, 2014 was \$0.

City-County Administration Building

The City of Baker and Fallon County jointly own and utilize the City-County Administration Building. The building is used by the City for its offices and Police Department. The building is maintained by the County. The City makes a reimbursement payment to the County for maintenance equal to \$16,000 annually.

The City reimburses the County for 50% of the Sheriff's radio and tower repairs and \$50 per day, per prisoner, for prisoner care when a prisoner is held in violation of a City ordinance. The fixed assets are accounted for by both the County and City.

14. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

15. Commitments

On August 1, 2001, the City made a commitment with the Fallon County Water and Sewer District to provide up to an average of 500,000 gallons of water per month. The City also committed to reading meters, billing, and collecting charges. The agreement has been renewed through July 31, 2016.

On March 23, 2006, the City entered into an agreement on the development of a natural gas well. The City has a 25% working interest in the well and is obligated to pay 25% of the costs of development and will receive 25% of the revenues. The costs are taken out of the City's proceeds.

On November 19, 2008, the City entered into an agreement with the North Baker Water and Sewer District to not exceed 1,000,000 gallons of water per month. The City has also committed to reading meters, billing, and collection charges.

The City entered into two lease agreements for equipment. The City is required to make four payments of \$7,000 and \$23,000 each November from 2014 to 2017. The lease payment is to be paid from the General Fund.

15. Commitments – cont.

The future required payments are as follow for the year ends:

2015	\$	30,000
2016		30,000
2017		30,000
2018		30,000
	\$	<u>120,000</u>

16. Interfund Transfers

Individual fund operating transfers for 2014 were as follows:

	Transfer In	Transfer Out
General	\$ 58,676	\$ -
Oil Gas Sev	-	50,000
Permissive Medical	-	8,676

All transfers were for general operations of the City.

17. Amounts Due To and From Other Funds and Governments, Interfund Loans, and Advances Receivable

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund loans receivable/payable" or "advances to/from other funds". All other outstanding balances between funds are reported as "due to/from other funds".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

There were receivables/payables between funds between the Refuse Fund and the Water Fund in the amount of \$72,000. The Refuse Fund loaned \$72,000 to the Water Fund.

18. Subsequent Events

The City has approved two different bids in the amounts of \$989,805 and \$608,031 for water and sewer projects.

**CITY OF BAKER
BAKER, MONTANA**

**REQUIRED
SUPPLEMENTAL SCHEDULES**

Year Ended June 30, 2014

CITY OF BAKER
Schedule of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual
General Fund
Year Ended June 30, 2014

	Original Budget Amounts	Final Budget Amounts	Actual Amounts	Variance Favorable (Unfavorable)
Revenues:				
Taxes/Special Assessments	\$ 546,687	\$ 546,687	\$ 559,947	\$ 13,260
Licenses and Permits	5,950	5,950	5,993	43
Intergovernmental Revenue	320,500	320,500	368,735	48,235
Charges for Services	82,000	82,000	111,852	29,852
Fines and Forfeitures	33,300	33,300	23,258	(10,042)
Miscellaneous Revenues	850	850	415	(435)
Investment and Royalty Earnings	21,000	21,000	17,634	(3,366)
Total Revenues	<u>1,010,287</u>	<u>1,010,287</u>	<u>1,087,834</u>	<u>77,547</u>
Expenditures:				
Current:				
General Government	244,475	234,350	207,015	27,335
Public Safety	450,515	427,295	428,314	(1,019)
Public Works	221,820	202,835	201,966	869
Public Health	14,005	14,210	14,950	(740)
Social and Economic Services	1,800	1,800	1,800	-
Culture and Recreation	292,525	328,325	323,327	4,998
Miscellaneous	44,200	52,325	51,927	398
Debt Service:				
Principal	18,360	18,360	18,355	5
Interest	140	140	135	5
Capital Outlay	177,000	185,200	174,920	10,280
Total Expenditures	<u>1,464,840</u>	<u>1,464,840</u>	<u>1,422,709</u>	<u>42,131</u>
Excess of Revenues Over Expenditures	<u>(454,553)</u>	<u>(454,553)</u>	<u>(334,875)</u>	<u>119,678</u>
Other Financing Sources (Uses):				
Sale of Assets	231,300	231,300	231,300	-
Operating Transfers In	259,005	259,005	58,676	(200,329)
Operating Transfers (Out)	-	-	-	-
Total Other Financing Sources (Uses)	<u>490,305</u>	<u>490,305</u>	<u>289,976</u>	<u>(200,329)</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>\$ 35,752</u>	<u>\$ 35,752</u>	(44,899)	<u>\$ (80,651)</u>
Fund Balances - July 1, 2013			<u>216,711</u>	
Fund Balances - June 30, 2014			<u>\$ 171,812</u>	

CITY OF BAKER
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2014

The City adopts an annual budget for all of its funds in accordance with Title 7, Chapter 6, Part 40, of the Montana Code Annotated. Statute requires the adoption of a preliminary budget, public hearings on the preliminary budget, and the final adoption of the budget by the latter of the second Monday in August, or within 45 calendar days of the receipt of the certified taxable valuations from the Department of Revenue (County Assessor). The City must also submit a copy of the final budget to the Department of Administration by the latter of October 1 or 60 days after the receipt of taxable values from the Department of Revenue.

State statute limits the making of expenditures or incurring of obligations to the amount of the final budget as adopted or as amended. Budget transfers and amendments are authorized by law and, in some instances, may require further public hearings. Any budget amendments providing for additional appropriations must identify the fund reserves, unanticipated revenue, or previously unbudgeted revenue that will fund the appropriations.

Appropriations are created by fund, function, and activity and may further be detailed by department. Expenditure limitations imposed by law extend to the department level which is identified as the legal level of budgetary control.

Reporting

The Statement of Revenues, Expenditures, and Changes in Fund Balances on page 8 combine the General and the Oil and Gas Severance Funds.

	General	Oil & Gas Severance	Total
Fund balance, beginning	\$ 216,711	\$ 1,202,259	\$ 1,418,970
Revenues/Transfers	1,377,810	403,664	1,781,474
Expenditures/Transfers	1,422,709	50,000	1,472,709
Fund balance, ending	<u>\$ 171,812</u>	<u>\$ 1,555,923</u>	<u>\$ 1,727,735</u>

Encumbrances

All appropriations, except for construction in progress, lapse at the end of the fiscal year. The City does utilize a formal encumbrance accounting system. There were no outstanding encumbrances at June 30, 2014.

Encumbrance accounting is (is not) employed for the governmental funds. Encumbrances (e.g. purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent fiscal year.

**CITY OF BAKER
BAKER, MONTANA
SUPPLEMENTAL SCHEDULES
Year Ended June 30, 2014**

CITY OF BAKER
Schedule of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual
Budgeted Special Revenue Funds
Year Ended June 30, 2014

	Original Budget Amounts	Final Budget Amounts	Actual Amounts	Variance Favorable (Unfavorable)
Revenues:				
Taxes/Special Assessments	\$ 38,004	\$ 38,004	\$ 39,376	\$ 1,372
Licenses and Permits	-	-	-	-
Intergovernmental Revenue	450,250	450,250	453,834	3,584
Charges for Services	-	-	-	-
Fines and Forfeitures	-	-	-	-
Miscellaneous Revenues	-	-	-	-
Investment and Royalty Earnings	400	400	280	(120)
Total Revenues	<u>488,654</u>	<u>488,654</u>	<u>493,490</u>	<u>4,836</u>
Expenditures:				
Current:				
General Government	1,000	1,000	-	1,000
Public Safety	-	-	-	-
Public Works	88,505	88,505	24,022	64,483
Public Health	-	-	-	-
Housing and Community Development	-	-	-	-
Culture and Recreation	-	-	-	-
Miscellaneous	37,000	37,000	34,833	2,167
Capital Outlay	443,000	443,000	-	443,000
Total Expenditures	<u>569,505</u>	<u>569,505</u>	<u>58,855</u>	<u>510,650</u>
Excess of Revenues Over Expenditures	<u>(80,851)</u>	<u>(80,851)</u>	<u>434,635</u>	<u>515,486</u>
Other Financing Sources (Uses):				
Operating Transfers In	24,000	24,000	24,000	-
Operating Transfers (Out)	(933,005)	(933,005)	(82,676)	850,329
Total Other Financing Sources (Uses)	<u>(909,005)</u>	<u>(909,005)</u>	<u>(58,676)</u>	<u>850,329</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>\$ (989,856)</u>	<u>\$ (989,856)</u>	375,959	<u>\$ 1,365,815</u>
Fund Balances - July 1, 2013			<u>1,423,843</u>	
Fund Balances - June 30, 2014			<u>\$ 1,799,802</u>	

CITY OF BAKER
Schedule of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual
Debt Service Funds
Year Ended June 30, 2014

	Original Budget Amounts	Final Budget Amounts	Actual Amounts	Variance Favorable (Unfavorable)
Revenues:				
Taxes/Special Assessments	\$ 100	\$ 100	\$ 15,111	\$ 15,011
Licenses and Permits	-	-	-	-
Intergovernmental Revenue	-	-	-	-
Charges for Services	-	-	-	-
Fines and Forfeitures	-	-	-	-
Miscellaneous Revenues	-	-	-	-
Investment and Royalty Earnings	175	175	256	81
Total Revenues	<u>275</u>	<u>275</u>	<u>15,367</u>	<u>15,092</u>
Expenditures:				
Current:				
General Government	-	-	-	-
Public Safety	-	-	-	-
Public Works	-	-	-	-
Public Health	-	-	-	-
Social and Economic Services	-	-	-	-
Culture and Recreation	-	-	-	-
Miscellaneous	-	-	-	-
Debt Service				
Principal	1,000	1,000	-	1,000
Interest	-	-	-	-
Total Expenditures	<u>1,000</u>	<u>1,000</u>	<u>-</u>	<u>1,000</u>
Excess of Revenues Over Expenditures	<u>(725)</u>	<u>(725)</u>	<u>15,367</u>	<u>16,092</u>
Other Financing Sources (Uses):				
Operating Transfers In	-	-	-	-
Operating Transfers (Out)	<u>(354,000)</u>	<u>(354,000)</u>	<u>-</u>	<u>354,000</u>
Total Other Financing Sources (Uses)	<u>(354,000)</u>	<u>(354,000)</u>	<u>-</u>	<u>354,000</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>\$ (354,725)</u>	<u>\$ (354,725)</u>	15,367	<u>\$ 370,092</u>
Fund Balances - July 1, 2013			<u>392,802</u>	
Fund Balances - July 1, 2014			<u>\$ 408,169</u>	

CITY OF BAKER
Schedule of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual
Non-Major Capital Projects
Year Ended June 30, 2014

	Original Budget Amounts	Final Budget Amounts	Actual Amounts	Variance Favorable (Unfavorable)
Revenues:				
Taxes/Special Assessments	\$ -	\$ -	\$ -	\$ -
Licenses and Permits	-	-	-	-
Intergovernmental Revenue	-	-	-	-
Charges for Services	-	-	-	-
Fines and Forfeitures	-	-	-	-
Miscellaneous Revenues	-	-	-	-
Investment and Royalty Earnings	-	-	-	-
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures:				
Current:				
General Government	-	-	-	-
Public Safety	-	-	-	-
Public Works	-	-	-	-
Public Health	-	-	-	-
Social and Economic Services	-	-	-	-
Culture and Recreation	-	-	-	-
Miscellaneous	-	-	-	-
Debt Service				
Principal	-	-	-	-
Interest	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues over expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other Financing Sources (Uses):				
Operating Transfers In	-	-	-	-
Operating Transfers (Out)	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Fund Balances - July 1, 2013			<u>595</u>	
Fund Balances - June 30, 2014			<u>\$ 595</u>	



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the City Council
Baker, Montana 59313

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 the City of Baker, Montana, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City of Baker, Montana's basic financial statements, and have issued our report thereon dated November 14, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Baker, 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 the City of Baker, Montana's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Baker, Montana's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Baker, Montana's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

November 14, 2014
Baker, Montana

James J. Wosepka, PC
