

**CITY OF FORSYTH  
ROSEBUD COUNTY  
FORSYTH, MONTANA**

**FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2014**

**OLNESS & ASSOCIATES, P. C.**

CERTIFIED PUBLIC ACCOUNTANTS

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CITY OF FORSYTH

ORGANIZATION

June 30, 2014

MAYOR

Dennis Kopitzke

COUNCIL

John Hill	Councilperson
Chris Purkett	Councilperson
Robert Martelle	Councilperson
Larry Kautzman	Councilperson

OFFICIALS

Doris Pinkerton	Clerk/Treasurer
Gail Beckham	Judge

# OLNESS & ASSOCIATES, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council  
City of Forsyth  
Forsyth, Montana

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

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

### Basis for Qualified Opinions

The government's accounting records related to inventory do not permit adequate retroactive tests of inventory quantities; therefore, we were unable to form an opinion regarding the amounts at which inventory was recorded in the business-type activities and the water fund (a major enterprise fund) as of June 30, 2014.

### Qualified Opinions

In our opinion, except for the possible effects of the matter discussed under the heading "Basis for Qualified Opinions", the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the water fund (a major enterprise fund) of the government, as of June 30, 2014, and the changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund (excluding the water fund) and the aggregate remaining fund information of the government, 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 identified in the table of contents 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 government's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 schedule of expenditures of federal awards is 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 October 23, 2014, on our consideration of the government'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 government's internal control over financial reporting and compliance.

*O'Hess & Associates, PC*

Billings, Montana  
October 23, 2014

CITY OF FORSYTH  
MANAGEMENT'S DISCUSSION & ANALYSIS

The following discussion and analysis of the City of Forsyth's financial performance provides an overview of the government's financial activities for the year ended June 30, 2014. Please read the information here in conjunction with our financial statements and footnotes which begin on page 8.

### FINANCIAL HIGHLIGHTS

- Net position of the governmental activities decreased \$333,115 while net position for the business-type activities increased \$872,904.
- During the year, our governmental activities had expenses that were \$546,349 more than the \$855,491 generated in general revenues and transfers.
- In the business-type activities, revenues and expenses increased \$631,669 and \$61,508, respectively over the prior year.
- At the close of the fiscal year, the City's governmental funds reported an ending fund balance of \$3,326,031, a decrease of \$343,901. 9 percent of ending fund balance is available for spending at the City's discretion (unassigned fund balance).
- The net investment in capital assets for governmental and business-type activities increased \$813,708. Long-term liabilities increased \$1,043,251.
- The general fund budget was amended for various changes to revenues and expenditures.

### USING THIS AUDIT REPORT

This annual report consists of a series of financial statements. The government-wide financial statements provide information about the activities of the government as a whole and present a longer-term view of the finances. The fund statements tell how these services were financed in the short term, as well as, what remains for future spending. Fund financial statements also report the government's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which the government acts solely as a trustee or agent for the benefit of those outside of the government.

### OVERVIEW OF THE FINANCIAL STATEMENTS

**Government-wide financial statements** One of the most important questions asked about the government's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities (pages 8 and 9) report information about the government as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report net position and changes in it. You can think of net position—the difference between assets and liabilities—as one way to measure the financial health, or financial position of the City. Over time, increases or decreases in net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the property tax base and the condition of the capital assets, to assess the overall health.

In the Statement of Net Position and the Statement of Activities, our government is divided into two kinds of activities:

Governmental activities—Basic services are reported here, including police, fire, public works, and parks departments, and general administration. Property taxes and state and federal grants finance most of these activities.

Business-type activities—Fees are charged to customers to help cover all or most of the cost of certain services provided. The water and sewer system and solid waste services are reported here.

**Fund financial statements** The fund financial statements (pages 10 and 12) provide detailed information about the most significant funds—not the government as a whole. Some funds are required to be established by State law and/or by bond covenants. Also, the governing body establishes many other funds to help it control and manage money for particular purposes or to meet legal responsibilities for using certain taxes, grants and other money. We utilize the following funds:

Governmental funds—Basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance programs. We describe the relationship (or differences) between governmental activities (reported in the

CITY OF FORSYTH  
MANAGEMENT'S DISCUSSION & ANALYSIS

Statement of Net Position and the Statement of Activities) and governmental funds in reconciliations (pages 11 and 13, respectively).

Proprietary funds—Fees are charged to customers for services provided—whether to outside customers or to other units of the government—these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements, but provide more detail and additional information, such as cash flows, for proprietary funds.

Fiduciary funds—Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds use the accrual basis of accounting. We exclude these activities from the other financial statements because we cannot use these assets to finance our operations. We are responsible for ensuring that the assets reported in these funds are used for their intended purposes.

**THE GOVERNMENT AS A WHOLE**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The following net position schedule provides a summary of the City's governmental and business-type activities.

NET POSITION:	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 3,399,959	\$ 3,696,266	\$ 2,533,947	\$ 2,059,716	\$ 5,933,906	\$ 5,755,982
Capital assets	2,759,656	2,789,757	3,905,578	2,025,198	6,665,234	4,814,955
Total assets	<u>6,159,615</u>	<u>6,486,023</u>	<u>6,439,525</u>	<u>4,084,914</u>	<u>12,599,140</u>	<u>10,570,937</u>
Other liabilities	7,750	-	455,083	17,670	462,833	17,670
Long-term liabilities	179,137	180,180	1,748,753	704,459	1,927,890	884,639
Total liabilities	<u>186,887</u>	<u>180,180</u>	<u>2,203,836</u>	<u>722,129</u>	<u>2,390,723</u>	<u>902,309</u>
Net position:						
Net investment in capital assets	2,632,574	2,655,950	2,195,790	1,358,706	4,828,364	4,014,656
Restricted	3,033,669	3,240,715	12,357	12,357	3,046,026	3,253,072
Unrestricted	306,485	409,178	2,027,542	1,991,722	2,334,027	2,400,900
Total net position	<u>\$ 5,972,728</u>	<u>\$ 6,305,843</u>	<u>\$ 4,235,689</u>	<u>\$ 3,362,785</u>	<u>\$ 10,208,417</u>	<u>\$ 9,668,628</u>

The largest portion of the City of Forsyth's net position, \$4,828,364, reflects the net investment in capital assets (land, buildings, machinery and equipment, etc.). The City of Forsyth uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Forsyth's net investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City of Forsyth's net position, \$3,046,026, represents resources that are subject to external restrictions or enabling legislature on how they may be used. A majority of the net position is related to the special projects fund. Fund balance is restricted through the City charter. Additionally, resources are set aside for debt service required for the issuance of revenue related debt. The remaining balance of unrestricted net position (\$2,334,027) may be used to meet the government's ongoing obligations to citizens and creditors.

CITY OF FORSYTH  
MANAGEMENT'S DISCUSSION & ANALYSIS

As noted below, the net position of our governmental activities decreased \$333,115 or 5 percent. The decrease is mainly due to funding current year operations with available net position. The net position of our business-type activities increased \$872,904, mainly due to capital grants for waste water system upgrades and conservative spending.

CHANGE IN NET POSITION	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 159,829	\$ 174,425	\$ 1,108,742	\$ 1,047,927	\$ 1,268,571	\$ 1,222,352
Operating grants and contributions	53,405	72,320	-	-	53,405	72,320
Capital grants and contributions	-	-	745,000	100,000	745,000	100,000
General revenues:						
Taxes	470,544	462,488	-	-	470,544	462,488
Licenses and permits	2,750	2,500	-	-	2,750	2,500
Intergovernmental	317,527	305,087	-	47,040	317,527	352,127
Interest	51,348	15,033	14,568	22,784	65,916	37,817
Miscellaneous	38,322	39,032	326	826	38,648	39,858
Gain on disposal of capital assets	-	8,425	6,610	-	6,610	8,425
Special item - conduit debt rollover	-	242,790	-	-	-	242,790
Transfers	(25,000)	(50,000)	25,000	50,000	-	-
<b>Total revenues, special item and transfers</b>	<b>1,068,725</b>	<b>1,272,100</b>	<b>1,900,246</b>	<b>1,268,577</b>	<b>2,968,971</b>	<b>2,540,677</b>
<b>Expenses:</b>						
General government	206,948	195,555	-	-	206,948	195,555
Public safety	235,106	244,581	-	-	235,106	244,581
Public works	569,533	323,929	-	-	569,533	323,929
Public health	17,882	16,895	-	-	17,882	16,895
Culture and recreation	225,959	251,639	-	-	225,959	251,639
Housing and community development	135,220	135,219	-	-	135,220	135,219
Water	-	-	476,550	438,792	476,550	438,792
Sewer	-	-	389,812	363,407	389,812	363,407
Solid waste	-	-	160,980	163,635	160,980	163,635
Other current charges	10,265	9,394	-	-	10,265	9,394
Interest on long-term debt	927	2,123	-	-	927	2,123
<b>Total expenses</b>	<b>1,401,840</b>	<b>1,179,335</b>	<b>1,027,342</b>	<b>965,834</b>	<b>2,429,182</b>	<b>2,145,169</b>
Change in net position	(333,115)	92,765	872,904	302,743	539,789	395,508
Net position, beginning	6,305,843	6,213,078	3,362,785	3,060,042	9,668,628	9,273,120
<b>Net position, ending</b>	<b>\$ 5,972,728</b>	<b>\$ 6,305,843</b>	<b>\$ 4,235,689</b>	<b>\$ 3,362,785</b>	<b>\$ 10,208,417</b>	<b>\$ 9,668,628</b>

**FUND FINANCIAL STATEMENTS**

The fund financial statements provide detailed information about the major (most significant) funds. Governments may choose to report other governmental and enterprise funds as major funds, even though they do not meet this test. The General fund is always reported as a major fund. To be reported as a major fund, a fund must meet each of the two following criteria.

Total assets, deferred outflows, liabilities, deferred inflows, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding element total (assets, liabilities, etc.) for all funds of that category or type (that is, total governmental or total enterprise funds).

The same element that met the 10 percent criterion is at least 5 percent of the corresponding element total for all governmental and enterprise funds combined.

Fund balance for the General fund, the main operating fund, decreased by \$126,415. Current year expenditures exceeded revenues by \$149,191 as a result of re-appropriating fund balance to cover current year operations.

CITY OF FORSYTH  
MANAGEMENT'S DISCUSSION & ANALYSIS

The Special Projects fund is considered a major fund. The fund was created in the 1980's due to the impact of coal development in Rosebud County. The fund has grown over the years. As described in the city charter; it takes an affirmative vote of the Mayor and all City Council members to expend fund principal. As approved by the Mayor and City Council, \$25,000 was transferred out and utilized to support debt service for the sewer replacement project. Fund balance decreased \$10,491 or less than 1 percent.

Fund balance for the capital projects fund decreased \$167,606 mainly due to the purchasing a new fire truck.

Net position of our business-type activities increased \$872,904, mainly due to capital grants for waste water system upgrades and conservative spending.

The general fund budget was amended for various changes to revenues and expenditures.

#### **CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets:** The City Council approved a depreciation policy in which the straight line method is used for the estimated useful lives of buildings and systems (10-100 years), building improvements (10-50 years) and machinery and equipment (10-15 years). In the governmental activities, total depreciation was \$209,633. Major additions included a portion of a new drain on 12<sup>th</sup> Avenue, a new fire truck and engineering for new sidewalks. Business-type capital asset additions included wastewater upgrades and a new pickup. Further detail of capital assets is presented in the notes to the basic financial statements.

**Long Term Debt:** At the end of the fiscal year, the City of Forsyth had total debt of \$1,927,890. \$1,674,461 is related to outstanding bonds for our business-type activities. The City Council agreed to support Sewer fund debt service in the amount of \$25,000, annually, from Special Project fund interest earnings to offset monthly service rates. At the end of the fiscal year, compensated absences and a pool improvement loan are the only long term obligations of the governmental activities.

#### **THE GOVERNMENT'S FUTURE**

The budget continues the prudent analysis of the ongoing needs of the City of Forsyth versus the available revenues. City department heads, City Council and Mayor spent numerous hours doing the preparatory work to create a workable and balanced budget for the 2014-2015 fiscal year. Department heads provided the initial dollar figures for each of their departments, the departments weigh the urgency of the various equipment and facility repair requests versus the impact on the taxes and fees paid by Forsyth citizens. The result is a balanced budget that maintains acceptable reserves. Community members had the opportunity to review the budget and attend budget hearings to provide their input. No community members chose to attend any of the budget meetings.

The city adopted a Growth Plan and Capital Improvements Plan in recent years and among the items being addressed are wastewater upgrades to the wastewater collection system. The upgrades included lift stations and line replacement behind the business area. The city was awarded a Coal Board Grant in the amount of \$250,000, a Treasure State Endowment Program grant in the amount of \$500,000 and a Renewal Resource Grant in the amount of \$100,000 to help pay for the project. The city has been prudent in setting aside funds for future projects and used \$400,000 of replacement and depreciation money to put toward the project. The city continues put money into replacement and depreciation, to help with future project and purchases, which include acquisition of a new vacuum truck, and installation of a new ultra violet system at the plant.

Water valves, fire hydrants and line replacement are ongoing projects, with consideration to upgrades to the pumping plant and water storage tank.

Meetings have been held with the citizens to explain that the city is going forward with a sidewalk replacement project. The city has applied for and received funding from the Community Transportation Enhancement Program. This is a shared project between the city and property owner, with Rosebud County gifting the city approximately \$104,000. The project will be advertised for bid and construction anticipated in the spring of 2015.

The city has partnered with the Corp of Engineers to develop a System Wide Improvement Plan to continue to make improvements and modifications to the dike system.

The city continues to partner with South Eastern Montana Development Corporation, (SEMDC) a nonprofit organization formed by Local Governments for the purpose of strengthening diversified industries, supporting thriving commercial centers while maintaining a traditional, rural, high quality lifestyle. SEMDC brings a wealth of knowledge and experience to the city and serves as an invaluable resource.

The City of Forsyth remains in good financial shape for the foreseeable future thanks to the hard work of the elected city officials and employees.

CITY OF FORSYTH  
STATEMENT OF NET POSITION  
June 30, 2014

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and equivalents	\$ 487,992	\$ 142,686	\$ 630,678
Investments	2,646,638	90,989	2,737,627
Receivables:			
Taxes and assessments	66,178	23,608	89,786
Utility	-	91,386	91,386
Governments	-	509,720	509,720
Inventories	-	15,375	15,375
Restricted assets:			
Cash and equivalents	-	19,330	19,330
Investments	199,151	1,640,853	1,840,004
Capital assets:			
Land and construction in progress	163,462	7,315	170,777
Capital assets, net of accumulated depreciation	2,596,194	3,898,263	6,494,457
<b>Total assets</b>	<b>6,159,615</b>	<b>6,439,525</b>	<b>12,599,140</b>
<b>LIABILITIES</b>			
Accounts payable-vendors	7,750	440,013	447,763
Deposits payable	-	15,070	15,070
Long-term liabilities:			
Due within one year:			
Bonds and notes	13,563	160,265	173,828
Compensated absences	5,206	3,897	9,103
Due in more than one year:			
Bonds and notes	113,519	1,549,523	1,663,042
Compensated absences	46,849	35,068	81,917
<b>Total liabilities</b>	<b>186,887</b>	<b>2,203,836</b>	<b>2,390,723</b>
<b>NET POSITION</b>			
Net investment in capital assets	2,632,574	2,195,790	4,828,364
Restricted for:			
General government	2,143,375	-	2,143,375
Public safety	3,099	-	3,099
Public works	179,860	-	179,860
Capital projects	508,184	-	508,184
Debt service	199,151	12,357	211,508
Unrestricted	306,485	2,027,542	2,334,027
<b>Total net position</b>	<b>\$ 5,972,728</b>	<b>\$ 4,235,689</b>	<b>\$ 10,208,417</b>

CITY OF FORSYTH  
STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Governmental activities:</b>							
General government	\$ 206,948	\$ 13,034	\$ 750	\$ -	\$ (193,164)	\$ -	\$ (193,164)
Public safety	235,106	7,726	2,358	-	(225,022)	-	(225,022)
Public works	569,533	122,420	50,297	-	(396,816)	-	(396,816)
Public health	17,882	117	-	-	(17,765)	-	(17,765)
Culture and recreation	225,959	16,532	-	-	(209,427)	-	(209,427)
Housing and community development	135,220	-	-	-	(135,220)	-	(135,220)
Other current charges	10,265	-	-	-	(10,265)	-	(10,265)
Interest on long-term debt	927	-	-	-	(927)	-	(927)
<b>Total governmental activities</b>	<b>1,401,840</b>	<b>159,829</b>	<b>53,405</b>	<b>-</b>	<b>(1,188,606)</b>	<b>-</b>	<b>(1,188,606)</b>
<b>Business-type activities:</b>							
Water	476,550	474,969	-	-	-	(1,581)	(1,581)
Sewer	389,812	464,759	-	745,000	-	819,947	819,947
Solid Waste	160,980	169,014	-	-	-	8,034	8,034
<b>Total business-type activities</b>	<b>1,027,342</b>	<b>1,108,742</b>	<b>-</b>	<b>745,000</b>	<b>-</b>	<b>826,400</b>	<b>826,400</b>
<b>Total</b>	<b>\$ 2,429,182</b>	<b>\$ 1,268,571</b>	<b>\$ 53,405</b>	<b>\$ 745,000</b>	<b>(1,188,606)</b>	<b>826,400</b>	<b>(362,206)</b>
<b>General revenues:</b>							
Property taxes					470,544	-	470,544
Licenses and permits					2,750	-	2,750
Intergovernmental					317,527	-	317,527
Unrestricted investment earnings					51,348	14,568	65,916
Miscellaneous					38,322	326	38,648
Gain on disposal of capital assets					-	6,610	6,610
Transfers					(25,000)	25,000	-
<b>Total general revenues and transfers</b>					<b>855,491</b>	<b>46,504</b>	<b>901,995</b>
<b>Change in net position</b>					<b>(333,115)</b>	<b>872,904</b>	<b>539,789</b>
<b>Net position - beginning</b>					<b>6,305,843</b>	<b>3,362,785</b>	<b>9,668,628</b>
<b>Net position - ending</b>					<b>\$ 5,972,728</b>	<b>\$ 4,235,689</b>	<b>\$ 10,208,417</b>

CITY OF FORSYTH  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2014

	General	Special Projects	Capital Projects	Total Nonmajor Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 45,425	\$ 279,283	\$ 68,087	\$ 95,197	\$ 487,992
Investments	270,837	1,863,480	405,953	106,368	2,646,638
Restricted assets:					
Investments	-	199,151	-	-	199,151
Taxes and assessments receivable	50,028	-	-	16,150	66,178
<b>Total assets</b>	<b>\$ 366,290</b>	<b>\$ 2,341,914</b>	<b>\$ 474,040</b>	<b>\$ 217,715</b>	<b>\$ 3,399,959</b>
<b>LIABILITIES</b>					
Accounts payable	\$ 7,750	-	-	-	\$ 7,750
<b>Total liabilities</b>	<b>7,750</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,750</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable revenue-taxes and assessments	\$ 50,028	-	-	\$ 16,150	\$ 66,178
<b>Total deferred inflows of resources</b>	<b>50,028</b>	<b>-</b>	<b>-</b>	<b>16,150</b>	<b>66,178</b>
<b>FUND BALANCES</b>					
Restricted for:					
General government	-	2,142,763	-	40	2,142,803
Public safety	-	-	-	3,099	3,099
Public works	-	-	-	164,282	164,282
Capital projects	-	-	474,040	34,144	508,184
Debt service	-	199,151	-	-	199,151
Unassigned	308,512	-	-	-	308,512
<b>Total fund balances</b>	<b>308,512</b>	<b>2,341,914</b>	<b>474,040</b>	<b>201,565</b>	<b>3,326,031</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 366,290</b>	<b>\$ 2,341,914</b>	<b>\$ 474,040</b>	<b>\$ 217,715</b>	<b>\$ 3,399,959</b>

CITY OF FORSYTH  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION  
June 30, 2014

Total fund balances, governmental funds	\$ 3,326,031
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the fund financial statements, but are reported in the governmental activities of the statement of net position.	2,759,656
Other long-term assets are not available to pay current period expenditures and, therefore, are reported in the fund financial statements as unavailable revenue..	66,178
Some liabilities (such as notes payable and compensated absences), are not due and payable in the current period and, therefore, are not included in the fund financial statements, but are included in the governmental activities of the statement of net position.	<u>(179,137)</u>
Net position of governmental activities	<u><u>\$ 5,972,728</u></u>

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

	General	Special Projects	Capital Projects	Total Nonmajor Funds	Total Governmental Funds
<b>REVENUES</b>					
Taxes/assessments	\$ 436,285	\$ -	\$ -	\$ 116,560	\$ 552,845
Fines and forfeitures	9,528	-	-	-	9,528
Licenses and permits	6,602	-	-	6,630	13,232
Intergovernmental	317,527	-	-	53,405	370,932
Charges for services	17,674	-	-	-	17,674
Investment earnings	3,302	42,750	4,176	1,120	51,348
Miscellaneous	37,622	-	-	700	38,322
<b>Total revenues</b>	<b>828,540</b>	<b>42,750</b>	<b>4,176</b>	<b>178,415</b>	<b>1,053,881</b>
<b>EXPENDITURES</b>					
Current:					
General government	196,373	-	-	-	196,373
Public safety	209,142	-	-	17,279	226,421
Public works	347,906	-	-	196,948	544,854
Public health	16,767	-	-	-	16,767
Culture and recreation	188,321	-	-	710	189,031
Housing and community development	1,887	-	-	-	1,887
Other current charges	1,933	8,332	-	-	10,265
Debt service:					
Principal	6,725	-	-	-	6,725
Interest and other charges	927	-	-	-	927
Capital outlay	7,750	-	171,782	-	179,532
<b>Total expenditures</b>	<b>977,731</b>	<b>8,332</b>	<b>171,782</b>	<b>214,937</b>	<b>1,372,782</b>
Excess (deficiency) of revenues over expenditures	(149,191)	34,418	(167,606)	(36,522)	(318,901)
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	22,776	-	-	1,652	24,428
Transfers out	-	(44,909)	-	(4,519)	(49,428)
<b>Total other financing sources and (uses)</b>	<b>22,776</b>	<b>(44,909)</b>	<b>-</b>	<b>(2,867)</b>	<b>(25,000)</b>
<b>Net change in fund balances</b>	<b>(126,415)</b>	<b>(10,491)</b>	<b>(167,606)</b>	<b>(39,389)</b>	<b>(343,901)</b>
Fund balances - beginning	434,927	2,352,405	641,646	240,954	3,669,932
<b>Fund balances - ending</b>	<b>\$ 308,512</b>	<b>\$ 2,341,914</b>	<b>\$ 474,040</b>	<b>\$ 201,565</b>	<b>\$ 3,326,031</b>

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

Net change in fund balances - total governmental funds \$ (343,901)

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

Governmental funds report outlay for capital assets as expenditures because such outlay uses current financial resources. In contrast, the statement of activities reports only a portion of the outlay as expense. The outlay is allocated over the assets estimated useful lives as depreciation expense for the period.

This is the amount by which depreciation (\$209,633) exceeded capital outlay (\$179,532) in the current period. (30,101)

Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the statement of activities when earned. 39,844

Governmental funds report debt proceeds as current financial resources. In contrast, the statement of activities treats such issuance of debt as a liability. Governmental funds report repayment of principal as an expenditure. In contrast, the statement of activities treats such repayments as a reduction in long-term liabilities. This is the amount of debt principal payments. 6,725

Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:

Compensated absences (5,682)

Change in net position of governmental activities \$ (333,115)

CITY OF FORSYTH  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
June 30, 2014

	Business-type Activities			Total Enterprise Funds
	Water	Sewer	Solid Waste	
<b>ASSETS</b>				
<b>Current assets:</b>				
Cash and cash equivalents	\$ 96,032	\$ 44,823	\$ 1,831	\$ 142,686
Investments	75,558	15,431	-	90,989
<b>Receivables:</b>				
Taxes and assessments	-	-	23,608	23,608
Utility	46,795	44,591	-	91,386
Governments	-	509,720	-	509,720
Inventories	15,375	-	-	15,375
<b>Total current assets</b>	<b>233,760</b>	<b>614,565</b>	<b>25,439</b>	<b>873,764</b>
<b>Non-current assets:</b>				
<b>Restricted assets:</b>				
Cash and cash equivalents	-	-	19,330	19,330
Investments	1,007,606	507,077	126,170	1,640,853
	<u>1,007,606</u>	<u>507,077</u>	<u>145,500</u>	<u>1,660,183</u>
<b>Capital assets:</b>				
Land	7,115	200	-	7,315
Buildings and systems	2,659,334	5,929,334	185,328	8,773,996
Machinery and equipment	90,642	169,931	240,819	501,392
Less: accumulated depreciation	(2,356,940)	(2,773,589)	(246,596)	(5,377,125)
Capital assets, net	<u>400,151</u>	<u>3,325,876</u>	<u>179,551</u>	<u>3,905,578</u>
<b>Total non-current assets</b>	<b>1,407,757</b>	<b>3,832,953</b>	<b>325,051</b>	<b>5,565,761</b>
<b>Total assets</b>	<b>1,641,517</b>	<b>4,447,518</b>	<b>350,490</b>	<b>6,439,525</b>
<b>LIABILITIES</b>				
<b>Current liabilities:</b>				
Accounts payable	200	439,813	-	440,013
Deposits payable	15,070	-	-	15,070
Compensated absences	1,516	847	1,534	3,897
Bonds and notes payable	23,265	137,000	-	160,265
<b>Total current liabilities</b>	<b>40,051</b>	<b>577,660</b>	<b>1,534</b>	<b>619,245</b>
<b>Non-current liabilities:</b>				
Compensated absences	13,640	7,626	13,802	35,068
Bonds and notes payable	12,062	1,537,461	-	1,549,523
<b>Total non-current liabilities</b>	<b>25,702</b>	<b>1,545,087</b>	<b>13,802</b>	<b>1,584,591</b>
<b>Total liabilities</b>	<b>65,753</b>	<b>2,122,747</b>	<b>15,336</b>	<b>2,203,836</b>
<b>NET POSITION</b>				
Net investment in capital assets	364,824	1,651,415	179,551	2,195,790
Restricted for debt service	12,357	-	-	12,357
Unrestricted	1,198,583	673,356	155,603	2,027,542
<b>Total net position</b>	<b>\$ 1,575,764</b>	<b>\$ 2,324,771</b>	<b>\$ 335,154</b>	<b>\$ 4,235,689</b>

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

	Business-type Activities			Total Enterprise Funds
	Water	Sewer	Solid Waste	
REVENUES				
Charges for services	\$ 474,969	\$ 464,759	\$ 7,822	\$ 947,550
Assessments	-	-	161,192	161,192
Total operating revenues	<u>474,969</u>	<u>464,759</u>	<u>169,014</u>	<u>1,108,742</u>
OPERATING EXPENSES				
Personal services	240,214	135,327	102,397	477,938
Supplies	49,304	26,024	11,875	87,203
Purchased services	81,669	61,228	19,575	162,472
Building materials	1,321	102	-	1,423
Fixed charges	11,883	6,713	4,575	23,171
Depreciation	89,610	142,258	22,558	254,426
Total operating expenses	<u>474,001</u>	<u>371,652</u>	<u>160,980</u>	<u>1,006,633</u>
Operating income	<u>968</u>	<u>93,107</u>	<u>8,034</u>	<u>102,109</u>
NON-OPERATING REVENUES (EXPENSES)				
Interest and investment revenue	8,609	4,996	963	14,568
Miscellaneous revenue	-	300	26	326
Gain on disposal of capital assets	6,610	-	-	6,610
Interest expense	(2,549)	(18,160)	-	(20,709)
Total non-operating revenues (expenses)	<u>12,670</u>	<u>(12,864)</u>	<u>989</u>	<u>795</u>
Income before capital contributions and transfers	13,638	80,243	9,023	102,904
Capital contributions	-	745,000	-	745,000
Transfers in	-	25,000	-	25,000
Change in net position	13,638	850,243	9,023	872,904
Net position - beginning	<u>1,562,126</u>	<u>1,474,528</u>	<u>326,131</u>	<u>3,362,785</u>
Net position - ending	<u>\$ 1,575,764</u>	<u>\$ 2,324,771</u>	<u>\$ 335,154</u>	<u>\$ 4,235,689</u>

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

	Business-type Activities			Total Enterprise Funds
	Water	Sewer	Solid Waste	
<b>CASH FLOWS FROM OPERATIONS:</b>				
Cash received from customers	\$ 474,679	\$ 465,383	\$ 7,822	\$ 947,884
Cash received from assessments	-	-	148,934	148,934
Cash paid to employees	(240,279)	(135,297)	(101,364)	(476,940)
Cash paid to suppliers for goods and services	(144,177)	(94,067)	(36,025)	(274,269)
Net cash provided by operating activities	<u>90,223</u>	<u>236,019</u>	<u>19,367</u>	<u>345,609</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>				
Cash transferred from other funds	-	25,000	-	25,000
Cash received from miscellaneous sources	-	300	26	326
Decrease in customer water deposits payable	(2,400)	-	-	(2,400)
Net cash provided (used) by noncapital financing activities	<u>(2,400)</u>	<u>25,300</u>	<u>26</u>	<u>22,926</u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:</b>				
Cash paid for capital assets	(9,668)	(1,678,715)	-	(1,688,383)
Cash received from bonds	-	830,626	-	830,626
Cash received from capital grants	-	548,115	-	548,115
Principal payments on debt	(22,165)	(78,000)	-	(100,165)
Interest paid	(2,549)	(18,160)	-	(20,709)
Net cash used by capital financing activities	<u>(34,382)</u>	<u>(396,134)</u>	<u>-</u>	<u>(430,516)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Net change in investments	(332,432)	(63,089)	(49,172)	(444,693)
Interest received	8,609	4,996	963	14,568
Net cash used by investing activities	<u>(323,823)</u>	<u>(58,093)</u>	<u>(48,209)</u>	<u>(430,125)</u>
Change in cash and cash equivalents	(270,382)	(192,908)	(28,816)	(492,106)
Cash and cash equivalents - beginning (includes restricted cash and cash equivalents of \$258,938)	366,414	237,731	49,977	654,122
Cash and cash equivalents - ending (includes restricted cash and cash equivalents of \$19,330)	<u>\$ 96,032</u>	<u>\$ 44,823</u>	<u>\$ 21,161</u>	<u>\$ 162,016</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>				
Operating income	\$ 968	\$ 93,107	\$ 8,034	\$ 102,109
Adjustment to reconcile operating income to net cash provided by operating activities:				
Depreciation	89,610	142,258	22,558	254,426
(Increase) decrease in accounts receivable	(290)	624	-	334
Increase in taxes/assessments receivable	-	-	(12,258)	(12,258)
Increase (decrease) in compensated absences	(65)	30	1,033	998
Net cash provided by operating activities	<u>\$ 90,223</u>	<u>\$ 236,019</u>	<u>\$ 19,367</u>	<u>\$ 345,609</u>
<b>Schedule of Noncash Investing, Capital and Financing Activities</b>				
Capital assets purchased on account	\$ -	\$ 439,813	\$ -	\$ 439,813
Capital grants	-	196,885	-	196,885
Bonds	-	312,835	-	312,835

See notes to basic financial statements.

CITY OF FORSYTH  
STATEMENT OF NET POSITION  
FIDUCIARY FUND  
June 30, 2014

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	<u>\$ 8,517</u>
Total assets	<u><u>\$ 8,517</u></u>
LIABILITIES	
Accounts payable	<u><u>\$ 8,517</u></u>

CITY OF FORSYTH  
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the government have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations).

The government's significant accounting policies are described below.

Reporting Entity

For financial reporting purposes, the government has included all funds, organizations, agencies, boards, commissions and authorities. The government has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the government are such that exclusion would cause the government's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. Based on the criteria established by the Governmental Accounting Standards Board, the government has no component units.

Government-wide and Fund Financial Statements

The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements. 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. Fiduciary funds are excluded from the government-wide financial statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or identifiable activity. Program revenues include 1) charges for services which report fees and other charges provided by a given function or identifiable activity 2) operating grants and contributions and 3) capital grants and contributions. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund financial statements are provided for governmental, proprietary and fiduciary funds. Major individual governmental funds and major individual enterprise funds are reported in separate columns in the fund financial statements. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

CITY OF FORSYTH  
NOTES TO BASIC FINANCIAL STATEMENTS

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

The government reports the following major governmental funds:

The general fund is used to account for all financial resources, except those required by law or administrative action to be accounted for in another fund. The general fund is always reported as a major fund in the governmental fund statements.

Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted by law or administrative action to expenditure for specific purposes other than debt service or capital projects. The following special revenue fund is reported as major.

The special projects fund accounts for the resources accumulated from the issuance pollution control revenue bonds in prior years. These bonds are special limited obligations of the City, payable solely from separate loan agreements with the respective power companies. The bonds do not constitute a debt or pledge the full faith and credit of the City. The fund was created in the 1980s due to the impact of coal development in Rosebud County. The fund has grown over the years. As described in the city charter; it takes an affirmative vote of the Mayor and all City Council members to expend fund principal.

The capital projects fund accounts for financial resources earmarked or segregated for the acquisition and construction of major capital improvements.

The government reports the following major proprietary funds:

The water fund accounts for the activities of the government's water services.

The sewer fund accounts for the activities of the government's wastewater services.

The solid waste fund accounts for the activities of the government's sanitation services.

Additionally, the government reports the following fund types:

Agency funds are custodial in nature and are used to account for assets that the government holds for others in an agency capacity.

#### Assets, Liabilities, Deferred Inflows and Net Position/Fund Balance

##### Cash and Investments

The City maintains and controls a cash and investment portfolio for all funds. The investments portfolio is managed by the City Clerk/Treasurer and overseen by the Mayor and City Council. The City Clerk/Treasurer is responsible for setting the investment policies, reviewing and monitoring investments to ensure the City's investment policies are met and ensuring investments are in compliance with State statute.

Allowable investments include direct obligations of the United States Government, repurchase agreements, savings or time deposits in a state or national bank, building and loan associations, savings and loan associations, or credit unions insured by the FDIC, FSLIC, or NCUA and the State Short Term Investment Pool (STIP). STIP is classified as a 2a7-like pool, and as such, uses amortized cost to report unit values. Investments are reported at fair value. Fair value is determined annually, based on year-end market values. Short-term investments are reported at cost, which approximates fair value. Cash on hand, demand, savings and time deposits, STIP and short-term investments with original maturities of three months or less from the date of acquisition are considered cash equivalents. Investment income is allocated to individual funds owning the investment. At year-end, the net change in fair value is allocated to individual funds owning the investments.

##### Receivables

Utility receivable bad debts are written-off using the direct write-off method. Use of this method does not result in a material difference from the allowance method required by generally accepted accounting principles.

Receivables from and payables to external parties are reported separately and are not offset in the proprietary fund financial statements and business-type activities of the government-wide financial statements, unless a right of offset exists.

Most property taxes are levied in September of each fiscal year, based on assessments as of the prior January 1. Real property taxes are billed as of November 1 and are payable in two payments, November 30 and May 31. Unpaid taxes become delinquent on December 1 and June 1. Most personal property taxes are due and payable on January 1 and become delinquent February 1. Property taxes are maintained and collected by the County Treasurer. No allowance is made for uncollectible taxes as they are not considered

CITY OF FORSYTH  
NOTES TO BASIC FINANCIAL STATEMENTS

significant.

Inventories

All inventories are valued at cost. Inventories are recorded as expenses when consumed rather than when purchased.

Restricted Assets

Certain cash assets of the enterprise fund have been set aside and are classified by applicable bond covenants. The current debt service (\$89,194) account is used to segregate resources accumulated for debt service payments over the next twelve months. The future debt service account (\$12,357) is used to report resources set aside to make up potential future deficiencies in the current debt service account. The replacement and depreciation (\$1,543,212) account is used to report resources set aside to meet unexpected contingencies or to fund asset renewals and replacements. \$15,420 is also set aside for water meter deposits.

Additionally, cash assets of the special purpose fund have been set aside and are classified by applicable bond/loan covenants. The future debt service account (\$199,151) is used to report resources set aside to make up potential future deficiencies in the current debt service accounts.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. The government has elected not to report major infrastructure assets retroactively. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Contributed 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.

Interest incurred during the construction phase of capital assets of enterprise funds is included as part of the capitalized value of the assets constructed. There was no capitalized interest for the year ended June 30, 2014.

Depreciation on capital assets is calculated on the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Improvements	10-50
Building and systems	10-100
Machinery and equipment	10-15

Collections Not Capitalized

Certain collections of historic artifacts and works of art are not reported in the accompanying financial statements. These assets have not been capitalized because they meet all of the conditions that qualify them as collections that are not required to be capitalized. These conditions are the collections are held for public exhibition or education in the furtherance of public service, not held for financial gain; the collections are protected, kept unencumbered, cared for, and preserved; and any sale proceeds are expected to be used to acquire other items for the collections.

Compensated Absences

Liabilities associated with accumulated vacation and sick leave are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

Employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Accumulated vacation is restricted under State statute to a maximum accumulation of two times the amount earned annually. Sick leave is accumulated at 12 days per year with no limitations on the amount that may be accumulated. Upon retirement or resignation, an employee is eligible for 100 percent of the accumulated vacation leave and 25 percent of the accumulated sick leave.

Long-term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond issuance costs are recognized as an expense in the period incurred. Bonds payable are reported net of the applicable bond premium or discount.

CITY OF FORSYTH  
NOTES TO BASIC FINANCIAL STATEMENTS

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Deferred Inflows of Resources

In addition to liabilities, the statement of net 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. The government has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

It is the government's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

Net Position

In the government-wide statements, equity is classified as net position and displayed in three components:

Net investment in capital assets - consists of capital assets (net of accumulated depreciation), plus capital-related deferred outflows of resources, less capital-related borrowings and deferred inflows of resources.

Restricted - consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted - any portion of net position that does not meet the definition of "net investment in capital assets" or "restricted."

Proprietary fund equity is classified the same as in the government-wide statements.

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

Fund Balance

In the fund statements, governmental fund equity is classified as fund balance. The following classifications describe the relative strength of the spending constraints:

Nonspendable - amounts that cannot be spent either because they are in nonspendable 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 or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed fund balance - amounts constrained to specific purposes by the government itself, using its highest level of decision-making authority (i.e., governing body). The government establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. To be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.

Assigned fund balance - amounts the government intends to use for a specific purpose. Intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.

Unassigned fund balance - amounts that are available for any purpose. Positive amounts are reported only in the general fund.

The governing body has by resolution authorized the clerk/treasurer and/or council to assign fund balance. There was no assigned fund balance in the general fund.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the government considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the government considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the governing body has provided otherwise in its commitment or assignment actions.

CITY OF FORSYTH  
NOTES TO BASIC FINANCIAL STATEMENTS

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.

NOTE 2. DETAILED NOTES ON ALL FUNDS

Cash and Cash Equivalents and Investments

The government's cash, cash equivalents and investments are reported as follows:

Governmental activities	\$ 3,333,781
Business-type activities	1,893,858
Fiduciary funds	<u>8,517</u>
	<u>\$ 5,236,156</u>

Total carrying value of cash, cash equivalents and investments as of June 30, 2014, consisted of the following:

	Cash/Cash Equivalents	Investments	Total
Cash on hand	\$ 80	\$ -	\$ 80
Petty cash	90	-	90
Cash in banks:			
Demand deposits	381,386	-	381,386
Time deposits	-	2,515,000	2,515,000
Brokers:			
U.S. Government securities	-	2,062,631	2,062,631
Money Markets	<u>276,969</u>	-	<u>276,969</u>
	<u>\$ 658,525</u>	<u>\$ 4,577,631</u>	<u>\$ 5,236,156</u>

*Custodial Credit Risk - Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. As of June 30, 2014, \$2,565,585 of the government's bank balance of \$3,315,585 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 377,523
Uninsured and collateral held by the pledging bank's trust department not in the government's name	<u>2,188,062</u>
	<u>\$ 2,565,585</u>

State statutes require that the government obtain securities for the uninsured portion of deposits as follows: 1.) securities equal to 50% of such deposits if the institution in which the deposits are made has a net worth to total assets ratio of 6% or more, or 2.) 100% if the ratio of net worth to total assets is less than 6%. State statutes do not specify in whose custody or name the collateral is to be held. The amount of collateral held for the government's deposits as of June 30, 2014, exceeded the amount required by state statute.

The investment pool portfolio as of June 30, 2014 is listed below. The security type percentage is based on the book value ratio of the specific security investment type to the total portfolio.

Security Name	Coupon	Maturity	Par	Book Value	Fair Value	% of Total
U.S. Government securities	1.00 to 3.00%	Various	\$ 2,020,000	\$ 2,062,631	\$ 2,046,670	0.4506
Time deposits	.40 to 1.50%	Various	2,515,000	<u>2,515,000</u>	<u>2,515,000</u>	0.5494
				<u>\$ 4,577,631</u>	<u>\$ 4,561,670</u>	

CITY OF FORSYTH  
NOTES TO BASIC FINANCIAL STATEMENTS

*Interest Rate Risk.* The government does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, under state statute, an investment may not have a maturity date exceeding 5 years, except when the investment is used in an escrow account to refund an outstanding bond issue in advance.

*Credit Risk.* Allowable investments include direct obligations of the United States Government, repurchase agreements, savings or time deposits in a state or national bank, building and loan associations, savings and loan associations, or credit unions insured by the FDIC, FSLIC, or NCUA and the State Short Term Investment Pool (STIP). STIP is classified as a 2a7-like pool, and as such, uses amortized cost to report unit values. The government has no investment policy that would further limit its investment choices. The Short-Term Investment Pool (STIP) maintained by the State of Montana has certain investments in derivatives. GASB requires the nature of the underlying securities and market, credit and legal risks be disclosed. Reference to the audit of the State of Montana would identify the level of risk associated with STIP.

Investments made by the government are summarized below. The investments that are represented by specific identifiable investment securities are categorized in the following manner: Category 1-Insured or registered, with securities held by the government or its agent in the government's name; Category 2-Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the government's name; Category 3-Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the government's name.

	Custodial Credit Risk Category			Carrying Amount	Fair Value
	1	2	3		
U.S. Government securities	\$ 500,000	\$ -	\$ 1,562,631	\$ 2,062,631	\$ 2,046,670
Money markets	250,000	-	26,969	276,969	276,969
	<u>\$ 750,000</u>	<u>\$ -</u>	<u>\$ 1,589,600</u>	<u>2,339,600</u>	<u>2,323,639</u>

Capital Assets

Capital asset activity for the year ended June 30, 2014, was as follows:

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Governmental activities:				
Capital assets, not being depreciated				
Land	\$ 131,622	\$ -	\$ -	\$ 131,622
Construction-in-progress	-	31,840	-	31,840
Total capital assets, not being depreciated	<u>131,622</u>	<u>31,840</u>	<u>-</u>	<u>163,462</u>
Capital assets, being depreciated				
Buildings/improvements	5,433,769	-	-	5,433,769
Improvements other than buildings	224,803	-	-	224,803
Machinery and equipment	807,003	139,942	-	946,945
Infrastructure	38,252	7,750	-	46,002
Total capital assets, being depreciated	<u>6,503,827</u>	<u>147,692</u>	<u>-</u>	<u>6,651,519</u>
Less accumulated depreciation for:				
Buildings/improvements	(3,154,769)	(170,253)	-	(3,325,022)
Improvements other than buildings	(50,903)	(8,253)	-	(59,156)
Machinery and equipment	(639,382)	(30,346)	-	(669,728)
Infrastructure	(638)	(781)	-	(1,419)
Total accumulated depreciation	<u>(3,845,692)</u>	<u>(209,633)</u>	<u>-</u>	<u>(4,055,325)</u>
Total capital assets, being depreciated, net	<u>2,658,135</u>	<u>(61,941)</u>	<u>-</u>	<u>2,596,194</u>
Governmental activities capital assets, net	<u>\$ 2,789,757</u>	<u>\$ (30,101)</u>	<u>\$ -</u>	<u>\$ 2,759,656</u>

CITY OF FORSYTH  
NOTES TO BASIC FINANCIAL STATEMENTS

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Business-type activities:				
Capital assets, not being depreciated				
Land	\$ 7,315	\$ -	\$ -	\$ 7,315
Construction in progress	281,098	2,101,110	(2,382,208)	-
Total capital assets, not being depreciated	<u>288,413</u>	<u>2,101,110</u>	<u>(2,382,208)</u>	<u>7,315</u>
Capital assets, being depreciated				
Buildings and systems	6,384,038	2,389,958	-	8,773,996
Machinery and equipment	490,446	25,946	(15,000)	501,392
Total capital assets, being depreciated	<u>6,874,484</u>	<u>2,415,904</u>	<u>(15,000)</u>	<u>9,275,388</u>
Less accumulated depreciation for:				
Buildings and systems	(4,858,146)	(217,535)	-	(5,075,681)
Machinery and equipment	(279,553)	(36,891)	15,000	(301,444)
Total accumulated depreciation	<u>(5,137,699)</u>	<u>(254,426)</u>	<u>15,000</u>	<u>(5,377,125)</u>
Total capital assets, being depreciated, net	<u>1,736,785</u>	<u>2,161,478</u>	<u>-</u>	<u>3,898,263</u>
Business-type activities capital assets, net	<u>\$ 2,025,198</u>	<u>\$ 4,262,588</u>	<u>\$ (2,382,208)</u>	<u>\$ 3,905,578</u>

Depreciation expense was charged as follows:

Governmental activities:		
General government		\$ 8,224
Public safety		8,636
Public works		23,606
Public health		921
Culture and recreation		34,913
Housing and community development		133,333
Total depreciation-governmental activities		<u>\$ 209,633</u>
Business-type activities:		
Water		\$ 89,610
Sewer		142,258
Solid Waste		22,558
Total depreciation-business-type activities		<u>\$ 254,426</u>

Interfund Transfers

Interfund balances as of June 30, 2014 consisted of the following:

	Transfers In	Transfers Out	Total
Governmental activities:			
General	\$ 22,776	\$ -	\$ 22,776
Special projects	-	(44,909)	(44,909)
Nonmajor fund	1,652	(4,519)	(2,867)
	<u>\$ 24,428</u>	<u>\$ (49,428)</u>	<u>\$ (25,000)</u>
Business-type activities:			
Sewer	<u>\$ 25,000</u>	<u>\$ -</u>	<u>\$ 25,000</u>
	<u>\$ 25,000</u>	<u>\$ -</u>	<u>\$ 25,000</u>

Transfers consist of unrestricted revenues collected in various funds used to finance programs accounted for in other funds in accordance with budgetary authorizations.

CITY OF FORSYTH  
NOTES TO BASIC FINANCIAL STATEMENTS

Long-Term Debt

Governmental activities notes payable consist of the following:

	Original Amount	Term	Interest Rate	Balance June 30, 2014
Pool-2012 (1)	\$ 133,807	10 yr	1.00%	\$ 127,082

(1) Through Montana Board of Investments. Interest adjusted each February, up to a maximum of 15%.

Annual debt service requirements to maturity for notes payable are as follows:

Year ending June 30,	Governmental Activities		
	Principal	Interest	Total
2015	\$ 13,563	\$ 1,237	\$ 14,800
2016	13,699	1,101	14,800
2017	13,836	966	14,802
2018	13,975	825	14,800
2019	14,115	685	14,800
2020-2023	57,894	1,309	59,203
	\$ 127,082	\$ 6,123	\$ 133,205

During 1996, the Department of Natural Resources and Conservation (DNRC) purchased the 1996 water revenue bonds issued by the City. The note bears an interest rate of 2.9 percent for the first five years and 4.9 percent thereafter. Semi-annual payments are due over a twenty year period. The balance outstanding as of June 30, 2014 was \$35,327. The significant covenant provisions requires monthly transfers from net revenues equaling one-sixth of the principal and interest due within the next six months to the water general revenue bond account and establish a water general reserve account at \$12,357. The City is in compliance with the provisions. Annual debt service requirements to maturity for the 1996 DNRC note are as follows:

Year ending June 30,	Business-type Activities		
	Principal	Interest	Total
2015	\$ 23,265	\$ 1,449	\$ 24,714
2016	12,062	296	12,358
	\$ 35,327	\$ 1,745	\$ 37,072

During 2014, the City refinanced a 2000 wastewater bond through the Montana Department of Natural Resources and Conservation DNRC. The 2014 wastewater bond (\$569,000) has an interest of 2 percent, payable over seven years. The balance outstanding as of June 30, 2014 was \$531,000. Additionally, the City issued 2014 sewer system revenue bonds (\$1,143,461) through the Department of Natural Resources and Conservation (DNRC) where the government pledged income derived from the acquired or constructed assets to pay debt service. The revenue bonds have an interest rate of 3 percent and are payable in installments of principal and interest on a semi-annual basis over a 20 year period. The amount outstanding as of June 30, 2014 was \$1,143,461.

The following are the significant covenant provisions of the DNRC bonds: a sinking and interest account will be established and credited monthly with one-sixth of the principal and interest due within the next six months to meet payments of principal and interest on the bonds as they come due, produce net revenues equal to 125% of the maximum principal and interest due in the next fiscal year, establish a reserve account equal to 10% of the original principal or an amount equal to the maximum principal and interest due in any fiscal year (this account was established with the special projects fund at \$88,310 and \$110,841, respectively) and a replacement and depreciation account will be established for repair and replacement of the sewer system The City is in compliance with the above items.

CITY OF FORSYTH  
NOTES TO BASIC FINANCIAL STATEMENTS

Annual debt service requirements to maturity for revenue bonds are as follows:

Year ending June 30,	Business-type Activities		
	Principal	Interest	Total
2015	\$ 137,000	\$ 33,309	\$ 170,309
2016	141,000	40,729	181,729
2017	144,000	37,264	181,264
2018	148,000	33,719	181,719
2019	152,000	30,074	182,074
2020-2024	501,000	101,715	602,715
2025-2029	431,000	39,399	470,399
2030	20,461	307	20,768
	<u>\$ 1,674,461</u>	<u>\$ 316,516</u>	<u>\$ 1,990,977</u>

Conduit Debt

To provide for the construction of the Colstrip power plants and transmission lines, the City issued pollution control revenue bonds in prior years. These bonds are special limited obligations of the City, payable solely from separate loan agreements with the respective power companies. The bonds do not constitute a debt or pledge of the full faith and credit of the City or the State, and accordingly have not been reported in the accompanying financial statements. As of June 30, 2014, the amount of Pollution Control Revenue Bonds outstanding was unavailable.

Long-term liability activity for the year ended June 30, 2014, was as follows:

	Balance July 1, 2013	Additions	Retirements	Balance June 30, 2014	Due Within One Year
Governmental activities:					
Notes payable	\$ 133,807	\$ -	\$ (6,725)	\$ 127,082	\$ 13,563
Compensated absences	46,373	5,682	-	52,055	5,206
Governmental activity long-term liabilities	<u>\$ 180,180</u>	<u>\$ 5,682</u>	<u>\$ (6,725)</u>	<u>\$ 179,137</u>	<u>\$ 18,769</u>
Business-type activities:					
Revenue bonds	\$ 609,000	\$ 1,143,461	\$ (78,000)	\$ 1,674,461	\$ 137,000
Notes payable	57,492	-	(22,165)	35,327	23,265
Compensated absences	37,967	998	-	38,965	3,897
Business-type activity long-term liabilities	<u>\$ 704,459</u>	<u>\$ 1,144,459</u>	<u>\$ (100,165)</u>	<u>\$ 1,748,753</u>	<u>\$ 164,162</u>

For the governmental activities, notes payable and compensated absences are generally liquidated by the general fund.

NOTE 3. OTHER INFORMATION

Risk Management

The government is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; professional liability (i.e., errors and omissions); workers compensation (i.e., employee injuries); medical insurance costs; and environmental damages. A variety of methods is used to provide insurance for these risks. The government participates in a state-wide public risk pool, MMIA, for workers' compensation coverage. The government pays monthly premiums for its employee injury insurance coverage. Tax exempt bonds were issued to fund reserves. The agreement for formation of the pool provides that it will be self-sustaining through member premiums. There are deductible and maximum coverage limits. The government also participates in MMIA's liability plan which offers insurance for other risks of loss. Given lack of coverage available, the government has no coverage for potential losses from environmental damages. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

CITY OF FORSYTH  
NOTES TO BASIC FINANCIAL STATEMENTS

Interlocal Agreement

Rosebud County and the City of Forsyth signed an agreement whereby the County provides general law enforcement to the City of Forsyth. During 2014, the City contributed \$182,000 for these services.

Contingencies

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any to be immaterial.

The government is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the government's counsel the resolution of these matters will not have a material adverse effect on the financial condition of the government.

Retirement and Disability Plans

The government participates in a statewide mandatory cost-sharing multiple employer defined benefit retirement plan which covers all employees. The plan is established by State law and is administered by the State of Montana. The plan provide retirement, disability, and death benefits to plan members and beneficiaries.

The plan issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained from the Public Employees' Retirement Board, 100 North Park, P.O. Box 200131, Helena, Montana 59620-0131, telephone (406) 444-3154.

Contribution rates for the plan are required and determined by State law. The contribution rates, expressed as a percentage of covered payroll, were as follows:

	<u>Employer</u>	<u>Employee</u>	<u>Total</u>
PERS	8.070%	7.900%	15.970%

PERS:  
On January 1 following an actuarial valuation, the employee contribution rate will be reduced to 6.9%, and the additional contributions by the employer (1%) and the State of Montana will terminate, if the actuarial valuation determines that these reductions and terminations would not cause the amortization period to exceed 25 years. Effective July 1, 2013, retired members who return to active service are subject to the above employee, employer, and state contributions. For retired members who return to work in a covered position, but who have not become active members, the employer and state shall contribute the amounts specified in Sections 19-3-316 and 319. (MCA 19-3-1113)

The State of Montana contributes .1% per year to the PERS plan on behalf of the employer. The on-behalf contribution has not been recorded in the financial statements.

The amounts contributed to the plan during the years ended June 30, 2014, 2013 and 2012, were equal to the required contributions for each year. The amounts contributed by both the government and its employees (including additional voluntary contributions by employees as permitted by State law) were \$85,098, \$70,032 and \$65,989 for the years ended June 30, 2014, 2013 and 2012, respectively.

City volunteer fire fighters are covered by the Fire Department Relief Association Disability and Pension Fund, which is established by State law. The Association is managed by a Board of Trustees made up of members of the fire department and is accounted for as an agency fund of the City. A member of the 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 the pension benefits are set by the Board of Trustees, but may not exceed \$225 per month.

Whenever the Association has assets less than .21% of the total assessed value of taxable property, the City is required to levy an annual tax. The City did not levy in the agency fund for the year ended June 30, 2014. The State of Montana (State) contributes, out of moneys received from insurance premium taxes, an amount equal to one and one-half mills times the total taxable value of the City, but not less than \$100. The State's contribution to the plan for 2014 was \$2,400.

CITY OF FORSYTH  
NOTES TO BASIC FINANCIAL STATEMENTS

Future Implementation of GASB Pronouncements

The GASB has issued the following pronouncements:

Statement No. 68 - Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27. Effective Date: The provisions of Statement 68 are effective for fiscal years beginning after June 15, 2014.

Statement No. 71 - Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68 Effective Date: The provisions of this Statement should be applied simultaneously with the provisions of Statement 68.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF FORSYTH  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
General Fund  
For the Year Ended June 30, 2014

	<u>Budgeted Amounts</u>		Actual Amounts
	<u>Original</u>	<u>Final</u>	
<b>REVENUES</b>			
Taxes/assessments	\$ 486,065	\$ 436,280	\$ 436,285
Fees and fines	9,000	9,528	9,528
Licenses and permits	7,550	6,602	6,602
Intergovernmental	319,924	317,527	317,527
Charges for services	17,936	17,679	17,674
Investment earnings	6,300	3,302	3,302
Miscellaneous	39,500	37,622	37,622
Total revenues	<u>886,275</u>	<u>828,540</u>	<u>828,540</u>
<b>EXPENDITURES</b>			
Current:			
General government	223,805	223,805	196,373
Public safety	216,100	216,100	209,142
Public works	132,557	130,905	347,906
Public health	17,789	17,789	16,767
Culture and recreation	188,950	188,950	188,321
Housing and community development	1,891	1,891	1,887
Other current charges	2,684	2,684	1,933
Debt service:			
Principal	6,726	6,726	6,725
Interest and other charges	927	927	927
Capital outlay	315,500	315,500	7,750
Total expenditures	<u>1,106,929</u>	<u>1,105,277</u>	<u>977,731</u>
Excess (deficiency) of revenues over expenditures	<u>(220,654)</u>	<u>(276,737)</u>	<u>(149,191)</u>
<b>OTHER FINANCING SOURCES:</b>			
Transfers in	90,000	90,000	22,776
Total other financing sources	<u>90,000</u>	<u>90,000</u>	<u>22,776</u>
Net change in fund balance	<u>\$ (130,654)</u>	<u>\$ (186,737)</u>	(126,415)
Fund balance - beginning			<u>434,927</u>
Fund balance - ending			<u>\$ 308,512</u>

CITY OF FORSYTH  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
Special Projects Fund  
For the Year Ended June 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>
	<u>Original</u>	<u>Final</u>	
<b>REVENUES</b>			
Investment earnings	\$ 60,000	\$ 60,000	\$ 42,750
Total revenues	<u>60,000</u>	<u>60,000</u>	<u>42,750</u>
<b>EXPENDITURES</b>			
Current:			
Other current charges	<u>6,500</u>	<u>6,500</u>	<u>8,332</u>
Total expenditures	<u>6,500</u>	<u>6,500</u>	<u>8,332</u>
Excess (deficiency) of revenues over expenditures	<u>53,500</u>	<u>53,500</u>	<u>34,418</u>
<b>OTHER FINANCING USES</b>			
Transfers out	<u>(55,000)</u>	<u>(55,000)</u>	<u>(44,909)</u>
Total other financing uses	<u>(55,000)</u>	<u>(55,000)</u>	<u>(44,909)</u>
Net change in fund balance	<u>\$ (1,500)</u>	<u>\$ (1,500)</u>	<u>(10,491)</u>
Fund balance - beginning			<u>2,352,405</u>
Fund balance - ending			<u>\$ 2,341,914</u>

CITY OF FORSYTH  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
For the Year Ended June 30, 2014

BUDGETARY INFORMATION

Money may not be disbursed, expended or obligated except pursuant to an appropriation for which working capital is or will be available. The final budget is legally enacted by the governing body by the first Thursday after the first Tuesday in September or within 30 calendar days of receiving certified taxable values from the department of revenue, after holding public hearings as required by state statute. Budgeted fund expenditures/expenses are limited by state law to budgeted amounts. Budgets may be amended for circumstances described by state law. The budgeted amounts as shown in the financial statements are as originally adopted or as revised by legal budget transfers and amendments, if applicable. All appropriations, except for construction-in-progress, lapse at year-end. The government does not utilize a formal encumbrance accounting system.

OTHER SUPPLEMENTARY INFORMATION

CITY OF FORSYTH  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For the Year Ended June 30, 2014

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Award/Pass- through Grantor's Number	Program or Award Amount	Balance July 1, 2013	Receipts	Expenditures/ Disbursed	Balance June 30, 2014
<u>U.S. Environmental Protection Agency:</u>							
Passed through the Montana Department of Natural Resources and Conservation:							
Capitalization Grants for Clean Water State Revolving Funds	66.458	SRF-14345	\$ 1,352,792	\$ -	\$ 691,911	\$ 952,503	\$ (260,592)
Subtotal				-	691,911	952,503	(260,592)
Total Federal Awards				\$ -	\$ 691,911	\$ 952,503	\$ (260,592)

Note to Schedule of Expenditures of Federal Awards

NOTE A - BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards is a summary of cash receipts and federal expenditures related to the City's federal award programs. This schedule is presented in accordance with grant terms and conditions, which are not on the accrual basis of accounting as contemplated by generally accepted accounting principles.

CITY OF FORSYTH  
SUMMARY SCHEDULE OF PRIOR YEAR FEDERAL  
AWARD FINDINGS AND QUESTIONED COSTS

There were no prior year findings and questioned costs related to federal award programs.

# OLNESS & ASSOCIATES, P. C.

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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 Honorable Mayor and City Council  
City of Forsyth  
Forsyth, Montana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Forsyth, Montana (the government) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the government's basic financial statements, and have issued our report thereon dated October 23, 2014. The report on business-type activities and the water fund (a major enterprise fund) was qualified because the government's accounting records related to inventory do not permit retroactive tests of inventory quantities.

### Internal Control over Financial Reporting

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

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

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses. (Findings 2014-001 through 2014-003)

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency. (Finding 2014-004)

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the government'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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2014-005.

### The Government's Response to Findings

The government's response to the findings identified in our audit is described in the accompanying schedule of findings and responses/questioned costs. The government's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 (CONTINUED)

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.

*O'Neal & Associates, PC*

Billings, Montana  
October 23, 2014

# OLNESS & ASSOCIATES, P. C.

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## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Honorable Mayor and City Council  
City of Forsyth  
Forsyth, Montana

### Report on Compliance for Each Major Federal Program

We have audited the City of Forsyth's, Montana (the government) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the government's major federal program for the year ended June 30, 2014. The government's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

### Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the government's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the government's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the government's compliance.

### Basis for Qualified Opinion on the Capitalization Grants for Clean Water State Revolving Funds

As described in the accompanying schedule of findings and questioned costs, the government did not comply with requirements regarding the Capitalization Grants for Clean Water State Revolving Funds, CFDA No. 66.458, as described in finding 2014-006 for the Davis-Bacon Act and Procurement, Suspension and Debarment. Compliance with such requirements is necessary, in our opinion, for the government to comply with the requirements applicable to that program.

### Qualified Opinion on the Capitalization Grants for Clean Water State Revolving Funds

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the government, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Capitalization Grants for Clean Water State Revolving Funds, CFDA No. 66.458 for the year ended June 30, 2014.

### Other Matters

The government's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The government's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
FOR EACH MAJOR PROGRAM AND ON INTERNAL  
CONTROL OVER COMPLIANCE REQUIRED BY OMB  
CIRCULAR A-133 (CONTINUED)

Report on Internal Control over Compliance

Management of the government is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the government's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the government's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2014-006 and 2014-007 to be material weaknesses.

The government's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The government's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*O'Leary & Associates, PC*

Billings, Montana  
October 23, 2014

CITY OF FORSYTH  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 For the Year Ended June 30, 2014

SECTION I - SUMMARY OF AUDITOR'S RESULTS

*FINANCIAL STATEMENTS:*

Type of auditor's report issued: qualified

Internal control over financial reporting:

- Material weakness(es) identified?   √   yes        no
- Significant deficiency(ies) identified?   √   yes        none reported

Noncompliance material to the financial statements noted?   √   yes        no

*FEDERAL AWARDS:*

Internal control over major programs:

- Material weaknesses identified?   √   yes        no
- Significant deficiency(ies) identified?        yes   √   none reported

Type of auditor's report issued on compliance for major programs:

- Qualified for Capitalization Grants for Clean Water State Revolving Funds

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?   √   yes        no

Identification of major programs:

<i>CFDA Numbers</i>	<i>Name of Federal Program or Cluster</i>
66.458	Capitalization Grants for Clean Water State Revolving Funds

Dollar threshold used to distinguish between type A and type B programs? \$300,000

Auditee qualified as low-risk auditee?        yes   √   no

SECTION II - FINANCIAL STATEMENT FINDINGS

2014-001. FINANCIAL STATEMENT PREPARATION

**Criteria:** We were engaged to assist in the preparation of the government's financial statements and schedule of expenditures of federal awards (SEFA). The government ensures the quality of its financial statements and SEFA by engaging a qualified audit firm with expertise in governmental audits and by reading a preliminary draft of the financial statements.

**Condition:** The government does not have specific controls in place to review the selection and application of accounting principles and resulting disclosures and presentations within the financial statements and SEFA.

**Cause:** The government is a small organization with limited resources.

**Effect:** It is common within the governmental sector to rely the audit firm to prepare the financial statements and SEFA; however, an audit firm cannot be considered part of the government's internal control by professional standards currently in effect. Since some presentations and disclosures may be material to the financial statements and SEFA, this weakness in internal control would be classified as material.

CITY OF FORSYTH  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2014

Recommendation: The government should continue to read its draft financial statements and SEFA and ensure the quality of the document and the preparer.

Client Response: The City of Forsyth believes that by hiring a highly qualified audit firm with expertise in governmental audits that the financial statements will be prepared in accordance with all laws, rules, regulation and principles that should apply. The city disagrees, that it does not have specific controls in place to review the selection and application of accounting principles and resulting disclosures and presentation within the financial statements. The City believes that review of the draft financial statements and ongoing dialog with the auditor provide the necessary controls to reasonably ensure the quality of the document and preparer.

2014-002. SEGREGATION OF DUTIES

Criteria: Segregation of duties refers to assigning tasks among personnel so that no one person handles substantially all aspects of a transaction.

Condition: In many financial areas, the government lacks segregation of duties.

Cause: The extent to which the government can segregate duties is limited based on the number of personnel, their skill set and work load, and organizational structure.

Effect: The risk of errors or irregularities occurring and not being detected in a timely manner increases when a lack of segregation of duties exists.

Recommendation: There are inherent inefficiencies with full segregation of duties and inherent risks with the lack of segregation of duties. The cost versus benefits for both should be considered. The government should continue to evaluate its segregation of duties and when possible assign tasks to strengthen controls.

Client Response: The City of Forsyth believes that the segregation of duties that are in place by the city is appropriate for the size and number of personnel available. Duties such as reporting, reviewing, approving and reconciliation transactions are done by different individuals within the clerk's office. One person does not handle substantially all aspects of any transaction. In the event that errors or irregularities occur, they would be discovered in a timely manner and would be corrected at that time.

2014-003. MATERIALS AND SUPPLIES INVENTORY

Criteria: A perpetual inventory system for the materials and supplies inventory should be maintained by the City's public utilities and public works departments. Records should be established and maintained for each type of purchase in units and price per unit; for usage in units and price per unit; and for the balances on hand. Additionally, a physical count should be performed periodically and the results compared to the perpetual inventory system. Differences, if any, should be investigated and resolved.

Condition: A perpetual inventory system for the material and supplies inventory is not maintained by the City's public utilities and public works departments. Additionally, a physical count of materials and supplies was not performed by the public utilities department.

Cause: Unknown.

Effect: Lack of accounting control and an increase in the possibility of fraud or theft. Additionally, without a year-end physical count, the general ledger inventory balances could not be updated for the public utilities department.

Recommendation: A perpetual inventory system for the materials and supplies inventory should be maintained by the City's public utilities and public works departments. Records should be established and maintained for each type of purchase in units and price per unit; for usage in units and price per unit; and for the balances on hand. Periodic physical inventories should be conducted to verify the balances on hand agree to the perpetual inventory records. The results of the physical counts should be used to adjust the general ledger balances.

Client Response: The city has had discussions with the public works and public utilities departments on the importance of maintaining inventories. Ongoing efforts will be made to improve upon this issue.

2014-004. TIME CARD SYSTEM

Criteria: A time card system provides evidence of when an employee starts and stops work.

Condition: The City uses a time sheet that allows employees to record their daily hours worked. The time sheet does not

CITY OF FORSYTH  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2014

provide evidence of when an employee starts and stops work.

Cause: Unknown.

Effect: Without a system in place that provides evidence of when an employee starts and stops work, employees can falsify time worked and, as a consequence, be overpaid.

Recommendation: We believe that a time card system will increase the City's control over payroll costs and also help ensure that wages are paid for work actually performed. In lieu of a time card system, the current time sheet should be modified to include evidence of when an employee starts and stops work each day.

Client Response: The Mayor and City Council feel it would be beneficial to change the current timecards to include time in and time out, and lunch breaks. This would help ensure accuracy and a record of when an employee logs in and out for work to control payroll costs.

2014-005. CAPITALIZATION GRANTS FOR CLEAN WATER STATE REVOLVING FUNDS, CFDA No. 66.458,  
GRANT No. SRF-14345

Criteria: Contracts in excess of \$2,000 funded in whole or in part by federal funds are subject to the prevailing wage requirements of the Davis-Bacon Act. Grant terms and conditions require the City to monitor contractor compliance with the Davis-Bacon Act.

Condition: The City did not monitor Davis-Bacon compliance for all of the subcontractors paid with grant funds.

Cause: Unknown.

Effect: Non-compliance with grant terms and conditions.

Questioned Costs: None

Recommendation: The City should monitor Davis-Bacon compliance on all contractors subject to the Davis-Bacon Act.

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Criteria: Per the OMB Circular A-133 compliance supplement, when a non-federal entity (the City) enters into a covered transaction with an entity at a lower tier, (a contractor or individual) the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded from participation in the federal program.

Condition: The City did not verify eligibility for participation in the federal program for all contractors on the EPA funded project.

Questioned Costs: None

Cause: Unknown

Effect: Non-compliance with program terms and conditions

Recommendation: The City should develop a process to verify that the entity is not suspended or debarred or otherwise excluded from participation in the federal program. This verification may be accomplished by checking the *Excluded Parties List System (EPLS)* maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the transaction with that entity.

Client Response: The city entered into a contract with the Engineering Firm of DOWL HKM, an onsite inspector was assigned to the project. The inspector conducted wage and hour interviews with the construction company employees, and weekly certified payrolls were provided by the construction company to the Engineering firm. Interviews were conducted with some of the subcontractors but not all. The city clerk treasurer called the onsite engineer to discuss the interview process with the subcontractors, and the engineer apologized for not completing all the interviews. In the future the city will more closely monitor the compliance process.

CITY OF FORSYTH  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2014

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

U.S. ENVIRONMENTAL PROTECTION AGENCY:

2014-006. CAPITALIZATION GRANTS FOR CLEAN WATER STATE REVOLVING FUNDS, CFDA No. 66.458,  
GRANT No. SRF-14345

Finding 2014-005 applies to this federal award program.

2014-007. CAPITALIZATION GRANTS FOR CLEAN WATER STATE REVOLVING FUNDS, CFDA No. 66.458,  
GRANT No. SRF-14345

Findings 2014-001 and 214-002 apply to this federal award program.

CITY OF FORSYTH  
SCHEDULE OF PRIOR YEAR FINANCIAL STATEMENT FINDINGS

<u>PRIOR YEAR FINANCIAL STATEMENT FINDINGS</u>	<u>STATUS</u>
2013-1. FINANCIAL STATEMENT PREPARATION	CONTINUED DISCLOSURE
2013-2. SEGREGATION OF DUTIES	CONTINUED DISCLOSURE
2013-3. MATERIALS AND SUPPLIES INVENTORY	NOT IMPLEMENTED
2013-4. TIME CARD SYSTEM	ACKNOWLEDGED BY MANAGEMENT