

TOWN OF BROADUS, MONTANA

FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014

TOWN OF BROADUS, MONTANA
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**TOWN OF BROADUS, MONTANA
ORGANIZATION
JUNE 30, 2014**

TOWN COUNCIL

Wanda Smith	Council Member
Tammy Van Tine	Council Member
Cody Morris	Council Member

OFFICIALS

Milton Amsden	Mayor
Peggy Fruit	Clerk/Treasurer

Town of Broadus, Montana
Management's Discussion and Analysis
June 30, 2014

As management of the Town of Broadus, Montana, we offer readers of the Town of Broadus' (the Town) basic financial statements, this narrative overview and analysis of the financial activities of the Town. The following discussion and analysis of the Town's financial position for the year ended June 30, 2014 provides an analysis of its performance as a whole and then by fund.

Basic Financial Statements

The primary focus is on both the Town as a whole (government-wide) and the major individual funds. Both perspectives allow the user to address relevant questions, broaden a basis for comparison and enhance the Town's accountability. The Town of Broadus' basic financial statements are comprised of: 1) government-wide financial statements, 2) fund financial statements, 3) notes to the basic financial statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Town's basic financial statements. The statement of net assets presents information on all of the Town's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The statement of activities presents information showing the Town's change in net assets during the most recent fiscal period. Changes in net assets are reported in the current fiscal period, regardless of the timing of related cash flows. Some differences in expenses reported in the Statement of Activities include depreciation of fixed assets and accrual for compensated absences.

Fund Financial Statements

Traditional users of governmental financial statements will find the fund financial statements to look more familiar. The focus is on major funds rather than on fund types. All of the Town's funds can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental Funds

Most of the Town's 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 are available for spending. The 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.

Town of Broadus, Montana
Management's Discussion and Analysis
June 30, 2014

The governmental fund financial statements provide a detailed short-term view of cash, governmental fund operations and the basic services provided. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. We describe the relationship between governmental activities and governmental funds in reconciliation at the end of the fund financial statements.

Proprietary Funds

When the Town charges customers for the services it provides, these services are reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the government-wide financial statements. In fact, the Town's enterprise funds are the same as the business-type activities reported in the government-wide financial statements but provide more detail and additional information, such as a statement of cash flows.

Fiduciary Funds

All of the Town's fiduciary activities are reported in separate financial statements. We exclude these activities from the Town's other financial statements because the Town cannot use these assets to finance its operations. The Town is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Notes to the Basic Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Major Fund Determination

Major funds are defined as the general fund and any other fund where the assets, liabilities, revenues, or expenditures/expenses exceed ten percent of total government fund amounts, or ten percent of total enterprise fund amounts. The fund must also exceed five percent of total government and enterprise fund amounts combined. It was determined that the General Fund, Other Maintenance Fund, Water Enterprise Fund, Sewer Enterprise Fund, and Solid Waste Enterprise Fund are major funds this year and have been reported in the financial statements as such.

Town of Broadus, Montana
Management's Discussion and Analysis
June 30, 2014

Governmental Funds

Key financial highlights for governmental funds for the year ended June 30, 2014: The general fund assets of the Town exceeded its liabilities at the close of the most recent year by \$148,377 in comparison to \$155,320 the previous year. The decrease in fund balance was largely the result of increased general fund spending on public works.

Public Works

Public works expenditures for fiscal year 2013 – 2014 decreased \$12,327 from the previous fiscal year. Public works expenditures represent 46% of total governmental funds expenditures.

General Information

The Town of Broadus is in fair financial position. The Mayor and Council are in agreement that a healing year or two are needed for the Town of Broadus. It currently has no long-term debt.

Governmental Activities

	<u>2014</u>	<u>2013</u>
Current assets	\$ 270,175	\$ 264,436
Net capital assets	<u>112,710</u>	<u>47,712</u>
Total assets	382,885	312,148
Current liabilities	5,913	591
Noncurrent liabilities	<u>28,172</u>	<u>2,364</u>
Total liabilities	34,085	2,955
Net investment in capital assets	81,460	47,712
Restricted net position	116,833	103,732
Unrestricted net position	<u>150,507</u>	<u>157,749</u>
Total net position	<u>\$ 348,800</u>	<u>\$ 309,193</u>

Town of Broadus, Montana
Management's Discussion and Analysis
June 30, 2014

Governmental Activities

	<u>2014</u>	<u>2013</u>
Revenues		
Property taxes	\$ 74,966	\$ 73,866
Intergovernmental revenue	117,592	128,086
Other	2,921	2,205
Program revenue		
Charges for services	73,810	73,980
Operating grants	14,750	750
Total Revenue	<u>\$ 284,039</u>	<u>\$ 278,887</u>
Expenses		
General government	\$ 57,893	47,769
Public safety	24,322	26,117
Public works	134,536	141,168
Public health	2,144	109
Culture & recreation	21,948	17,022
Miscellaneous	3,705	19,580
Total expenses	<u>\$ 244,548</u>	<u>\$ 251,765</u>
Increase (decrease) in net position	39,491	27,122
Beginning net position	309,193	282,071
Prior period adjustments	116	
Ending net position	<u>\$ 348,800</u>	<u>\$ 309,193</u>

Net investment in capital assets and total net assets increased due to the purchase of capital assets.

Business-type Funds

Business-type funds for the Town include: the Water Enterprise Fund, Sewer Enterprise Fund, and Solid Waste Enterprise Fund. All three are included as major funds. Business-type funds operate on their own revenues and remain stable. The aging population of the residents in the community makes it difficult for the Council to increase rates to offer additional services.

Town of Broadus, Montana
Management's Discussion and Analysis
June 30, 2014

Water Enterprise Fund

Assets increased due to the purchase of capital expenditures related to water wells and liabilities remained stable. Revenues increased due to an increase in accounts. Expenditures also increased because more maintenance costs were incurred on the water system.

Sewer Enterprise Fund

Assets and liabilities for the sewer enterprise fund remained stable. Revenues increased due to an increase in accounts. Expenditures were higher than last year due to more repairs.

Solid Waste Enterprise Fund

Assets for the fund have increased because of increased revenue. Liabilities for the solid waste enterprise fund increased due to the increase in compensated absences.

Business-type Activities

	<u>2014</u>	<u>2013</u>
Current assets	\$ 211,407	\$ 218,079
Net capital assets	<u>112,209</u>	<u>75,462</u>
Total assets	323,616	293,541
Current liabilities	3,594	3,038
Noncurrent liabilities	<u>8,454</u>	<u>7,092</u>
Total liabilities	12,048	10,130
Net investment in capital assets	112,209	75,462
Unrestricted net position	<u>199,359</u>	<u>207,949</u>
Total net position	<u>\$ 311,568</u>	<u>\$ 283,411</u>

Town of Broadus, Montana
Management's Discussion and Analysis
June 30, 2014

Business-type Activities

	<u>2014</u>	<u>2013</u>
Revenues		
Charges for services	\$ 278,397	\$ 260,236
Investment earnings	<u>319</u>	<u>342</u>
Total Revenue	\$ 278,716	\$ 260,578
Expenses		
Personnel services	\$ 160,746	\$ 133,108
Supplies	39,736	35,407
Purchased services	30,685	45,520
Depreciation	<u>16,384</u>	<u>12,027</u>
Total expenses	\$ 247,551	\$ 226,062
Increase (decrease) in net position	\$ 31,165	\$ 34,516
Beginning net position	283,411	248,895
Prior period adjustments	<u>(3,008)</u>	<u>0</u>
Ending net position	<u>\$ 311,568</u>	<u>\$ 283,411</u>

Capital Asset Purchases

The Town purchased capital assets totaling \$76,790 in the governmental activities. Capital assets of \$56,140 were purchased in business-type activities.

Debt Administration

The Town does not have any long-term debt other than compensated absences.

Budget Variances

The Town did not correctly budget for the purchase of equipment and, consequently, exceeded its general fund budget by \$30,092.

Contacting the Town's Financial Management

This financial report is designed to provide the citizens, taxpayers, customers, investors, and creditors of the Town of Broadus with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have any questions about this report or need any additional financial information, contact Peggy Fruit, Town Clerk/Treasurer, P.O. Box 659, Broadus, MT 59317.

Independent Auditor's Report

To the Town Council
Town of Broadus
Broadus, Montana

Report on the Financial Statements

I 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 Town of Broadus (the Town), as of and for the year ended June 30, 2014, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town, 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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information listed 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, economic, or historical context. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated June 24, 2015, on my consideration of the Town's internal control over financial reporting and on my 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 my 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 Town's internal control over financial reporting and compliance.

Philip Emmons, CPA
Miles City, MT

June 24, 2015

Town of Broadus, Montana
Statement of Net Position
June 30, 2014

ASSETS	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Current assets			
Cash and cash equivalents	\$ 147,891	\$ 181,926	\$ 329,817
Accounts receivable, net of allowance for uncollectibles		29,481	29,481
Taxes/assessments receivable, net of allowance for uncollectibles	5,652		5,652
Restricted			
Cash and cash equivalents	112,392		112,392
Taxes/assessments receivable, net of allowance for uncollectibles	4,240		4,240
Total current assets	<u>270,175</u>	<u>211,407</u>	<u>481,582</u>
Capital assets, net of accumulated depreciation			
Total noncurrent assets	<u>112,710</u>	<u>112,209</u>	<u>224,919</u>
Total assets	<u>\$ 382,885</u>	<u>\$ 323,616</u>	<u>\$ 706,501</u>
LIABILITIES			
Current liabilities			
Accounts payable	\$	\$ 1,265	\$ 1,265
Other accrued payables	(687)	217	(470)
Compensated absences - current portion	704	2,112	2,816
Notes payable - current portion	5,896		5,896
Total current liabilities	<u>5,913</u>	<u>3,594</u>	<u>9,507</u>
Non-current liabilities			
Compensated absences	2,818	8,454	11,272
Notes payable	25,354		25,354
Total noncurrent liabilities	<u>28,172</u>	<u>8,454</u>	<u>36,626</u>
Total liabilities	<u>\$ 34,085</u>	<u>\$ 12,048</u>	<u>\$ 46,133</u>
NET POSITION			
Net investment in capital assets			
Restricted			
General government	24,122		24,122
Public works	69,433		69,433
Capital projects	23,278		23,278
Unrestricted	<u>150,507</u>	<u>199,359</u>	<u>349,866</u>
Total net position	<u>\$ 348,800</u>	<u>\$ 311,568</u>	<u>\$ 660,368</u>

See Accompanying Notes to the Financial Statements

**Town of Broadus, Montana
Statement of Activities
For the Year Ended June 30, 2014**

	Program Revenues				Net (Expense) Revenue	Business-Type Activities	Total
	Expenses	Charges for Services	Operating Grants	Capital Grants	Governmental Activities		
Government operations							
General government	\$ 57,893	\$ 3,352	\$ 14,750		\$ (39,791)		\$ (39,791)
Public safety	24,322				(24,322)		(24,322)
Public works	134,536	70,458			(64,078)		(64,078)
Public health	2,144				(2,144)		(2,144)
Culture & recreation	21,948				(21,948)		(21,948)
Miscellaneous	3,705				(3,705)		(3,705)
Total government activities	<u>\$ 244,548</u>	<u>\$ 73,810</u>	<u>\$ 14,750</u>	<u>0</u>	<u>\$ (155,988)</u>		<u>\$ (155,988)</u>
Business-Type Activities							
Water	\$ 156,985	\$ 179,517				\$ 22,532	\$ 22,532
Sewer	48,644	51,377				2,733	2,733
Solid waste	41,922	47,503				5,581	5,581
Total business-type activities	<u>\$ 247,551</u>	<u>\$ 278,397</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>\$ 30,846</u>	<u>\$ 30,846</u>
General revenues							
Property taxes					\$ 74,966		\$ 74,966
Intergovernmental revenue					117,592		117,592
Licenses and permits					1,511		1,511
Unrestricted investment earnings					410	319	729
Gain on sale of capital assets					1,000		1,000
Total general revenues					<u>\$ 195,479</u>	<u>\$ 319</u>	<u>\$ 195,798</u>
Increase (decrease) in net position					\$ 39,491	\$ 31,165	\$ 70,656
Net position							
Beginning of year					309,193	283,411	592,604
Prior period adjustments					116	(3,008)	(2,892)
End of year					<u>\$ 348,800</u>	<u>\$ 311,568</u>	<u>\$ 660,368</u>

See Accompanying Notes to the Financial Statements

Town of Broadus, Montana
Balance Sheet - Governmental Funds
June 30, 2014

	Major Funds			
	General Fund	Other Maintenance Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 147,891	\$	\$	\$ 147,891
Taxes/assessments receivable, net of allowance for uncollectibles	5,652			5,652
Restricted				
Cash and cash equivalents		43,889	68,503	112,392
Taxes/assessments receivable, net of allowance for uncollectibles		2,745	1,495	4,240
Total assets	\$ 153,543	\$ 46,634	\$ 69,998	\$ 270,175
LIABILITIES				
Other accrued payables	\$ (486)	\$ (201)	\$	\$ (687)
Total liabilities	\$ (486)	\$ (201)	\$ 0	\$ (687)
DEFERRED INFLOWS OF RESOURCES				
Unavailable taxes	\$ 5,652	\$ 2,745	\$ 1,495	\$ 9,892
Total deferred inflows of resources	\$ 5,652	\$ 2,745	\$ 1,495	\$ 9,892
FUND BALANCE				
Restricted				
General government	\$	\$	\$ 23,501	\$ 23,501
Public works			21,754	21,754
Capital projects		44,090	23,248	67,338
Unassigned	148,377			148,377
Total fund balance	\$ 148,377	\$ 44,090	\$ 68,503	\$ 260,970
Total liabilities, deferred inflows of resources and fund balance	\$ 153,543	\$ 46,634	\$ 69,998	\$ 270,175
Reconciliation to the Statement of Net Position:				
			Total fund balance from above	\$ 260,970
			Add capital assets, net of accumulated depreciation not reported above	112,710
			Less compensated absences	(3,522)
			Less notes payable	(31,250)
Deferred revenues for property taxes recognized as revenue in the government wide statements			9,892	9,892
			Net position	\$ 348,800

See Accompanying Notes to the Financial Statements

Town of Broadus, Montana
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
For the Year Ended June 30, 2014

	Major Funds			Total Governmental Funds
	General Fund	Other Maintenance Fund	Other Governmental Funds	
Revenues				
Taxes and assessments	\$ 63,366	\$ 54,542	\$ 27,969	\$ 145,877
Licenses and permits	1,511			1,511
Intergovernmental revenue	109,611		22,731	132,342
Charges for services	2,613		396	3,009
Investment and royalty earnings	233	63	114	410
Fines and forfeitures	343			343
Total revenue	177,677	54,605	51,210	283,492
Expenditures				
Current operations				
General government	\$ 35,584		\$ 17,098	\$ 52,682
Public safety	24,322			24,322
Public works	54,507	42,647	30,117	127,271
Public health	114		2,030	2,144
Culture & recreation	21,948			21,948
Miscellaneous	3,705			3,705
Total current charges	140,180	42,647	49,245	232,072
Capital outlay	74,290		2,500	76,790
Total expenditures	214,470	42,647	51,745	308,862
Excess (Deficiency) of revenue over expenditures	\$ (36,793)	\$ 11,958	\$ (535)	\$ (25,370)
Other financing sources (uses)				
Face amount of notes payable	\$ 31,250		\$	\$ 31,250
Proceeds from sale of capital assets	1,000			1,000
Resources transfer (to) from other funds	\$ (2,400)		\$ 2,400	\$ 0
Net change in fund balance	\$ (6,943)	\$ 11,958	\$ 1,865	\$ 6,880
Beginning fund balance	155,320	32,132	66,638	254,090
Ending fund balance	\$ 148,377	\$ 44,090	\$ 68,503	\$ 260,970

See Accompanying Notes to the Financial Statements

Town of Broadus, Montana
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 balance	\$ 6,880
Revenues on the government-wide statement of activities not reflected in revenue in the governmental funds statement:	
Increase (decrease) in property taxes receivable	(452)
Revenues on the government funds statement not reported on the government-wide statement:	
Face amount of notes payable	(31,250)
Expenditures on the government-wide statement not reported on the government funds statement:	
Depreciation	(11,909)
(Increase) decrease in compensated absences	(568)
Expenditures on the government funds statement not reported on the government-wide statement:	
Capital outlays	76,790
Change in net position on the government-wide statement of activity	\$ 39,491

See Accompanying Notes to the Financial Statements

Town of Broadus, Montana
Statement of Net Position
Proprietary Funds
June 30, 2014

	Business-type Activities			
	Major Enterprise Funds			
ASSETS	Water Fund	Sewer Fund	Solid Waste Fund	Total
Current assets				
Cash and cash equivalents	\$ 159,218	\$ 11,932	\$ 10,776	\$ 181,926
Accounts receivable, net of allowances	19,418	5,362	4,701	29,481
Total current assets	178,636	17,294	15,477	211,407
Capital assets, net of accumulated depreciation	63,911	42,259	6,039	112,209
Total noncurrent assets	63,911	42,259	6,039	112,209
Total assets	\$ 242,547	\$ 59,553	\$ 21,516	\$ 323,616
LIABILITIES				
Current liabilities				
Accounts payable	\$ 1,265	\$	\$	\$ 1,265
Other accrued payables	160	118	(61)	217
Compensated absences	704	704	704	2,112
Total current liabilities	2,129	822	643	3,594
Compensated absences	2,818	2,818	2,818	8,454
Total noncurrent liabilities	2,818	2,818	2,818	8,454
Total liabilities	\$ 4,947	\$ 3,640	\$ 3,461	\$ 12,048
NET POSITION				
Net investment in capital assets	\$ 63,911	\$ 42,259	\$ 6,039	\$ 112,209
Unrestricted net position	173,689	13,654	12,016	199,359
Total net position	\$ 237,600	\$ 55,913	\$ 18,055	\$ 311,568

See Accompanying Notes to the Financial Statements

Town of Broadus, Montana
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Year Ended June 30, 2014

	Business-type Activities			
	Major Enterprise Funds			Total
	Water Fund	Sewer Fund	Solid Waste Fund	
Operating Revenues				
Charges for services	\$ 179,517	\$ 51,377	\$ 47,503	\$ 278,397
Total operating revenues	\$ 179,517	\$ 51,377	\$ 47,503	\$ 278,397
Operating Expenses				
Personnel services	\$ 98,267	\$ 30,019	\$ 32,460	\$ 160,746
Supplies	24,612	9,566	5,558	39,736
Purchased services	20,624	7,324	2,737	30,685
Depreciation	13,482	1,735	1,167	16,384
Total operating expenses	\$ 156,985	\$ 48,644	\$ 41,922	\$ 247,551
Total operating income (loss)	\$ 22,532	\$ 2,733	\$ 5,581	\$ 30,846
Non-Operating Revenue (Expense)				
Interest	\$ 261	\$ 33	\$ 25	\$ 319
Total non-operating revenue (expense)	\$ 261	\$ 33	\$ 25	\$ 319
Increase (decrease) in net position	\$ 22,793	\$ 2,766	\$ 5,606	\$ 31,165
Net position				
Beginning of year	213,488	57,474	12,449	283,411
Prior period adjustments	1,319	(4,327)	0	(3,008)
End of year	\$ 237,600	\$ 55,913	\$ 18,055	\$ 311,568

See Accompanying Notes to the Financial Statements

Town of Broadus, Montana
Statement of Cash Flows - Proprietary Funds
For the Year Ended June 30, 2014

	Business-type Activities			
	Major Enterprise Funds			Total
	Water Fund	Sewer Fund	Solid Waste Fund	
Cash Flows from Operating Activities				
Cash received from customers	\$ 181,360	\$ 51,436	\$ 47,958	\$ 280,754
Cash paid to suppliers	(45,076)	(16,772)	(8,356)	(70,204)
Personal services - salaries	(97,700)	(29,452)	(31,893)	(159,045)
Net cash provided (used) by operating activities	<u>\$ 38,584</u>	<u>\$ 5,212</u>	<u>\$ 7,709</u>	<u>\$ 51,505</u>
Cash Flows from Investing Activities				
Interest earnings	\$ 261	\$ 33	\$ 25	\$ 319
Net cash provided (used) by investing activities	<u>\$ 261</u>	<u>\$ 33</u>	<u>\$ 25</u>	<u>\$ 319</u>
Cash Flows from Capital and Related Financing Activities				
Purchases/acquisition/construction of capital assets	\$ (50,000)	\$ (2,280)	\$ (3,860)	\$ (56,140)
Net cash provided by capital and related financing activities	<u>\$ (50,000)</u>	<u>\$ (2,280)</u>	<u>\$ (3,860)</u>	<u>\$ (56,140)</u>
Net increase (decrease) in cash	\$ (11,155)	\$ 2,965	\$ 3,874	\$ (4,316)
Cash balance, Beginning of Year	170,373	8,967	6,902	186,242
Cash balance, End of Year	<u>\$ 159,218</u>	<u>\$ 11,932</u>	<u>\$ 10,776</u>	<u>\$ 181,926</u>
Reconciliation of Operating Income to Net Cash Provided (used) by Operating Activities				
Operating income (loss)	\$ 22,532	\$ 2,733	\$ 5,581	\$ 30,846
Adjustments to reconcile operating income to net cash provided by operating activities				
(Increase) decrease in accounts receivable, net	1,843	59	455	2,357
Increase (decrease) in other accrued payables	160	118	(61)	217
Increase (decrease) in compensated absences	567	567	567	1,701
Depreciation expense	13,482	1,735	1,167	16,384
Total adjustments	<u>16,052</u>	<u>2,479</u>	<u>2,128</u>	<u>20,659</u>
Net cash provided (used) by operating activities	<u>\$ 38,584</u>	<u>\$ 5,212</u>	<u>\$ 7,709</u>	<u>\$ 51,505</u>

See Accompanying Notes to the Financial Statements

Town of Broadus, Montana
Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position
As of and For the Year Ended June 30, 2014

		Pension Trust Fund	Fire Relief Association
Fiduciary net position:			
Assets			
Cash and cash equivalents	\$	455	
Total assets	\$	<u>455</u>	
Net Position			
Net position held in trust	\$	455	
Total net position	\$	<u>455</u>	

Changes in fiduciary net position

Additions			
Intergovernmental revenue	\$	455	
Total additions	\$	<u>455</u>	
Deductions			
Benefit payments	\$	0	
Total deductions	\$	<u>0</u>	
Changes in net position held in trust	\$	455	
Net Position			
Beginning of the year	\$	<u>0</u>	
End of the year	\$	<u>455</u>	

See Accompanying Notes to the Financial Statements

Town of Broadus, Montana
Notes to the Financial Statements
June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Town of Broadus (The Town) are prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP). The Town applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

1.a REPORTING ENTITY

The Town is governed by an elected Mayor and a four member Town Council and is considered to be the primary government. The Town, for financial purposes, includes all of the funds, account groups, and other organizations for which the nature and significance of the relationship is such that exclusion would cause the Town's financial statements to be misleading or incomplete. In addition, there are no component units as defined by Government Auditing Standards Board No. 14. Financial accountability is defined as the appointment of a voting majority of the governing body, and by the imposition of will or the potential for financial benefit or burden. The Town provides the following services: solid waste removal, water and sewer, public safety, recreation and streets.

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

The Fire Department Relief Association is considered a part of the Town and is shown as a Pension Trust Fund, since the Town is responsible for the collection of taxes for the association. Information relating to this can be found in the Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position.

1.b BASIS OF PRESENTATION AND ACCOUNTING

1.b.1 GOVERNMENT-WIDE STATEMENTS

The government-wide financial statements include the statement of net position and the statement of activities. These statements report financial information for the Town as a whole.

Town of Broadus, Montana
Notes to the Financial Statements
June 30, 2014

Fiduciary funds are excluded from these statements. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and Town general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers. The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program.

A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity.

Program revenue includes: charges for services which report fees and other charges to users of the Town's services, operating grants and contributions which finance annual operating activities including restricted investment income, and capital grants and contributions which fund the acquisition, construction or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

1.b.2 FUND ACCOUNTING

Fund financial statements are provided for governmental and proprietary funds. The governmental fund financial statements include the balance sheet and statement of revenues, expenditures and changes in fund balance. A reconciliation is provided reconciling amounts on these statements to the statement of net position and statement of activities. The proprietary fund financial statements include the statement of net position, statement of revenues, expenses and changes in fund net position, and the statement of cash flows.

Major funds include the general fund and all other governmental funds or proprietary funds whose assets, liabilities, revenue or expenditures exceed 10% of the total for all governmental or proprietary funds and also exceeds 5% of the total for all governmental fund and proprietary funds combined. Major individual governmental and enterprise funds are reported in separate columns with composite columns for non-major funds. The Town's major funds are described later.

1.b.3 MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting, which includes the reclassification or elimination of internal activity between or within funds. Proprietary fund financial statements also report using this same focus and basis. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Town of Broadus, Montana
Notes to the Financial Statements
June 30, 2014

Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met. Retirement benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

The government-wide financial statements report expenditures for fixed assets as capital assets, and record depreciation on those capital assets.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The Town considers revenues to be available if they are collected within 31 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due and compensated absences which are recognized as expenditures when paid. Capital asset acquisitions are reported as expenditures in the governmental funds and proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

Major revenue sources susceptible to accrual include: property taxes, intergovernmental revenues and investment income. In general, other revenues are recognized when cash is received. Deferred revenues are recorded for property tax receivables at year-end in the governmental fund financial statements.

Operating income reported in proprietary fund financial statements includes revenue and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

1.b. 4 FUND TYPES AND MAJOR FUNDS

Governmental Funds – The Town reports the following major governmental funds:

General Fund – The general fund is used to account for all financial resources except those required to be accounted for in other funds.

Other Maintenance Fund – This fund accounts for special assessments that are used for street maintenance.

Town of Broadus, Montana
Notes to the Financial Statements
June 30, 2014

The Town also reports the following governmental fund types:

Special Revenue Funds – These funds are used to account for proceeds of special revenue sources that are legally restricted to expenditure for a specific purpose.

Capital Projects Funds – These funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Proprietary Funds – The Town reports the following major proprietary funds:

Water Fund – The water fund accounts for the operating activities of the Town’s water services.

Sewer Fund – The sewer fund accounts for the Town’s sewer operations.

Solid Waste Fund – This fund accounts for the activities related to the disposal of the Town’s garbage.

The Town also reports a pension trust fund that is detailed in Note 1.a.

1.c BUDGETS

The Town Clerk submits to the Town Council a proposed operating budget for the fiscal year commencing July 1. A preliminary budget is adopted by the Council prior to adoption of the final budget. The final budget is legally enacted by the Town Council, after holding public hearings, 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. Budgets for the General, Special Revenue and Enterprise Funds are adopted on a basis consistent with U.S. generally accepted accounting principles. Expenditures are limited to the approved budget at the fund level, either as originally adopted or as amended by formal resolution of the Town Council. Expenditures may not legally exceed total budget appropriations by fund.

1.d CASH EQUIVALENTS

For purposes of the statement of cash flows the Town considers all investments with a maturity of three months or less when purchased to be cash equivalents. The statement of cash flows for the enterprise funds includes both cash equivalents and investments as total cash.

Town of Broadus, Montana
Notes to the Financial Statements
June 30, 2014

1.e TAXES AND ASSESSMENTS RECEIVABLE

Real estate property taxes are levied in August in connection with the budget process, and are based on assessed values for all property located within the Town as of January 1st of the current year.

Assessed values are established by the Montana Department of Revenue using a market value base. Taxable value is a fixed percentage of the assessed value, per State statute. A revaluation of all property is required to be completed on a periodic basis.

Real property taxes are billed in October and are due in two equal installments on November 30 and May 31 of the following year. Delinquent real property taxes attach as a lien on the property as of January 1. Personal property taxes are assessed and billed throughout the year, with a significant portion generally billed in May, June and July. Personal property taxes are based upon levies set during August of the prior year. These taxes become delinquent 30 days after billing. Delinquent personal property taxes may become a lien on the real property of the owner of the personal property.

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

The Town is permitted by State statutes to levy taxes up to certain fixed limits for various purposes. The tax levies were based upon a valuation of \$303,637.

The tax levies for the Town for the year ended were as follows:

	<u>Mill Levies</u>
General fund	185.00
Comprehensive Insurance fund	15.00
PERS	5.00

The Town records tax receivables for property taxes that have been assessed but have not yet been collected. These tax receivables are recorded as deferred revenue in the year assessed and recorded as revenue in the year collected in the governmental fund financial statements. In the government-wide financial statements, tax receivables are recorded as revenue in the year assessed. An allowance for uncollectible accounts was not maintained for real and personal property taxes and special assessments receivable. The direct write-off method is used for these accounts. Although this is a departure from U.S. GAAP, any resulting differences would be immaterial.

Town of Broadus, Montana
Notes to the Financial Statements
June 30, 2014

1.f INVENTORIES

Inventories of materials and supplies are expensed at the time of purchase. Inventories of material and supplies on hand are not maintained as required by accounting principles generally accepted in the United States.

1.g CAPITAL ASSETS

All purchased capital assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. Major additions and betterments with a cost in excess of \$5,000 are recorded as additions to fixed assets. The costs of normal maintenance and repairs that do not add to the value of the assets or do not materially extend asset lives are not capitalized.

Assets acquired for general government purposes are reported at cost in the government-wide financial statements. Capital assets donated, purchased, or acquired by proprietary fund types are recorded in the individual fund which acquired the asset. Depreciation on capital assets is provided over their estimated useful lives on the straight-line method.

The useful lives of these assets have been estimated as follows:

Buildings	30-50 years
Improvements other than buildings	10-40 years
Machinery and Equipment	5-10 years
Sewer Lines and Pump Stations	30-50 years
Treatment Plant	30-50 years
Water Pump Station	15-25 years

1.h LONG-TERM LIABILITIES

Long-term liabilities include accumulated vacation and sick leave. Expenditures are recognized when paid in the fund financial statements and as accrued in the government-wide financial statements. The Town uses the general fund and enterprise funds to pay departing employees for accrued vacation and sick leave.

1.i INTERFUND TRANSACTIONS

Interfund transactions consisting of identified services performed for other funds or costs billed to other funds are treated as expenditures in the fund receiving the services and as revenue in the fund performing the services.

Town of Broadus, Montana
Notes to the Financial Statements
June 30, 2014

Transactions which constitute reimbursements of a fund for expenditures or expenses initially made from it which are properly allocable to another fund are recorded as expenditures in the reimbursing fund and as reductions of the expenditures in the fund that is reimbursed. Interfund transfers and balances are eliminated in the government-wide financial statements. Interfund transfers are made and balances are held, as needed, to support Town programs.

1.j ENTERPRISE FUNDS RECEIVABLES

Accounts receivable for the water, sewer and solid waste funds are reported net of revenues collected in advance. No reserve for estimated uncollectible accounts is maintained. Although this is a departure from U.S. GAAP, the write-offs are not material.

1.k USE OF ESTIMATES

The preparation of financial statements in conformity with U.S. 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.

1.l FUND BALANCE

In accordance with Government Accounting Standards Board 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the Town classifies governmental fund balances as follows:

Nonspendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government. These commitments may be made, rescinded or modified by resolution of the town council, the highest level of decision making authority, and do not lapse at year-end.

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are considered neither restricted nor committed. Fund Balance may be assigned by the town council at its discretion.

Unassigned - includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

Town of Broadus, Montana
Notes to the Financial Statements
June 30, 2014

The Town uses restricted amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents or contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the Government would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made. The Government does not have a formal minimum fund balance policy.

NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash and cash equivalents may include cash and cash items; demand, time, savings and fiscal agent deposits; investments in the State Short-Term Investment Pool (STIP); repurchase agreements; registered warrants; and direct obligations of the United States Government and securities issued by agencies of the United States.

Cash in the bank, including \$39,505 in outstanding warrants, on June 30, 2014 was as follows:

Cash in banks	
Demand deposits	272,545
Petty cash	100
Time deposits	<u>209,524</u>
Total cash and investments	\$ <u><u>482,169</u></u>

Custodial credit risk is the risk that, in the event of a bank or credit union failure, the Town's investments may not be recovered. The deposits with the banks utilized by the Town are insured by the Federal Deposit Insurance Corporation (FDIC), up to the current insurance coverage limits and at year end deposits were fully insured. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of governmental investment pools (such as STIP). The Town does not have a formal policy for custodial credit risk.

Concentration of credit risk is the risk of loss attributed to the magnitude of the Town's investment with a single issuer. The Town does not have a policy to limit this risk and the Town's cash and investments, as detailed above, are all held in 1st Bank – Broadus.

STIP is classified as a "2a-7-like" pool. A "2a-7-like" pool is an external investment pool that is not registered with the Securities and Exchange Commission (SEC) as an investment fund, but has a policy that it will and does operate in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940. The Town's investment position in STIP is determined by the pool's share price, which is dollar denominated.

The STIP portfolio includes, but is not limited to, "variable rate", "asset-backed", and "covered options" securities to provide diversification and a competitive rate of return.

Town of Broadus, Montana
Notes to the Financial Statements
June 30, 2014

Unaudited STIP financial statements are available from the Montana Board of Investments at the following address:

Montana Board of Investments
 Department of Commerce
 2401 Colonial Drive, 3rd Floor
 Helena, MT 59620

NOTE 3. CAPITAL ASSETS

3a. GOVERNMENTAL FUNDS

The value and changes to the capital assets are as follows:

	<u>Balance</u>		<u>Deletions &</u>	<u>Balance</u>
	<u>June 30, 2013</u>	<u>Additions</u>	<u>Adjustments</u>	<u>June 30, 2014</u>
Cost of assets				
Land	\$ 2,540	\$	\$	\$ 2,540
Buildings	73,966			73,966
Improvements	7,300	3,384		10,684
Infrastructure	8,215	29,150		37,365
Machinery and Equipment	<u>278,490</u>	<u>44,256</u>	<u>(4,133)</u>	<u>318,613</u>
Total	<u>\$ 370,511</u>	<u>\$ 76,790</u>	<u>\$ (4,133)</u>	<u>\$ 443,168</u>
Accumulated depreciation				
Buildings	\$ (45,791)	\$ (3,122)	\$	\$ (48,913)
Improvements	(7,300)	(363)		(7,663)
Infrastructure	(3,737)	(2,097)		(5,834)
Machinery and Equipment	<u>(265,971)</u>	<u>(6,327)</u>	<u>4,250</u>	<u>(268,048)</u>
Total	<u>\$ (322,799)</u>	<u>\$ (11,909)</u>	<u>\$ 4,250</u>	<u>\$ (330,458)</u>

Depreciation was charged to the Town's programs as follows:

General government	\$ 4,644
Public works	<u>7,265</u>
Total depreciation	<u>\$ 11,909</u>

Town of Broadus, Montana
Notes to the Financial Statements
June 30, 2014

3b. ENTERPRISE FUNDS

Fixed assets purchased or acquired by enterprise fund types are recorded in the individual fund making the purchase. The value and changes to the capital assets are as follows:

	Balance		Deletions &		Balance
	<u>June 30, 2013</u>	<u>Additions</u>	<u>Adjustment</u>		<u>June 30, 2014</u>
Cost of assets					
Land	\$ 37,180	\$	\$	\$	37,180
Buildings and system	4,986				4,986
Machinery and equipment	175,695	6,140			181,835
Source of supply	203,553	50,000			253,553
Pumping plant	15,395				15,395
Treatment plant	129,853				129,853
Transmission and distribution	<u>302,709</u>		<u>2,322</u>		<u>305,031</u>
Total	<u>\$ 869,371</u>	<u>\$ 56,140</u>	<u>\$ 2,322</u>	<u>\$</u>	<u>\$ 927,833</u>
Accumulated depreciation					
Buildings and system	\$ (4,986)	\$	\$	\$	(4,986)
Machinery and equipment	(156,178)	(3,106)	(4,123)		(163,407)
Source of supply	(191,287)	(9,262)	(1,207)		(201,756)
Pumping plant	(15,395)				(15,395)
Treatment plant	(129,853)				(129,853)
Transmission and distribution	<u>(296,211)</u>	<u>(4,016)</u>			<u>(300,227)</u>
Total	<u>\$ (793,910)</u>	<u>\$ (16,384)</u>	<u>\$ (5,330)</u>	<u>\$</u>	<u>\$ (815,624)</u>

Depreciation was charged to the Town's programs as follows:

Water	\$ 13,482
Sewer	1,735
Solid waste	<u>1,167</u>
Total depreciation	<u>\$ 16,384</u>

Town of Broadus, Montana
Notes to the Financial Statements
June 30, 2014

NOTE 5. LONG-TERM LIABILITIES

A summary of long-term liabilities for the year ended June 30, 2014, is as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Current Portion
<u>Governmental Funds:</u>					
Compensated absences \$	2,955	\$ 567	\$	\$ 3,522	\$ 704
Skidsteer Note payable	0	31,250		31,250	5,896
<u>Enterprise Funds:</u>					
Compensated absences	8,865	1,701		10,566	2,112
Total	\$ 11,820	\$ 33,518	\$ 0	\$ 45,338	\$ 8,712

Compensated absences – The Town’s employees are permitted to accumulate vacation and sick leave. On termination of employment, an employee is paid for accumulated vacation and for 25% of accumulated sick pay based on the current hourly rate of pay. In the government-wide statements compensated absences are included as both current and noncurrent liabilities, whereas in the governmental fund financial statements, only the current portion paid is recognized.

In November 2013, the Town obtained a note payable in the amount of \$31,250 at 3.59% interest for the purchase of a skid steer. The note matures in October 2018.

Dates	Principal	Interest
2015	\$ 5,896	\$ 1,031
2016	6,002	925
2017	6,221	706
2018	6,448	479
2019	6,683	244

NOTE 6. OPERATING TRANSFERS

A summary of the Town’s operating transfers made during the fiscal year ending June 30, 2014 is summarized in the table below:

Transfers out:	Transfers in:	
	Other Gov't Funds	Total
General	\$ 2,400	\$ 2,400
Total	\$ 2,400	\$ 2,400

Transfers are used to move unrestricted revenues to finance various programs that must be accounted for in other funds in accordance with budgetary authorizations.

Town of Broadus, Montana
Notes to the Financial Statements
June 30, 2014

NOTE 7. EMPLOYEE RETIREMENT SYSTEM

The Town participates in a statewide cost-sharing multiple employer defined benefit retirement plan. The Public Employees' Retirement System (PERS) covers all employees, except certain part-time employees. The plan is established under State law and is administered by the State of Montana.

The Public Employees' Retirement System (PERS) is a statewide retirement plan established in 1945 and governed by Title 19, chapter 2 & 3 of the Montana Code Annotated providing retirement services to substantially all public employees. The PERS is a mandatory (for eligible employees), multiple-employer, cost-sharing plan administered by the Public Employees' Retirement Division (PERD).

The PERS offers retirement, disability and death benefits to plan members and their beneficiary. Benefit eligibility is age 60 with at least five years of service; age 65 regardless of service; or 30 years of service regardless of age. Actuarially reduced benefits may be taken with 25 years of service or at age 50 with at least five years of service. Monthly retirement benefits are determined by multiplying 1/50 of the number of years of service by the highest consecutive 36 months' salary. Members' rights become vested after five years of service.

Beginning January 1998, a guaranteed annual benefit adjustment provides an annual 3% benefit increase each January if the recipient has been receiving a benefit for at least 36 months. The plan issues publicly available annual reports that include financial statements and required supplemental information. Those reports may be obtained from the following:

Public Employees Retirement System
P.O. Box 200131f
1712 Ninth Avenue
Helena, MT 59620-0131
Phone: (406) 444-3154

The actuarial costs are calculated using the entry age actuarial cost method. The actuarial value of assets is the current market value, adjusted by a four-year smoothing of gains and losses on a market value basis. Each year's gain or loss is determined as the difference between the actual market return and the expected market return using the assumed rate of investment return.

The following rates were assumed for investment return: 7.75% for PERS, projected salary increases of 4.00%, post-retirement benefit increases of 3% for employees hired prior to July 1, 2007 and 1.5% for employees hired after July 1, 2007. The amortization method used was level-percentage of future payroll and the last actuarial valuation was June 30, 2013.

Town of Broadus, Montana
Notes to the Financial Statements
June 30, 2014

Contribution rates for plan is required and determined by State law. The PERS rate for employees is 6.90% for employees hired prior to July 1, 2011 and 7.90% for those hired on or after that date. The PERS rate for the State for local government employers was set at 0.10%. This is considered an on behalf payment and the Town does not record this contribution in its financial statements.

The PERS rate for local government employers is 7.07%. The amounts contributed to the plans during the last three fiscal years were equal to the required contribution for each year. The amounts contributed by the Town and its employees (including additional voluntary contributions by employees as permitted by State law) were as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
PERS	\$ 24,840	\$ 19,555	\$ 17,428
Total	<u>\$ 24,840</u>	<u>\$ 19,555</u>	<u>\$ 17,428</u>

NOTE 8. RISK MANAGEMENT

The Town faces a considerable number of risks of loss, including a) damage to and loss of property and contents, b) employee torts, c) professional liability, i.e. errors and omissions, d) environmental damage, and e) workers' compensation, i.e. employee injuries. The Town participates in a state-wide public risk pool operated by the Montana Municipal Insurance Authority (MMIA) for liability, property and workers' compensation coverage. Given the lack of coverage available, the Town has no coverage for potential losses from environmental damages. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

MMIA is an organization that provides pooled, self-insurance coverage exclusively to Montana municipalities. The Town is insured for initial liability limits of \$750,000 per individual and \$1,500,000 per occurrence. For covered losses not subject to statutory tort caps the limit of liability is \$10,000,000. These policies transfer all risks of loss, except for relatively small deductible amounts of \$750 to \$1,500 per occurrence.

There have been no changes in risk coverage from prior years and no losses have been incurred in the previous three years. Financial statements can be obtained by contacting MMIA at the following address:

Montana Municipal Insurance Authority
 PO Box 6669
 Helena, MT 59604-6669
 Phone: 406-443-0907

Town of Broadus, Montana
Notes to the Financial Statements
June 30, 2014

NOTE 9. INTERLOCAL AGREEMENTS

Law Enforcement Services – The Town of Broadus and Powder River County have an agreement whereby the Powder River County Sheriff’s Department provides law enforcement services for the Town of Broadus. The Town agreed to pay Powder River County a monthly fee of \$1,625. During the fiscal year, the Town paid the County \$19,500 in accordance with the agreement.

NOTE 10. OTHER POSTEMPLOYMENT BENEFITS

Plan Description - The Town allows eligible retirees to remain in the Town’s Health Insurance Plan (Plan) in accordance with State Law. This single-employer plan does not issue a publicly available financial report.

Funding Policy – The Town is required to allow eligible retirees to remain in the Plan by State Law. Since the Plan provides for a single blended-premium, the Town is providing an implicit rate subsidy to retirees. No other contribution is made by the Town to the Plan. Each retiree is required to contribute his or her entire insurance premium. The Plan is funded on a pay-as-you-go basis.

The Town did not hire an actuarial firm to assist in determining the other post-employment benefit (OPEB) liability and related expense and did not record these items in the financial statements because the amounts are considered immaterial.

NOTE 11. PRIOR PERIOD ADJUSTMENTS

Prior period adjustments were made in the water and sewer fund for \$1,319 and (\$4327), respectively. These adjustments were to adjust fixed assets for prior period transactions that were not recorded correctly. These changes increased the fixed assets and net position of the water fund by \$1,319 and decreased the fixed assets and net position of the sewer fund by \$4,327. Prior period adjustments were made in the governmental activities for \$116. Adjustments were to adjust fixed assets for prior period transactions that were not recorded correctly. These changes increased the fixed assets and net position of the general fund by \$116.

TOWN OF BROADUS, MONTANA

REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2014

Town of Broadus, Montana
Schedule of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual
All Budgeted Major Governmental Funds
For the Year Ended June 30, 2014

	General Fund		
	Original Budget	Final Budget	Actual
REVENUES			
Taxes and assessments	\$ 68,850	\$ 68,850	\$ 63,366
Licenses and permits	1,750	1,750	1,511
Intergovernmental revenue	94,857	94,857	109,611
Charges for services			2,613
Investment and royalty earnings	220	220	233
Fines and forfeitures			343
Total revenue	165,677	165,677	177,677
EXPENDITURES			
General government	\$ 52,590	\$ 52,590	\$ 35,584
Public safety	24,020	24,020	24,322
Public works	76,663	76,663	54,507
Public health	125	125	114
Culture and recreation	27,180	27,180	21,948
Miscellaneous	3,800	3,800	3,705
Total current charges	184,378	184,378	140,180
Capital outlay			74,290
Total expenditures	184,378	184,378	214,470
Excess (deficiency) of revenues over expenditures	\$ (18,701)	\$ (18,701)	\$ (36,793)
OTHER FINANCING SOURCES AND USES			
Face amount of notes payable	\$	\$	\$ 31,250
Sale of capital assets			1,000
Transfers out	\$ (2,400)	\$ (2,400)	\$ (2,400)
Net change in fund balance	\$ (21,101)	\$ (21,101)	\$ (6,943)
Fund balance, beginning of year			\$ 155,320
Fund balance, end of year			\$ 148,377

See accompanying Notes to Required Supplemental Information

Town of Broadus, Montana
Schedule of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual
All Budgeted Major Governmental Funds
For the Year Ended June 30, 2014

	Other Maintenance Fund		
	Original Budget	Final Budget	Actual
REVENUES			
Taxes and assessments	\$ 53,200	\$ 53,200	\$ 54,542
Investment and royalty earnings	50	50	63
Total revenue	53,250	53,250	54,605
EXPENDITURES			
Public works	\$ 51,841	\$ 51,841	\$ 42,647
Total current charges	51,841	51,841	42,647
Capital outlay			0
Total expenditures	51,841	51,841	42,647
Excess (deficiency) of revenues over expenditures	\$ 1,409	\$ 1,409	\$ 11,958
OTHER FINANCING SOURCES AND USES			
Transfers in	\$ 0	\$ 0	\$ 0
Net change in fund balance	\$ 1,409	\$ 1,409	\$ 11,958
Fund balance, beginning of year			\$ 32,132
Fund balance, end of year			\$ 44,090

See accompanying Notes to Required Supplemental Information

Town of Broadus, Montana
Notes to Required Supplemental Information
For the Year Ended June 30, 2014

BUDGETS

Budgets are adopted on a basis consistent with the State of Montana budget laws which are, for the most part, consistent with generally accepted accounting principles (GAAP). Annual appropriated budgets are adopted for the General Fund, the special revenue funds including (Other Maintenance, Gasoline Tax, Comprehensive Insurance, Health Insurance, and Police Reserve Training), and the capital project funds.

GENERAL POLICIES

The Town's funds are either budgeted or unbudgeted in accordance with State statutes. Budgeted funds are those for which a legal budget must be adopted to have expenditures from such funds and are noted above. All other funds are nonbudgeted, meaning a legal budget is not required in order to spend the cash balance of such a fund. The Schedule of Revenues, Expenditures, and Changes in Fund Balances, Budget vs. Actual, has been prepared on the modified accrual basis of accounting and contains financial information for only the major budgeted funds. Budgets for major enterprise funds are not required to be included and are not presented here.

BUDGET OPERATION

The Town operates within the budget requirements for Cities and Towns as specified by State law. The financial report reflects the following budgetary standards:

1. The Town must submit a complete copy of the final budget together with a statement of tax levies to the department of administration by the later of October 1 or 60 days after receipt of taxable values from the department of revenue.
2. Once adopted, the budget can be amended by subsequent Town Council action. An increase of total budget of a given fund requires the adoption of an amended budget in accordance with State statutes.
3. According to State statutes, the expenditures of a budgeted fund may not legally exceed the adopted budget.
4. At the end of a fiscal year, unencumbered appropriations lapse unless specifically obligated by the Town.

Note: General fund expenditures exceeded the amount budgeted because the Town did not correctly factor into its budget the purchase of machinery and related loan proceeds.

**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 Town Council
Town of Broadus
Broadus, Montana

I have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Broadus (the Town), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued my report thereon dated June 24, 2015.

Internal Control Over Financial Reporting

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

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, I identified certain deficiencies in internal control over financial reporting that I consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. I consider the deficiency described in schedule of findings and questioned costs as finding number 14-2 to be a material weakness.

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. I consider the deficiency described in the schedule of findings and questioned costs as finding number 14-1 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the schedule of findings and questioned costs as finding number 14-3.

Town's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of my 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.

Philip Emmons, CPA
Miles City, MT

June 24, 2015

**Town of Broadus, Montana
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:	Unmodified
Internal control over financial reporting:	
Material weakness (es) identified?	Yes
Significant Deficiencies identified not considered to be material weaknesses?	Yes
Noncompliance material to the financial statements noted?	Yes

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding 14-1

Condition:	Due to a limited number of office personnel, the Town does not have adequate internal accounting controls in some areas because of a lack of segregation of duties.
Criteria:	An ideal system of internal control utilizes a segregation of duties so that no one individual handles a transaction from its inception to its completion.
Cause:	The condition occurred due to the Town having a limited number of personnel available.
Effects:	Inadequate segregation of duties increases the risk that fraud may occur and not be detected by the Town.
Recommendation:	Continue to examine the economic feasibility of hiring additional staff.
Response:	The Town will continue to examine the economic feasibility of hiring additional staff.

Town of Broadus, Montana
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2014

Finding 14-2

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

Criteria: I was engaged to assist in the preparation of the Town's financial statements. The government ensures the quality of its financial statements by engaging a qualified audit firm with expertise in governmental audits and by reading a preliminary draft of the financial statements.

Cause: The condition occurred due to the Town having a limited number of personnel available.

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

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

Response: The Town will continue to read its draft financial statements and ensure the quality of the document and preparer.

Finding 14-3

Condition: General fund expenditures exceeded appropriations.

Criteria: State law limits expenditures to appropriations.

Cause: The Town did not amend its budget for the receipt and subsequent expenditure of an equipment loan.

Effects: This caused Town expenditures to exceed appropriations.

Recommendation: The Town should revise its budgeting to comply with applicable State laws.

Town of Broadus, Montana
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2014

Response: The Town will revise its budgeting procedures in future years.

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS N/A

Town of Jordan, Montana
Prior Year Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2014

PRIOR YEAR FINANCIAL STATEMENT FINDINGS

Finding: 13-1 – Segregation of Duties

Status: Continued disclosure.

Finding: 13-2 – Financial Statement Preparation

Status: Continued disclosure.

Finding: 13-3 – Water Sales Reconciliation

Status: Resolved.