

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

City of Chinook, Montana

Blaine County

June 30, 2014

City of Chinook, Montana

June 30, 2014

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City of Chinook, Montana

June 30, 2014

ELECTED OFFICIALS

CITY COUNCIL

| | |
|---------------|--------------------|
| Keith Hanson | Mayor |
| Chris Thurman | City Councilperson |
| Robert Smith | City Councilperson |
| Mitch Haider | City Councilperson |
| Clint Graytek | City Councilperson |

CITY OFFICIALS

| | |
|---------------|----------------------|
| Mark Harshman | City Attorney |
| Gabe Harry | City Clerk/Treasurer |
| Perry Miller | City Judge |
| Mark Weber | Chief of Police |

INDEPENDENT AUDITOR'S REPORT

April 28, 2015

The Honorable Mayor and City Council
City of Chinook, Montana
PO Box 1177
Chinook, MT 59523

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, as 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 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 28, 2015 on our consideration of the City of Chinook, Montana's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Chinook, Montana's internal control over financial reporting and compliance.


Wipfli LLP
Billings, Montana

City of Chinook, Montana

MANAGEMENT DISCUSSION AND ANALYSIS (M,D&A)

July 01, 2013 - June 30, 2014

The management of the City of Chinook, Montana (the City) presents the following narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2014. This Management's Discussion and Analysis (MD&A) is based upon currently known facts, decisions, and conditions that existed as of the date of the independent auditor's report. To request a copy of the City's annual financial report, contact us at 406-357-3160.

FINANCIAL HIGHLIGHTS

- The assets of the City's Governmental Activities exceeded its liabilities by \$1,725,923 at June 30, 2013 and by \$1,654,987 at June 30, 2014 which represents a decrease of 4%.
- The assets of the City's Business-type Activities exceeded its liabilities by \$4,125,826 at June 30, 2013 and by \$4,236,834 at June 30, 2014, which represents an increase of 3%.
- The City's revenue exceeded its expenses in its Governmental Activities by \$83,716 for the year ended June 30, 2013 and expenses exceeded revenues by \$70,936 for the year ended June 30, 2014.
- The City's expenses exceeded revenues for Business-type Activities by \$131,071 for the year ended June 30, 2013 and revenues exceeded expenses by \$111,008 for the year ended June 30, 2014.

USING THIS ANNUAL REPORT

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances using the accrual basis of accounting, in a manner similar to a private-sector business. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

The **Statement of Net Position** presents information on all the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The **Statement of Activities** presents information showing how the City's net position changed during the fiscal year just ended. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus revenues and expenses reported in this statement for some items will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (Governmental Activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (Business-type Activities). The Governmental Activities of the City includes general government, public safety, public works, public health, social and economic services, and culture and recreation.

The government-wide financial statements can be found on pages 10-11 of this report.

City of Chinook, Montana

MANAGEMENT DISCUSSION AND ANALYSIS (M,D&A)

July 01, 2013 - June 30, 2014

FUND FINANCIAL STATEMENTS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. With the implementation of GASB 34 the focus is now on major funds rather than fund types. A major fund should generally meet both of the following criteria: 1) total assets, liabilities, revenues, or expenditures/expenses are at least 10% of the corresponding total (assets, liabilities, etc.) for that fund type (i.e., governmental or enterprise funds) and 2) total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5% of the corresponding total for all governmental and enterprise funds combined.

The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

GOVERNMENTAL FUNDS

Governmental funds are used to account for essentially the same functions reported as governmental activities in government wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. These funds are reported using the modified accrual accounting method, 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 City's general government operations and the basic services it provides. Both the governmental fund balance sheet and the government fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate a comparison between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds.

For major funds, information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances.

The City adopts an annual appropriated budget for its governmental funds. A budgetary comparison statement has been provided for all major special revenue funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 12 and 14 of this report.

PROPRIETARY FUNDS (BUSINESS FUNDS)

The proprietary funds statements offer short and long-term financial information about the activities the government operates like businesses. The City maintains four proprietary funds or business funds, which are the water fund, wastewater (sewer) fund, solid waste (garbage) and unified landfill.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for each fund. The Statement of Activities combines the solid waste and landfill.

The basic proprietary fund financial statements can be found on pages 16 through 18 of this report.

City of Chinook, Montana

MANAGEMENT DISCUSSION AND ANALYSIS (M,D&A)

July 01, 2013 - June 30, 2014

NOTES TO THE FINANCIAL STATEMENTS

To fully understand the data provided in the government-wide and fund financial statements, additional information is provided in the notes to financial statements. The notes to the financial statements can be found on pages 20-36.

OTHER SUPPLEMENTAL INFORMATION

Budgetary Comparison Schedules and related notes can be found on pages 37-39.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following table provides a summary of the City's Net Position for 2014 compared to 2013.

STATEMENT OF NET POSITION

| | <u>Governmental Activities</u> | | <u>Business-Type</u> | | <u>Total</u> | |
|----------------------------------|--------------------------------|------------------|----------------------|------------------|------------------|------------------|
| | <u>2014</u> | <u>2013</u> | <u>2014</u> | <u>2013</u> | <u>2014</u> | <u>2013</u> |
| ASSETS | | | | | | |
| Current and other assets | 1,197,094 | 1,197,598 | 875,149 | 848,922 | 2,072,243 | 2,046,520 |
| Capital assets | 560,642 | 608,771 | 4,912,400 | 4,771,691 | 5,473,042 | 5,380,462 |
| Total assets | <u>1,757,736</u> | <u>1,806,369</u> | <u>5,787,549</u> | <u>5,620,613</u> | <u>7,545,285</u> | <u>7,426,982</u> |
| LIABILITIES | | | | | | |
| Other current liabilities | 50,668 | 11,590 | 127,293 | 1,525 | 177,961 | 13,115 |
| Noncurrent liabilities | 52,081 | 68,856 | 1,423,422 | 1,493,262 | 1,475,503 | 1,562,118 |
| Total liabilities | <u>102,749</u> | <u>80,446</u> | <u>1,550,715</u> | <u>1,494,787</u> | <u>1,653,464</u> | <u>1,575,233</u> |
| NET POSITION | | | | | | |
| Net investment in capital assets | 560,642 | 608,771 | 3,536,775 | 3,321,425 | 4,097,417 | 3,930,196 |
| Restricted | 528,040 | 522,442 | 453,930 | 456,117 | 981,970 | 978,559 |
| Unrestricted | 566,305 | 594,710 | 246,129 | 348,284 | 812,434 | 942,994 |
| Total net position | <u>1,654,987</u> | <u>1,725,923</u> | <u>4,236,834</u> | <u>4,125,826</u> | <u>5,891,821</u> | <u>5,851,749</u> |

City of Chinook, Montana

MANAGEMENT DISCUSSION AND ANALYSIS (M,D&A)

July 01, 2013 - June 30, 2014

STATEMENT OF ACTIVITIES

| | <u>Governmental Activities</u> | | <u>Business-type Activities</u> | | <u>Total</u> | |
|--------------------------|--------------------------------|------------------|---------------------------------|------------------|------------------|------------------|
| | <u>2014</u> | <u>2013</u> | <u>2014</u> | <u>2013</u> | <u>2014</u> | <u>2013</u> |
| Program Revenues: | | | | | | |
| Charges for services | 293,480 | 317,031 | 0 | 0 | 293,480 | 317,031 |
| Operating grants | 35,184 | 34,576 | 0 | 0 | 35,184 | 34,576 |
| Water revenue | 0 | 0 | 444,144 | 458,360 | 444,144 | 458,360 |
| Sewer revenue | 0 | 0 | 446,863 | 454,946 | 446,863 | 454,946 |
| Water operating grants | 0 | 0 | 266,981 | 0 | 266,981 | 0 |
| Solid waste and landfill | 0 | 0 | 202,623 | 206,682 | 202,623 | 206,682 |
| General Revenues: | | | | | | |
| Property and local taxes | 313,274 | 388,927 | 0 | 0 | 313,274 | 388,927 |
| State shared revenues | 258,097 | 243,516 | 0 | 0 | 258,097 | 243,516 |
| Investment earnings | 3,846 | 4,951 | 2,126 | 5,322 | 5,972 | 10,273 |
| Other | 1,640 | 1,665 | 475 | 0 | 2,115 | 1,665 |
| | <u>905,521</u> | <u>990,666</u> | <u>1,363,212</u> | <u>1,125,310</u> | <u>2,268,733</u> | <u>2,115,976</u> |
| Expenses: | | | | | | |
| General government | 177,786 | 149,231 | 0 | 0 | 177,786 | 149,231 |
| Public safety | 363,495 | 359,591 | 0 | 0 | 363,495 | 359,591 |
| Public works | 344,172 | 299,721 | 0 | 0 | 344,172 | 299,721 |
| Public health | 741 | 966 | 0 | 0 | 741 | 966 |
| Culture & recreation | 74,255 | 78,904 | 0 | 0 | 74,255 | 78,904 |
| Social and economic | 2,600 | 0 | 0 | 0 | 2,600 | 0 |
| Miscellaneous | 13,408 | 18,537 | 0 | 0 | 13,408 | 18,537 |
| Water | 0 | 0 | 411,846 | 479,285 | 411,846 | 479,285 |
| Sewer | 0 | 0 | 640,380 | 577,589 | 640,380 | 577,589 |
| Solid waste and landfill | 0 | 0 | 199,978 | 199,507 | 199,978 | 199,507 |
| | <u>976,457</u> | <u>906,950</u> | <u>1,252,204</u> | <u>1,256,381</u> | <u>2,228,661</u> | <u>2,163,331</u> |
| Change in net position | (70,936) | 83,716 | 111,008 | (131,071) | 40,072 | (47,355) |
| Net position, beginning | 1,725,923 | 1,642,207 | 4,125,826 | 4,256,897 | 5,851,749 | 5,899,104 |
| Net position, ending | <u>1,654,987</u> | <u>1,725,923</u> | <u>4,236,834</u> | <u>4,125,826</u> | <u>5,891,821</u> | <u>5,851,749</u> |

GOVERNMENTAL ACTIVITIES

The taxable value for the 2013-2014 tax year was up 1.64% from the previous year. The City is allowed, under Section 15-10-420, MCA, to levy the maximum number of mills, which includes floating mills. The floating mills allowed the City to decrease the mills from 334.41 mills to 278.5 mills for 2013-2014 which accounts for the decreased tax revenue in the government activities of \$75,654.

BUSINESS-TYPE ACTIVITIES

Water use decreased approximately 15% from fiscal year 2013 to 2014. Fiscal year 2014 operating expenses were 3% more than fiscal year 2013 for all business type activities.

City of Chinook, Montana

MANAGEMENT DISCUSSION AND ANALYSIS (M,D&A)

July 01, 2013 - June 30, 2014

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

The fund financial statements provide detailed information about the City's most significant funds – not the City as a whole. Some funds are required to be established by State law or by bond covenants. However, City Council establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting administrative responsibilities for using certain taxes, grants, or other money (such as grants). The City's two kinds of funds – governmental and proprietary – use different accounting approaches.

Governmental Funds. Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and balances left at year end that are available for spending. These funds are reported using the modified accrual accounting method, which measures cash and all other current financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's 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 the City's programs. A description of the relationship or differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is provided in the reconciliation reports subsequent to the fund financial statements.

Proprietary Funds. The City maintains four proprietary funds also known as enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government wide financial statements. The City uses enterprise funds to account for water, sewer, garbage and landfill operations with the water and sewer funds being considered major funds. The proprietary funds are dependent on the fees and charges issued to pay for the services. The equipment used to provide the services often require maintenance and repair. These costs, along with the depreciation value, are monitored and recorded with the values being published with the fund's yearly statement. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The General Fund of the City had a decrease to fund balance of \$14,446 for the year ended June 30, 2014.

The Street Fund showed a decrease to fund balance of \$14,552 for the year ended June 30, 2014. The increase is due to the street charge being decreased.

The Water Fund net position as of June 30, 2014 was \$1,509,874. This is an increase of \$300,207 from 2013. The increase is in part due to funding for the new water treatment plant.

The Sewer Fund net assets for 2014 are \$2,578,339. The \$192,245 decrease from 2013 is due in part to the depreciation expenses from the 2006 sewer plant upgrade and the installation of one block of new sewer main.

City of Chinook, Montana

MANAGEMENT DISCUSSION AND ANALYSIS (M,D&A)

July 01, 2013 - June 30, 2014

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets. The City’s capital assets for its governmental type activities as of June 30, 2014 amount to \$560,642. This investment in capital assets includes land, buildings and improvements, vehicles, machinery and equipment, net of accumulated depreciation. The City maintains a capital improvement fund for the purpose of replacing and acquiring new assets and reconstruction of infrastructure.

The City’s capital assets for its business type activities as of June 30, 2014 amount to \$4,912,400.

Long-term debt. At the end of the 2014 fiscal year, the City’s business activities had long-term debt of \$1,423,422. Of this amount, \$1,375,625 is remaining on bonds for the water and sewer plants and \$47,797 in compensated absences.

The City has paid \$7,880 in principal on the water bond debt leaving a debt balance of \$335,914. This bond was refinanced in April 2015 in the amount of \$335,914 and will be paid off in 2039.

GENERAL FUND BUDGETARY HIGHLIGHTS-2014

| | <u>Budgeted</u> | <u>Expended</u> |
|------------------------|-----------------|-----------------|
| Legislative | 28,129 | 27,279 |
| City Court | 19,373 | 15,082 |
| Financial Service | 106,604 | 107,370 |
| Elections | 3,000 | 808 |
| Records Administration | 2,000 | 395 |
| Legal Services | 53,521 | 21,683 |
| Planning & Research | 1,000 | 0 |
| Facilities-City Hall | 13,419 | 7,430 |
| Police | 350,613 | 312,102 |
| Fire | 37,844 | 30,379 |
| Public Health | 1,665 | 741 |
| Culture & Recreation | 141,058 | 69,956 |
| Transfer Out | 30,000 | 30,000 |
| Public Works | 15,283 | 10,360 |
| Other-Comp. Insurance | 15,780 | 13,408 |
| Total | <u>819,289</u> | <u>646,993</u> |

CONTACTING THE CITY’S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City’s finances and to show the City’s accountability for the money it receives. If you have questions about this report or need additional financial information contact the City Clerk, at the City of Chinook, Montana, PO Box 1177, Chinook, MT 59523.

City of Chinook, Montana

GOVERNMENT-WIDE STATEMENT OF NET POSITION

as of June 30, 2014

| | <u>Governmental</u> <u>Activities</u> | <u>Business-type</u> <u>Activities</u> | <u>Total</u> |
|---|--|---|-------------------------|
| ASSETS | | | |
| Cash and cash equivalents | 1,131,597 | 113,197 | 1,244,794 |
| Restricted assets: cash and cash equivalents | 179 | 453,930 | 454,109 |
| Taxes and assessments receivable | 63,252 | 7,260 | 70,512 |
| Accounts and other receivables | 2,066 | 83,436 | 85,502 |
| Due from other governments | 0 | 210,201 | 210,201 |
| Due from other funds | 0 | 49,876 | 49,876 |
| Other assets | 0 | 7,125 | 7,125 |
| Capital assets, net of accumulated depreciation | 397,442 | 4,505,677 | 4,903,119 |
| Capital assets, not being depreciated | 163,200 | 406,723 | 569,923 |
| Total assets | <u>1,757,736</u> | <u>5,837,425</u> | <u>7,595,161</u> |
| LIABILITIES | | | |
| Accounts payable and other current liabilities | 50,668 | 127,293 | 177,961 |
| Due from other funds | 0 | 49,876 | 49,876 |
| Long term liabilities | | | |
| Due within one year: | | | |
| Bonds payable | 0 | 389,240 | 389,240 |
| Due in more than one year: | | | |
| Bonds payable | 0 | 986,385 | 986,385 |
| Compensated absences | 52,081 | 47,797 | 99,878 |
| Total liabilities | <u>102,749</u> | <u>1,600,591</u> | <u>1,703,340</u> |
| NET POSITION | | | |
| Net investment in capital assets | 560,642 | 3,536,775 | 4,097,417 |
| Restricted for: | | | |
| Public safety | 74,772 | 0 | 74,772 |
| Public works | 400,202 | 0 | 400,202 |
| Culture and recreation | 179 | 0 | 179 |
| Social and economic | 52,887 | 0 | 52,887 |
| Debt service | 0 | 453,930 | 453,930 |
| Unrestricted | 566,305 | 246,129 | 812,434 |
| Total net position | <u><u>1,654,987</u></u> | <u><u>4,236,834</u></u> | <u><u>5,891,821</u></u> |

The accompanying notes are an integral part of these financial statements.

City of Chinook, Montana

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
for the year ended June 30, 2014

| | Program Revenues | | | | Governmental Activities | Business- Type Activities | Total |
|--|-------------------------|--|--|--|----------------------------|---------------------------------|-------------------------|
| | Expenses | Fees, Fines and Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | | | |
| GOVERNMENTAL ACTIVITIES | | | | | | | |
| General government | 177,786 | 20,261 | 0 | 0 | (157,525) | 0 | (157,525) |
| Public safety | 363,495 | 855 | 1,680 | 0 | (360,960) | 0 | (360,960) |
| Public works | 344,172 | 254,495 | 33,504 | 0 | (56,173) | 0 | (56,173) |
| Public health | 741 | 0 | 0 | 0 | (741) | 0 | (741) |
| Culture and recreation | 74,255 | 17,869 | 0 | 0 | (56,386) | 0 | (56,386) |
| Social and Economic Services | 2,600 | 0 | 0 | 0 | (2,600) | | (2,600) |
| Miscellaneous | 13,408 | 0 | 0 | 0 | (13,408) | 0 | (13,408) |
| Total governmental activities | <u>976,457</u> | <u>293,480</u> | <u>35,184</u> | <u>0</u> | <u>(647,793)</u> | <u>0</u> | <u>(647,793)</u> |
| BUSINESS-TYPE ACTIVITIES | | | | | | | |
| Water | 411,846 | 444,144 | 266,981 | 0 | 0 | 299,279 | 299,279 |
| Sewer | 640,380 | 446,863 | 0 | 0 | 0 | (193,517) | (193,517) |
| Solid waste and landfill | 199,978 | 202,623 | 0 | 0 | 0 | 2,645 | 2,645 |
| Total business-type activities | <u>1,252,204</u> | <u>1,093,630</u> | <u>266,981</u> | <u>0</u> | <u>0</u> | <u>108,407</u> | <u>108,407</u> |
| Total | <u><u>2,228,661</u></u> | <u><u>1,387,110</u></u> | <u><u>302,165</u></u> | <u><u>0</u></u> | <u><u>(647,793)</u></u> | <u><u>108,407</u></u> | <u><u>(539,386)</u></u> |
| General Revenues: | | | | | | | |
| Property Taxes | | | | | 287,542 | 0 | 287,542 |
| Local option taxes | | | | | 25,732 | 0 | 25,732 |
| Unrestricted federal and state shared revenues | | | | | 258,097 | 0 | 258,097 |
| Unrestricted investment earnings | | | | | 3,846 | 2,126 | 5,972 |
| Miscellaneous | | | | | 1,640 | 475 | 2,115 |
| Total general revenues | | | | | <u>576,857</u> | <u>2,601</u> | <u>579,458</u> |
| Change in net position | | | | | (70,936) | 111,008 | 40,072 |
| Net position, beginning of year | | | | | <u>1,725,923</u> | <u>4,125,826</u> | <u>5,851,749</u> |
| Net position, end of year | | | | | <u><u>1,654,987</u></u> | <u><u>4,236,834</u></u> | <u><u>5,891,821</u></u> |

The accompanying notes are an integral part of these financial statements.

City of Chinook, Montana

GOVERNMENTAL FUNDS BALANCE SHEET

as of June 30, 2014

| | <u>General Fund</u> | <u>Street Maintenance Fund</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|---------------------|--|---|---|
| ASSETS | | | | |
| Pooled cash and investments | 615,938 | 141,858 | 373,801 | 1,131,597 |
| Cash and cash equivalents, restricted | 179 | 0 | 0 | 179 |
| Taxes and assessments receivable | 37,950 | 18,871 | 6,431 | 63,252 |
| Other Receivables | 2,066 | 0 | 0 | 2,066 |
| Total assets | <u>656,133</u> | <u>160,729</u> | <u>380,232</u> | <u>1,197,094</u> |
| | | | | |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | | | | |
| Liabilities: | | | | |
| Accounts payable and other current liabilities | 37,342 | 696 | 12,630 | 50,668 |
| Total liabilities | <u>37,342</u> | <u>696</u> | <u>12,630</u> | <u>50,668</u> |
| | | | | |
| Deferred inflows of resources: | | | | |
| Unavailable tax revenues | 37,950 | 18,871 | 6,431 | 63,252 |
| Total deferred inflows of resources | <u>37,950</u> | <u>18,871</u> | <u>6,431</u> | <u>63,252</u> |
| | | | | |
| Fund balances | | | | |
| Restricted | | | | |
| Public safety | 0 | 0 | 74,772 | 74,772 |
| Public works | 0 | 141,162 | 235,622 | 376,784 |
| Culture and recreation | 179 | 0 | 0 | 179 |
| Social and economic | 0 | 0 | 52,887 | 52,887 |
| Unassigned | 580,662 | 0 | (2,110) | 578,552 |
| Total fund balances | <u>580,841</u> | <u>141,162</u> | <u>361,171</u> | <u>1,083,174</u> |
| | | | | |
| Total liabilities, deferred inflows of resources and fund balances | <u>656,133</u> | <u>160,729</u> | <u>380,232</u> | <u>1,197,094</u> |

The accompanying notes are an integral part of these financial statements.

City of Chinook, Montana

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
GOVERNMENT-WIDE STATEMENT OF NET POSITION**
as of June 30, 2014

| | |
|---|-------------------------|
| Total fund balance, governmental funds | 1,083,174 |
| Amounts reported for governmental activities in the Statement of Net Position differ because: | |
| Capital assets used in governmental activities are not current financial resources and therefore are not reported in the fund financial statements. The total cost of capital assets not reported above, net of accumulated depreciation. | 560,642 |
| Property taxes receivable were assessed this year, but are not available to meet current obligations, and therefore are unavailable in the funds. | 63,252 |
| Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at ear-end consist of: | |
| Compensated absences | <u>(52,081)</u> |
| Net position of governmental activities on the Statement of Net Position | <u><u>1,654,987</u></u> |

The accompanying notes are an integral part of these financial statements.

City of Chinook, Montana

**GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES**

for the year ended June 30, 2014

| | General Fund | Street Maintenance Fund | Other Governmental Funds | Total Governmental Funds |
|---|-----------------------|-------------------------------|--------------------------------|--------------------------------|
| REVENUES | | | | |
| Taxes and assessments | 332,858 | 193,184 | 59,311 | 585,353 |
| Licenses and permits | 9,699 | 0 | 1,187 | 10,886 |
| Intergovernmental revenues | 258,097 | 0 | 35,184 | 293,281 |
| Charges for services | 20,472 | 2,000 | 0 | 22,472 |
| Fines and forfeitures | 7,628 | 0 | 0 | 7,628 |
| Miscellaneous revenues | 1,640 | 0 | 0 | 1,640 |
| Investment and royalty earnings | 2,153 | 451 | 1,242 | 3,846 |
| Total revenues | <u>632,547</u> | <u>195,635</u> | <u>96,924</u> | <u>925,106</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government | 180,047 | 0 | 0 | 180,047 |
| Public safety | 339,881 | 0 | 4,138 | 344,019 |
| Public works | 10,360 | 210,187 | 113,785 | 334,332 |
| Public health | 741 | 0 | 0 | 741 |
| Social and economic services | 2,600 | 0 | 0 | 2,600 |
| Culture and recreation | 69,956 | 0 | 0 | 69,956 |
| Miscellaneous | 13,408 | 0 | 0 | 13,408 |
| Total Expenditures | <u>616,993</u> | <u>210,187</u> | <u>117,923</u> | <u>945,103</u> |
| Excess (deficiency) of revenues over expenditures | 15,554 | (14,552) | (20,999) | (19,997) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Interfund operating transfers in | 0 | 0 | 38,326 | 38,326 |
| Interfund operating transfers out | <u>(30,000)</u> | 0 | <u>(8,326)</u> | <u>(38,326)</u> |
| Total other financing sources (uses) | <u>(30,000)</u> | 0 | 30,000 | 0 |
| Net change in fund balances | (14,446) | (14,552) | 9,001 | (19,997) |
| Fund balances, beginning of year | 595,287 | 155,714 | 352,170 | 1,103,171 |
| Fund balances, end of year | <u><u>580,841</u></u> | <u><u>141,162</u></u> | <u><u>361,171</u></u> | <u><u>1,083,174</u></u> |

The accompanying notes are an integral part of these financial statements.

City of Chinook, Montana

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES TO THE GOVERNMENT-
WIDE STATEMENT OF ACTIVITIES**

for the year ended June 30, 2014

| | |
|---|------------------------|
| Total governmental funds change in fund balance | (19,997) |
| Capital outlays are reported in the governmental funds as expenditures. However, in the Statement of Activities, the cost of these assets is allocated over their estimated useful lives as depreciation expense. | |
| Depreciation expense | (48,129) |
| Some property taxes will not be collected for several months after the City's fiscal year ends, and therefore are not considered as "available" revenues in the governmental funds, and are instead reported as unearned tax revenues. They are, however, recorded as revenues in the Statement of Activities. | (19,585) |
| In the Statement of Activities, certain operating expenses including compensated absences (vacations and sick leave) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially the amounts actually paid). | |
| Change in compensated absences | <u>16,775</u> |
| Change in net position of governmental activities | <u><u>(70,936)</u></u> |

The accompanying notes are an integral part of these financial statements.

City of Chinook, Montana

PROPRIETARY FUNDS STATEMENT OF NET POSITION

as of June 30, 2014

| | <u>Water Utility Fund</u> | <u>Sewer Utility Fund</u> | <u>Nonmajor Enterprise Funds</u> | <u>Total Proprietary Funds</u> |
|---|-------------------------------|-------------------------------|--|--|
| ASSETS | | | | |
| Current assets: | | | | |
| Pooled cash and investments | 0 | 25,960 | 87,237 | 113,197 |
| Cash and cash equivalents, restricted | 184,709 | 269,221 | 0 | 453,930 |
| Taxes and assessments receivable | 0 | 0 | 7,260 | 7,260 |
| Accounts / other receivables | 43,745 | 38,491 | 1,200 | 83,436 |
| Due from other funds | 0 | 0 | 49,876 | 49,876 |
| Due from other governments | 210,201 | 0 | 0 | 210,201 |
| Total current assets | <u>438,655</u> | <u>333,672</u> | <u>145,573</u> | <u>917,900</u> |
| Noncurrent assets: | | | | |
| Other assets | 7,125 | 0 | 0 | 7,125 |
| Land | 7,060 | 1,500 | 13,164 | 21,724 |
| Construction in progress | 384,999 | 0 | 0 | 384,999 |
| Infrastructure, net of accumulated depreciation | <u>1,181,768</u> | <u>3,323,909</u> | <u>0</u> | <u>4,505,677</u> |
| Total noncurrent assets | <u>1,580,952</u> | <u>3,325,409</u> | <u>13,164</u> | <u>4,919,525</u> |
| Total assets | <u>2,019,607</u> | <u>3,659,081</u> | <u>158,737</u> | <u>5,837,425</u> |
| LIABILITIES | | | | |
| Current liabilities: | | | | |
| Accounts payable | 112,165 | 5,041 | 10,087 | 127,293 |
| Due to other funds | 49,876 | 0 | 0 | 49,876 |
| Bonds payable | 335,914 | 53,326 | 0 | 389,240 |
| Total current liabilities | <u>497,955</u> | <u>58,367</u> | <u>10,087</u> | <u>566,409</u> |
| Noncurrent liabilities: | | | | |
| Bonds payable | 0 | 986,385 | 0 | 986,385 |
| Compensated absences | 11,778 | 36,019 | 0 | 47,797 |
| Total noncurrent liabilities | <u>11,778</u> | <u>1,022,404</u> | <u>0</u> | <u>1,034,182</u> |
| Total liabilities | <u>509,733</u> | <u>1,080,771</u> | <u>10,087</u> | <u>1,600,591</u> |
| NET POSITION | | | | |
| Net investment in capital assets | 1,237,913 | 2,285,698 | 13,164 | 3,536,775 |
| Restricted | | | | |
| Debt service | 184,709 | 269,221 | 0 | 453,930 |
| Unrestricted | 87,252 | 23,391 | 135,486 | 246,129 |
| Total net position | <u>1,509,874</u> | <u>2,578,310</u> | <u>148,650</u> | <u>4,236,834</u> |

The accompanying notes are an integral part of these financial statements.

City of Chinook, Montana

**PROPRIETARY FUNDS STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
NET POSITION**
for the year ended June 30, 2014

| | Water Utility Fund | Sewer Utility Fund | Nonmajor Enterprise Funds | Total Proprietary Funds |
|--|-------------------------|-------------------------|---------------------------------|-------------------------------|
| OPERATING REVENUES | | | | |
| Charges for services | 444,144 | 446,863 | 3,400 | 894,407 |
| Miscellaneous revenues | 171 | 304 | 0 | 475 |
| Special assessments | 0 | 0 | 199,223 | 199,223 |
| Total operating revenues | <u>444,315</u> | <u>447,167</u> | <u>202,623</u> | <u>1,094,105</u> |
| OPERATING EXPENSES | | | | |
| Personal services | 162,151 | 212,174 | 0 | 374,325 |
| Supplies | 58,063 | 37,611 | 47 | 95,721 |
| Purchased services | 95,753 | 113,415 | 199,931 | 409,099 |
| Building materials | 0 | 7,230 | 0 | 7,230 |
| Fixed charges | 15,607 | 14,821 | 0 | 30,428 |
| Depreciation | 68,509 | 219,162 | 0 | 287,671 |
| Total operating expenses | <u>400,083</u> | <u>604,413</u> | <u>199,978</u> | <u>1,204,474</u> |
| Operating income (loss) | 44,232 | (157,246) | 2,645 | (110,369) |
| NONOPERATING REVENUES (EXPENSES) | | | | |
| Intergovernmental revenues | 266,981 | 0 | 0 | 266,981 |
| Investment and royalty earnings | 757 | 969 | 400 | 2,126 |
| Debt services interest expense | (11,763) | (35,967) | 0 | (47,730) |
| Total nonoperating revenues (expenses) | <u>255,975</u> | <u>(34,998)</u> | <u>400</u> | <u>221,377</u> |
| Income (loss) before contributions and transfers | 300,207 | (192,244) | 3,045 | 111,008 |
| Transfers in (out) | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Change in net position | 300,207 | (192,244) | 3,045 | 111,008 |
| Net position, beginning of year | <u>1,209,667</u> | <u>2,770,554</u> | <u>145,605</u> | <u>4,125,826</u> |
| Net position, end of year | <u><u>1,509,874</u></u> | <u><u>2,578,310</u></u> | <u><u>148,650</u></u> | <u><u>4,236,834</u></u> |

The accompanying notes are an integral part of these financial statements.

City of Chinook, Montana

PROPRIETARY FUNDS STATEMENT OF CASH FLOWS

for the year ended June 30, 2014

| | <u>Water</u> | <u>Sewer</u> | <u>Nonmajor</u> | <u>Total</u> |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| | <u>Utility Fund</u> | <u>Utility Fund</u> | <u>Enterprise</u> | <u>Proprietary</u> |
| | | | <u>Funds</u> | <u>Funds</u> |
| CASH FLOWS FROM OPERATIONS | | | | |
| Cash received from customers | 444,024 | 453,445 | 199,240 | 1,096,709 |
| Interest received on investments | 757 | 969 | 400 | 2,126 |
| Cash paid to: | | | | |
| Vendors | (1,440) | (168,317) | (189,891) | (359,648) |
| Employees | (170,280) | (199,244) | 0 | (369,524) |
| Lenders for interest on debt | (11,763) | (35,967) | 0 | (47,730) |
| Net cash provided by operating activities | <u>261,298</u> | <u>50,886</u> | <u>9,749</u> | <u>321,933</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Investment in capital assets | <u>(384,999)</u> | <u>(43,381)</u> | 0 | <u>(428,380)</u> |
| Net cash provided by investing activities | <u>(384,999)</u> | <u>(43,381)</u> | 0 | <u>(428,380)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | |
| Principal paid on debt | <u>(12,706)</u> | <u>(61,935)</u> | 0 | <u>(74,641)</u> |
| Net cash used by financing activities | <u>(12,706)</u> | <u>(61,935)</u> | 0 | <u>(74,641)</u> |
| Net increase in cash | <u>(136,407)</u> | <u>(54,430)</u> | 9,749 | <u>(181,088)</u> |
| Cash balance, beginning of year | <u>271,240</u> | <u>349,611</u> | <u>127,364</u> | <u>748,215</u> |
| Cash balance, end of year | <u><u>134,833</u></u> | <u><u>295,181</u></u> | <u><u>137,113</u></u> | <u><u>567,127</u></u> |

**RECONCILIATION OF OPERATING INCOME TO NET CASH USED BY
OPERATING ACTIVITIES**

| | | | | |
|--|-----------------------|----------------------|---------------------|-----------------------|
| Change in net position | 300,207 | (192,244) | 3,045 | 111,008 |
| Adjustments to reconcile operating loss to net cash used by operating activities: | | | | |
| Depreciation | 68,509 | 219,162 | 0 | 287,671 |
| (Increase) decrease in receivables | (291) | 6,277 | (3,383) | 2,603 |
| Increase in due from other governments | (210,201) | 0 | 0 | (210,201) |
| Decrease in other assets | 283 | 0 | 0 | 283 |
| Increase in accounts payable | 110,920 | 4,761 | 10,087 | 125,768 |
| Increase (decrease) in compensated absences payable | <u>(8,129)</u> | <u>12,930</u> | 0 | <u>4,801</u> |
| Total adjustments | <u>(38,909)</u> | <u>243,130</u> | <u>6,704</u> | <u>210,925</u> |
| Net cash provided by operating activities | <u><u>261,298</u></u> | <u><u>50,886</u></u> | <u><u>9,749</u></u> | <u><u>321,933</u></u> |

The accompanying notes are an integral part of these financial statements.

City of Chinook, Montana

FIDUCIARY FUNDS STATEMENT OF NET POSITION AND CHANGES IN NET POSITION

as of and for the year ended June 30, 2014

| | Private Purpose Trust Funds |
|---|--------------------------------|
| ASSETS | |
| Accounts receivable | 14,726 |
| Total assets | 14,726 |
| LIABILITIES, AND NET POSITION | |
| Accounts payable | 11,245 |
| Due to otther fund | 3,305 |
| Total liabilities | 14,550 |
| NET POSITION | |
| Net position held in trust, beginning of year | 176 |
| Total net position | 176 |
| STATEMENT OF CHANGES IN FIDUCIARY NET POSITION | |
| ADDITIONS | |
| Fines and forfeitures | 2,011 |
| Total additions | 2,011 |
| DEDUCTIONS | |
| Administrative expenses | 1,804 |
| Total deductions | 1,804 |
| Change in net position held in trust | 207 |
| Net position held in trust, beginning of year | (31) |
| Net position held in trust, end of year | 176 |

The accompanying notes are an integral part of these financial statements.

City of Chinook, Montana

NOTES TO FINANCIAL STATEMENTS

as of June 30, 2014

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of City of Chinook, Montana (the City) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City's significant accounting policies are described below:

1. Reporting entity. The City was incorporated under the laws of the State of Montana in 1901 and operates under a five member Mayor-Council form of government duly elected by the registered voters of the City.

The City of Chinook, Montana provides the following services authorized by its charter: public safety, police, highways and streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services.

In accordance with the Codification of Governmental Accounting and Financial Reporting Standards, the basic financial statements include all funds for which the City is financially accountable. The City has also considered all other potential organizations for which the nature and significance of their relationships with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. GASB has set forth criteria to be considered in determining financial accountability. The criteria include appointing a majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization, or (2) the potential for that organization to provide specific benefits to or impose specific financial burdens on the City. Based on these criteria, there are no other organizations or agencies which should be included in these basic financial statements.

2. Government-wide financial statements. The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the City. For the most part, the effect of material inter-fund 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.

The Statement of Activities demonstrates the degree to which the direct expenses of a given program or function is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program or function. Program revenues include charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not included among program revenues are reported as general revenues.

3. Fund financial statements. The City uses funds to report on its financial position and results of its operations. The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Non-major funds by category are summarized into a single column. GASB Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, sets forth criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category) for the determination of major funds.

City of Chinook, Montana

NOTES TO FINANCIAL STATEMENTS

as of June 30, 2014

4. Fund accounting. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. Accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, reserves, fund balance/net position, revenues, and expenditures or expenses, appropriate. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category is then divided into separate fund types as follows:

Governmental Funds: Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used; current liabilities are assigned to the fund from which they are paid; and the difference between governmental fund assets and liabilities, the fund equity, is referred to as "fund balance." The measurement focus is on the sources, uses and balance of current financial resources. Governmental fund types are those funds through which most governmental functions typically are financed and consist of the general fund, special revenue funds, debt service funds, and capital projects funds.

The following comprise the City's major governmental funds:

General Fund is the general operating fund of the City. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund.

Street Maintenance Fund is a special revenue fund used to account for costs related to street construction, reconstruction, improvements, additions and maintenance of City streets funded by specific tax levy dollars and various outside earned revenues.

Proprietary Funds: Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Position.

The following comprise the City's major proprietary funds:

Water Utility Fund is a utility service fund used to account for costs related to the water treatment and water supply of the City and is funded by service charges for the utility service.

Sewer Utility Fund is a utility service fund used to account for costs related to the maintenance of the sewer system of the City and is funded by service charges for the utility service.

Fiduciary Funds: Fiduciary funds are used to report assets held in a trustee capacity for others and are therefore not available to support City programs. The reporting focus is on Net Position and changes in Net Position and are reported using generally accepted accounting principles similar to business in the private sector.

The District's fiduciary funds are presented in the Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position by type (private purpose). Because by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the City, these funds are not incorporated into the government wide financial statements.

City of Chinook, Montana

NOTES TO FINANCIAL STATEMENTS

as of June 30, 2014

5. Measurement focus and basis of accounting. The financial statements of the City are prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary 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, while grants and similar items are recognized as revenue upon grantor eligibility requirements being met. Generally, the effect of material inter-fund activity has been removed.

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 City 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.

The City recognizes property taxes as a receivable at the time an enforceable legal claim is established and considers property taxes as available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year. Those revenues susceptible to accrual are property taxes, special assessments, grants, interest revenue and charges for services. Capital asset acquisitions are reported as expenditures in governmental funds and proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The City reports unavailable revenues as deferred inflows of resources and advances from grantors as a liability on its balance sheet - governmental funds. Unavailable revenues arise when potential revenue does not meet both the 'measurable' and 'available' criteria for recognition in the current period. Unavailable revenues also arise when the District receives resources before it has a legal claim to them, as when grant monies are received prior to the occurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to resources, the deferred inflow of resources for unavailable revenue and liability for advances from grantors are removed from the balance sheet and revenue is recognized. Unavailable revenues are not reflected in the government-wide Statement of Net Position as these amounts are recognized under the accrual basis of accounting. Advances from grantors are reflected as a liability on the government-wide Statement of Net Position.

City of Chinook, Montana

NOTES TO FINANCIAL STATEMENTS

as of June 30, 2014

Licenses and permits, fines and forfeitures, charges for sales and services (other than utility), and miscellaneous revenues are generally recorded as revenue when received in cash, because they are generally not measurable until actually received. In the category of use of money and property, property rentals are recorded as revenue when received in cash, but investment earnings are recorded as earned, since they are measurable and available.

Amounts reported as program revenues include charges to customers or applicants for goods, services, or privileges provided, operating grants and contributions and capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

6. Cash and pooled investments. Except where otherwise required, the City maintains all deposits in bank and investment accounts in the name of the City. These deposits are invested on a short term basis with interest income being recorded in the General Fund, except for interest income allocated to enterprise funds and where specifically required by law to be recorded in other funds. The balance reported in each fund represents an equity interest in the commingled pool of cash, which is under the management of the City Clerk. The provisions of Governmental Accounting Standards Board (GASB) Statement No. 31, Accounting and Financial Reporting for Certain Investments and External Investment Pools, require governmental entities, including governmental external investment pools, to report certain investments at fair value in the balance sheet and recognize the corresponding change in the fair value of investments in the year in which the change occurred. In accordance with GASB Statement No. 31, the City has stated investments at cost, which approximates the fair value.

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

7. Property taxes receivable. Property taxes are recognized as a receivable at the time an enforceable legal claim is established. This is determined to occur when the budget is certified. The current taxes receivable represents the levy based on the assessed valuations as of January 1 for all real property located in the City. Taxes are normally billed in October and payable in two installments on November 30 and May 31.

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 thirty days after billing. Delinquent personal property taxes may become a lien on the property of the owner of the personal property. Property taxes receivable at June 30, 2014 consist primarily of delinquent property taxes from prior years' levies and are offset by deferred revenue in the fund financial statements. The City does not record an allowance for uncollectible taxes because it is considered to be immaterial.

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.

City of Chinook, Montana

NOTES TO FINANCIAL STATEMENTS

as of June 30, 2014

8. Inventories. In the governmental funds the costs of inventory are recorded as expenditures when incurred; inventories are accounted for using the purchases method. The year-end value of inventory is recorded as an asset and, because the asset is not available for other discretionary expenditures, it is recorded as reserved fund balance. Under the purchases method the change in inventory from year to year is recorded as a change in the beginning fund balance. At the government-wide level the inventory must be reported on the consumption method, thus there is a reconciling item for inventory change between reporting levels. Inventory value is determined by using the average cost method. The valuation assigned to inventories at June 30, 2014 was not, however, considered material.
9. Capital assets. Capital assets, including land, buildings, improvements, and equipment assets, are reported in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an initial useful life of one year or greater. Such assets are recorded at historical cost if purchased or constructed. If no historical records exist, capital assets are recorded at estimated historical cost. Donated capital assets are recorded at estimated fair value at the date of donation. Interest incurred during construction is not capitalized. The City has chosen to only record infrastructure assets on a prospective basis beginning July 1, 2003. Minimum cost for capitalization and estimated useful lives have not been established for infrastructure assets and depreciation expense has not been recorded for the current year additions, which is immaterial to the basic financial statements.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Buildings, improvements and equipment assets are depreciated using the straight-line method of depreciation over the following estimated useful lives:

| <u>Assets:</u> | <u>Years</u> |
|-----------------------------------|--------------|
| Buildings & improvements | 10-40 |
| Improvements other than buildings | 10 |
| Machinery and equipment | 5-10 |
| General plant | 25 |
| Transmission and distribution | 10-50 |
| Treatment plant | 10-50 |

10. Deferred inflows of resources. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City 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 tax revenue, is reported in the governmental funds balance sheet. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

City of Chinook, Montana

NOTES TO FINANCIAL STATEMENTS

as of June 30, 2014

11. Interfund transactions. Transactions among City funds that would be treated as revenues and expenditures or expenses if they involved organizations external to City government are accounted for as revenues and expenditures or expenses in the funds involved.

Transactions which constitute reimbursements to a fund for expenditures initially made from it which are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the reimbursed fund.

Transactions, which constitute the transfer of resources from a fund receiving revenues to a fund through which the revenues are to be expended, are separately reported in the respective fund's operating statements.

Activities between funds that are representative of lending/borrowing arrangements at the end of the fiscal year are referred to as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

12. Warrants payable. The City pays its claims by issuing a warrant ordering the City Treasurer to pay for the warrant upon presentation. Warrants issued but not presented for payment are deducted from cash and amounted to \$48,088 at June 30, 2014.
13. Compensated absences. City employees accumulate vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. Upon death or retirement, the total accumulated hours for vacation leave and 25% of the total accumulated hours for sick leave, is paid at the then effective hourly rate for that employee. For governmental and proprietary fund types, the amount of accumulated unpaid vacation and sick leave which is payable from available resources is recorded as a liability of the respective fund only if they have matured, for example, as a result of employee retirements and resignations.
14. Long-term obligations. Long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable, available financial resources is reported as a fund liability of a governmental fund. The entire portion of such obligations is reported in the government-wide financial statements.

City of Chinook, Montana

NOTES TO FINANCIAL STATEMENTS

as of June 30, 2014

15. Fund balances. The Governmental Accounting Standards Board (GASB) has issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions (GASB 54). This statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes. In the governmental fund financial statements, fund balances are reported in five classifications:

Nonspendable: Amounts that cannot be spent because they are either (1) not in spendable form (e.g. inventories and prepaid amounts) or (2) legally or contractually required to be maintained intact (e.g. the corpus or principal of a permanent fund).

Restricted: Amounts that can only be spent for the specific purposes stipulated by constitution, external resource providers or through enabling legislation.

Committed: Amounts that can be used only for the specific purposes determined by a resolution (formal action) of the Board of City Commissioners (the City's highest level of decision making authority) and does not lapse at year end.

Assigned: Amounts intended to be used by the government for specific purposes, under the direction of the City Clerk and Recorder by authority granted by the Board of City Commissioners, but do not meet the criteria to classified as restricted or committed.

Unassigned: The residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed or assigned.

It is the City's policy, for purposes of fund balance classification, when restricted, committed, assigned or unassigned funds are available, expenditures will first be made from restricted, then from committed, then from assigned and lastly from unassigned fund balances

16. Net position. Net position represents the residual of assets plus deferred outflows less liabilities and deferred inflows. Net investment in capital assets represents net position in the form of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The City's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

City of Chinook, Montana

NOTES TO FINANCIAL STATEMENTS
as of June 30, 2014

17. Risk management. The City is exposed to a considerable number of risks of loss, including: (1) damage to and loss of property and contents, (2) employee torts, (3) professional liability (e.g. errors and omissions), (4) environmental damage, (5) worker’s compensation (e.g. employee injuries) and (6) medical insurance costs of employees. Commercial policies transferring the risks of loss, except for relatively small deductible amounts, are purchased for property and content damage, employee torts and professional liabilities. Given the lack of coverage available, the City has no coverage for potential losses from environmental damages. Coverage limits and the deductibles on the commercial policies have stayed relatively constant for the last several years, except for the property and content coverage where the guaranteed values have been increased to approximate replacement costs of the assets. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.
18. Operating income – Proprietary Funds. The Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds includes operating income. Changes in net position which are excluded from operating income include interest income and capital contributions.
19. Cash and cash equivalents - Proprietary Funds. For purposes of reporting the Statement of Cash Flows – Proprietary Funds, the City considers all cash accounts, which are not subject to withdrawal restrictions or penalties, and all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.
20. Management estimates. The preparation of financial statements in accordance with generally accepted accounting principles requires the City to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported revenues and expenditures during the reporting period. Actual results could vary from the estimates that were used.

NOTE B CASH AND INVESTMENTS

The provisions of Governmental Accounting Standards Board (GASB) Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, require governmental entities, including governmental external investment pools, to report certain investments at fair value in the balance sheet and recognize the corresponding change in the fair value of investments in the year in which the change occurred. In accordance with GASB Statement No. 31, the City has stated investments at cost, which approximates the fair value.

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

| | <u>Fair Value</u> |
|----------------------|-------------------------|
| Cash on hand | 400 |
| Cash in banks: | |
| Repurchase agreement | <u>1,698,503</u> |
| Total | <u><u>1,698,903</u></u> |

City of Chinook, Montana

NOTES TO FINANCIAL STATEMENTS

as of June 30, 2014

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. Per Montana law 7-6-207, the local governing body may require security only for that portion of the deposits that is not guaranteed or insured according to law and, as to the unguaranteed or uninsured portion, to the extent of 50% of the deposits if the institution in which the deposit is made has a net worth to total assets ratio of 6% or more. As of June 30, 2014 the government's balances were exposed to custodial credit risk as follows:

At June 30, 2014, the City had \$1,753,635 deposited at the bank. The balance was fully insured with FDIC or collateralized by pledged securities held by pledging financial institution.

NOTE C PROPERTY TAXES

The City's real property tax is levied on the assessed value listed as of January 1 for all real property located within the City. Assessed values are established by the Montana Department of Revenue based on market value base. A reevaluation of all property is required to be completed on a periodic basis. Taxable value is defined by a State statute as a fixed percentage of assessed value. The City is permitted by State statutes to levy taxes up to certain fixed limits for various purposes. The tax levies for the year ended June 30, 2014 were within the legal limits.

The tax levies for the fiscal year ending June 30, 2014 were based on the taxable values of \$1,120,198 as of January 1, 2013. All property taxes are recognized in compliance with GASB Interpretation "Property Tax Revenue Recognition in Government Funds," which states that such revenue is recorded when it becomes measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

City of Chinook, Montana

NOTES TO FINANCIAL STATEMENTS

as of June 30, 2014

NOTE D CAPITAL ASSETS

Capital asset balances and activity for the year ended June 30, 2014 were 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> |
| Governmental Activities | | | | |
| <i>Capital assets not being depreciated</i> | | | | |
| Land | 163,200 | 0 | 0 | 163,200 |
| Total capital assets not being depreciated | <u>163,200</u> | <u>0</u> | <u>0</u> | <u>163,200</u> |
| <i>Capital assets being depreciated</i> | | | | |
| Building & improvements | 380,582 | 0 | 0 | 380,582 |
| Improvements other than buildings | 178,120 | 0 | 0 | 178,120 |
| Machinery & equipment | 674,276 | 0 | (6,211) | 668,065 |
| Total capital assets being depreciated | <u>1,232,978</u> | <u>0</u> | <u>(6,211)</u> | <u>1,226,767</u> |
| Less accumulated depreciation | | | | |
| Building & improvements | 130,495 | 7,575 | 0 | 138,070 |
| Improvements other than buildings | 194,759 | 3,301 | (34,173) | 163,887 |
| Machinery & equipment | 462,153 | 37,253 | 27,962 | 527,368 |
| Total accumulated depreciation | <u>787,407</u> | <u>48,129</u> | <u>(6,211)</u> | <u>829,325</u> |
| Total capital assets being depreciated, net | <u>445,571</u> | | | <u>397,442</u> |
| Total governmental activities capital assets, net | 608,771 | | | 560,642 |
| Business-type Activities | | | | |
| <i>Capital assets not being depreciated</i> | | | | |
| Land | 21,724 | 0 | 0 | 21,724 |
| Construction in progress | 0 | 384,999 | 0 | 384,999 |
| Total capital assets not being depreciated | <u>21,724</u> | <u>384,999</u> | <u>0</u> | <u>406,723</u> |
| <i>Capital assets being depreciated</i> | | | | |
| General plant | 498,094 | 15,702 | 0 | 513,796 |
| Transmission and distribution | 1,429,312 | 12,000 | 0 | 1,441,312 |
| Treatment plant | 7,409,606 | 15,679 | 0 | 7,425,285 |
| Total capital assets being depreciated | <u>9,337,012</u> | <u>43,381</u> | <u>0</u> | <u>9,380,393</u> |
| Less accumulated depreciation | | | | |
| General plant | 213,469 | 25,301 | 0 | 238,770 |
| Transmission and distribution | 941,778 | 36,226 | 0 | 978,004 |
| Treatment plant | 3,431,798 | 226,144 | 0 | 3,657,942 |
| Total accumulated depreciation | <u>4,587,045</u> | <u>287,671</u> | <u>0</u> | <u>4,874,716</u> |
| Total capital assets being depreciated, net | <u>4,749,967</u> | | | <u>4,505,677</u> |
| Total business-type activities capital assets, net | <u>4,771,691</u> | | | <u>4,912,400</u> |
| Total capital assets, net | <u><u>5,380,462</u></u> | | | <u><u>5,473,041</u></u> |

City of Chinook, Montana

NOTES TO FINANCIAL STATEMENTS

as of June 30, 2014

Depreciation expense was allocated to functions as follows:

| | |
|--------------------------|-----------------------|
| Governmental Activities | |
| Public safety | 24,056 |
| Public works | 19,087 |
| Culture and recreation | 4,986 |
| | <u>48,129</u> |
| Business-type Activities | |
| Water | 68,509 |
| Sewer | 219,162 |
| | <u>287,671</u> |
| Total Depreciation | <u><u>335,800</u></u> |

NOTE E NON-CURRENT LIABILITIES

Non-current liability balances and activity for the year ended June 30, 2014 were as follows:

| | Balance | | | Balance | Amount Due |
|--------------------------------|------------------|--------------|---------------|------------------|----------------|
| | June 30, 2013 | Additions | Reductions | June 30, 2014 | Within One |
| | | | | | Year |
| Governmental activities | | | | | |
| Compensated absences payable | 68,856 | 0 | 16,775 | 52,081 | 0 |
| Total governmental activities | <u>68,856</u> | <u>0</u> | <u>16,775</u> | <u>52,081</u> | <u>0</u> |
| Business-type activities | | | | | |
| Revenue bonds | 1,450,266 | 0 | 74,641 | 1,375,625 | 389,240 |
| Compensated absences payable | 42,996 | 4,801 | 0 | 47,797 | 0 |
| Total business-type activities | <u>1,493,262</u> | <u>4,801</u> | <u>74,641</u> | <u>1,423,422</u> | <u>389,240</u> |

The current portion of compensated absences has not been separately stated due to the indeterminate nature of the liability. Employees are allowed to accrue compensated absences indefinitely, subject to certain dollar limits, and use it at their discretion.

| | |
|--|-------------------------|
| Bond payable to First Bank of Montana, monthly payments of \$7,278 including interest at 3.35%, with a maturity date of November 25, 2029. | 1,039,711 |
| Bond payable to First Bank of Montana, monthly payments of \$1,669 including interest at 3.35%, with a maturity date of August 25, 2039. | 335,914 |
| Total revenue bonds payable | <u><u>1,375,625</u></u> |

City of Chinook, Montana

NOTES TO FINANCIAL STATEMENTS

as of June 30, 2014

Water and sewer revenue bonds constitute special obligations of the City solely secured by a lien on and pledge of the new revenues of the water and sewer systems.

The revenue bonds are collateralized by the revenues of the water and sewer systems and the various special funds established by the bond ordinances. The ordinances provide that the revenues of the systems are to be used first to pay operating and maintenance expenses of the systems and second to establish and maintain the revenue bond funds. Any remaining revenues may then be used for any lawful purpose. The ordinances also contain certain provisions which require the City to maintain pledged revenues, as defined in the ordinances. The City is in compliance with the above items.

Annual cash flow requirements for capital bonds payable are as follows:

| Year Ending June 30, | Principal | Interest | Total Requirements |
|-------------------------|------------------|----------------|-----------------------|
| 2015 | 389,240 | 40,531 | 429,771 |
| 2016 | 55,139 | 32,196 | 87,335 |
| 2017 | 57,015 | 30,320 | 87,335 |
| 2018 | 58,955 | 28,380 | 87,335 |
| 2019 | 60,960 | 26,375 | 87,335 |
| Thereafter | 754,316 | 137,306 | 891,622 |
| | <u>1,375,625</u> | <u>295,108</u> | <u>1,670,733</u> |

Conduit Debt. The City issued Nursing Home Revenue Bond Series 1998 in the face amount of \$650,000 during the 1999 fiscal year. These revenue bonds were issued as a component of the financing package for the nursing home project undertaken by Sweet Memorial Nursing Home (SMNH). The revenue bonds were sold to Northwest Investment Service, Inc. The City then loaned the proceeds of the revenue bonds to SMNH. Concurrently, the City assigned to Northwest Investment Services, Inc. all of its rights, title, and interest in the loan agreement between the City and SMNH. As of June 30, 2014, the aggregate amount of conduit debt obligation outstanding was \$60,536.

NOTE F RESTRICTED ASSETS

The following restricted cash and investments were held by the City as of June 30, 2014:

| | General Fund | Water Utility Fund | Sewer Utility Fund | Total |
|-------------------------|--------------|-----------------------|-----------------------|----------------|
| Northside Park | 179 | 0 | 0 | 179 |
| Revenue Bonds Reserves | 0 | 184,709 | 269,221 | 453,930 |
| Total restricted assets | <u>179</u> | <u>184,709</u> | <u>269,221</u> | <u>454,109</u> |

City of Chinook, Montana

NOTES TO FINANCIAL STATEMENTS
as of June 30, 2014

NOTE G ANALYSIS OF INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2014 were made up of the following amounts:

| | <u>Transfers In</u> | <u>Transfers Out</u> |
|--------------------------|---------------------|----------------------|
| General Fund | 0 | 30,000 |
| Other Governmental Funds | 38,326 | 8,326 |
| | <u>38,326</u> | <u>38,326</u> |

The transfers were routine transfers for the City.

NOTE H ANALYSIS OF DUE TO AND DUE FROM

Amounts owed to each funds for the year ended June 30, 2014 were made up of the following amounts:

| | <u>Due from</u> | <u>Due to</u> |
|---------------------------|-----------------|---------------|
| Water Utility Fund | 0 | 49,876 |
| Non Major Enterprise Fund | 49,876 | 0 |
| | <u>49,876</u> | <u>49,876</u> |

The amounts paid on behalf of the water utility fund by the non major enterprise fund were to fund cash deficits.

NOTE I RETIREMENT AND PENSION PLANS

The City participated in two multi-employer cost-sharing retirement plans which cover all employees, except part-time employees. The Public Employee's Retirement System (PERS) covers all full time employees who qualify to be covered. The Fire Department Relief Association Disability and Pension Fund covers all firefighters. The plans are established by State law and are administered by the Department of Administration of the State of Montana. The plans provide retirement, disability, and death benefits to plan members and beneficiaries.

Public Employee's Retirement System (PERS):

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

The PERS offers retirement, disability and death benefits to plan members and their beneficiaries. Benefit eligibility is age 60 with at least 5 years of service; age 65 regardless of service; or 30 years of service regardless of age. Actuarial reduced benefits may be taken with 25 years of service or at age 50 with at least 5 years of service. Annual retirement benefits are determined by taking 1/56 times the number of years of service times the final average salary. Member's rights become vested after 5 years of service. The authority to establish, amend and provide cost of living adjustments for the plan is assigned to the State legislature.

City of Chinook, Montana

NOTES TO FINANCIAL STATEMENTS

as of June 30, 2014

Funding is provided by participating governmental units and their employees. The City's required contribution to this plan for the year ended June 30, 2014 was \$51,228 (8.07% of payroll). The City's contribution represented less than 1% of total contributions required of all participating employers. Required employee contributions to this plan were \$50,149 (7.90% of payroll). Total payroll for employees covered by PERS was \$634,799. One hundred percent of required contributions for both the employer and employees were made for the current and preceding two years. Contributions were \$101,377, \$85,372, and \$85,172 for fiscal years ending June 30, 2014, 2013 and 2012, respectively. The State of Montana contributes .10% of the employee's compensation. The state's "on-behalf" contribution was \$634 and was not recognized in the City's financial statements.

The PERS financial information is reported in the Public Employee's Retirement Board's Comprehensive Annual Financial Report for the fiscal year-end. It is available from the PERD at 100 North Park Avenue, Suite 100, PO Box 200139 Helena, MT 59620-0139, (406) 444-3154.

Fire Department Relief Association Disability and Pension Fund:

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 the Disability and Pension Fund is considered an independent reporting entity which is to be included in the City's financial statements. The City does maintain a Fire Department Relief Association and Disability and Pension Fund as an agency fund; however, this fund is only used to account for contributions until they are remitted to the separate Disability and Pension Fund.

Pension Benefits. A volunteer fire fighter may retire with a service allowance after completing 20 years of creditable service and attaining the age of 55. A member does not have to be an active member of a volunteer fire fighting company when he reaches age 55. The pension payable to qualified claimants is recalculated each fiscal year based upon the amount available for distribution from the fund and the number of qualified claimants. The total pension payable to any individual may not exceed \$200 per month.

If a volunteer fire fighter is prevented from completing 20 years of creditable service due to any factors beyond his control, he may qualify for partial participation, if he completed at least 10 years of creditable service. The pension payments will be prorated accordingly.

Disability Payments. A member injured while performing his duties as a volunteer fire fighter is eligible to receive compensation for his necessary and reasonable medical expenses, not to exceed \$25,000, resulting directly from the disability and incurred within 36 months from the date of injury which caused the disability. If this disability prevents the volunteer fire fighter from completing 20 years of service, he may also be eligible for partial pension payments.

Death Benefits. A lump-sum payment equal to the actual necessary and reasonable expenses, of \$1,500 (whichever is less) will be paid directly to the provider of funeral service for any eligible volunteer fire fighter whose death occurs in the line of duty.

Upon the death of an active or retired volunteer fire fighter, his surviving (or dependent child(ren) under 18) will receive the full or partial pension payment earned by the fire fighter. Payments to eligible survivors will end when the surviving spouse dies or remarries, the surviving dependent child(ren) reach age 18; or, the total payments have reached \$4,000 (or a proportion thereof for partial pensions).

Group Insurance Payments. To encourage volunteer companies to maintain group insurance for their members to provide benefits in case of death or injury incurred while in the line of duty as volunteer fire fighters, payments are made to volunteer fire companies equal to \$75 per year for each mobile fire fighting unit owned by each volunteer fire company, up to maximum of two units.

City of Chinook, Montana

NOTES TO FINANCIAL STATEMENTS

as of June 30, 2014

Montana law requires that the disability and pension fund contain at least .21% of the total assessed value of taxable property with the City limits but not more than .52% of the assessed taxable value. Once the fund contains less than .21% of the assessed value the City council shall levy a tax to be deposited in the fund. The City did not contribute to the plan for the fiscal year ended June 30, 2014. The State contributes, out of moneys received for insurance premium taxes, an amount equal to 1 mills times the total taxable value of the City, but not less than \$100. The State's reimbursement for the plan contribution was \$1,089.

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

NOTE J COUNTY PROVIDED SERVICES

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

NOTE K JOINT VENTURES

Joint ventures are independently constituted entities generally created by two or more governments for a specific purpose. The City-County Airport is owned and operated jointly by City of Chinook and the County of Blaine. The airport is administered by a board comprised of members from each of these local governments. For the fiscal year ended June 30, 2014, the City levied .060 mills for the airport.

The City has entered into an interlocal agreement with Blaine County for the construction and maintenance of the Fire Hall Building. The agreement calls for joint ownership of the building and sharing of operating costs after the City has paid the entire operating costs to the extent of equalizing the disparity in the initial investment of each entity for construction of the building. The administration of the use, maintenance and improvement of the building and adjacent dedicated area shall be by a joint board of three (3) persons consisting of a Blaine County Commissioner or their designee; a Chinook City Council Member or their designee; and the fire chief.

The Unified Disposal District (the District) is operation under an interlocal agreement between Hill County, Blaine County, the City of Chinook, the City of Harlem, the City of Havre, and the Chouteau County Refuse District No. 1. The District was formed for the purpose of coordinating solid waste collection and disposal for the parties to the agreement. The unified Disposal Board has twelve members which are appointed by the governing bodies of the various entities involved.

The Unified Disposal District is financed by user charges to the residents in the District. Revenues generated from these charges are deposited with Hill County for administration of the program. Expenditures made by the District are first approved by the Unified Disposal Board prior to transmittal to the Hill County auditor for processing and payment. The Unified Disposal District is a component unit of Hill County.

City of Chinook, Montana

NOTES TO FINANCIAL STATEMENTS

as of June 30, 2014

If any members of the District should wish to terminate their participation in this agreement, that District is required to give at least a one year's written notice of their intent to withdraw. The Districts continuing with the Unified Board will have an option to buy the terminating District's share, which shall be the proportionate interest of the net assets of the unified board determined by appraisal at the time of withdrawal. If all Districts should wish to terminate, proceeds of any sale or distribution of the assets of the entity shall be split according to the proportionate interest the withdrawing Districts have in the entire district.

The City paid \$83,555 to the Unified Disposal District during the year ended June 30, 2014.

NOTE L RISK MANAGEMENT

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

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

In 1988, the City joined other Montana cities in the Montana Municipal Interlocal Authority, which established a worker's compensation plan and tort liability plan. In 1998, the Montana Municipal Interlocal Authority created a property insurance plan. The public entity risk pools currently operate as common risk management and insurance programs for the member governments. The liability limits for damages in tort action are \$750,000 per claim and \$1.5 million per occurrence with a \$3,750 deductible per government. The City pays an annual premium for its employee's injury insurance coverage, which is allocated to the employer funds based on total salaries and wages. The agreements for formation of the pools provide that they will be self-sustaining through member premiums.

NOTE M RELATED PARTY TRANSACTIONS

The City paid the Blaine County Journal \$1,078 during the year ended June 30, 2014. Mayor Keith Hanson is the co-owner of this establishment.

NOTE N FIRE SERVICE PROTECTION

In fiscal year 2007, the City entered into an agreement with Blaine County for the joint construction and maintenance of a building for the local volunteer fire department. The building is included in the City's capital assets but costs are to be shared equally by the City and the County. As of the date of the agreement, December 29, 2006, the County had contributed \$77,859 more than the City for the construction and maintenance of the building. The City is to continue to fund 100% of the operating costs of the building until such costs total \$77,859, at which time, such costs will be shared equally with the County. As of June 30, 2014, the City has funded \$77,703 in operating costs.

City of Chinook, Montana

NOTES TO FINANCIAL STATEMENTS

as of June 30, 2014

NOTE O COMMITMENTS AND CONTINGENCIES

Legal Issues. The City is subject to claims and lawsuits, which arise, primarily in the ordinary course of operations. The City does not anticipate any losses with respect to such existing or pending claims at June 30, 2014.

Garbage Contract. Effective July 1, 2013, the City entered into a two year contract for garbage services with a private contractor. The contractor will be paid \$115,200 annually in exchange for collecting and hauling garbage to the unified landfill site.

Other Post-Employment Benefits (OPEB). The City allows retirees to remain on the group health insurance plan. The City uses a single premium for both active and retired employees resulting in an implicit rate subsidy (the older retiree benefits from the City's blended premium). The City has not recorded a liability for the implicit rate subsidy as based on the past ten years few to no retirees have utilized the City's health insurance due to the high cost of the plan. The City estimates that future retirees also will not purchase health insurance through the City and as a result the City has not recorded an OPEB liability.

NOTE P SUBSEQUENT EVENTS

The City has performed an analysis of the activities and transactions subsequent to June 30, 2014, to determine the need for any adjustments to and/or disclosure within the audited financial statements for the year ended June 30, 2014. Management has performed this analysis through April 28, 2015, the date of these financial statements were available to be issued.

Subsequent to June 30, 2014 the City refinanced the bond payable to the First Bank of Montana by obtaining a new loan from the Department of Natural Resources State Revolving Loan Program. The balance due of \$335,914 as of June 30, 2014 remains unchanged, but the refinancing was done to get a lower interest rate on the note. This does not meet the criteria for recognition as of June 30, 2014 but is significant to future periods. This was the only subsequent matter noted.

REQUIRED SUPPLEMENTAL INFORMATION

City of Chinook, Montana

BUDGETARY COMPARISON SCHEDULES

for the year ended June 30, 2014

GENERAL FUND

| | Original / Final Budgeted Amounts | Actual Amounts | Variance |
|---|--|-------------------|------------------|
| REVENUES | | | |
| Taxes and assessments | 337,420 | 332,858 | (4,562) |
| Licenses and permits | 10,725 | 9,699 | (1,026) |
| Intergovernmental revenues | 250,382 | 258,097 | 7,715 |
| Charges for services | 0 | 20,472 | 20,472 |
| Fines and forfeitures | 9,500 | 7,628 | (1,872) |
| Miscellaneous revenues | 500 | 1,640 | 1,140 |
| Investment and royalty earnings | 2,000 | 2,153 | 153 |
| Total revenues | <u>610,527</u> | <u>632,547</u> | <u>22,020</u> |
| EXPENDITURES | | | |
| Current: | | | |
| General government | 227,046 | 180,047 | (46,999) |
| Public safety | 388,457 | 339,881 | (48,576) |
| Public works | 15,283 | 10,360 | (4,923) |
| Public health | 1,665 | 741 | (924) |
| Social and economic services | 0 | 2,600 | 2,600 |
| Culture and recreation | 136,058 | 69,956 | (66,102) |
| Miscellaneous | 15,780 | 13,408 | (2,372) |
| Total Expenditures | <u>789,289</u> | <u>616,993</u> | <u>(172,296)</u> |
| Excess (deficiency) of revenues over expenditures | <u>(178,762)</u> | <u>15,554</u> | <u>194,316</u> |
| OTHER FINANCING SOURCES (USES) | | | |
| Interfund operating transfers out | <u>(30,000)</u> | <u>(30,000)</u> | <u>0</u> |
| Total other financing sources and uses | <u>(30,000)</u> | <u>(30,000)</u> | <u>0</u> |
| Net change in fund balance | <u>(208,762)</u> | <u>(14,446)</u> | <u>194,316</u> |
| Fund balance, beginning of year | | <u>595,287</u> | |
| Fund balance, end of year | | <u>580,841</u> | |

See Independent Auditor's Report

City of Chinook, Montana

BUDGETARY COMPARISON SCHEDULES
for the year ended June 30, 2014

STREET MAINTENANCE FUND

| | Original / Final Budgeted Amounts | Actual Amounts | Variance |
|---|--|------------------------|----------------------|
| REVENUES | | | |
| Taxes and assessments | 196,857 | 193,184 | (3,673) |
| Charges for services | 2,055 | 2,000 | (55) |
| Investment and royalty earnings | 750 | 451 | (299) |
| Total revenues | <u>199,662</u> | <u>195,635</u> | <u>(4,027)</u> |
| EXPENDITURES | | | |
| Current: | | | |
| Public works | 239,196 | 210,187 | (29,009) |
| Total Expenditures | <u>239,196</u> | <u>210,187</u> | <u>(29,009)</u> |
| Excess (deficiency) of revenues over expenditures | <u>(39,534)</u> | <u>(14,552)</u> | <u>24,982</u> |
| Net change in fund balance | <u><u>(39,534)</u></u> | <u><u>(14,552)</u></u> | <u><u>24,982</u></u> |
| Fund balance, beginning of year | | 155,714 | |
| Fund balance, end of year | | <u><u>141,162</u></u> | |

See Independent Auditor's Report

City of Chinook, Montana

NOTES TO BUDGETARY COMPARISON SCHEDULES

June 30, 2014

NOTE A BUDGETED FUNDS

The City adopts an annual budget for all of its funds in accordance with Title 7, Chapter 6, Part 40 of the Montana Code Annotated. Statute requires the adoption of a preliminary budget, public hearings on the preliminary budget and the final adoption of the budget by the later of the first Thursday after the first Tuesday of September or within 30 calendar days of the receipt of the certified taxable valuations from the Department of Revenue. The City must also submit a copy of the final budget to the Department of Administration by the later of October 1 or 60 days after the receipt of taxable values from the Department of Revenue.

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

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

NOTE B BUDGETARY BASIS

The City's budgets are prepared on the budget basis (modified accrual basis, including encumbrances, of which the City has none) of accounting, which results in accounting for certain transactions on a basis other than generally accepted accounting principles (modified accrual). The City's accounting records are maintained on the basis of cash receipts and disbursements during the year. At year-end, certain adjustments are made to the City's accounting records to reflect the basis of accounting described above. Reported budget amounts represent the originally adopted budget and the final budget, which includes amendments. Total fund expenditures may not legally exceed the budgeted expenditures. The budget lapses at the end of each year. Results of operations, on the budget basis of accounting, are presented for the general fund and major special revenue funds with legally adopted annual budgets, to provide a meaningful comparison of actual results with the budget.

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

April 28, 2015

Board of Trustees
City of Chinook, Montana
PO Box 1177
Chinook, MT 59523

We 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, business-type activities, each major fund, and the aggregate remaining fund information of the City of Chinook, Montana as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City of Chinook, Montana's basic financial statements, and have issued our report thereon dated April 28, 2015.

Internal Control over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies, 2014-001.

Compliance and Other Matters

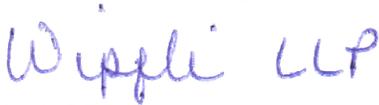
As part of obtaining reasonable assurance about whether the City of Chinook, Montana's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed two instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which is described in the accompanying schedule of findings and responses as items 2014-001 and 2014-002.

City of Chinook, Montana' Response to Finding

The City of Chinook, Montana's response to the findings identified in our audit are described in the accompanying corrective action plan. The City of Chinook, Montana's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



Wipfli LLP
Billings, Montana

City of Chinook, Montana

SCHEDULE OF FINDINGS AND RESPONSES
as of June 30, 2014

Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: *Unmodified*

Internal control over financial reporting:

- Material weaknesses identified? _____ Yes X No
- Significant deficiencies identified that are not considered to be material weaknesses? X Yes _____ None Reported

Noncompliance material to financial statements noted? _____ Yes X No

Financial Statement Findings

2014-001 Unemployment tax filings

Criteria or Specific Requirement: According to Montana Code Annotated 39-51-1103, state unemployment contributions accrue and become payable by each employer for each calendar year with respect to wages paid for employment occurring during the calendar year.

Condition: The City failed to report wage amounts totaling \$15,547 to the State of Montana.

Context: During our testing of payroll, we attempted to reconcile total wages paid by the City to the total wages reported on Montana Form UI-5. It was discovered that some employees of City were improperly exempted from the State of Montana unemployment contribution.

Effect: The City underreported wages which led to a miscalculation of UI tax due to the State of Montana.

Cause: The City misclassified employees as exempt from State unemployment requirements.

Auditor's Recommendation: We recommend the City review the classification of each employee to ensure all wages that are required to be reported to the state of Montana for state unemployment contributions are reported.

City of Chinook, Montana

SCHEDULE OF FINDINGS AND RESPONSES

as of June 30, 2014

2014-002 Bond Covenant

Criteria or Specific Requirement: The Wastewater System Revenue Refunding Bond, Series 2013 requires the City to establish the rates, charges and rentals for all services directly or indirectly furnished by the System, to be effective such that such rates, charges and rentals are reasonable and expected to be sufficient to produce net revenue of the system not less than 110% of the maximum principal and interest requirements on the bond.

Condition: The City was out of compliance with the wastewater bond covenant that required net revenue of the system be not less than 110% of the principal and interest requirements of the bond. The City missed its net revenue requirement by \$70,425.

Context: During our testing of debt covenant compliance for the wastewater bond it was noted that the City was required to have net revenue of \$96,069, however during the year net revenue was only \$25,644.

Effect: The City is not in compliance with debt covenants for the wastewater bond and is now must alter rates charges and rentals which are equitable and sufficient to produce net revenue in excess of 110% of the maximum principal and interest requirements on the bond.

Cause: The City set rates for the Wastewater system to low to obtain the requirement that net revenues be greater than or equal to 110% of the maximum principal and interest requirements on the bond.

Auditor's Recommendation: We recommend the City review the rates, charges and rentals charged to customers and ensure they are adequate enough to produce net revenue in excess of 110% of the maximum principal and interest requirements on the bond.

Summary Schedule of Prior Audit Findings

2013-001 Internal Controls Over Journal Entries – Implemented

City of Chinook

Keith Hanson, Mayor
Mark Harshman, City Attorney
Gabriel Harry, City Clerk/Treasurer

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(406) 357-3160
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Mitch Haider, Councilperson
Robert Smith, Councilperson
Clint Greytak, Councilperson
Chris Thurman, Councilperson

April 21, 2015

Wipfli LLP
303 N. 28th Street, Suite 503
Billings, MT 59101

RE: 2013-2014 Audit Findings

This letter is to notify you that we corrected the State Unemployment Contributions in payroll for the three employees and have been contributing since January, 2015 payroll cycle. We also spoke to the Unemployment Office about back pay for those individuals and were instructed to pay from the first quarter of 2012 forward, which was done in February, 2015. As for the wastewater net revenue being out of compliance with The Wastewater System Revenue Refunding Bond, Series 2013, the City took corrective action in October by raising the base sewer rate by \$10 with increases of \$5 occurring in November 2014 and May 2015.

Sincerely,

Gabe Harry
City Clerk/Treasurer