

The accompanying financial statements and report are intended for the original recipient. They must be presented in their entirety and may not be modified in any manner.



CITY OF CHOTEAU
FINANCIAL REPORT
JUNE 30, 2014



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CITY OF CHOTEAU, MONTANA

2013 - 2014

ORGANIZATION

MAYOR

Jack W. Conatser

CITY COUNCIL

Jill Owen

Rose Crawford

Dan Lannen

Stewart Merja

OFFICERS/CLERKS

Attorneys

Burk, Lee, and Bieler

City Judge

John L. Howard

Finance Officer

Jodi L. Rogers

Public Works Director

Kelly J. Hirsch

INDEPENDENT AUDITOR'S REPORT

To the City Council and the Mayor
City of Choteau
Choteau, Montana

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Choteau, as of June 30, 2014, and the respective changes in financial position, and where applicable, cash flows thereof, and the respective budgetary comparison for the general fund, for the year then ended in conformity 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 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 February 25, 2015, on our consideration of the City of Choteau's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants, agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 Choteau's internal control over financial reporting.

Anderson Zurmuehlen + Co, P.C.

Bozeman, Montana

February 25, 2015

CITY OF CHOTEAU
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2014

The City of Choteau (the City) offers the readers of the City's financial statements this overview of the financial activities for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented in conjunction with the City's financial statements and accompanying notes.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the fiscal year-end by \$6,464,223. Of this amount, \$1,707,744 or 26% is unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors in accordance with the City's fund designations.
- The total fiscal year-end governmental fund balance was \$754,690, as reported in the balance sheet.
- The unassigned general fund balance at fiscal year-end was \$267,531.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements, which are comprised of four components:

- 1) government-wide financial statements, 2) fund financial statements, 3) notes to the financial statements, and 4) other required supplementary information.

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, the basis of accounting used by most private-sector businesses.

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

The statement of activities presents information reflecting how the City's net position has changed during the fiscal year. 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 are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. delinquent taxes and earned but unused vacation leave).

CITY OF CHOTEAU
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
Year Ended June 30, 2014

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

GOVERNMENT-WIDE FINANCIAL STATEMENTS (CONTINUED).

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 include general government, public safety, public works, public health, culture and recreation, housing and economic development, and debt service. The business-type activities of the City include water, wastewater, and solid waste operations.

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. 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 three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds. Governmental funds are used to account for those same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide statements, the fund financial statements are prepared on the modified accrual basis in which revenues are recognized when they become measurable and available, and expenditures are recognized when the related fund liability is incurred, with the exception of long-term debt and similar long-term items, which are recorded when due. Therefore, the focus is on near-term inflows and outflows of spendable resources as well as on the balance of spendable resources available at the end of the fiscal year.

Since the focus of the governmental funds is on near-term resources, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide statements. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison.

The City maintained 16 individual governmental funds in this fiscal year. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the General Fund, of which is considered to be a major fund. Data for the other governmental funds are combined into a single, aggregated presentation.

The City adopts an annual appropriated budget. Budgetary comparison statements have been provided to demonstrate compliance with this budget.

CITY OF CHOTEAU
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
Year Ended June 30, 2014

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

FUND FINANCIAL STATEMENTS (CONTINUED).

Proprietary Funds. There are two types of proprietary funds: enterprise and internal service funds. The City maintains only enterprise funds, which are used to report the same functions presented as business-type activities in the government-wide statements. The City uses enterprise funds to account for its water, sewer, and solid waste operations.

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 the Water, Sewer, and Solid Waste, all of which, in fiscal year 2014, are considered to be major funds of the City.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government and are not included in the government-wide financial statements as the resources of these funds are not available to support the City's own programs.

The City has one pension trust-type fiduciary fund, the Fire Disability Pension Fund. Two administrative clearing funds for outstanding warrants issued for claims and payroll and claims are included in this category.

NOTES TO THE FINANCIAL STATEMENTS. These notes provide additional narrative and tabular information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

NET POSITION. Net position may serve over time as a useful indicator of a government's financial position. The net position for the fiscal year ended June 30, 2014 was \$6,464,223, an increase of \$379,539.

The City's largest portion of net position, net investment in capital assets, reflects investment in capital assets (land, buildings, machinery and equipment, etc.) less any related debt used to acquire those assets that is still outstanding. These assets are used to provide services to citizens and are not available for future spending. Although the City's investment in its capital assets are reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CITY OF CHOTEAU
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
Year Ended June 30, 2014

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

NET POSITION (CONTINUED)

Restricted net position represents resources that are subject to external restrictions on how they may be used. Restricted net position for the fiscal year ended June 30, 2014, was \$1,241,596. Of this, restricted cash and investments in the amount of \$717,011 is held for replacement and depreciation and \$164,719 is held for future debt payment in the Water, Sewer, and Solid Waste funds to comply with revenue bond requirements. The unrestricted assets may be used to meet the City's ongoing obligations to citizens and creditors.

The following table presents consolidated information on the City's net position as of June 30, 2014, and June 30, 2013.

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
ASSETS						
Current and other assets	\$ 800,077	\$ 814,775	\$ 2,222,397	\$ 2,058,962	\$ 3,022,474	\$ 2,873,737
Capital assets	<u>1,005,717</u>	<u>1,007,043</u>	<u>4,966,012</u>	<u>4,469,847</u>	<u>5,971,729</u>	<u>5,476,890</u>
Total assets	<u>1,805,794</u>	<u>1,821,818</u>	<u>7,188,409</u>	<u>6,528,809</u>	<u>8,994,203</u>	<u>8,350,627</u>
LIABILITIES						
Long-term liabilities						
outstanding	89,218	91,848	2,298,794	2,041,222	2,388,012	2,133,070
Other liabilities	<u>14,411</u>	<u>13,512</u>	<u>127,557</u>	<u>119,361</u>	<u>141,968</u>	<u>132,873</u>
Total liabilities	<u>103,629</u>	<u>105,360</u>	<u>2,426,351</u>	<u>2,160,583</u>	<u>2,529,980</u>	<u>2,265,943</u>
NET POSITION						
Net investment in capital assets	924,296	922,378	2,590,587	2,360,690	3,514,883	3,283,068
Restricted	359,866	308,604	881,730	747,021	1,241,596	1,055,625
Unrestricted	<u>418,003</u>	<u>485,476</u>	<u>1,289,741</u>	<u>1,260,515</u>	<u>1,707,744</u>	<u>1,745,991</u>
Total net position	<u>\$ 1,702,165</u>	<u>\$ 1,716,458</u>	<u>\$ 4,762,058</u>	<u>\$ 4,368,226</u>	<u>\$ 6,464,223</u>	<u>\$ 6,084,684</u>

CHANGES IN NET POSITION. The City's revenues totaled \$1,777,061 for the fiscal year ended June 30, 2014. The total cost of all programs and services for that same period were \$1,397,522. The following table presents consolidated information on the City's change in net position for the fiscal years ended June 30, 2014, and June 30, 2013.

The following analysis considers the operations of governmental and business-type activities.

Governmental activities. Revenues for the fiscal year ended June 30, 2014, from governmental activities were \$634,499, while expenses were \$668,792. Net position thus decreased \$34,293 before transfers.

Governmental Activities total revenues decreased by \$2,856 from the previous year. Expenses increased by \$33,121. The expenses increased due to the purchase of four City of Choteau entrance signs and the initial payment to Christensen Construction for overhangs at the Choteau Pavilion.

CITY OF CHOTEAU
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
Year Ended June 30, 2014

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

CHANGES IN NET POSITION (CONTINUED)

Governmental activities.

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
REVENUES						
Program Revenues:						
Charges for services	\$ 133,826	\$ 142,614	\$ 903,700	\$ 895,743	\$ 1,037,526	\$ 1,038,357
Operating grants/contributions	67,964	80,002	-	-	67,964	80,002
Capital grants/contributions	-	6,873	202,045	-	202,045	6,873
General Revenues:						
Property taxes	169,033	155,259	-	-	169,033	155,259
Local option taxes	44,433	47,780	-	-	44,433	47,780
Licenses and permits	37,340	29,541	-	-	37,340	29,541
Unrestricted investment earnings	9,535	10,620	15,264	22,648	24,799	33,268
Contributions and donations	170,416	163,206	-	2,000	170,416	165,206
Rents and leases	1,857	1,460	-	-	1,857	1,460
Miscellaneous	95	-	1,553	1,247	1,648	1,247
Special items	-	-	20,000	-	20,000	-
Total revenues	<u>634,499</u>	<u>637,355</u>	<u>1,142,562</u>	<u>921,638</u>	<u>1,777,061</u>	<u>1,558,993</u>
EXPENSES						
General government	152,288	138,481	-	-	152,288	138,481
Public safety	151,278	151,109	-	-	151,278	151,109
Public works	187,480	187,263	-	-	187,480	187,263
Public health	442	545	-	-	442	545
Culture and recreation	143,466	135,248	-	-	143,466	135,248
Housing and development	23,608	12,883	-	-	23,608	12,883
Interest on long-term debt	3,738	3,808	-	-	3,738	3,808
Water	-	-	324,482	310,242	324,482	310,242
Sewer	-	-	264,355	283,826	264,355	283,826
Solid Waste	-	-	139,893	137,962	139,893	137,962
Miscellaneous	6,492	6,334	-	-	6,492	6,334
Total expenses	<u>668,792</u>	<u>635,671</u>	<u>728,730</u>	<u>732,030</u>	<u>1,397,522</u>	<u>1,367,701</u>
Change in net assets before transfers	(34,293)	1,684	413,832	189,608	379,539	191,292
Transfers	20,000	20,000	(20,000)	(20,000)	-	-
Change in net assets	(14,293)	21,684	393,832	169,608	379,539	191,292
Net position, beginning of year	<u>1,716,458</u>	<u>1,694,774</u>	<u>4,368,226</u>	<u>4,198,618</u>	<u>6,084,684</u>	<u>5,893,392</u>
Net position, end of year	<u>\$ 1,702,165</u>	<u>\$ 1,716,458</u>	<u>\$ 4,762,058</u>	<u>\$ 4,368,226</u>	<u>\$ 6,464,223</u>	<u>\$ 6,084,684</u>

Business-type activities. Revenues for the fiscal year ended June 30, 2014, from business-type activities were \$1,142,562. Expenses were \$728,730, resulting in an increase in net position of \$413,832 before transfers.

CITY OF CHOTEAU
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
Year Ended June 30, 2014

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

GOVERNMENTAL FUNDS. The focus of the City's governmental fund reporting is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unrestricted fund balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

As of the end of fiscal year 2014, the combined ending fund balances of City governmental funds was \$754,690.

The City had one major fund in fiscal year 2014: the General Fund. The General Fund is the primary operating fund for the City government and accounts for many of the City's general and administrative services, such as legislative, administrative, legal, law enforcement, and parks. The fund balance of the General Fund was \$299,190 at the end of fiscal year 2014.

PROPRIETARY FUNDS. The City's proprietary fund statements provide the same type of information found in the government-wide statements, but in more detail. The City utilizes five proprietary funds: Water, Water Improvements, Sewer, Sewer Improvements, and Solid Waste, all of which (with the exception of the Water and Sewer Improvements) are considered to be major funds of the City in fiscal year 2014. The Improvement funds are merged into the water and sewer funds within the Annual Report for reporting purposes.

The Water Fund total net position was \$1,861,349 at the end of fiscal year 2014, with unrestricted net assets of \$642,762 (34% of total). Restricted net position representing net investment in capital assets, was \$918,486 or 49% of total net position. The fund also reports restricted cash and investments of \$300,101 of which \$70,780 and \$229,321 are reported as restricted net position for debt payments and replacement of capital assets, respectively.

The Sewer Fund total net position was \$2,682,649 at the end of fiscal year 2014, with unrestricted net assets of \$578,145 (22% of total). Restricted net position representing net investment in capital assets, was \$1,522,875 or 57% of total net position. The fund also reports restricted cash and investments of \$581,629 of which \$93,939 and \$487,690 are reported as restricted net position for debt payments and replacement of capital assets, respectively.

The Sewer Improvement Fund is used to track capital projects (construction in progress). The Sewer Improvement fund is merged into the Sewer Fund within the Annual Report for reporting purposes.

CITY OF CHOTEAU
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
Year Ended June 30, 2014

FINANCIAL ANALYSIS OF THE CITY'S FUNDS (CONTINUED)

PROPRIETARY FUNDS (CONTINUED)

The Solid Waste Fund total net position was \$218,060 at the end of fiscal year 2014, with net investment in capital assets of \$149,226.

GENERAL FUND BUDGETARY HIGHLIGHTS

The City's budget is prepared in accordance with Title 7, Chapter 6, Part 40, MCA (Local Government Budget Act).

City of Choteau – FY2014 General Fund Budget

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>
Cash carryover from previous fiscal year	\$ 253,216	\$ 253,216	\$ 255,821
Revenue and other financing sources	423,992	423,992	416,467
Expenditures and other financing uses	(416,420)	(433,525)	(397,631)
Reduction of interfund advance	<u>(45,000)</u>	<u>(45,000)</u>	<u>(40,000)</u>
Available for fiscal year 2014-2015	<u>\$ 215,788</u>	<u>\$ 198,683</u>	<u>\$ 234,657</u>

The original budget was amended at year-end to more accurately reflect anticipated revenues and expenditures. Actual revenues were \$7,525 less than the final budget, mainly due to less tax revenue being collected. Actual expenditures were \$35,894 less than the final budget, resulting from savings in many areas (administrative, legal, parks, etc.).

CAPITAL ASSET AND DEBT ADMINISTRATION

CAPITAL ASSETS. The City's investment in capital assets for its governmental and business-type activities as of June 30, 2014, totals \$5,971,729 (net of accumulated depreciation). The City's capital investment includes land, buildings, improvements, machinery and equipment, infrastructure, and construction in progress. The current-year depreciation expense of capital assets is reported on the Statement of Activities in the various governmental and business-type expense functions.

CITY OF CHOTEAU
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
Year Ended June 30, 2014

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

**City of Choteau – Capital Assets
(Net of Depreciation)**

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 383,080	\$ 383,080	\$ 49,218	\$ 49,218	\$ 432,298	\$ 432,298
Buildings	466,776	455,093	390,791	413,827	857,567	868,920
Improvements	70,186	77,196	11,514	13,055	81,700	90,251
Machinery and equipment	67,675	91,207	167,651	54,409	235,326	145,616
Infrastructure	-	-	3,787,541	3,939,338	3,787,541	3,939,338
Construction in progress	18,000	467	559,297	-	577,297	467
Total capital assets	<u>\$ 1,005,717</u>	<u>\$ 1,007,043</u>	<u>\$ 4,966,012</u>	<u>\$ 4,469,847</u>	<u>\$ 5,971,729</u>	<u>\$ 5,476,890</u>

Major capital assets events during FY2014 included the following:

- Started a major sewer project, completing the sewer main lining part of the project.

LONG-TERM DEBT. The City of Choteau acquired a loan for a new Fire Hall Building in FY2011. In FY2012 Teton County assumed 50% of the debt on the Fire Hall Building. The City's total debt increased by 13% in FY2011 due to new issuances including a revenue bond for the new Phase 1 wastewater improvement project.

City of Choteau-Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenue bonds	\$ -	\$ -	\$ 2,375,425	\$ 2,109,157	\$ 2,375,425	\$ 2,109,157
Loans	81,421	84,665	-	-	81,421	84,665
Total debt	<u>\$ 81,421</u>	<u>\$ 84,665</u>	<u>\$ 2,375,425</u>	<u>\$ 2,109,157</u>	<u>\$ 2,456,846</u>	<u>\$ 2,193,822</u>

State statutes limit the amount of general obligation debt a governmental entity may issue to 2.5% of its total assessed valuation. The current legal debt capacity for the City is \$1,335,447, of which \$1,254,026 is unused by the City.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Increasing operating costs, such as insurance and fuel, were considered in developing the budget for FY2014. Revenue increases were limited to the inflationary increase in property taxes as allowed by state statutes.

A major sewer improvement project was completed in FY2012. Funding sources included DNRC and TSEP grants, as well as a SRF loan. A major sewer improvement project will be started and completed in FY2015. Funding sources include DNRC and a SRF loan.

CITY OF CHOTEAU
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
Year Ended June 30, 2014

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Officer, City of Choteau, P O Box 619, Choteau MT 59422.

FINANCIAL STATEMENTS

CITY OF CHOTEAU
STATEMENT OF NET POSITION
June 30, 2014

<u>ASSETS</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
CURRENT ASSETS			
Cash and cash equivalents	\$ 612,350	\$ 1,127,008	\$ 1,739,358
Receivables:			
Property taxes receivable	45,387	-	45,387
Assessments receivable	-	45,054	45,054
Accounts receivable	-	37,891	37,891
Due from other governments	-	118,714	118,714
Loans and notes receivable	<u>26,665</u>	<u>-</u>	<u>26,665</u>
Total current assets	<u>684,402</u>	<u>1,328,667</u>	<u>2,013,069</u>
NON-CURRENT ASSETS			
Restricted cash and investments	-	893,730	893,730
Non-current portion of loans and notes receivable	115,675	-	115,675
Land	383,080	49,218	432,298
Construction in progress	18,000	559,297	577,297
Depreciable assets, net of accumulated depreciation	<u>604,637</u>	<u>4,357,497</u>	<u>4,962,134</u>
Total non-current assets	<u>1,121,392</u>	<u>5,859,742</u>	<u>6,981,134</u>
Total assets	<u>\$ 1,805,794</u>	<u>\$ 7,188,409</u>	<u>\$ 8,994,203</u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF CHOTEAU
STATEMENT OF NET POSITION
(CONTINUED)
June 30, 2014

	Governmental Activities	Business-Type Activities	Total
<u>LIABILITIES</u>			
CURRENT LIABILITIES			
Loans payable - due within one year	\$ 3,307	\$ -	\$ 3,307
Bonds payable - due within one year	-	103,581	103,581
Compensated absences - due within one year	<u>11,104</u>	<u>23,976</u>	<u>35,080</u>
Total current liabilities	<u>14,411</u>	<u>127,557</u>	<u>141,968</u>
NON-CURRENT LIABILITIES			
Deposits payable	-	2,974	2,974
Loans payable	78,114	-	78,114
Bonds payable	-	2,271,844	2,271,844
Compensated absences	<u>11,104</u>	<u>23,976</u>	<u>35,080</u>
Total non-current liabilities	<u>89,218</u>	<u>2,298,794</u>	<u>2,388,012</u>
Total liabilities	<u>103,629</u>	<u>2,426,351</u>	<u>2,529,980</u>
NET POSITION			
Net investment in capital assets	924,296	2,590,587	3,514,883
Restricted for:			
Public works	81,508	-	81,508
Culture and recreation	100,574	-	100,574
Housing and community development	171,061	-	171,061
Public safety	6,723	-	6,723
Debt service	-	164,719	164,719
Replacement and depreciation	-	717,011	717,011
Unrestricted	<u>418,003</u>	<u>1,289,741</u>	<u>1,707,744</u>
Total net position	<u>1,702,165</u>	<u>4,762,058</u>	<u>6,464,223</u>
Total liabilities and net position	<u>\$ 1,805,794</u>	<u>\$ 7,188,409</u>	<u>\$ 8,994,203</u>

CITY OF CHOTEAU
STATEMENT OF ACTIVITIES
Year Ended June 30, 2014

FUNCTIONS/PROGRAMS	Program Revenues				Net (Expense) Revenue and Changes In Net Assets		Total
	Expenses	Charges for Services	Operating	Capital	Governmental Activities	Business-type Activities	
			Grants and Contributions	Grants and Contributions			
Governmental activities:							
General government	\$ 152,288	\$ -	\$ -	\$ -	\$ (152,288)	\$ -	\$ (152,288)
Public safety	151,278	11,644	2,318	-	(137,316)	-	(137,316)
Public works	187,480	109,197	52,836	-	(25,447)	-	(25,447)
Public health	442	-	-	-	(442)	-	(442)
Culture and recreation	143,466	12,985	12,810	-	(117,671)	-	(117,671)
Housing and community development	23,608	-	-	-	(23,608)	-	(23,608)
Interest on long-term debt	3,738	-	-	-	(3,738)	-	(3,738)
Miscellaneous	<u>6,492</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,492)</u>	<u>-</u>	<u>(6,492)</u>
Total governmental activities	<u>668,792</u>	<u>133,826</u>	<u>67,964</u>	<u>-</u>	<u>(467,002)</u>	<u>-</u>	<u>(467,002)</u>
Business-type activities:							
Water	324,482	387,193	-	-	-	62,711	62,711
Sewer	264,355	377,923	-	202,045	-	315,613	315,613
Solid waste	<u>139,893</u>	<u>138,584</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,309)</u>	<u>(1,309)</u>
Total business-type activities	<u>728,730</u>	<u>903,700</u>	<u>-</u>	<u>202,045</u>	<u>-</u>	<u>377,015</u>	<u>377,015</u>
Total primary government	<u>\$ 1,397,522</u>	<u>\$ 1,037,526</u>	<u>\$ 67,964</u>	<u>\$ 202,045</u>	<u>(467,002)</u>	<u>377,015</u>	<u>(89,987)</u>
General revenues:							
Property taxes					169,033	-	169,033
Local option taxes					44,433	-	44,433
Licenses and permits					37,340	-	37,340
Federal/State shared revenues					170,416	-	170,416
Investment earnings					9,535	15,264	24,799
Other					95	1,553	1,648
Rents and leases					1,857	-	1,857
Gain on sale of capital asset					-	20,000	20,000
Transfers					<u>20,000</u>	<u>(20,000)</u>	<u>-</u>
Total general revenues					<u>452,709</u>	<u>16,817</u>	<u>469,526</u>
Changes in net position					(14,293)	393,832	379,539
Net position, beginning of year					<u>1,716,458</u>	<u>4,368,226</u>	<u>6,084,684</u>
Net position, end of year					<u>\$ 1,702,165</u>	<u>\$ 4,762,058</u>	<u>\$ 6,464,223</u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF CHOTEAU
BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2014

	General Fund	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>			
CURRENT ASSETS			
Cash and investments	\$ 299,190	\$ 313,160	\$ 612,350
Property taxes and assessments	28,768	16,619	45,387
Current portion of loan and notes receivable	-	<u>26,665</u>	<u>26,665</u>
Total current assets	<u>327,958</u>	<u>356,444</u>	<u>684,402</u>
NON-CURRENT ASSETS			
Non-current portion of loan and notes receivable	-	<u>115,675</u>	<u>115,675</u>
Total assets	<u>\$ 327,958</u>	<u>\$ 472,119</u>	<u>\$ 800,077</u>
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</u>			
DEFERRED INFLOWS OF RESOURCES			
Unavailable tax/assessment revenues	\$ 28,768	\$ 16,619	\$ 45,387
FUND BALANCES			
Restricted for:			
Public safety	-	6,723	6,723
Public works	-	70,802	70,802
Culture and recreation	-	97,138	97,138
Housing and community development	-	171,061	171,061
Committed for:			
Public safety	-	15,374	15,374
Assigned to:			
General government	31,659	-	31,659
Capital projects	-	94,390	94,390
Unassigned	<u>267,531</u>	<u>12</u>	<u>267,543</u>
Total fund balances	<u>299,190</u>	<u>455,500</u>	<u>754,690</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 327,958</u>	<u>\$ 472,119</u>	<u>\$ 800,077</u>

The Notes to Financial Statements are an integral part of this statement.

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

Total fund balances - governmental funds \$ 754,690

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$1,955,353 and the accumulated depreciation is \$949,636. 1,005,717

Tax revenue is recognized when earned (and the claim to resources is established) rather than when "available." All of the unavailable tax revenue reported in the governmental funds is not available. 45,387

Long-term liabilities, including bonds payable and compensated absences, and other post employment benefits are not due and payable in the current period and, therefore, are not reported in the funds. (103,629)

Net position - governmental activities \$ 1,702,165

CITY OF CHOTEAU
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES – GOVERNMENTAL FUNDS
Year Ended June 30, 2014

	General Fund	Other Governmental Funds	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
REVENUES			
Property taxes and assessments	\$ 188,592	\$ 120,941	\$ 309,533
Intergovernmental	164,724	61,646	226,370
Fine and forfeitures	6,644	-	6,644
Licenses and permits	37,340	-	37,340
Charges for services	13,285	5,000	18,285
Investment earnings	3,940	5,595	9,535
Other	<u>1,942</u>	<u>12,009</u>	<u>13,951</u>
Total revenue	<u>416,467</u>	<u>205,191</u>	<u>621,658</u>
EXPENDITURES			
Current:			
General government	141,712	-	141,712
Public safety	127,003	13,038	140,041
Public works	700	175,831	176,531
Public health	442	-	442
Culture and recreation	97,688	22,606	120,294
Housing and community development	23,594	14	23,608
Capital outlay	-	53,094	53,094
Miscellaneous	6,492	-	6,492
Debt Service:			
Principal	-	3,244	3,244
Interest	<u>-</u>	<u>3,738</u>	<u>3,738</u>
Total expenditures	<u>397,631</u>	<u>271,565</u>	<u>669,196</u>
Excess of revenues over (under) expenditures	<u>18,836</u>	<u>(66,374)</u>	<u>(47,538)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in (out)	<u>(40,000)</u>	<u>60,000</u>	<u>20,000</u>
Total other financing sources (uses)	<u>(40,000)</u>	<u>60,000</u>	<u>20,000</u>
Excess of revenues and other financing sources under expenditures	(21,164)	(6,374)	(27,538)
Fund balances, beginning of the year	<u>320,354</u>	<u>461,874</u>	<u>782,228</u>
Fund balances, end of the year	<u>\$ 299,190</u>	<u>\$ 455,500</u>	<u>\$ 754,690</u>

The Notes to Financial Statements are an integral part of this statement.

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

Net change in fund balances - total governmental funds \$ (27,538)

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

Governmental funds report capital outlays as expenditures. However, in
the statement of activities the cost of those assets is allocated over their
estimated useful lives and reported as depreciation expense. This is the
amount by which capital outlays exceeded depreciation in the current
period. (1,327)

Tax and assessment revenues in the statement of activities that do not
provide current financial resources are not reported as revenues in the
funds. 12,841

The governmental funds report repayment of debt principal as an
expenditure and proceeds from issuing debt as other financing sources.
These payments and proceeds have no effect on net assets and are,
therefore, not shown on the statement of activities. 3,244

The current period net increase in compensated absences and other post
employment benefits payable did not require the use of current financial
resources and, therefore, generated no expenditure to be reported in the
governmental funds. (1,513)

Change in net position of governmental activities \$ (14,293)

CITY OF CHOTEAU
STATEMENT OF BUDGETARY COMPARISON –
GENERAL FUND
Year Ended June 30, 2014

	Original Budget	Final Budget	Actual
REVENUES			
Property taxes and assessments	\$ 198,891	\$ 198,891	\$ 188,592
Intergovernmental	162,951	162,951	164,724
Fine and forfeitures	5,000	5,000	6,644
Licenses and permits	36,750	36,750	37,340
Charges for services	14,000	14,000	13,285
Investment earnings	5,000	5,000	3,940
Other	<u>1,400</u>	<u>1,400</u>	<u>1,942</u>
Total revenue	<u>423,992</u>	<u>423,992</u>	<u>416,467</u>
EXPENDITURES			
Current:			
General government	162,871	171,076	141,712
Public safety	127,003	127,003	127,003
Public works	700	700	700
Public health	500	500	442
Culture and recreation	102,844	107,744	97,688
Housing and community development	18,750	22,750	23,594
Miscellaneous	<u>3,752</u>	<u>3,752</u>	<u>6,492</u>
Total expenditures	<u>416,420</u>	<u>433,525</u>	<u>397,631</u>
Revenues over (under) expenditures	7,572	(9,533)	18,836
OTHER FINANCING SOURCES			
Transfers out	<u>(45,000)</u>	<u>(45,000)</u>	<u>(40,000)</u>
Revenues and other financing sources under expenditures	<u>\$ (37,428)</u>	<u>\$ (54,533)</u>	<u>\$ (21,164)</u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF CHOTEAU
STATEMENT OF NET POSITION –
ENTERPRISE FUNDS
June 30, 2014

	Water Fund	Sewer Fund	Solid Waste Fund	Total
<u>ASSETS</u>				
CURRENT ASSETS				
Cash and investments	\$ 627,396	\$ 445,803	\$ 53,809	\$ 1,127,008
Assessments receivable	-	45,054	-	45,054
Accounts receivable	27,685	-	10,206	37,891
Due from other governments	11,277	107,437	-	118,714
Total current assets	<u>666,358</u>	<u>598,294</u>	<u>64,015</u>	<u>1,328,667</u>
NON-CURRENT ASSETS				
Restricted cash and investments	300,101	581,629	12,000	893,730
Land	23,780	3,038	22,400	49,218
Construction in progress	-	559,297	-	559,297
Depreciable assets, net of accumulated depreciation	2,187,995	2,042,676	126,826	4,357,497
Total non-current assets	<u>2,511,876</u>	<u>3,186,640</u>	<u>161,226</u>	<u>5,859,742</u>
Total assets	<u>\$ 3,178,234</u>	<u>\$ 3,784,934</u>	<u>\$ 225,241</u>	<u>\$ 7,188,409</u>
<u>LIABILITIES AND NET POSITION</u>				
CURRENT LIABILITIES				
Compensated absences - due within one year	\$ 10,749	\$ 10,074	\$ 3,153	\$ 23,976
Bonds and notes payable - due within one year	34,581	69,000	-	103,581
Total current liabilities	<u>45,330</u>	<u>79,074</u>	<u>3,153</u>	<u>127,557</u>
NON-CURRENT LIABILITIES				
Deposits payable	2,099	-	875	2,974
Compensated absences	10,748	10,075	3,153	23,976
Bonds and notes payable	1,258,708	1,013,136	-	2,271,844
Total non-current liabilities	<u>1,271,555</u>	<u>1,023,211</u>	<u>4,028</u>	<u>2,298,794</u>
Total liabilities	<u>1,316,885</u>	<u>1,102,285</u>	<u>7,181</u>	<u>2,426,351</u>
NET POSITION				
Net investment in capital assets	918,486	1,522,875	149,226	2,590,587
Restricted for debt service	70,780	93,939	-	164,719
Restricted for replacement and depreciation	229,321	487,690	-	717,011
Unassigned	642,762	578,145	68,834	1,289,741
Total net position	<u>1,861,349</u>	<u>2,682,649</u>	<u>218,060</u>	<u>4,762,058</u>
Total liabilities and net position	<u>\$ 3,178,234</u>	<u>\$ 3,784,934</u>	<u>\$ 225,241</u>	<u>\$ 7,188,409</u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF CHOTEAU
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION –
ENTERPRISE FUNDS
Year Ended June 30, 2014

	Water Fund	Sewer Fund	Solid Waste Fund	Total
OPERATING REVENUES				
Charges for services	\$ 387,193	\$ 3,904	\$ 138,584	\$ 529,681
Special assessments	-	362,975	-	362,975
Miscellaneous	-	11,044	1,553	12,597
Total operating revenues	<u>387,193</u>	<u>377,923</u>	<u>140,137</u>	<u>905,253</u>
OPERATING EXPENSES				
Personnel services	122,213	104,705	92,832	319,750
Supplies and materials	30,479	7,603	18,938	57,020
Purchased services	34,323	22,329	9,893	66,545
Fixed charges	3,815	3,163	3,155	10,133
Depreciation	79,814	104,745	15,075	199,634
Total operating expenses	<u>270,644</u>	<u>242,545</u>	<u>139,893</u>	<u>653,082</u>
Operating income	<u>116,549</u>	<u>135,378</u>	<u>244</u>	<u>252,171</u>
OTHER INCOME (EXPENSE)				
Gain on sale of capital asset	-	-	20,000	20,000
Interest revenue	6,662	7,738	864	15,264
Interest expense	(53,838)	(21,810)	-	(75,648)
Total other income (expense)	<u>(47,176)</u>	<u>(14,072)</u>	<u>20,864</u>	<u>(40,384)</u>
Income before capital contributions and transfers	69,373	121,306	21,108	211,787
Capital contributions	-	202,045	-	202,045
Transfers	(10,000)	(10,000)	-	(20,000)
Change in net position	59,373	313,351	21,108	393,832
Net position, beginning of year	<u>1,801,976</u>	<u>2,369,298</u>	<u>196,952</u>	<u>4,368,226</u>
Net position, end of year	<u>\$ 1,861,349</u>	<u>\$ 2,682,649</u>	<u>\$ 218,060</u>	<u>\$ 4,762,058</u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF CHOTEAU
STATEMENT OF CASH FLOWS –
ENTERPRISE FUNDS
Year Ended June 30, 2014

	Water Fund	Sewer Fund	Solid Waste Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 389,504	\$ 361,965	\$ 141,543	\$ 893,012
Payments to suppliers	(68,617)	(33,095)	(31,986)	(133,698)
Payments to employees	<u>(118,446)</u>	<u>(102,419)</u>	<u>(97,907)</u>	<u>(318,772)</u>
Net cash flows from operating activities	<u>202,441</u>	<u>226,451</u>	<u>11,650</u>	<u>440,542</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Transfers to other funds	<u>(10,000)</u>	<u>(10,000)</u>	<u>-</u>	<u>(20,000)</u>
Net cash flows from non-capital financing activities	<u>(10,000)</u>	<u>(10,000)</u>	<u>-</u>	<u>(20,000)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from debt	-	368,136	-	368,136
Purchases of capital assets	-	(559,298)	(116,500)	(675,798)
Principal paid on debt	(33,869)	(68,000)	-	(101,869)
Interest paid on debt	(53,838)	(21,810)	-	(75,648)
Proceeds from intergovernmental capital grants	<u>-</u>	<u>94,608</u>	<u>-</u>	<u>94,608</u>
Net cash flows from capital and related financing activities	<u>(87,707)</u>	<u>(186,364)</u>	<u>(116,500)</u>	<u>(390,571)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest revenue	<u>6,662</u>	<u>7,738</u>	<u>864</u>	<u>15,264</u>
Net cash flows from investing activities	<u>6,662</u>	<u>7,738</u>	<u>864</u>	<u>15,264</u>
Net change in cash and cash equivalents	111,396	37,825	(103,986)	45,235
Cash and cash equivalents, beginning of year	<u>816,101</u>	<u>989,607</u>	<u>169,795</u>	<u>1,975,503</u>
Cash and cash equivalents, end of year	<u>\$ 927,497</u>	<u>\$ 1,027,432</u>	<u>\$ 65,809</u>	<u>\$ 2,020,738</u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF CHOTEAU
STATEMENT OF CASH FLOWS –
ENTERPRISE FUNDS
(CONTINUED)
Year Ended June 30, 2014

	Water Fund	Sewer Fund	Solid Waste Fund	Total
CASH AND CASH EQUIVALENTS ON STATEMENTS OF NET POSITION				
Cash and cash equivalents	\$ 627,396	\$ 445,803	\$ 53,809	\$ 1,127,008
Restricted cash and cash equivalents	<u>300,101</u>	<u>581,629</u>	<u>12,000</u>	<u>893,730</u>
	<u>\$ 927,497</u>	<u>\$ 1,027,432</u>	<u>\$ 65,809</u>	<u>\$ 2,020,738</u>
Reconciliation of operating income to net cash flows from operating activities:				
Operating income	\$ 116,549	\$ 135,378	\$ 244	\$ 252,171
Adjustments to reconcile operating income to net cash flows from operating activities:				
Depreciation	79,814	104,745	15,075	199,634
Change in accounts receivable	3,489	-	1,706	5,195
Change in assessment receivables	-	(15,958)	-	(15,958)
Change in customer deposits	(1,178)	-	(300)	(1,478)
Change in compensated absences	<u>3,767</u>	<u>2,286</u>	<u>(5,075)</u>	<u>978</u>
Net cash flows from operating activities	<u>\$ 202,441</u>	<u>\$ 226,451</u>	<u>\$ 11,650</u>	<u>\$ 440,542</u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF CHOTEAU
STATEMENT OF NET POSITION –
FIDUCIARY FUNDS
June 30, 2014

	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
ASSETS		
Cash and investments	\$ 107,606	\$ 109,732
Property taxes receivable	<u>2,366</u>	<u>-</u>
Total assets	<u>\$ 109,972</u>	<u>\$ 109,732</u>
LIABILITIES		
Warrants payable	\$ -	\$ 109,732
Unearned revenue	<u>2,366</u>	<u>-</u>
Total liabilities	<u>2,366</u>	<u>\$ 109,732</u>
NET ASSETS HELD IN TRUST		
Held in trust for pension benefits and other purposes	<u>107,606</u>	
Total net position	<u>107,606</u>	
Total liabilities and net position	<u>\$ 109,972</u>	

The Notes to Financial Statements are an integral part of this statement.

CITY OF CHOTEAU
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
Year Ended June 30, 2014

	Private-Purpose Trust Funds
ADDITIONS	
Taxes	\$ 11,987
Insurance premium apportionment	2,318
Investment revenue	372
Total additions	14,677
 DEDUCTIONS	
Benefit payments	9,500
Total deductions	9,500
Change in net position	5,177
Net position, beginning of year	102,429
Net position, end of year	\$ 107,606

The Notes to Financial Statements are an integral part of this statement.

CITY OF CHOTEAU
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Choteau (the City) have been prepared in conformity with accounting principles generally accepted in the United States of America as set forth by standards established by the Governmental Accounting Standards Board (GASB). The Government Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City is a Phase 3 government; it is encouraged but not required to report major infrastructure assets retroactively. The City has elected to not record infrastructure assets retroactively for the governmental type funds.

Reporting Entity

The City is a political subdivision of the State of Montana governed by an elected Mayor and City Council. The City provides a wide range of municipal services that include police, fire, and other services. Water, sewer, and garbage collection services are provided by the City and are accounted for as enterprise funds.

The financial statements include all operations controlled by the City. A reporting entity consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of the relationship are such that exclusion would cause the reporting entity's financial statements to be misleading. Based on the criteria for determining the reporting entity, the City is considered to be an independent reporting entity and has no component units. The agency funds are controlled by independent governing boards and are not considered component units of the City.

Measurement Focus, Basis of Presentation and Basis of Accounting

Accounting Standards Effective in the Current Period

The City of Choteau adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, for fiscal year 2014. This statement defines new financial statement items called deferred inflows of resources and deferred outflows of resources, and reclassifies certain items previously classified as assets or liabilities to deferred outflows or deferred inflows, respectively.

Accounting Standards Effective in a Future Period

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers.

This Statement establishes standards for measuring and recognizing net pension liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

CITY OF CHOTEAU
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2014

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Presentation and Basis of Accounting (Continued)

Accounting Standards Effective in a Future Period (Continued)

This Statement is effective for fiscal years beginning after June 15, 2014. The effect of adopting the Standard cannot be determined at this time.

Government-Wide Financial Statements

The statement of net position and the statement of activities show information about the overall financial position and activities of the City. Fiduciary funds are not included in these statements.

These statements are reported using the economic resources measurement focus and the accrual basis of accounting. The activities of the City are generally financed through property taxes, assessments, charges for services, licenses and permits, fines, and federal and state grants. Revenues are recorded when earned and expenses are recorded at the time the liability is incurred, regardless of when the related cash flows take place. On the accrual basis, revenues from property taxes are recognized in the fiscal year for which the taxes are levied. Revenues from grants are recognized in the fiscal year in which eligibility requirements have been met. The City's business-type activities are financed by the charges for services to users.

The statement of activities presents a comparison between the direct expenses and program revenues for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function. The City does not charge indirect expenses to programs or functions; however, the general fund is reimbursed for administrative costs incurred for other functions including business-type activities. Program revenues include charges for services (primarily user fees, assessments, permits, fines, and grants that are restricted to a particular function). Generally, restricted revenues are used first to pay expenses incurred when both restricted and unrestricted funds are available.

Revenues that are not received for a specific purpose and classified as program revenues are reported as general revenues. These include all property taxes, entitlement revenue, investment earnings, permits, and licenses (i.e., local business licenses and alcoholic beverage licenses and permits).

The statement of net position presents information on all of the City's assets and liabilities, with the difference between the two presented as net position.

CITY OF CHOTEAU
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2014

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Financial Statements

These statements provide information about the City's governmental and enterprise funds. The emphasis of fund financial statements is on major funds. Each major fund is displayed in a separate column. All of the remaining funds are aggregated and reported in a single column as other governmental funds.

Governmental Funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Revenues applicable to the current fiscal year and collected soon after year-end are recognized as revenue.

Most current property taxes receivable are delinquent at June 30 and amounts collected soon after year-end are not significant. Deferred revenues are recorded for these receivables.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt and payments for compensated absences, which are recognized as expenditures in governmental funds.

Enterprise Funds (business-type activities) are reported using the economic resources measurement focus and the accrual basis of accounting similar to the basis used for the government-wide financial statements. Revenues are recorded when earned and expenses are recorded at the time the liability is incurred, regardless of when the related cash flows take place. Charges for services are reported as operating revenues; investment earnings and grants are reported as non-operating revenues. All assets and liabilities are recorded in the enterprise funds financial statements including capital assets and long-term liabilities.

Major Funds. Generally accepted accounting principles require that the general fund be reported as a major fund. In addition, major funds include all other governmental funds whose total assets, liabilities, revenues, or expenditures are at least 10% or more of the total for all governmental funds or, for enterprise funds, at least 10% or more of the total for all enterprise funds. In addition, the assets, liabilities, revenues, or expenditures of these individual governmental or enterprise funds should be at least 5% or more of the total for all governmental and enterprise funds. Accordingly, the City reports the following major governmental funds:

General Fund – This is the City's primary operating fund and it accounts for all financial resources of the City, except those required to be accounted for in other funds.

The City also reports its water, sewer, and solid waste operations as major enterprise funds.

CITY OF CHOTEAU
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2014

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Financial Statements (Continued)

The City also reports the following fiduciary funds, which are reported on the accrual basis of accounting:

Fireman's Disability – to account for cash collected by the City for the Choteau Volunteer Fire Department Relief Association.

Agency Funds – This accounts for the administrative clearing funds for payroll and claims.

Budgets

Budgets are adopted for the general, special revenue, debt service, capital projects, and enterprise funds. The annual budget is a plan of financial operation with an estimate of expenditures and means of financing them. A preliminary budget is prepared in July, budget hearings are held, and the final budget is adopted by the third Tuesday in August.

The adopted budget constitutes the appropriations for the City and is the maximum limit of expenditures in each budgeted fund. The adopted budget may be amended for emergencies and other matters as provided by state law.

The budget is prepared on the basis of accounting described for its governmental funds. Tax levies are set by expenditure requirements but are authorized and limited by state law.

Transfers of budget authority within a fund are permitted. Appropriations lapse at June 30, except for encumbrances, which represent commitments to expend funds under current budget appropriations. There were no encumbrances in fiscal year 2014. State law requires only that a fund's total expenditures not exceed total budgeted expenditures. The level of budgetary control is the fund level.

Property Taxes and Assessments

Property tax revenue in the governmental fund statements is recognized as revenue when collected. Property taxes receivable at June 30 consist primarily of delinquent property taxes from prior-year levies and are offset by deferred revenue. No allowance is made for uncollectible taxes, which are not considered to be significant.

Property taxes are levied in August of each year, based on assessments as of the prior January 1. Taxes are usually billed in October and are payable 50% on November 30 and 50% on May 30.

CITY OF CHOTEAU
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2014

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

All capital assets are recorded at cost or estimated historical cost. Only assets with a cost of \$5,000 or more are capitalized; smaller purchases are expensed when purchased. Capital assets are depreciated under the straight-line method over estimated useful lives as follows:

Buildings	20 to 50 years
Improvements	20 years
Equipment	3 to 15 years
Infrastructure	10 to 50 years

Cash and Investments

The City's cash is invested as permitted by law. State law restricts investments to certificates of deposit, repurchase agreements, or direct obligations of the U.S. Government. Investments are reported at fair value, which is based primarily on quoted market prices. The City has no investment policies that would further limit its investment choices. The difference between cost and fair value is immaterial. Restricted cash is cash restricted for debt service and capital projects under debt agreements and is reported as non-current.

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

Inventories

Cost of inventories is recorded as an expenditure at the time individual inventory items are purchased. Inventories on hand at year-end are not considered material.

City Court Fines

The City does not record receivables for fines imposed by the City Court but records fines as revenue when collected.

Compensated Absences

All City employees are permitted to accumulate vacation and sick leave. On termination of employment, an employee is paid for accumulated vacation and for 25% of accumulated sick pay based on the current hourly rate of pay. In the governmental funds, expenditures for these compensated absences are recorded when paid because the amounts expected to be liquidated from current resources do not vary materially from year to year.

Inter-fund Transactions

During the course of its operations, the City has transactions between funds to finance operations, provide services, and service debt. These transactions are generally recorded as charges for services revenue and operations expenditures or inter-fund transfers in and out. To the extent that certain transactions between funds had not been paid or received at year-end, the balances of short-term inter-fund amount receivable or payable are reported as due to and due from other funds in the fund financial statements. These transactions are eliminated in the government-wide financial statements.

CITY OF CHOTEAU
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2014

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance

The City has implemented the provisions of GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." GASB Statement No. 54 requires presentation of governmental fund balances by specific purpose. In the basic financial statements, the fund balance classifications are presented in the aggregate for the following fund balance classifications:

Non-spendable

Represents the portion of fund balances that cannot be spent either because it is not spendable form such as inventories, the long-term portion of notes and loans receivable, land held for resale of which the future proceeds are not committed, and pre-paid expenses, or because of legal or contractual constraints such as the corpus of a permanent fund.

Restricted

Amounts that can be spent only for specific purposes which are externally imposed either by:

- a) Providers such as creditors (such as through debt covenants), grantors, contributors, and laws and regulations of other governments; or
- b) Imposed by law through constitutional provisions or enabling legislation.

Committed

Amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision-making authority, the City Council, through resolution and does not lapse at year-end.

Assigned

Amounts that are intended to be used by the government for a specific purpose that does not meet the criteria to be classified as restricted or committed. Assignments of fund balance may be created in conjunction by the City Council, the Mayor, and the Finance Officer.

Unassigned

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

The City adopted a fund balance classification policy that defines expenditure order of fund balance. Resource categories for Special Revenue Funds, Debt Service Funds, and Capital Projects Funds, when both restricted and unrestricted funds are available for expenditure, are as follows: Committed, Assigned, Unassigned.

CITY OF CHOTEAU
 NOTES TO FINANCIAL STATEMENTS
 (CONTINUED)
 June 30, 2014

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance (Continued)

The City Council, the Mayor, and the Finance Officer, in conjunction, have the authority to express assignments in the Special Revenue Funds, Debt Service Funds, and Capital Project Funds.

Net Position

Net position represents the difference between assets and liabilities. In the government-wide financial statements, net position is classified into the following categories:

Net investment in capital assets – consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvements of those assets.

Restricted – presents external restrictions imposed by creditors, grantors, or contributors or laws and regulations of other governments and restrictions imposed by law through constitutional provision or enabling legislation. Additionally, this category presents restrictions placed on the categories of capital projects and debt service established by the City Council.

Unrestricted – represents the net assets of the City that are not restricted for any project or other purpose.

NOTE 2. CASH AND INVESTMENTS

Cash and investments may include cash and cash items; demand, time, and savings. The City's total composition of cash, deposits, and investments at June 30, 2014 (which are stated at fair value) are as follows:

Petty cash	\$ 150
Cash in bank:	
Demand deposits	490,088
Savings deposits	1,186
Time deposits	<u>2,359,002</u>
Total	<u>\$ 2,850,426</u>

At June 30, 2014, the City had deposits and investments that were not insured or collateralized in the amount of \$47,191. Interest rates at June 30, 2014, ranged from 0.25% to 3.25%. Future maturities on investments range from August 2014 to May 2018.

CITY OF CHOTEAU
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2014

NOTE 2. CASH AND INVESTMENTS (CONTINUED)

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

For the year ended June 30, 2014, the City has deposits that are exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 47,191
Uninsured and collateral held by pledging bank	<u>2,564,902</u>
Total exposed to credit risk	2,612,093
FDIC insured	<u>250,000</u>
Total deposits	<u><u>\$ 2,862,093</u></u>

NOTE 3. LOANS RECEIVABLE

Loans receivable consist of loans made to various local businesses under the CDBG Revolving Loan fund. The individual loan terms range from five to ten years.

CITY OF CHOTEAU
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2014

NOTE 4. CAPITAL ASSETS

The changes in capital assets used in governmental activities during 2014 were as follows:

	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014
Cost				
Land	\$ 383,080	\$ -	\$ -	\$ 383,080
Construction in process	467	18,000	(467)	18,000
Total non-depreciable assets	<u>\$ 383,547</u>	<u>\$ 18,000</u>	<u>\$ (467)</u>	<u>\$ 401,080</u>
Buildings	\$ 810,081	\$ 35,561	\$ -	\$ 845,642
Improvements other than buildings	154,314	-	-	154,314
Machinery and equipment	554,317	-	-	554,317
Total depreciable assets	<u>1,518,712</u>	<u>35,561</u>	<u>-</u>	<u>1,554,273</u>
Accumulated depreciation				
Buildings	354,988	23,878	-	378,866
Improvements other than buildings	77,118	7,010	-	84,128
Machinery and equipment	463,109	23,533	-	486,642
Total accumulated depreciation	<u>895,215</u>	<u>54,421</u>	<u>-</u>	<u>949,636</u>
Net depreciable assets	<u>\$ 623,497</u>	<u>\$ (18,860)</u>	<u>\$ -</u>	<u>\$ 604,637</u>

Depreciation expense was charged to functions as follows:

General government	\$ 9,063
Public safety	11,237
Public works	10,949
Culture and recreation	23,172
	<u>\$ 54,421</u>

CITY OF CHOTEAU
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2014

NOTE 4. CAPITAL ASSETS (CONTINUED)

The changes in capital assets used in business activities used during 2014 were as follows:

	Balance June 30, 2013	Additions	Deletions	Transfers	Balance June 30, 2014
COST					
Land	\$ 49,218	\$ -	\$ -	\$ -	\$ 49,218
Construction in process	-	559,297	-	-	559,297
Total non-depreciable assets	<u>\$ 49,218</u>	<u>\$ 559,297</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 608,515</u>
Buildings	\$ 466,193	\$ -	\$ -	\$ -	\$ 466,193
Improvements	30,788	-	-	-	30,788
Machinery and equipment	358,561	136,500	(62,886)	-	432,175
Source of supply	178,378	-	-	-	178,378
Pumping plant	5,853	-	-	-	5,853
Treatment plant	73,192	-	-	-	73,192
Transmission and distribution	6,320,504	-	-	-	6,320,504
Total depreciable assets	<u>7,433,469</u>	<u>136,500</u>	<u>(62,886)</u>	<u>-</u>	<u>7,507,083</u>
ACCUMULATED DEPRECIATION					
Buildings	52,363	23,039	-	-	75,402
Improvements	17,735	1,539	-	-	19,274
Machinery and equipment	304,153	23,257	(62,886)	-	264,524
Source of supply	158,015	2,100	-	-	160,115
Pumping plant	5,853	-	-	-	5,853
Treatment plant	73,192	-	-	-	73,192
Transmission and distribution	2,401,528	149,698	-	-	2,551,226
Total	<u>3,012,839</u>	<u>199,633</u>	<u>(62,886)</u>	<u>-</u>	<u>3,149,586</u>
Net depreciable assets	<u>\$ 4,420,630</u>	<u>\$ (63,133)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,357,497</u>

Depreciation expended in the business activities totaled \$199,634.

CITY OF CHOTEAU
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2014

NOTE 5. LONG-TERM DEBT

Changes in long-term debt during 2014 are as follows:

	Balance June 30, 2013	Additions	Payments/ Adjustments	Balance June 30, 2014	Due Within One Year
GOVERNMENT ACTIVITIES					
Contracted debt	\$ 84,665	\$ -	\$ (3,244)	\$ 81,421	\$ 3,307
Compensated absences	20,695	1,513	-	22,208	11,104
BUSINESS ACTIVITIES					
Revenue bonds	2,109,157	368,136	(101,868)	2,375,425	103,581
Compensated absences	46,974	978	-	47,952	23,976
Total	<u>\$ 2,261,491</u>	<u>\$ 370,627</u>	<u>\$ (105,112)</u>	<u>\$ 2,527,006</u>	<u>\$ 141,968</u>

Contracted Debt

The City entered into a financing arrangement for purchasing a building and land for a fire hall. The original loan was \$45,950 with a 5% interest rate and final payment due in December 2009. During 2010, the City entered into an additional financing arrangement for the remodel of the building, borrowing an additional \$73,330 on the loan. During 2011, an additional \$66,981 was borrowed on the loan. Contracted debt resolutions include the following restrictive covenants: 1) The City shall comply with provisions of Title 2, Chapter 7, Part 5 of the Montana Code Annotated (MCA), and 2) the City shall file financial reports and audits when such reports and audits are required to be filed by the Department of Administration. The City was in compliance with the above requirements. In 2012, \$92,650 of this loan was assumed by the County and is no longer the responsibility of the City.

Annual debt service principal and interest payment requirements to maturity on contracted debt are as follows:

<u>Fiscal Year Ended June 30,</u>	<u>Fire Hall Loan</u>	
	<u>Principal</u>	<u>Interest</u>
2015	\$ 3,307	\$ 3,675
2016	3,456	3,526
2017	3,602	3,379
2018	3,774	3,208
2019	3,943	3,038
2020-2024	22,536	12,373
2025-2029	28,084	6,825
2030-2033	12,719	878
	81,421	<u>\$ 36,902</u>
Less current portion	(3,307)	
	<u>\$ 78,114</u>	

CITY OF CHOTEAU
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2014

NOTE 5. LONG-TERM DEBT (CONTINUED)

Revenue Bonds

The City issues revenue bonds where the City pledges income derived from the acquired or constructed assets to pay debt service. Revenue bonds outstanding consist of the following:

Purpose	Origination Date	Interest Rate	Bond Term	Maturity Date	Bond Amounts	Annual Payment	Balance June 30, 2014
Water system	3/29/2013	2.000%	20 years	7/1/2022	\$ 170,000	Varies	\$ 143,000
Water system	11/8/2006	4.375%	40 years	10/8/2046	1,255,000	Varies	1,150,289
Sewer system 2013A	10/3/2013	N/A	N/A	N/A	200,000	Varies	200,000
Sewer system 2013B	10/3/2013	3.000%	30 years	7/1/2043	168,136	Varies	162,136
Sewer system 2003B	3/29/2013	2.000%	20 years	7/1/2021	249,000	Varies	208,000
Sewer system 2003C	3/29/2013	2.000%	20 years	7/1/2023	202,000	Varies	175,000
Sewer system 2010B	3/29/2013	3.000%	20 years	1/1/2031	276,000	Varies	258,000
Sewer system 2010C	3/29/2013	3.000%	20 years	1/1/2031	85,000	Varies	79,000
Total					<u>\$ 2,605,136</u>		<u>\$ 2,375,425</u>

During fiscal year 2013, the City refinanced the water system revenue bond with a maturity date of January 1, 2022, and all the sewer system revenue bonds. The refinance reduced the interest rates for these bonds.

In fiscal year 2014, the City secured financing for an upcoming sewer project by issuing revenue bonds totaling a maximum principle amount of \$446,000. The revenue bonds consist of a \$200,000 Subordinate Lien Taxable Series 2013A bond and a \$246,000 Series 2013B bond. As of June 30, 2014, proceeds of \$168,136 have been received for the 2013B bond. Principle and interest payments are disregarded for the 2013A bonds. The 2013B bonds are payable on January 1 and July 1 of each year, beginning January 1, 2014 and ending on July 1, 2043. Payments must be made in multiples of \$1,000 and interest will be applied at a rate of 3% per annum.

CITY OF CHOTEAU
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2014

NOTE 5. LONG-TERM DEBT (CONTINUED)

Annual debt service principal and interest payment requirements to maturity (excluding the commitment noted above) are as follows:

<u>Fiscal Year Ended June 30,</u>	<u>Revenue Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 103,581	\$ 63,030	\$ 166,611
2016	107,321	61,141	168,462
2017	109,094	59,183	168,277
2018	111,902	57,171	169,073
2019	113,746	55,099	168,845
2020-2024	432,764	281,822	714,586
2025-2029	302,282	207,921	510,203
2030-2034	244,514	173,592	418,106
2035-2039	267,100	133,938	401,038
2040-2044	316,077	85,391	401,468
2045-2048	<u>67,044</u>	<u>25,650</u>	<u>92,694</u>
	2,375,425	<u>\$ 1,203,938</u>	<u>\$ 3,379,363</u>
Less current portion	<u>(103,581)</u>		
	<u>\$ 2,271,844</u>		

Revenue bond resolutions include various restrictive covenants. The more significant covenants 1) require that cash be restricted and reserved for operations, construction, debt service, and replacement and depreciation; 2) maintenance of casualty and liability insurance on the financed property; and 3) require specific and timely reporting of financial information to bond holders and the registrar. The City is in compliance with the above requirements.

CITY OF CHOTEAU
 NOTES TO FINANCIAL STATEMENTS
 (CONTINUED)
 June 30, 2014

NOTE 6. INTERFUND TRANSACTIONS

At June 30, 2014, no amounts were reported as inter-fund receivables and payables in the fund financial statements. For the year then ended June 30, 2014, inter-fund transfers consisted of the following:

GENERAL FUND	
Transfer out	\$ (40,000)
WATER FUND	
Transfer out	(10,000)
SEWER FUND	
Transfer out	(10,000)
NON-MAJOR SPECIAL REVENUE FUNDS -	
Transfer in	64,000
Transfer out	(4,000)
	\$ -

Transfers are used to: 1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; 2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and 3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 7. RETIREMENT AND PENSION PLANS

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

PERS offers retirement, disability, and death benefits to plan members and their beneficiaries. Benefit eligibility is age 60 with at least five years of service; age 65 regardless of service; or 30 years of service regardless of age. Actuarial reduced benefits may be taken with 25 years of service or at age 50 with at least five years of service. Monthly retirement benefits are determined by taking 1/56 times the number of years of service times the final average salary.

A guaranteed annual benefit adjustment (GABA) of 1.5% is provided each January for benefit recipients, if they have been receiving a benefit for at least 36 months. Members' rights become vested after five 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 CHOTEAU
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2014

NOTE 7. RETIREMENT AND PENSION PLANS (CONTINUED)

Contributions by plan members and the City are mandatory and are determined by state law. Contribution rates, expressed as a percentage of covered payroll, for each of the fiscal years were as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Employer	8.070%	7.070%	7.070%
Employee	7.900%	6.900%	6.900%
State	<u>0.100%</u>	<u>0.100%</u>	<u>0.100%</u>
Total	<u>16.070%</u>	<u>14.070%</u>	<u>14.070%</u>

The amounts contributed to the plan during the years ended June 30, 2012, 2013, and 2014, were equal to the required contribution for each year. The amounts contributed by the City were as follows:

<u>June 30,</u>	
2012	\$ 22,604
2013	22,203
2014	27,350

The plan issues a publicly available financial report that includes financial statements and required supplementary information for the plan. The report may be obtained from the following:

Montana Public Employees Retirement Administration
P.O. Box 200131
100 N Park Avenue Suite 200
Helena, Montana 59620-0131
Telephone: (406) 444-3154

Fire Department Relief Association Disability and Pension Fund

Volunteer firemen are covered by the Fire Department Relief Association Disability and Pension Fund, which is established by state law, is governed by an independent board, and is not considered a component unit of the City.

A member of a volunteer fire department who has served 20 years or more is entitled to benefits regardless of age. A volunteer serving less than 20 years but more than 10 years may receive benefits. Although this is a single-employer pension plan, the defined benefits and employer contribution levels are governed by the Association's Board of Trustees.

CITY OF CHOTEAU
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2014

NOTE 7. RETIREMENT AND PENSION PLANS (CONTINUED)

Fire Department Relief Association Disability and Pension Fund (Continued)

This plan is reported in the fund financial statements as a pension trust fund. As of June 30, 2014, plan membership consisted of 14 retirees and terminated employees entitled to and currently receiving benefits. The pension plan does not issue a separate report. State statute requires that this fund be funded to at least 0.21% of the total assessed value of taxable property for the City. To satisfy this requirement, the City levied 8.17 mills, totaling \$12,623 in fiscal year 2014.

Post-Employment Benefits

Terminated employees may remain on the City's health insurance plan for up to 19 months, if they pay the monthly premiums. This benefit is required under the federal COBRA law. Retirees may remain on the City's health plan to age 65, provided they pay the monthly premiums. State law requires the City to provide this benefit.

The City had no retired employees and no terminated employees participating in the plan as of June 30, 2014.

NOTE 8. OTHER POST EMPLOYMENT BENEFITS

As required by Governmental Accounting Standards Board (GASB) Statement No. 45 *Other Postemployment Benefits*, the City has calculated a postemployment benefit liability for the fiscal year ended June 30, 2014.

Plan Description

The City is a member of the Montana Municipal Inter-local Authority (MMIA), a local government risk retention pool that administers the City's group health insurance plan, an agent multiple-employer defined benefit plan. As required by State law (MCA 2-18-704), the City provides its employees who retire, along with their eligible spouses and dependents, the option to continue to participate in the City's group health insurance plan until the retiree becomes eligible for Medicare coverage. To continue this health insurance coverage, the retirees are required to pay the full amount of their premium. The plan currently provides defined healthcare insurance benefits for eligible employees, retirees, spouses, and dependents. Participation is elected by the retiree at the time of retirement. Benefit provisions are set annually by the City Council and may be revoked or altered at any time.

CITY OF CHOTEAU
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2014

NOTE 8. OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

Funding Policy

The City provides no direct subsidy to the health insurance premiums for retirees. Retirees pay the entire cost of the health insurance premium. Eligible retired employees include former full-time and certain other employees. As of June 30, 2014, there are no retirees and/or survivors enrolled for the employer's sponsored health insurance plan. Premiums for the City's active employees are \$562 per month.

Annual OPEB Cost Obligation and Net OPEB Obligation

The City's other postemployment benefit (OPEB) cost (expense) was calculated using the alternative method and determined there was no OPEB liability for June 30, 2014.

NOTE 9. JOINT VENTURES

Joint ventures are independently constituted entities generally created by two or more governments for a specific purpose that are subject to joint control, in which the participating governments retain 1) an ongoing financial interest or 2) an ongoing financial responsibility. As of June 30, 2014, the City has entered into two joint venture arrangements, as described below:

City-County Airport

The City-County Airport is owned and operated by Teton County, the City of Choteau, the Town of Fairfield, and the Town of Dutton. Teton County accounts for the operation of the City-County Airport within a special revenue fund. The City-County Airport is administered by a five-member board, comprised of two members from Teton County, one member from the City of Choteau, one member from the Town of Fairfield and the Town of Dutton. Each member is appointed for a three-year term. The budget of the City-County Airport is approved by the airport board. Each participating government budgets for its share of the operation costs within its respective budget. The City records the expense to finance its contribution to the City-County Airport within its accounting records. Financial information regarding the City-County Airport can be obtained by contacting Paula Jaconetty, Teton County, Clerk & Recorder's Office, P.O. Box 610, Choteau, MT 59422.

City-County Library

The City-County Library is operated under an inter-local agreement between the City of Choteau and Teton County. The Library operates under the supervision and control of the Library Board. The Board consists of five members, two who are appointed by the Teton Board of County Commissioners, and one each from the City Councils of Choteau, Fairfield, and Dutton. The Library is financed through the Library District, which can levy up to five mills. Financial information regarding the City-County Library can be obtained by contacting Paula Jaconetty, Teton County, Clerk & Recorder's Office, P.O. Box 610, Choteau, MT 59422.

CITY OF CHOTEAU
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2014

NOTE 10. CONTRACTS

The City contracts with Teton County for designation of the Justice of the Peace as the City Judge. The current payment to Teton County is \$855 per month. In addition, the City reimburses Teton County for 25% of the training and related costs of the continuing education of the Justice of the Peace/City Judge.

In July of 2003, the City entered into an agreement with the Teton County Sheriff's Office. The County will provide police protection within the corporate limits of Choteau. This contract was renewed on July 1, 2008, for a five-year period ending June 30, 2013. This contract has been renewed for an additional year through a verbal contract. A new contract has been signed effective July 1, 2014. For the year ended June 30, 2014, the City is required to pay the County \$127,003 per year, payable biannually July 1 and January 1 of each year in the amount of \$63,502. The amount paid is adjusted by the cost of living increase each year.

In July of 2008, the City entered into an agreement with the Teton County Attorney's Office. The County will provide prosecution functions within the corporate limits of Choteau. This contract is for a five-year period ending June 30, 2013. This contract has been renewed for an additional year through a verbal contract. A new contract has been signed effective July 1, 2014. For the year ended June 30, 2014, the City is required to pay the County \$6,667 per year, payable biannually July 1 and January 1 of each year in the amount of \$3,334. The amount paid is adjusted by the cost of living increase each year.

NOTE 11. RISK MANAGEMENT

The City faces a number of risks of loss, including damage to and loss of property and contents, employee torts, professional liability (i.e., errors and omissions, environmental damage), and workers' compensation (i.e., employee injuries, and medical insurance costs of employees). Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

Insurance Policies

Commercial policies transferring all risks of loss, except for relatively small deductible amounts are purchased for property and content damage, employee torts, and professional liabilities. Employee medical insurance is provided for by a commercial carrier. The City has no coverage for potential losses from environmental damages.

CITY OF CHOTEAU
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2014

NOTE 11. RISK MANAGEMENT (CONTINUED)

Insurance Pools

The City is a participant in Montana Municipal Insurance Authority (MMIA). MMIA is an intergovernmental agency formed by Montana municipalities to provide comprehensive liability and workers' compensation insurance coverage to its participants on a pooled basis. Liability coverage limits are \$750,000 per claim and \$1,500,000 per occurrence. The City also has workers' compensation coverage through MMIA.

The City has signed a promissory note to guarantee its proportionate share (less than 1%) of tax-exempt bonds issued by MMIA to fund the liability program reserves. The debt service on the bonds is expected to be paid through interest earnings on bond proceeds and other funds of the Authority. The City has, therefore, elected not to record this potential liability as a long-term liability in its accounting records or report it in its financial statements. Should MMIA's net revenues not be sufficient to make debt service payment of its bonds, the City is obligated to make additional insurance premium payments to guarantee the bond payments. The City does not expect to make any payments on the notes.

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

To the City Council and the Mayor
City of Choteau
Choteau, Montana

We have audited, in accordance with the auditing standards generally accepted in the United State of America and the standards applicable to financial audits contained in Government Auditing Standards issued by Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Choteau, 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 Choteau, Montana's basic financial statements, and have issued our report thereon dated February 25, 2015.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Choteau, Montana'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 City of Choteau, Montana's internal control and compliance. Accordingly, this communication is not suitable for any other purpose

Anderson Zurmuehlen + Co, P.C.

Bozeman, Montana
February 25, 2015



CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

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