

TOWN OF CIRCLE, MONTANA

FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014

TOWN OF CIRCLE, MONTANA
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JUNE 30, 2014

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

TOWN COUNCIL

Clint Haynie	Chairman
Gary Johnson	Council Member
Ken Ehli	Council Member
Cecelia Arnston	Council Member

OFFICIALS

Larry Cornelia	Mayor
Kendall F. Link	Attorney
Kelsey Kasten	Clerk/Treasurer

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

As management of the Town of Circle, Montana, we offer readers of the Town of Circle's (the Town) basic financial statements, this narrative overview and analysis of the financial activities of the Town

The following discussion and analysis of the Town of Circle's financial position for the year ended June 30, 2014 provides an analysis of the Town's performance as a whole and then by fund.

Basic Financial Statements

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

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Town's basic financial statements. The statement of net position presents information on all of the Town of Circle'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 Town is improving or deteriorating.

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

Fund Financial Statements

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

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Management's Discussion and Analysis
June 30, 2014

Governmental Funds

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

Proprietary Funds

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

Fiduciary Funds

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

Notes to the Basic Financial Statements

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

Major Fund Determination

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

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

Governmental Funds

Key financial highlights for governmental funds for the year ended June 30, 2014:

The general fund assets of the Town exceeded its liabilities at the close of the most recent year by \$500,417 in comparison to \$472,168 the previous year. The increase in fund balance was the result of not spending all of the budget authority.

The Town maintains a general reserve to be used to pay expenses at periods when funds are low. The balance in the reserve at year end is \$52,240.

The Town maintains a general equipment reserve to upgrade equipment. The balance in that fund at the end of fiscal year was \$51,437.

Public Safety

Public safety remains the largest expenditure to the general fund. Funds in the amount of \$32,000 were expended this year for the Town's share of dispatch services and \$45,750 was expended for law enforcement.

Public Works

Public works expenditures for fiscal year increased \$26,847 from the previous fiscal year. The public works department continues to do street patching work and has one full-time operator and one part-time operator. Utilizing the two operators, they will be able to complete water meter readings each month and formulate a schedule to complete annual repairs and maintenance of the water system, sewer system, storm sewers, park, pool, and streets.

The budget for additional summer help has been reduced and the two operators will mow and tend all of the Town parks. Public works expenditures represent 23% of the total fiscal year expenditures.

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General Information

The Town continued to levy for health insurance outside of the general taxing authority as allowed by law. Legislation does not allow the permissive medical levy to be used for the enterprise funds. The Town had two full time employees on the health insurance policy. The permissive levy was \$4,824. The Town continues to maintain financial stability.

	Governmental Activities	
	<u>2014</u>	<u>2013</u>
Current assets	\$ 640,866	\$ 621,050
Net capital assets	<u>160,835</u>	<u>100,245</u>
Total assets	<u>801,701</u>	<u>721,295</u>
Current liabilities	11,905	6,053
Noncurrent liabilities	<u>30,145</u>	<u>3,027</u>
Total liabilities	42,050	9,080
Net investment in capital assets	126,161	100,245
Restricted net position	24,371	43,577
Unrestricted net position	<u>609,119</u>	<u>568,393</u>
Total net position	<u>\$ 759,651</u>	<u>\$ 712,215</u>

Town of Circle, Montana
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	Governmental Activities	
	2014	2013
Revenues		
Other revenue	\$ 103,436	\$ 81,065
Tax revenue	188,960	193,426
Program revenue		
Charges for services	3,696	11,830
Operating grants	22,307	21,506
Total Revenue	\$ 318,399	\$ 307,827
Expenses		
General government	\$ 66,017	58,445
Public safety	80,797	82,592
Public works	87,503	57,772
Public health		1,517
Culture & recreation	32,795	44,360
Miscellaneous	3,851	5,181
Total expenses	\$ 270,963	\$ 249,867
Increase (decrease) in net position	47,436	57,960
Beginning net position	712,215	654,255
Ending net position	\$ 759,651	\$ 712,215

Net investment in capital assets increased due to new capital purchases. Restricted net position consisted of the net position in the gas tax fund. Unrestricted net position increased because expenditures were less than revenue.

Business-type Funds

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

Town of Circle, Montana
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The water treatment plant continues to serve the community well. Water was first treated in 1997 and it was anticipated that the membranes in the reverse osmosis trains would last seven years. The membranes can be cleaned out three times before being replaced. In 1997 the cost to replace the membranes was \$100,000. We have not cleaned out the membranes yet and they are still operating at optimal pressures. The Town has \$122,251 in a water filter reserve cash account. The water assessment balance is \$106,121 at year end.

Water Enterprise Fund

Assets for the water enterprise fund remained stable. The wells have been upgraded and are working properly, as well as the water treatment plant.

Liabilities have decreased due to pay down on the water treatment plant note and the well note and a decrease in compensated absences.

Revenues increased due to warm weather and increased water usage.

Expenditures increased due to fewer repairs this year.

Sewer Enterprise Fund

Fixed assets for the sewer were steady with the major change being the increase in depreciation. Cash was higher this year due to an increase in sales and fewer expenses than expected.

Long-term liabilities decreased due to payments made on the debt.

Revenues increased due to increased usage.

Sewer rates for summer usage are based on an average of their winter usage.

Expenditures were lower than last year due to the costs of the lagoon repairs in the previous year.

Solid Waste Enterprise Fund

The Town contracts with Isaacs Sani Serve and his contract is for \$4,779 per month for the first three years and \$4,875 effective July 1, 2014. He will be paid 75% of the excess fuel cost above \$4.00 per gallon.

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The Town Council will be monitoring the Solid Waste Enterprise Fund to determine if a rate increase is necessary. With the closing of the municipal landfill, local waste is hauled to the Glendive landfill.

Assets for the fund have increased because expenditures were less than expected.

Liabilities were decreased due to the adjustment for compensated absences.

Revenues for the fund increased slightly due to an increase in services provided.

Expenditures for the fund increased due to the increase in landfill costs.

	Business-type Activities	
	<u>2014</u>	<u>2013</u>
Current assets	\$ 820,886	\$ 697,253
Net capital assets	<u>3,587,437</u>	<u>3,727,238</u>
Total assets	4,408,323	4,424,491
Current liabilities	26,537	28,377
Noncurrent liabilities	<u>1,209,649</u>	<u>1,233,849</u>
Total liabilities	1,236,186	1,262,226
Net investment in capital assets	2,356,168	2,471,144
Restricted net position	212,971	207,773
Unrestricted net position	<u>602,998</u>	<u>483,348</u>
Total net position	<u>\$ 3,172,137</u>	<u>\$ 3,162,265</u>

Town of Circle, Montana
Management's Discussion and Analysis
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	Business-type Activities	
	2014	2013
Revenues		
Charges for services	\$ 468,460	\$ 440,841
Intergovernmental revenue		42,000
Investment earnings	3,929	3,990
Miscellaneous revenue		744
Total Revenue	\$ 472,389	\$ 487,575
Expenses		
Personnel services	\$ 52,027	\$ 46,040
Supplies	45,370	15,761
Purchased services	57,944	149,131
Fixed charges	101,432	99,421
Depreciation	147,549	145,130
Interest	58,274	59,422
Total expenses	\$ 462,596	\$ 514,905
Increase (decrease) in net position	\$ 9,793	\$ (27,330)
Beginning net position	3,162,265	3,189,595
Prior period adjustment	79	
Ending net position	\$ 3,172,137	\$ 3,162,265

Significant Budget Variances

There were no significant budget variances.

Capital Asset Purchases

Significant assets purchased include a wheel loader.

Debt Administration

Regularly scheduled payments continue to be made on the loans and bonds payable and a new loan for \$34,674 was taken out for the purchase of a loader.

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Litigation

A lawsuit has been filed against the Town of Circle, The Town Council of the Town of Circle and the former mayor of the Town of Circle. The lawsuit was filed in February of 2013 and is related to a Town ordinance that restricts gross vehicle weight on some of the Town's streets. It is not currently possible to determine whether the Town will incur a loss related to this litigation.

Contacting the Town's Financial Management

This financial report is designed to provide the citizens, taxpayers, customers, investors, and creditors of the Town of Circle with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have any questions about this report or need any additional financial information, contact Kelsey Kasten, Town Clerk/Treasurer, P.O. Box 140, Circle, MT 59215.

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

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Independent Auditor's Report

To the Town Council
Town of Circle
Circle, Montana

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Circle (the Town), as of and for the year ended June 30, 2014, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated June 29, 2015, on my consideration of the Town's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

Philip Emmons, CPA
Miles City, MT

June 29, 2015

**Town of Circle, Montana
Statement of Net Position
June 30, 2014**

ASSETS	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Current assets			
Cash and cash equivalents	\$ 590,868	\$ 601,152	\$ 1,192,020
Restricted assets:			
Cash and cash equivalents	24,371	212,971	237,342
Accounts receivable, net of allowance for uncollectible account		6,763	6,763
Taxes/assessments receivable, net of allowance for uncollectible accounts	<u>25,627</u>		<u>25,627</u>
Total current assets	<u>640,866</u>	<u>820,886</u>	<u>1,461,752</u>
Capital assets, net of accumulated depreciation	148,460	3,587,437	3,735,897
Land	<u>12,375</u>		<u>12,375</u>
Total noncurrent assets	<u>160,835</u>	<u>3,587,437</u>	<u>3,748,272</u>
Total assets	\$ <u>801,701</u>	\$ <u>4,408,323</u>	\$ <u>5,210,024</u>
 LIABILITIES			
Current liabilities			
Compensated absences - current	\$ 4,912	\$ 1,637	\$ 6,549
Bonds payable - current	<u>6,993</u>	<u>24,900</u>	<u>31,893</u>
Total current liabilities	11,905	26,537	38,442
Non-current liabilities			
Compensated absences	2,464	3,280	5,744
Bonds and notes payable	<u>27,681</u>	<u>1,206,369</u>	<u>1,234,050</u>
Total noncurrent liabilities	30,145	1,209,649	1,239,794
Total liabilities	\$ <u>42,050</u>	\$ <u>1,236,186</u>	\$ <u>1,278,236</u>
 NET POSITION			
Net investment in capital assets	\$ 126,161	\$ 2,356,168	\$ 2,482,329
Restricted for:			
Public works	24,371		24,371
Bond indenture and reserve requirements		212,971	212,971
Unrestricted	<u>609,119</u>	<u>602,998</u>	<u>1,212,117</u>
Total net position	\$ <u>759,651</u>	\$ <u>3,172,137</u>	\$ <u>3,931,788</u>

See Accompanying Notes to the Financial Statements

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

	Program Revenues				Net (Expense) Revenue		Total
	Expenses	Charges for Services	Operating Grants	Capital Grants	Governmental Activities	Business-Type Activities	
Government operations							
General government	\$ 66,017	\$	\$	\$	\$ (66,017)	\$	\$ (66,017)
Public safety	80,797		1,074		(79,723)		(79,723)
Public works	87,503	500	21,233		(65,770)		(65,770)
Culture & recreation	32,795	3,196			(29,599)		(29,599)
Miscellaneous	3,851				(3,851)		(3,851)
Total government activities	<u>\$ 270,963</u>	<u>\$ 3,696</u>	<u>\$ 22,307</u>	<u>\$ 0</u>	<u>\$ (244,960)</u>	<u>\$</u>	<u>\$ (244,960)</u>
Business-Type Activities							
Water	\$ 244,491	\$ 270,433	\$	\$	\$	\$ 25,942	\$ 25,942
Sewer	118,590	96,410				(22,180)	(22,180)
Solid waste	99,515	101,617			\$	\$ 2,102	\$ 2,102
Total business-type activities	<u>\$ 462,596</u>	<u>\$ 468,460</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 5,864</u>	<u>\$ 5,864</u>
General revenues							
Property taxes					\$ 188,960	\$	\$ 188,960
Intergovernmental revenue					82,906		82,906
Unrestricted investment earnings					2,579	3,929	6,508
Licenses and permits					2,050		2,050
Miscellaneous					4,001		4,001
Gain on asset sales					11,900		11,900
Total general revenues					<u>\$ 292,396</u>	<u>\$ 3,929</u>	<u>\$ 296,325</u>
Increase (decrease) in net position					\$ 47,436	\$ 9,793	\$ 57,229
Net position							
Beginning of year					712,215	3,162,265	3,874,480
Prior period adjustments					79	79	79
End of year					<u>\$ 759,651</u>	<u>\$ 3,172,137</u>	<u>\$ 3,931,788</u>

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

	Major Funds		Other Governmental Funds	Total Governmental Funds
	General Fund	Gas Tax Fund		
ASSETS				
Cash and cash equivalents	\$ 500,417	\$	\$ 90,451	\$ 590,868
Restricted assets				
Cash and cash equivalents		24,371		24,371
Taxes/assessments receivable (net of allowance for uncollectibles)	24,506		1,121	25,627
Total assets	\$ 524,923	\$ 24,371	\$ 91,572	\$ 640,866
LIABILITIES & DEFERRED INFLOWS OF RESOURCES				
Unavailable taxes	\$ 24,506	\$	\$ 1,121	\$ 25,627
Total deferred inflows of resources	24,506	0	1,121	25,627
FUND BALANCE				
Restricted				
Public works	\$	\$ 24,371	\$	\$ 24,371
Committed				
Public safety			17,729	17,729
Capital projects			72,722	72,722
Unassigned	500,417			500,417
Total fund balance	\$ 500,417	\$ 24,371	\$ 90,451	\$ 615,239
Total liabilities and fund balance	\$ 524,923	\$ 24,371	\$ 91,572	\$ 640,866
Reconciliation to the Statement of Net Position:				
			Total fund balance from above	\$ 615,239
			Add capital assets, net of accumulated depreciation not reported above	160,835
			Less compensated absences	(7,376)
			Less long-term debt	(34,674)
			Deferred inflows for taxes recognized as revenue in the government wide statements	25,627
			Net position	\$ 759,651

See Accompanying Notes to the Financial Statements

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

	Major Funds		Other Governmental Funds	Total Governmental Funds
	General Fund	Gas Tax		
Revenues				
Taxes and assessments	\$ 171,259	\$	\$ 7,445	\$ 178,704
Licenses and permits	2,050			2,050
Intergovernmental revenue	80,457	21,233	3,523	105,213
Charges for services	3,696			3,696
Miscellaneous	4,001			4,001
Investment and royalty earnings	1,956	400	223	2,579
Total revenue	263,419	21,633	11,191	296,243
Expenditures				
Current operations				
General government	\$ 63,869	\$	\$	\$ 63,869
Public safety	79,398			79,398
Public works	46,712	28,839	1,382	76,933
Culture & recreation	25,641			25,641
Miscellaneous			3,851	3,851
Total current charges	215,620	28,839	5,233	249,692
Capital outlay	76,666	12,000		88,666
Total expenditures	292,286	40,839	5,233	338,358
Excess (Deficiency) of revenue over expenditures	\$ (28,867)	\$ (19,206)	\$ 5,958	\$ (42,115)
Other financing sources (uses)				
Sale of capital assets	\$ 17,000	\$	\$	\$ 17,000
Face amount of notes payable	34,674			34,674
Resources transfer (to) from other funds	\$ 5,442	\$	\$ (5,442)	\$ 0
Net change in fund balance	\$ 28,249	\$ (19,206)	\$ 516	\$ 9,559
Beginning fund balance	472,168	43,577	89,935	605,680
Ending fund balance	\$ 500,417	\$ 24,371	\$ 90,451	\$ 615,239

See Accompanying Notes to the Financial Statements

Town of Circle, Montana
Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2014

Net change in fund balances	\$ 9,559
Revenues on the government-wide statement of activities not reflected in revenue in the governmental funds statement:	
Increase (decrease) in property taxes receivable	10,256
Disposal of capital assets	(5,100)
Revenues on the government funds statement not reported on the government-wide statement:	
Face amount of long-term debt	(34,674)
Expenditures on the government-wide statement not reported on the government funds statement:	
Depreciation	(22,976)
(Increase) decrease in compensated absences	1,705
Expenditures on the government funds statement not reported on the government-wide statement:	
Capital outlays	88,666
Change in net position on the government-wide statement of activity	<u>\$ 47,436</u>

See Accompanying Notes to the Financial Statements

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

	Business-type Activities			
	Major Enterprise Funds			Total
	Water Fund	Sewer Fund	Solid Waste Fund	
ASSETS				
Current assets				
Cash and cash equivalents	\$ 364,439	\$ 184,763	\$ 51,950	\$ 601,152
Restricted assets:				
Cash and cash equivalents	177,352	35,619		212,971
Accounts receivable, net of allowances	4,015	1,440	1,308	6,763
Total current assets	<u>545,806</u>	<u>221,822</u>	<u>53,258</u>	<u>820,886</u>
Capital assets, net of accumulated depreciation	<u>1,987,744</u>	<u>1,599,693</u>		<u>3,587,437</u>
Total noncurrent assets	<u>1,987,744</u>	<u>1,599,693</u>	<u>0</u>	<u>3,587,437</u>
Total assets	<u>\$ 2,533,550</u>	<u>\$ 1,821,515</u>	<u>\$ 53,258</u>	<u>\$ 4,408,323</u>
LIABILITIES				
Current liabilities				
Bonds payable	\$ 17,500	\$ 7,400		\$ 24,900
Compensated absences	766	766	105	1,637
Total current liabilities	<u>18,266</u>	<u>8,166</u>	<u>105</u>	<u>26,537</u>
Noncurrent liabilities				
Bonds payable	723,405	482,964		1,206,369
Compensated absences	1,535	1,535	210	3,280
Total noncurrent liabilities	<u>724,940</u>	<u>484,499</u>	<u>210</u>	<u>1,209,649</u>
Total liabilities	<u>\$ 743,206</u>	<u>\$ 492,665</u>	<u>\$ 315</u>	<u>\$ 1,236,186</u>
NET POSITION				
Net investment in capital assets	\$ 1,246,839	\$ 1,109,329		\$ 2,356,168
Restricted for:				
Revenue bond loan reserve	55,101	9,686		64,787
Replacement and depreciation reserve	122,251	25,933		148,184
Unrestricted	<u>366,153</u>	<u>183,902</u>	<u>52,943</u>	<u>602,998</u>
Total net position	<u>\$ 1,790,344</u>	<u>\$ 1,328,850</u>	<u>\$ 52,943</u>	<u>\$ 3,172,137</u>

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

	Business-type Activities			
	Major Enterprise Funds			
	Water Fund	Sewer Fund	Solid Waste Fund	Total
Operating Revenues				
Charges for services	\$ 270,403	\$ 96,410	\$ 101,617	\$ 468,430
Miscellaneous revenue	30			30
Total operating revenues	<u>\$ 270,433</u>	<u>\$ 96,410</u>	<u>\$ 101,617</u>	<u>\$ 468,460</u>
Operating Expenses				
Personnel services	\$ 23,254	\$ 22,903	\$ 5,870	\$ 52,027
Supplies	31,929	12,087	1,354	45,370
Purchased services	57,944			57,944
Fixed charges	6,842	2,299	92,291	101,432
Depreciation	87,260	60,289		147,549
Total operating expenses	<u>\$ 207,229</u>	<u>\$ 97,578</u>	<u>\$ 99,515</u>	<u>\$ 404,322</u>
Total operating income (loss)	\$ 63,204	\$ (1,168)	\$ 2,102	\$ 64,138
Non-Operating Revenue (Expense)				
Interest	\$ 2,768	\$ 860	\$ 301	\$ 3,929
Debt service interest expense	(37,262)	(21,012)		(58,274)
Total non-operating revenue (expense)	<u>\$ (34,494)</u>	<u>\$ (20,152)</u>	<u>\$ 301</u>	<u>\$ (54,345)</u>
Increase (decrease) in net position	\$ 28,710	\$ (21,320)	\$ 2,403	\$ 9,793
Net position				
Beginning of year	1,761,634	1,350,170	50,461	3,162,265
Prior period adjustments			79	79
End of year	<u>\$ 1,790,344</u>	<u>\$ 1,328,850</u>	<u>\$ 52,943</u>	<u>\$ 3,172,137</u>

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

	Business-type Activities			
	Major Enterprise Funds			
	Water Fund	Sewer Fund	Solid Waste Fund	Total
Cash Flows from Operating Activities				
Cash received from customers	\$ 266,092	\$ 94,954	\$ 100,391	\$ 461,437
Cash paid to suppliers	(86,336)	(12,012)	(93,400)	(191,748)
Personal services - salaries	(23,321)	(22,970)	(6,872)	(53,163)
Net cash provided (used) by operating activities	<u>\$ 156,435</u>	<u>\$ 59,972</u>	<u>\$ 119</u>	<u>\$ 216,526</u>
Cash Flows from Investing Activities				
Interest earnings	\$ 2,768	\$ 860	\$ 301	\$ 3,929
Net cash provided (used) by investing activities	<u>\$ 2,768</u>	<u>\$ 860</u>	<u>\$ 301</u>	<u>\$ 3,929</u>
Cash Flows from Noncapital Financing Activities				
Subsidies from taxes and other governments	\$	\$	\$	\$ 0
Net cash provided (used) by noncapital financing activities	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Cash Flows from Capital and Related Financing Activities				
Purchases/acquisition/construction of capital assets	\$ (4,873)	\$ (2,875)	\$	\$ (7,748)
Principal on debt	(17,446)	(7,380)		(24,826)
Interest payments	(37,262)	(21,012)		(58,274)
Net cash provided by capital and related financing activities	<u>\$ (59,581)</u>	<u>\$ (31,267)</u>	<u>\$ 0</u>	<u>\$ (90,848)</u>
Net increase (decrease) in cash	\$ 99,622	\$ 29,565	\$ 420	\$ 129,607
Cash balance, Beginning of Year	442,169	190,817	51,530	684,516
Cash balance, End of Year	<u>\$ 541,791</u>	<u>\$ 220,382</u>	<u>\$ 51,950</u>	<u>\$ 814,123</u>
Reconciliation of Operating Income to Net Cash Provided (used) by Operating Activities				
Operating income (loss)	\$ 63,204	\$ (1,168)	\$ 2,102	\$ 64,138
Adjustments to reconcile operating income to net cash provided by operating activities				
(Increase) decrease in accounts receivable, net	(4,341)	(1,456)	(1,226)	(7,023)
(Increase) decrease in inventory	10,379	2,374	245	12,998
Increase (decrease) in compensated absences	(67)	(67)	(1,002)	(1,136)
Depreciation expense	87,260	60,289		147,549
Total adjustments	<u>93,231</u>	<u>61,140</u>	<u>(1,983)</u>	<u>152,388</u>
Net cash provided (used) by operating activities	<u>\$ 156,435</u>	<u>\$ 59,972</u>	<u>\$ 119</u>	<u>\$ 216,526</u>

See Accompanying Notes to the Financial Statements

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

	Pension Trust Fund	
		Fire Relief Association
Fiduciary net position:		
Assets		
Cash and cash equivalents	\$	59,363
Accounts receivable		
Total assets	\$	59,363
Liabilities		
Due to others	\$	1,164
Total liabilities	\$	1,164
Net Position		
Net position, held in trust	\$	58,199
Total net position	\$	58,199
 Changes in fiduciary net position		
Additions		
Tax revenue	\$	5,023
Investment earnings		396
Total additions	\$	5,419
Deductions		
Benefit payments	\$	3,300
Total deductions	\$	3,300
Changes in net position, held in trust	\$	2,119
Net Position		
Beginning of the year	\$	56,080
End of the year	\$	58,199

See Accompanying Notes to the Financial Statements

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1.a REPORTING ENTITY

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

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

1.b BASIS OF PRESENTATION AND ACCOUNTING

1.b.1 GOVERNMENT-WIDE STATEMENTS

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

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

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

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

1.b.2 FUND ACCOUNTING

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

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

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

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting, which includes the reclassification or elimination of internal activity between or within funds. Proprietary and fiduciary fund financial statements also report using this same focus and basis. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met. Pension trust funds recognize employer and participant contributions in commitment to provide the contributions. Retirement benefits and refunds are recognized when due and payable in accordance with the terms of the plan. The government-wide financial statements report expenditures for fixed assets as capital assets, and record depreciation on those capital assets.

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

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

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

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

1.b. 4 FUND TYPES AND MAJOR FUNDS

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

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

Gas Tax Fund – The gas tax fund accounts for State gas tax revenues used for street maintenance.

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

The Town also reports the following governmental fund types:

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

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

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

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

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

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

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

1.c BUDGETS

The Town Clerk submits to the Town Council a proposed operating budget for the fiscal year commencing July 1. A preliminary budget is adopted by the Council prior to adoption of the final budget. The final budget is legally enacted by the Town Council by the later of the second Monday in August or 45 days after receiving the taxable valuation and after holding public hearings. Budgets for the General, Special Revenue and Enterprise Funds are adopted on a basis consistent with U.S. generally accepted accounting principles. Expenditures are limited to the approved budget at the fund level, either as originally adopted or as amended by formal resolution of the Town Council. Expenditures may not legally exceed total budget appropriations by fund.

1.d CASH EQUIVALENTS

The Town considers all investments with a maturity of three months or less to be highly liquid investments and, therefore, cash equivalents. This includes unrestricted and restricted cash. The statement of cash flows for the enterprise funds includes both cash equivalents and investments as total cash.

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

1.e TAXES AND ASSESSMENTS RECEIVABLE

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

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

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

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

The Town is permitted by State statutes to levy taxes up to certain fixed limits for various purposes. The tax levies were based upon a valuation of \$740,070.

The tax levies for the Town for the year ended June 30, 2014, were as follows:

	<u>Mill Levies</u>
General fund	224.00
Airport fund	2.00
Comprehensive Insurance fund	1.76
Fire Relief Association	4.00
Health Insurance	6.97

The Town records tax receivables for property taxes that have been assessed but have not yet been collected. These tax receivables are recorded as deferred revenue in the year assessed and recorded as revenue in the year collected in the governmental fund financial statements. In the government-wide financial statements, tax receivables are recorded as revenue in the year assessed.

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

An allowance for uncollectible accounts was not maintained for real and personal property taxes and special assessments receivable. The direct write-off method is used for these accounts. Although this is a departure from U.S. GAAP, any resulting differences would be immaterial.

1.f INVENTORIES

Inventories consist of expendable materials and supplies which are held for consumption and are stated on a first-in, first-out basis. Inventories are valued at cost. Only the actual amount of inventory used during the year is recorded as an expenditure.

1.g CAPITAL ASSETS

All purchased capital assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. Major additions and betterments with a cost in excess of \$2,500 are recorded as additions to fixed assets. The costs of normal maintenance and repairs that do not add to the value of the assets or do not materially extend asset lives are not capitalized.

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

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

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

1.h LONG-TERM LIABILITIES

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

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

1.i INTERFUND TRANSACTIONS

Interfund transactions consisting of identified services performed for other funds or costs billed to other funds are treated as expenditures in the fund receiving the services and as revenue in the fund performing the services. Transactions which constitute reimbursements of a fund for expenditures or expenses initially made from it which are properly allocable to another fund are recorded as expenditures in the reimbursing fund and as reductions of the expenditures in the fund that is reimbursed. Interfund transfers and balances are eliminated in the government-wide financial statements. Interfund transfers are made and balances are held, as needed, for the support of programs throughout the Town.

1.j ENTERPRISE FUNDS RECEIVABLES

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

1.k USE OF ESTIMATES

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

1.l FUND BALANCE

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

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

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

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

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

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

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

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

NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

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

The composition of Cash on June 30, 2014 was as follows:

Cash on hand	\$ 100
Cash in banks and credit unions	
Demand deposits	517,977
Savings and time deposits	609,694
Investments -	
STIP	<u>360,954</u>
Total cash and investments	\$ <u><u>1,488,725</u></u>

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

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

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

The STIP portfolio includes, but is not limited to, “variable rate”, “asset-backed”, and “covered options” securities to provide diversification and a competitive rate of return. Unaudited STIP 2011 financial statements are available from the Montana Board of Investments at the following address:

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

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

NOTE 3. CAPITAL ASSETS

GOVERNMENTAL FUNDS

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

	Balance			Balance
	<u>June 30, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2014</u>
Cost of assets				
Land	\$ 12,375	\$	\$	\$ 12,375
Buildings	60,033			60,033
Improvements	566,060			566,060
Machinery and Equipment	<u>242,011</u>	<u>88,666</u>	<u>(25,500)</u>	<u>305,177</u>
Total	<u>\$ 880,479</u>	<u>\$ 88,666</u>	<u>\$ (25,500)</u>	<u>\$ 943,645</u>
Accumulated depreciation				
Buildings	\$ (50,747)	\$ (1,412)	\$	\$ (52,159)
Improvements	(518,440)	(3,402)		(521,842)
Machinery and Equipment	<u>(211,047)</u>	<u>(18,162)</u>	<u>20,400</u>	<u>(208,809)</u>
Total	<u>\$ (780,234)</u>	<u>\$ (22,976)</u>	<u>\$ 20,400</u>	<u>\$ (782,810)</u>

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

General government	\$ 3,853
Public safety	1,399
Public works	10,570
Culture and recreation	<u>7,154</u>
Total depreciation	<u>\$ 22,976</u>

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

ENTERPRISE FUNDS

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

	Balance <u>June 30, 2013</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2014</u>
Cost of assets				
Source of supply	\$ 646,311	\$	\$	\$ 646,311
Pumping plant	329,076			329,076
Treatment plant	4,440,562			4,440,562
Transmission and distribution	49,815			49,815
General plant	8,100			8,100
Machinery and equipment		<u>7,748</u>		<u>7,748</u>
Total	\$ <u>5,473,864</u>	\$ <u>7,748</u>	\$ <u>0</u>	\$ <u>5,481,612</u>
Accumulated depreciation				
Source of supply	\$ (341,117)	\$ (13,897)	\$	\$ (355,014)
Pumping plant	(84,901)	(9,997)		(94,898)
Treatment plant	(1,277,436)	(118,127)		(1,395,563)
Transmission and distribution	(35,172)	(2,945)		(38,117)
General plant	(8,000)			(8,000)
Machinery and equipment		<u>(2,583)</u>		<u>(2,583)</u>
Total	\$ <u>(1,746,626)</u>	\$ <u>(147,549)</u>	\$ <u>0</u>	\$ <u>(1,894,175)</u>

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

Water	\$ 87,260
Sewer	<u>60,289</u>
Total depreciation	\$ <u>147,549</u>

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

NOTE 4. LONG-TERM LIABILITIES

A summary of long-term liabilities for the year is as follows:

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014	Current Portion
<u>Governmental Funds:</u>					
Compensated absences	\$ 9,080	\$	\$ (1,704)	\$ 7,376	\$ 4,912
JD Credit - Loader		34,674		34,674	6,993
<u>Enterprise Funds:</u>					
Compensated absences	6,132		(1,215)	4,917	3,275
Water revenue bonds	705,321		(15,667)	689,654	15,681
Water revenue bonds	53,029		(1,778)	51,251	1,819
RUS lagoon loan	497,744		(7,380)	490,364	7,400
Total	<u>\$ 1,271,306</u>	<u>\$ 34,674</u>	<u>\$ (27,744)</u>	<u>\$ 1,278,236</u>	<u>\$ 40,080</u>

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

Loans

Purpose	Issue Date	Interest Rate	Term	Maturity Date	Original Loan
Water system	08-1997	5.00%	40 years	08-2037	\$ 872,600
Water system	06-2005	4.50%	30 years	05-2033	67,750
Sewer system	11-2009	4.25%	40 years	12-2049	514,911
JD Credit	07-2013	3.95%	4.5 years	12-2018	34,674

The Water Revenue Bond was issued in 1997 to update the Town’s water system. All revenues from the water enterprise fund were pledged up to the amount equal to the outstanding principal and interest of the bond until repaid. The bond agreement requires the maintenance of certain accounts. A summary of significant requirements are listed below:

- a. Charges for the water system will be kept sufficient to provide net revenues for each fiscal year not less than the installments due annually, which is \$50,580. Net operating revenues for the water fund for the year ended were \$63,204.

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

- b. Transfers at a rate not less than \$421.50 monthly are to be made to the reserve account in the water fund until the amount in the account reaches the minimum sum of \$50,580 on or before August 15, 2007. As of March 2010, the Town discontinued adding to the reserve because it had exceeded the required amount.

The Sewer Revenue Bond was issued in 2009 to update the Town’s sewer system. All revenues from the sewer enterprise fund were pledged up to the amount equal to the outstanding principal and interest of the bond until repaid. The Sewer Revenue Bond agreement requires the maintenance of certain accounts. A summary of significant requirements are listed below:

- a. Charges for the sewer system will be kept sufficient to provide net revenues for each month not less than the installments due in the next month, which is \$2,366. Net operating revenues for the sewer fund for the year were (\$1,168). The Town is not in compliance with the Sewer Revenue Bond Agreement. The Town Council will consider an increase in rates to comply with the requirement.
- b. Transfers at a rate not less than \$237 monthly are to be made to the reserve account in the Sewer Fund until the amount in the account reaches the minimum sum of \$28,392 by the tenth anniversary of the loan, which is 100% of the annual principal and interest payments.
- c. Transfers to a short-lived asset reserve in the amount of \$487 monthly for the purchase/repair of small assets. As of year-end the Town had reserved \$25,933 for this purpose.

Principal and interest payments due on water and sewer loans outstanding are as follows:

Dates	Well #3		Water Revenue		Sewer Revenue Bond	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 1,819	\$ 2,308	\$ 15,681	\$ 34,500	\$ 7,400	\$ 20,852
2014	1,901	2,226	16,864	33,716	7,860	20,538
2015	1,986	2,140	17,707	32,873	8,194	20,204
2016	2,077	2,051	18,592	31,988	8,542	19,856
2017	2,170	1,958	19,522	31,058	8,880	19,512
2018-2022	12,408	8,232	113,264	139,636	50,504	91,456
2023-2027	15,431	5,177	144,557	108,343	62,187	79,773
2028-2032	13,459	1,443	184,495	68,405	76,574	65,386
2033-2037			158,972	18,650	94,289	47,671
2038-2042					116,128	25,832
2043-2047					49,806	3,147

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

The Town took out a loan from John Deere Financial for the purchase of a wheel loader. Principal and interest is included in the table below.

Dates	JD Credit Loan	
	Principal	Interest
2014	\$ 6,993	\$ 685
2015	6,585	1,093
2016	6,846	833
2017	7,117	563
2018	7,133	282

NOTE 5. INTERFUND TRANSFERS

A summary of the Town's operating transfers made during the fiscal year is summarized in the table below:

Fund	Transfers In	Transfers Out
General fund	\$	\$ (5,442)
Other governmental funds	5,442	
Total transfers in (out)	\$ 5,442	\$ (5,442)

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

NOTE 6. EMPLOYEE RETIREMENT SYSTEM

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

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

The PERS offers retirement, disability and death benefits to plan members and their beneficiary. Benefit eligibility is age 60 with at least five years of service; age 65 regardless of service; or 30 years of service regardless of age. Actuarially reduced benefits may be taken with 25 years of service or at age 50 with at least five years of service.

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

Monthly retirement benefits are determined by multiplying 1/50 of the number of years of service by the highest consecutive 36 months' salary. Members' rights become vested after five years of service.

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

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

The actuarial costs are calculated using the entry age actuarial cost method. The actuarial value of assets is the current market value, adjusted by a four-year smoothing of gains and losses on a market value basis. Each year's gain or loss is determined as the difference between the actual market return and the expected market return using the assumed rate of investment return. The following rates were assumed for investment return: 7.75% for PERS, projected salary increases of 4.00%, post retirement benefit increases of 3% for employees hired prior to July 1, 2007 and 1.5% for employees hired after July 1, 2007. The amortization method used was level percentage of future payroll and the last actuarial valuation was June 30, 2013.

Contribution rates for both plans are required and determined by State law. The PERS rate for employees is 6.90% for employees hired prior to July 1, 2011 and 7.90% for employees hired after July 1, 2011. The PERS rate for the State for local government employers was set at 0.10% starting July 1, 1997. This is considered an on behalf payment and the Town does not record this contribution in its financial statements. The PERS rate for local government employers is 7.07% effective July 1, 2009. The amounts contributed to the plans during the last three fiscal years were equal to the required contribution for each year. The amounts contributed by the Town and its employees (including additional voluntary contributions by employees as permitted by State law) were as follows:

	<u>2012</u>	<u>2013</u>	<u>2014</u>
PERS	\$ 14,222	\$ 12,699	\$ 14,412
Total	<u>\$ 14,222</u>	<u>\$ 12,699</u>	<u>\$ 14,412</u>

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

The Fire Department Relief Association administers the Fireman's Pension and Disability Fund to pay pension benefits to retired volunteer firemen. The Town shall contribute from 1-4 mills to the fund when it contains an amount less than 0.21% of the Town's total assessed value. If the fund is less than 0.52% and more than 0.21% of the Town's total assessed value, the town may levy 1-4 mills with voter approval. The Town levied 4.00 mills or \$2,960 for the fund during the year.

The State contributes an amount equal to 1.5 mills times the total taxable value of the Town, but not less than \$100. The State's contribution to the plan for the fiscal year was \$1,074 to the Police Reserve and \$1,074 to the Fire Relief Association.

NOTE 7. RISK MANAGEMENT

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

MMIA is an organization that provides pooled, self-insurance coverage exclusively to Montana municipalities. The Town is insured for initial liability limits of \$750,000 per individual and \$1,500,000 per occurrence. For covered losses not subject to statutory tort caps the limit of liability is \$10,000,000. These policies transfer all risks of loss, except for relatively small deductible amounts of \$1,000 to \$1,500 per occurrence. There have been no changes in the risk coverages from prior years and no losses have been incurred in the previous three years. Financial statements can be obtained by contacting MMIA at the following address:

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

NOTE 8. INTERLOCAL AGREEMENTS

Dispatch Services - The Town of Circle and McCone County maintain an interlocal agreement for dispatcher services. As of June 30, 2000, the Town turned over all related responsibilities and assets to McCone County. During the year the Town paid McCone County \$32,000 for dispatch services.

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

Airport – The airport is owned and operated jointly by McCone County and the Town of Circle. The operation of the Airport has been using crop shares from leased property to help defray operating expenditures. In the event a deficit would occur, the Town and the County would each provide 50% of the funds required to eliminate the deficit.

The Airport is governed by a five member board, comprised of two members appointed by the Town Council, two members appointed by the County Commissioners, and the fifth member being elected by the four member commission. Airport board members are appointed every two years. Financial statement information can be obtained, upon request, from McCone County officials.

Law Enforcement Services – The Town of Circle and McCone County entered into an agreement whereby the McCone County Sheriff's Department provides law enforcement services for the Town of Circle. The Town agreed to pay McCone County a monthly fee of \$3,812.50. During the year the Town of Circle paid McCone County \$45,750 in accordance with the agreement.

NOTE 9. OTHER POSTEMPLOYMENT BENEFITS

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

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

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

NOTE 10. COMMITMENTS AND CONTINGENCIES

A lawsuit has been filed against the Town of Circle, The Town Council of the Town of Circle and the former mayor of the Town of Circle. The lawsuit was filed in February of 2013 and is related to a Town ordinance that restricts gross vehicle weight on some of the Town's streets. It is not currently possible to determine whether the Town will incur a loss related to this litigation.

TOWN OF CIRCLE, MONTANA

REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2014

Town of Circle, Montana
Schedule of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual
General Fund
For the Year Ended June 30, 2014

	General Fund		
	Original Budget	Final Budget	Actual
REVENUES			
Taxes and assessments	\$ 180,500	\$ 180,500	\$ 171,259
Licenses and permits	2,200	2,200	2,050
Intergovernmental revenue	74,000	74,000	80,457
Charges for services	7,600	7,600	3,696
Fines & forfeitures	1,300	1,300	
Miscellaneous	3,000	3,000	4,001
Investment and royalty earnings	2,300	2,300	1,956
Total revenue	<u>270,900</u>	<u>270,900</u>	<u>263,419</u>
EXPENDITURES			
General government	\$ 105,510	\$ 105,510	\$ 63,869
Public safety	97,600	97,600	79,398
Public works	348,323	348,323	46,712
Culture and recreation	89,500	89,500	25,641
Total current charges	<u>640,933</u>	<u>640,933</u>	<u>215,620</u>
Capital outlay			76,666
Total expenditures	<u>640,933</u>	<u>640,933</u>	<u>292,286</u>
Excess (deficiency) of revenues over expenditures	\$ <u>(370,033)</u>	\$ <u>(370,033)</u>	\$ <u>(28,867)</u>
OTHER FINANCING SOURCES AND USES			
Sale of assets	\$	\$	\$ 17,000
Face amount of notes payable			34,674
Transfers in	\$	\$	\$ 5,442
Net change in fund balance	\$ (370,033)	\$ (370,033)	\$ 28,249
Fund balance, beginning of year			\$ 472,168
Fund balance, end of year			<u>\$ 500,417</u>

See accompanying Notes to Required Supplemental Information

Town of Circle, Montana
Schedule of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual
Gas Tax Fund
For the Year Ended June 30, 2014

	Gas Tax		
	Original Budget	Final Budget	Actual
REVENUES			
Intergovernmental revenue	\$ 21,250	21,250	\$ 21,233
Investment and royalty earnings	300	300	400
Total revenue	21,550	21,550	21,633
EXPENDITURES			
Public works	\$ 67,000	\$ 67,000	\$ 28,839
Total current charges	67,000	67,000	28,839
Capital outlay			12,000
Total expenditures	67,000	67,000	40,839
Excess (deficiency) of revenues over expenditures	\$ (45,450)	\$ (45,450)	\$ (19,206)
OTHER FINANCING SOURCES AND USES			
Transfers in	\$ _____	\$ _____	\$ _____
Net change in fund balance	\$ (45,450)	\$ (45,450)	\$ (19,206)
Fund balance, beginning of year			\$ 43,577
Fund balance, end of year			\$ 24,371

See accompanying Notes to Required Supplemental Information

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

BUDGETS

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

GENERAL POLICIES

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

BUDGET OPERATION

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

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

**Report on Internal Control Over Financial Reporting and on Compliance
And Other Matters Based on an Audit of Financial Statements Performed in Accordance with
*Government Auditing Standards***

To the Town Council
Town of Circle
Circle, Montana

I have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Circle (the Town), as of and for the year ended June 30, 2014, which collectively comprise the Town's basic financial statements and have issued my report thereon dated June 29, 2015.

Internal Control Over Financial Reporting

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

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

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

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I consider the deficiency described in the schedule of findings and questioned costs as finding number 14-1 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as finding number 14-3.

Town's Response to Findings

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

Purpose of this Report

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

Philip Emmons, CPA
Miles City, MT

June 29, 2015

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

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued:	Unmodified
Internal control over financial reporting:	
Material weakness (es) identified?	Yes
Significant Deficiencies identified not considered to be material weaknesses?	Yes
Noncompliance material to the financial statements noted?	Yes

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding 14-1

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

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

Finding 14-2

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

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

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

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

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

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

Finding 14-3

Condition: The Town is not in compliance with the sewer bond agreement.

Criteria: The sewer bond agreement specifies that the sewer system should generate not less than 110 percent of the annual maximum principal and interest requirements of the bond.

Cause: The condition was caused by the Town's unwillingness to rapidly raise the utility rates.

Effects: The Town is not in compliance with its sewer bond revenue covenants.

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

Recommendation: The Town Council should consider the consequences of noncompliance and try to bring the Town into compliance with these requirements.

Response: The Town will consider raising sewer rates to comply with the water and sewer bond agreements.

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

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

PRIOR YEAR FINANCIAL STATEMENT FINDINGS

Finding 13-1: Continued disclosure

Finding 13-2: Continued disclosure

Finding 13-3: The water bond portion was resolved. Continued disclosure for the sewer bond portion of the finding.