

CITY OF CUT BANK
GLACIER COUNTY, MONTANA
Fiscal Year Ended June 30, 2014

AUDIT REPORT

Denning, Downey & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

CITY OF CUT BANK
GLACIER COUNTY, MONTANA

Fiscal Year Ended June 30, 2014

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CITY OF CUT BANK

GLACIER COUNTY, MONTANA

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CITY OF CUT BANK
GLACIER COUNTY, MONTANA

ORGANIZATION

Fiscal Year Ended June 30, 2014

Emmet D. Embody

Mayor

CITY COUNCIL

Kimberly Butterworth
Kelly Solberg
Craig Rude
Timothy Curtiss

Council President
Council Member
Council Member
Council Member

CITY OFFICIALS

Robert Smith
Robert Yunck
Diana Filban
Jeff Kraft
Jim Suta

Attorney
City Judge
Clerk / Treasurer
Chief of Police
Public Works

City of Cut Bank
Fiscal Year 2013-2014
Management's Discussion and Analysis

Our discussion and analysis of the City of Cut Bank's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2014.

Financial Highlights

The change in our net position was an increase of \$487,193. The majority of that was in our business type funds.

The following were our budget amendments for the year:

Acceptance of a COPS grant from the US Department of Justice in the amount of \$56,278.00 for the fiscal year with changes to both the revenue and expenditures for fund 2916.

Amend the expenditures for the lighting district due to lack of budgeted funds to pay for the remainder of the fiscal year's bills. The amount came out of the reserves for the lighting district fund for a total of \$3,500.00.

Overview of the Financial Statements

The City of Cut Bank's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

The statement of net position presents information on all of the City's assets and liabilities. The difference between assets and liabilities is reported as net position. Over time, increases and decreases in net position may provide an indication of whether the City's financial position is improving or deteriorating.

The statement of activities presents information reflecting how the City's net assets have changed during the fiscal year just ended. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenue and expenses are reported in this statement for some items that will only result in cash flows in future period.

The government wide financial statements distinguish functions into business-type activities and governmental activities.

Business-type activities:

Business type activities include water, wastewater (sewer) and solid waste collection. Consumers are billed on a monthly basis for these services. There were no increases in water, sewer and solid waste rates.

City of Cut Bank
Fiscal Year 2013-2014
Management's Discussion and Analysis

Governmental activities:

Most of the city's basic services are reported here including the police, fire, parks and recreation, judicial system and facilities administration. Property taxes, licenses, franchise fees, intergovernmental revenue, fines and forfeitures and miscellaneous interest and investment earnings finance most of these activities.

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 of Cut Bank, 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 of Cut Bank can be divided into three categories: governmental fund, proprietary funds and fiduciary funds.

Government Funds – Governmental funds are used to report those same functions reported as government activities in the government-wide financial statements. However, unlike the government-wide statements, the fund financial statements are prepared on the modified accrual bases. Under the modified accrual basis of accounting, 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 of the governmental fund financial statements 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. The City adopts an annual appropriated budget for all its government funds.

Proprietary Funds – The City charges customers for services it provides. The City of Cut Bank has three major services it provides to consumers. These services are for water, sewer and solid waste.

Fiduciary Funds – The City is the trustee, or fiduciary, for the firemen's pension plan. Due to the trust arrangement these funds can only be used for the trust beneficiaries.

The worksheet on page 5 shows a comparison of the Management Discussion and Analysis information for the past and current year.

City of Cut Bank
Fiscal Year 2013-2014
Management's Discussion and Analysis

Financial Position:

The overall financial position of the City of Cut Bank remained stable for this fiscal year. The general fund is the place where the City continues to struggle to make ends meet. In particular, the Law Enforcement budget takes almost one half of the general fund. Public safety is our number one responsibility, but it becomes difficult in other areas when one department consumes so much of the general fund. The Parks, Civic Center and Swimming Pool are areas where expenditures are much higher than revenue received. Revenue from the Park Levy is coming in now to help with capital projects for the different sections of the park system. The Sewer Department had major expenditures this fiscal year. An emergency loan had to be secured to repair a force main before it completely broke down. Also, expenditures have been increasing at a steady rate for the wastewater treatment plant that must be built. Loans and hopefully grants will be secured for these expenditures. The rates to customers also continues to increase in the sewer department.

Our overall cash balance decreased by \$416,839. The expenditures in the sewer fund were significant for the City and impacted our cash balance.

Capital Assets and Debt Administration:

In governmental funds, the Police Department was able to buy a new car along with some assistance from the Drug Fund. A storage shed was put behind the fire hall. The street department purchased two used pickups and a new drum roller, side dump trailer and conveyor belt.

In the enterprise funds the water department began buying radio read meters. The City Council approved moving forward to replace all the meters in the City with radio reads. There was a significant amount of money spent related to radio reads installed this fiscal year. The water plant required a new water pump assembly.

Economic factors and Next Year's Budget and Rates:

The City of Cut Bank continues to search for ways to have a positive impact in our local economy. The population continues to decline and there is a greater transient population coming in and out of the City. Our mill levy value decreased by \$56.37 and the assessed valuation for the City increased by \$1,284,362.00. The cost of operating the City continues to increase. The City is being very cautious with its spending.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the City's finances and to show the City's accountability for the funds and assets it receives. If you have questions about this report, or should you need additional financial information, contact City Hall at 221 West Main; Cut Bank, MT 59427.

City of Cut Bank
Fiscal Year 2013-2014
Management's Discussion and Analysis

Table 1 - Net Position

	Governmental Activities			Business-type Activities		
	FY14	FY13	Change	FY14	FY13	Change
			Inc (Dec)			Inc (Dec)
Current and other assets	\$ 2,930,316	\$ 2,698,907	\$ 231,409	\$ 2,725,107	\$ 3,149,351	\$ (424,244)
Capital assets	1,688,025	1,727,853	(39,828)	6,956,041	5,629,520	1,326,521
Total assets	\$ 4,618,341	\$ 4,426,760	\$ 191,581	\$ 9,681,148	\$ 8,778,871	\$ 902,277
Long-term debt outstanding	\$ 335,711	\$ 249,425	\$ 86,286	\$ 2,440,639	\$ 1,933,131	\$ 507,508
Other liabilities	54,922	41,096	13,826	23,113	24,068	(955)
Total liabilities	\$ 390,633	\$ 290,521	\$ 100,112	\$ 2,463,752	\$ 1,957,199	\$ 506,553
Net investment in capital assets	\$ 1,688,025	\$ 1,727,853	\$ (39,828)	\$ 4,753,686	\$ 3,882,378	\$ 871,308
Restricted	1,746,793	1,646,375	100,418	235,431	320,870	(85,439)
Unrestricted (deficit)	792,890	762,011	30,879	2,228,279	2,618,424	(390,145)
Total net position	\$ 4,227,708	\$ 4,136,239	\$ 91,469	\$ 7,217,396	\$ 6,821,672	\$ 395,724

Table 2 - Changes in Net Position

	Governmental Activities			Business-type Activities		
	FY14	FY13	Change	FY14	FY13	Change
			Inc (Dec)			Inc (Dec)
Revenues						
<i>Program revenues (by major source):</i>						
Charges for services	\$ 598,547	\$ 744,540	\$ (145,993)	\$ 1,667,066	\$ 1,598,288	\$ 68,778
Operating grants and contributions	31,776	43,659	(11,883)	88,500	30,000	58,500
Capital grants and contributions	76,843	59,235	17,608	-	-	-
<i>General revenues (by major source):</i>						
Property taxes for general purposes	618,605	620,316	(1,711)	-	-	-
Miscellaneous	136,820	121,839	14,981	-	-	-
Interest/investment earnings	8,168	8,418	(250)	10,423	18,632	(8,209)
State entitlement	561,701	540,373	21,328	-	-	-
Licenses and permits	32,126	68,754	(36,628)	-	-	-
Total revenues	\$ 2,064,586	\$ 2,207,134	\$ (142,548)	\$ 1,765,989	\$ 1,646,920	\$ 119,069
Program expenses						
General government	\$ 470,162	\$ 430,527	\$ 39,635			
Public safety	674,969	600,331	74,638			
Public works	625,650	623,381	2,269			
Public health	43,902	54,156	(10,254)			
Culture and recreation	229,736	239,285	(9,549)			
Miscellaneous	122,046	135,320	(13,274)			
Loss on investment in joint venture	4,935	-	4,935			
Water				\$ 902,800	\$ 852,754	\$ 50,046
Sewer				249,444	317,294	(67,850)
Solid Waste				218,021	210,443	7,578
Total expenses	\$ 2,171,400	\$ 2,083,000	\$ 88,400	\$ 1,370,265	\$ 1,380,491	\$ (10,226)
Increase (decrease) in net position	\$ (106,814)	\$ 124,134	\$ (230,948)	\$ 395,724	\$ 266,429	\$ 129,295

Denning, Downey & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

1740 U.S. Hwy 93 South, P.O. Box 1957, Kalispell, MT 59903-1957

INDEPENDENT AUDITOR'S REPORT

Mayor and City Council
City of Cut Bank
Glacier County
Cut Bank, Montana

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of City of Cut Bank, Glacier County, 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 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, 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, the business-type activities, each major fund, and the aggregate remaining fund information of City of Cut Bank, Glacier County, Montana, as of and for the year ended 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.

Emphasis of Matter

As described in Note 1 to the financial statements, in 2014, the City of Cut Bank, Glacier County, Montana adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedule of funding for other post employment benefits other than pensions on pages 2 through 5, 41 through 42, and 43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basis financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements.

The accompanying schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2015, on our consideration of the City of Cut Bank, Glacier County, Montana's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Cut Bank, Glacier County, Montana's internal control over financial reporting and compliance.

Derring, Downey and Associates, CPAs, P.C.

June 15, 2015

City of Cut Bank, Glacier County, Montana
Statement of Net Position
June 30, 2014

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and investments	\$ 2,489,969	\$ 2,108,677	\$ 4,598,646
Taxes and assessments receivable, net	218,779	-	218,779
Internal balances	(126,887)	126,887	-
Accounts receivable - net	15,193	160,080	175,273
Due from other governments	253,112	-	253,112
Total current assets	<u>\$ 2,850,166</u>	<u>\$ 2,395,644</u>	<u>\$ 5,245,810</u>
Noncurrent assets			
Restricted cash and investments	\$ -	\$ 276,029	\$ 276,029
Investment in joint ventures	80,150	53,434	133,584
Capital assets - land	188,370	-	188,370
Capital assets - construction in progress	-	1,319,980	1,319,980
Capital assets - depreciable, net	1,499,655	5,636,061	7,135,716
Total noncurrent assets	<u>\$ 1,768,175</u>	<u>\$ 7,285,504</u>	<u>\$ 9,053,679</u>
Total assets	<u>\$ 4,618,341</u>	<u>\$ 9,681,148</u>	<u>\$ 14,299,489</u>
LIABILITIES			
Current liabilities			
Accrued payroll	49,315	23,113	72,428
Due to other governments	5,607	-	5,607
Current portion of long-term capital liabilities	-	195,154	195,154
Current portion of compensated absences payable	78,829	48,723	127,552
Total current liabilities	<u>\$ 133,751</u>	<u>\$ 266,990</u>	<u>\$ 400,741</u>
Noncurrent liabilities			
Noncurrent portion of long-term liabilities	236,799	165,304	402,103
Noncurrent portion of long-term capital liabilities	-	2,007,201	2,007,201
Noncurrent portion of compensated absences	20,083	24,257	44,340
Total noncurrent liabilities	<u>\$ 256,882</u>	<u>\$ 2,196,762</u>	<u>\$ 2,453,644</u>
Total liabilities	<u>\$ 390,633</u>	<u>\$ 2,463,752</u>	<u>\$ 2,854,385</u>
NET POSITION			
Net investment in capital assets	\$ 1,688,025	\$ 4,753,686	\$ 6,441,711
Restricted for bond indenture requirements	-	235,431	235,431
Restricted for general government	439,602	-	439,602
Restricted for public safety	70,096	-	70,096
Restricted for public works	1,224,056	-	1,224,056
Restricted for public health	13,039	-	13,039
Unrestricted	792,890	2,228,279	3,021,169
Total net position	<u>\$ 4,227,708</u>	<u>\$ 7,217,396</u>	<u>\$ 11,445,104</u>

See accompanying Notes to the Financial Statements

City of Cut Bank, Glacier County, Montana
Statement of Activities
For the Fiscal Year Ended June 30, 2014

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Position</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government</u>		<u>Total</u>
					<u>Governmental Activities</u>	<u>Business-type Activities</u>	
Primary government:							
Governmental activities:							
General government	\$ 470,162	\$ 40,295	\$ -	\$ -	\$ (429,867)	\$ -	\$ (429,867)
Public safety	674,969	17,490	669	51,942	(604,868)	-	(604,868)
Public works	625,650	478,614	31,107	24,901	(91,028)	-	(91,028)
Public health	43,902	370	-	-	(43,532)	-	(43,532)
Culture and recreation	229,736	61,778	-	-	(167,958)	-	(167,958)
Miscellaneous	122,046	-	-	-	(122,046)	-	(122,046)
Loss on investment in joint venture	4,935	-	-	-	(4,935)	-	(4,935)
Total governmental activities	\$ <u>2,171,400</u>	\$ <u>598,547</u>	\$ <u>31,776</u>	\$ <u>76,843</u>	\$ <u>(1,464,234)</u>	\$ <u>-</u>	\$ <u>(1,464,234)</u>
Business-type activities:							
Water	\$ 902,800	\$ 932,885	\$ -	\$ -	\$ -	\$ 30,085	\$ 30,085
Sewer	249,444	492,721	88,500	-	-	331,777	331,777
Solid Waste	218,021	241,460	-	-	-	23,439	23,439
Total business-type activities	\$ <u>1,370,265</u>	\$ <u>1,667,066</u>	\$ <u>88,500</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>385,301</u>	\$ <u>385,301</u>
Total primary government	\$ <u>3,541,665</u>	\$ <u>2,265,613</u>	\$ <u>120,276</u>	\$ <u>76,843</u>	\$ <u>(1,464,234)</u>	\$ <u>385,301</u>	\$ <u>(1,078,933)</u>
General Revenues:							
Property taxes for general purposes					\$ 618,605	\$ -	\$ 618,605
Miscellaneous					136,820	-	136,820
Interest/investment earnings					8,168	10,423	18,591
State entitlement					561,701	-	561,701
Licenses and permits					32,126	-	32,126
Total general revenues, special items and transfers					\$ <u>1,357,420</u>	\$ <u>10,423</u>	\$ <u>1,367,843</u>
Change in net position					\$ <u>(106,814)</u>	\$ <u>395,724</u>	\$ <u>288,910</u>
Net position - beginning					\$ 4,136,239	\$ 6,821,672	\$ 10,957,911
Restatements					198,283	-	198,283
Net position - beginning - restated					\$ <u>4,334,522</u>	\$ <u>6,821,672</u>	\$ <u>11,156,194</u>
Net position - end					\$ <u>4,227,708</u>	\$ <u>7,217,396</u>	\$ <u>11,445,104</u>

See accompanying Notes to the Financial Statements

City of Cut Bank, Glacier County, Montana
Balance Sheet
Governmental Funds
June 30, 2014

	General	Street Maintenance #1	Other Governmental Funds	Total Governmental Funds
ASSETS				
Current assets:				
Cash and investments	\$ 1,008,397	\$ 425,267	\$ 1,056,305	\$ 2,489,969
Taxes and assessments receivable, net	120,695	10,784	87,300	218,779
Accounts receivable - net	15,193	-	-	15,193
Due from other governments	-	-	253,112	253,112
Total assets	\$ 1,144,285	\$ 436,051	\$ 1,396,717	\$ 2,977,053
Current liabilities:				
Accrued payroll	\$ 30,009	\$ 8,576	\$ 10,730	\$ 49,315
Due to other governments	3,871	-	1,736	5,607
Total current liabilities	\$ 33,880	\$ 8,576	\$ 12,466	\$ 54,922
Noncurrent liabilities:				
Advances payable	\$ -	\$ -	\$ 126,887	\$ 126,887
Total liabilities	\$ 33,880	\$ 8,576	\$ 139,353	\$ 181,809
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows of resources	\$ 120,695	\$ 10,784	\$ 87,300	\$ 218,779
FUND BALANCES				
Restricted	\$ -	\$ 416,691	\$ 958,777	\$ 1,375,468
Committed	-	-	213,520	213,520
Unassigned fund balance	989,710	-	(2,233)	987,477
Total fund balance	\$ 989,710	\$ 416,691	\$ 1,170,064	\$ 2,576,465

See accompanying Notes to the Financial Statements

City of Cut Bank, Glacier County, Montana
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Position
June 30, 2014

Total fund balances - governmental funds	\$	2,576,465
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		1,688,025
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.		218,779
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.		(335,711)
Investment in Tri-City Interlocal		80,150
Total net position - governmental activities	\$	<u>4,227,708</u>

See accompanying Notes to the Financial Statements

City of Cut Bank, Glacier County, Montana
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2014

	<u>General</u>	<u>Street Maintenance #1</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Taxes and assessments	\$ 440,940	\$ -	\$ 203,285	\$ 644,225
Licenses and permits	50,299	-	9,571	59,870
Intergovernmental	601,013	-	147,536	748,549
Charges for services	69,928	760	-	70,688
Fines and forfeitures	32,896	-	17,490	50,386
Miscellaneous	100,742	277,052	130,694	508,488
Investment earnings	3,169	1,627	3,367	8,163
Total revenues	<u>\$ 1,298,987</u>	<u>\$ 279,439</u>	<u>\$ 511,943</u>	<u>\$ 2,090,369</u>
EXPENDITURES				
General government	\$ 317,160	\$ -	\$ 14,797	\$ 331,957
Public safety	562,100	-	86,384	648,484
Public works	15,464	283,131	207,237	505,832
Public health	43,543	-	359	43,902
Culture and recreation	210,417	-	-	210,417
Miscellaneous	-	-	122,046	122,046
Capital outlay	25,000	108,735	39,878	173,613
Total expenditures	<u>\$ 1,173,684</u>	<u>\$ 391,866</u>	<u>\$ 470,701</u>	<u>\$ 2,036,251</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 125,303</u>	<u>\$ (112,427)</u>	<u>\$ 41,242</u>	<u>\$ 54,118</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 29	\$ 247,432	\$ 251,174	\$ 498,635
Transfers out	-	-	(498,635)	(498,635)
Total other financing sources (uses)	<u>\$ 29</u>	<u>\$ 247,432</u>	<u>\$ (247,461)</u>	<u>\$ -</u>
Net Change in Fund Balance	<u>\$ 125,332</u>	<u>\$ 135,005</u>	<u>\$ (206,219)</u>	<u>\$ 54,118</u>
Fund balances - beginning	\$ 864,378	\$ 281,686	\$ 1,176,100	\$ 2,322,164
Restatements	-	-	200,183	200,183
Fund balances - beginning, restated	<u>\$ 864,378</u>	<u>\$ 281,686</u>	<u>\$ 1,376,283</u>	<u>\$ 2,522,347</u>
Fund balance - ending	<u>\$ 989,710</u>	<u>\$ 416,691</u>	<u>\$ 1,170,064</u>	<u>\$ 2,576,465</u>

See accompanying Notes to the Financial Statements

City of Cut Bank, Glacier County, Montana
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Fiscal Year Ended June 30, 2014

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

Net change in fund balances - total governmental funds	\$ 54,118
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:	
- Capital assets purchased	173,613
- Depreciation expense	(217,541)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:	
- Donated capital assets	6,000
- Long-term receivables (deferred revenue)	(31,783)
The change in compensated absences is shown as an expense in the Statement of Activities	(15,012)
Termination benefits are shown as an expense in the Statement of Activities and not reported on the Statement of Revenues, Expenditures and Changes in Fund Balance:	
- Termination benefits, end of the year	(71,274)
Change in investment in Tri-City Interlocal Equipment Pool joint venture	(4,935)
Change in net position - Statement of Activities	\$ <u><u>(106,814)</u></u>

See accompanying Notes to the Financial Statements

City of Cut Bank, Glacier County, Montana
Statement of Net Position
Proprietary Funds
June 30, 2014

Business-Type Activities - Enterprise Funds

	Water	Sewer	Solid Waste	Totals
ASSETS				
Current assets:				
Cash and investments	\$ 1,543,321	\$ -	\$ 565,356	\$ 2,108,677
Accounts receivable - net	83,605	55,635	20,840	160,080
Total current assets	\$ 1,626,926	\$ 55,635	\$ 586,196	\$ 2,268,757
Noncurrent assets:				
Restricted cash and investments	\$ 154,817	\$ 121,212	\$ -	\$ 276,029
Advances to other funds	32,852	32,852	61,183	126,887
Investment in joint ventures	-	53,434	-	53,434
Capital assets - construction in progress	-	1,319,980	-	1,319,980
Capital assets - depreciable, net	5,093,873	475,965	66,223	5,636,061
Total noncurrent assets	\$ 5,281,542	\$ 2,003,443	\$ 127,406	\$ 7,412,391
Total assets	\$ 6,908,468	\$ 2,059,078	\$ 713,602	\$ 9,681,148
LIABILITIES				
Current liabilities:				
Accrued payroll	\$ 13,483	\$ 4,366	\$ 5,264	\$ 23,113
Current portion of long-term capital liabilities	99,154	96,000	-	195,154
Current portion of compensated absences payable	28,689	15,269	4,765	48,723
Total current liabilities	\$ 141,326	\$ 115,635	\$ 10,029	\$ 266,990
Noncurrent liabilities:				
Notes payable	\$ -	\$ -	\$ -	\$ -
Noncurrent portion of long-term liabilities	96,506	35,649	33,149	165,304
Noncurrent portion of long-term capital liabilities	1,325,546	681,655	-	2,007,201
Noncurrent portion of compensated absences	17,674	4,050	2,533	24,257
Total noncurrent liabilities	\$ 1,439,726	\$ 721,354	\$ 35,682	\$ 2,196,762
Total liabilities	\$ 1,581,052	\$ 836,989	\$ 45,711	\$ 2,463,752
NET POSITION				
Net investment in capital assets	\$ 3,669,173	\$ 1,018,290	\$ 66,223	\$ 4,753,686
Restricted for bond indenture requirements	154,817	80,614	-	235,431
Unrestricted	1,503,426	123,185	601,668	2,228,279
Total net position	\$ 5,327,416	\$ 1,222,089	\$ 667,891	\$ 7,217,396
Total liabilities and net position	\$ 6,908,468	\$ 2,059,078	\$ 713,602	\$ 9,681,148

See accompanying Notes to the Financial Statements

City of Cut Bank, Glacier County, Montana
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Fiscal Year Ended June 30, 2014

Business-Type Activities - Enterprise Funds

	<u>Water</u>	<u>Sewer</u>	<u>Solid Waste</u>	<u>Totals</u>
OPERATING REVENUES				
Charges for services	\$ 932,345	\$ 492,721	\$ 241,460	\$ 1,666,526
Special assessments	540	-	-	540
Total operating revenues	<u>\$ 932,885</u>	<u>\$ 492,721</u>	<u>\$ 241,460</u>	<u>\$ 1,667,066</u>
OPERATING EXPENSES				
Personal services	\$ 425,170	\$ 148,524	\$ 146,695	\$ 720,389
Supplies	46,341	8,154	26,088	80,583
Purchased services	149,008	47,635	25,702	222,345
Fixed charges	10,520	5,061	7,458	23,039
Depreciation	225,804	34,961	12,078	272,843
Loss on investment in joint venture	-	3,290	-	3,290
Total operating expenses	<u>\$ 856,843</u>	<u>\$ 247,625</u>	<u>\$ 218,021</u>	<u>\$ 1,322,489</u>
Operating income (loss)	<u>\$ 76,042</u>	<u>\$ 245,096</u>	<u>\$ 23,439</u>	<u>\$ 344,577</u>
NON-OPERATING REVENUES (EXPENSES)				
Intergovernmental revenue	-	88,500	-	88,500
Interest revenue	\$ 6,836	\$ 1,523	\$ 2,064	\$ 10,423
Debt service interest expense	(45,957)	(1,819)	-	(47,776)
Total non-operating revenues (expenses)	<u>\$ (39,121)</u>	<u>\$ 88,204</u>	<u>\$ 2,064</u>	<u>\$ 51,147</u>
Income (loss) before contributions and transfers	<u>\$ 36,921</u>	<u>\$ 333,300</u>	<u>\$ 25,503</u>	<u>\$ 395,724</u>
Change in net position	<u>\$ 36,921</u>	<u>\$ 333,300</u>	<u>\$ 25,503</u>	<u>\$ 395,724</u>
Net Position - Beginning of the year	\$ 5,290,495	\$ 888,789	\$ 642,388	\$ 6,821,672
Net Position - End of the year	<u>\$ 5,327,416</u>	<u>\$ 1,222,089</u>	<u>\$ 667,891</u>	<u>\$ 7,217,396</u>

See accompanying Notes to the Financial Statements

City of Cut Bank, Glacier County, Montana
Statement of Cash Flows
Proprietary Funds
Fiscal Year Ended June 30, 2014

	Business - Type Activities			
	Water	Sewer	Solid Waste	Totals
Cash flows from operating activities:				
Cash received from providing services	\$ 922,531	\$ 484,437	\$ 246,669	\$ 1,653,637
Cash payments to suppliers	(41,741)	(3,555)	(17,526)	(62,822)
Cash payments for professional services	(159,528)	(52,696)	(33,160)	(245,384)
Cash payments to employees	(394,580)	(136,136)	(138,333)	(669,049)
Net cash provided (used) by operating activities	\$ 326,682	\$ 292,050	\$ 57,650	\$ 676,382
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	\$ (279,384)	\$ (1,319,980)	\$ -	\$ (1,599,364)
Principal paid on debt	(109,442)	(78,000)	-	(187,442)
Interest paid on debt	(45,957)	(1,819)	-	(47,776)
Proceeds from bonds, loans and advances	-	731,155	-	731,155
Net cash provided (used) by capital and related financing activities	\$ (434,783)	\$ (668,644)	\$ -	\$ (1,103,427)
Cash flows from investing activities:				
Interest on investments	\$ 6,836	\$ 1,523	\$ 2,064	\$ 10,423
Net cash provided (used) by investing activities	\$ 6,836	\$ 1,523	\$ 2,064	\$ 10,423
Net increase (decrease) in cash and cash equivalents	\$ (101,265)	\$ (375,071)	\$ 59,714	\$ (416,622)
Cash and cash equivalents at beginning	1,799,403	496,283	505,642	2,801,328
Cash and cash equivalents at end	\$ 1,698,138	\$ 121,212	\$ 565,356	\$ 2,384,706
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 76,042	\$ 245,096	\$ 23,439	\$ 344,577
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation	225,804	34,961	12,078	272,843
Other post-employment benefits	30,010	12,504	11,254	53,768
Changes in assets and liabilities:				
(Increase) Decrease in Accounts Receivable	(10,354)	(8,284)	5,209	(13,429)
Decrease in Advances to Other Funds	4,600	4,599	8,562	17,761
Decrease in Investment in Tri-City Interlocal	-	3,290	-	3,290
Increase (Decrease) in Compensated Absences	62	5,727	(3,349)	2,440
Increase (Decrease) in Accrued Payroll	518	(5,843)	457	(4,868)
Net cash provided (used) by operating activities	\$ 326,682	\$ 292,050	\$ 57,650	\$ 676,382

See accompanying notes to the financial statements

City of Cut Bank, Glacier County, Montana
Statement of Net Position
Fiduciary Funds
June 30, 2014

		<u>Agency Funds</u>
ASSETS		
Cash and short-term investments	\$	502,447
Taxes receivable		4,494
Total assets	\$	<u>506,941</u>
LIABILITIES		
Warrants payable	\$	499,319
Due to others		6,857
Deferred revenue		765
Total liabilities	\$	<u>506,941</u>

See accompanying Notes to the Financial Statements

CITY OF CUT BANK
GLACIER COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Cut Bank complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements.

GASBS No. 65, *Items Previously Reported as Assets and Liabilities*, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This standard is effective for fiscal year ending June 30, 2014.

Financial Reporting Entity

In determining the financial reporting entity, the City complies with the provisions of GASB statement No. 14, *The Financial Reporting Entity*, as amended by GASB statement No. 61, *The Financial Reporting Entity: Omnibus*, and includes all component units of which the City appointed a voting majority of the component units' board; the City is either able to impose its' will on the unit or a financial benefit or burden relationship exists. In addition, the City complies with GASB statement No. 39 *Determining Whether Certain Organizations Are Component Units* which relates to organizations that raise and hold economic resources for the direct benefit of the City.

Primary Government

The City is a political subdivision of the State of Montana governed by an elected Mayor and Council duly elected by the registered voters of the City. The City is considered a primary government because it is a general purpose local government. Further, it meets the following criteria: (a) It has a separately elected governing body (b) It is legally separate and (c) It is fiscally independent from the State and other local governments.

Basis of Presentation, Measurement Focus and Basis of Accounting.

Government-wide Financial Statements:

Basis of Presentation

The Government-wide Financial Statements (the Statement of Net Position and the Statement of Activities) display information about the reporting government as a whole and its component units. They include all funds of the reporting entity except fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. Eliminations have been made in the consolidation of business-type activities.

CITY OF CUT BANK
GLACIER COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

The Statement of Activities presents a comparison between 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. The types of transactions reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity and 2) operating grants and contributions, and 3) capital grants and contributions. Revenues that are not classified as program revenues, including all property taxes, are presented as general revenues.

Certain eliminations have been made as prescribed by GASB 34 in regards to inter-fund activities, payables and receivables. All internal balances in the Statement of Net Position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, internal service fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated.

Measurement Focus and Basis of Accounting

Government-Wide Financial Statements

On the government-wide Statement of Net Position and the Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred regardless of the timing of the cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The City generally applies restricted resources to expenses incurred before using unrestricted resources when both restricted and unrestricted net assets are available.

CITY OF CUT BANK
GLACIER COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

Fund Financial Statements:

Basis of Presentation

Fund financial statements of the reporting City are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. Funds are organized into three categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. Each major fund is displayed in a separate column in the governmental funds statements. All of the remaining funds are aggregated and reported in a single column as non-major funds. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- a. Total assets combined with deferred outflows of resources, liabilities combined with deferred inflows of resources, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets combined with deferred outflows of resources, liabilities combined with deferred inflows of resources, revenues, or expenditures/expenses of that individual governmental or enterprise funds are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

Measurement Focus and Basis of Accounting

Governmental Funds

Modified Accrual

All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. “Measurable” means the amount of the transaction can be determined. “Available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

The City defined the length of time used for “available” for purposes of revenue recognition in the governmental fund financial statements to be upon receipt. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources. General capital asset acquisitions are reported as expenditures in governmental funds and proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

CITY OF CUT BANK
GLACIER COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

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

Major Funds:

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.

Street Maintenance #1 Fund – A special revenue fund that accounts for street maintenance with the maintenance district of the City.

Proprietary Funds:

All proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Revenues are recognized when earned and expenses are recognized when incurred. Allocations of costs, such as depreciation, are recorded in proprietary funds.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connections with a proprietary fund’s principal ongoing operations. The principal operating revenues for enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the City’s policy to use restricted resources first, then unrestricted resources as they are needed.

Major Funds:

The City reports the following major proprietary funds:

Water Fund – An enterprise fund that accounts for the activities of the City’s water distribution operations.

CITY OF CUT BANK
 GLACIER COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2014

Sewer Fund – An enterprise fund that accounts for the activities of the City’s sewer collection and treatment operations and includes the storm sewer system.

Solid Waste Fund – An enterprise fund that accounts for the activities of the City’s solid waste service.

NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash Composition

Composition of cash, deposits and investments at fair value on June 30, 2014, are as follows:

	<u>Primary Government</u>
<u>Cash on hand and deposits:</u>	
Petty Cash	\$ 600
Cash in banks:	
Demand deposits	131,408
Time deposits	1,620,348
<u>Investments:</u>	
State Short-Term Investment Pool (STIP)	190,847
Repurchase agreements	3,433,919
Total	\$ 5,377,122

Repurchase Agreements

An agreement in which a governmental entity (buyer-lender) transfers cash to a broker dealer or financial institution (seller-borrower); the broker-dealer or financial institution transfers securities to the entity and promises to repay the cash plus interest in exchange for the same securities.

Credit Risk

Section 7-6-202, MCA, limits investments of public money of a local government in the following eligible securities:

(a) United States government treasury bills, notes and bonds and in the United States treasury obligations, such as state and local government series (SLGLS), separate trading of registered interest and principal of securities (STRIPS), or similar United States treasury obligations;

(b) United States treasury receipts in a form evidencing the holder’s ownership of future interest or principal payments on specific United States treasury obligations that, in the absence of payment default by the United States, are held in a special custody account by an independent trust company in a certificate or book entry form with the federal reserve bank of New York; or

(c) Obligations of the following agencies of the United States, subject to the limitations in subsection 2 (not included):

- (i) federal home loan bank;

CITY OF CUT BANK
 GLACIER COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2014

- (ii) federal national mortgage association;
- (iii) federal home mortgage corporation; and
- (iv) federal farm credit bank.

With the exception of the assets of a local government group self-insurance program, investments may not have a maturity date exceeding 5 years except when the investment is used in an escrow account to refund an outstanding bond issue in advance.

Section 7-6-205 and Section 7-6-206, MCA, state that demand deposits may be placed only in banks and Public money not necessary for immediate use by a county, city, or town that is not invested as authorize in Section 7-6-202 may be placed in time or savings deposits with a bank, savings and loan association, or credit union in the state or place in repurchase agreements as authorized in Section 7-6-213.

Short Term Investment Pool (STIP) Credit Quality ratings by the S&P's rating services as of June 30, 2014:

<u>Security Investment Type</u>	<u>Amortized Cost</u>	<u>Credit Quality Rating</u>	<u>Weighted Average Maturity</u>
Asset Backed Commercial Paper	\$ 777,417,680	A1	30
Corporate Commercial Paper	138,958,389	A1	39
Corporate Variable-Rate	658,894,083	A1	38
Certificates of Deposit Fixed Rate	100,000,000	A1	219
Certificates of Deposit Variable-Rate	391,996,239	A1+	32
Other Asset Backed	38,440,281	NR	NA
U.S. Government Agency Fixed	75,003,275	A1+	194
U.S. Government Agency Variable -Rate	200,003,406	A1+	31
Money Market Funds (Unrated)	133,439,814	NR	1
Money Market Funds (Rated)	21,000,000	A1+	1
 Total Investments	 <u>\$ 2,535,153,167</u>	 A1	 <u>43</u>
 Securities Lending Collateral Investment Pool	 <u>\$ 1,861,748</u>	 NR	 *

“*As of June 30, 2014, the Securities Lending Quality Trust liquidity pool had an average duration of 41 days and an average weighted final maturity of 114 days for U.S. dollar collateral. The duration pool had an average duration of 33 days and an average weighted final maturity of 548 days for U.S. dollar collateral.”

Audited financial statements for the State of Montana’s Board of Investments are available at 555 Fuller Avenue in Helena, Montana.

CITY OF CUT BANK
 GLACIER COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2014

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. All deposits are carried at cost plus accrued interest. As of June 30, 2014 the government's bank balance was exposed to custodial credit risk as follows:

	June 30, 2014
<u>Depository Account</u>	<u>Balance</u>
Insured	\$ 536,129
- Collateral held by the pledging bank's trust department but not in the City's name.	1,038,889
Uninsured and uncollateralized	81,459
Total deposits and investments	<u>\$ 1,656,477</u>

Deposit Security

Section 7-6-207, MCA, states (1) The local governing body may require security only for that portion of the deposits which is not guaranteed or insured according to law and, as to such unguaranteed or uninsured portion, to the extent of:

- (a) 50% of such deposits if the institution in which the deposit is made has a net worth of total assets ratio of 6% or more; or
- (b) 100% if the institution in which the deposit is made has a net worth of total assets ration of less than 6%.

The amount of collateral held for City deposits at June 30, 2014, did not meet the amount required by State statutes.

Concentration of Credit Risk

The government places no limit on the amount the entity may invest in any one issuer. The government's concentration of credit risk percentages follow for each investment issued that is not issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools and other pooled investments:

	<u>% of credit risk</u>
Repurchase agreements	65%

CITY OF CUT BANK
 GLACIER COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2014

Interest Rate Risk

The government does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The following is a list of individual investments as of June 30, 2014 along with their related interest rates and maturity dates.

<u>Investment</u>	<u>Interest Rate</u>	<u>Maturity Dates</u>	<u>Amount</u>
STIP	0.114%	N/A	\$ 190,847
Stockman Bank Repurchase #5219000071	0.200%	N/A	3,062,092
Stockman Bank Repurchase #521000098	0.250%	N/A	<u>371,827</u>
			<u>\$ 3,624,766</u>

Cash equivalents

For purposes of the statement of cash flows, the enterprise funds consider all funds (including restricted assets) held in the City's cash management pool to be cash equivalents.

NOTE 3. RESTRICTED CASH/INVESTMENTS

The following restricted cash/investments were held by the City as of June 30, 2014. These amounts are reported within the cash/investment account on the Statement of Net Position.

<u>Description</u>	<u>Amount</u>
Cash reserve for revenue bond payments	\$ <u>235,431</u>

NOTE 4. RECEIVABLES

An allowance for uncollectible accounts was not maintained for real and personal property taxes receivable. The direct write-off method is used for these accounts.

Property tax levies are set in August, after the County Assessor delivers the taxable valuation information to the County, in connection with the budget process and are based on taxable values listed as of January 1 for all property located in the Entity. Taxable values are established by the Montana Department of Revenue, and a revaluation of all property is required to be completed on a periodic basis. Taxable value is defined by Montana statute as a fixed percentage of market value.

Real property (and certain attached personal property) taxes are billed within ten days after the third Monday in October and are due in equal installments on November 30 and the following May 31. After those dates, they become delinquent (and a lien upon the property). After three years, the County may exercise the lien and take title to the property. Special assessments are either billed in one installment due November 30 or two equal installments due November 30 and the following May 31. Personal property

CITY OF CUT BANK
GLACIER COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

taxes (other than those billed with real estate) are generally billed no later than the second Monday in July (normally in May or June), based on the prior November's levies. Personal property taxes, other than mobile homes, are due thirty days after billing. Mobile home taxes are billed in two halves, the first due thirty days after billing; the second due September 30. The tax billings are considered past due after the respective due dates and are subject to penalty and interest charges.

Taxes that become delinquent are charged interest at the rate of 5/6 of 1% a month plus a penalty of 2%. Real property on which taxes 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.

NOTE 5. INVENTORIES

Inventories are recorded as an expense when purchased.

NOTE 6. CAPITAL ASSETS

The City's assets are capitalized at historical cost or estimated historical cost. City policy has set the capitalization threshold for reporting capital assets at \$5,000. Gifts or contributions of capital assets are recorded at fair market value when received. The costs of normal maintenance and repairs are charged to operations as incurred. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable. Depreciation is recorded on a straight-line basis over the useful lives of the assets as follows:

Infrastructure	40 years
Buildings	40 years
Machinery and Equipment	5 years
Improvements	15-25 years

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 which requires the inclusion of infrastructure capital assets in local governments' basic financial statements. In accordance with Statement No. 34, the City has included the value of all infrastructure into the 2014 Basic Financial Statements. The government has elected not to retroactively report general infrastructure assets.

CITY OF CUT BANK
GLACIER COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

A summary of changes in governmental capital assets was as follows:

Governmental activities:

	Balance <u>July 1, 2013</u>	<u>Additions</u>	<u>Donations</u>	<u>Restatements</u>	Balance <u>June 30, 2014</u>
Capital assets not being depreciated:					
Land	\$ 188,370	\$ -	\$ -	\$ -	188,370
Construction in progress	1,900	-	-	(1,900)	-
Total capital assets not being depreciated	<u>\$ 190,270</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,900)</u>	<u>\$ 188,370</u>
Other capital assets:					
Buildings	\$ 2,044,855	\$ -	\$ -	\$ -	2,044,855
Grind and seal	166,076	-	-	-	166,076
Asphalt	843,839	-	-	-	843,839
Gravel Roads	3,500	-	-	-	3,500
Seal Coats	158,300	-	-	-	158,300
Streets	450,097	77,727	-	-	527,824
Equipment	158,506	-	-	-	158,506
Building Streets	190,534	-	-	-	190,534
Vehicles - Fire	212,000	-	-	-	212,000
Vehicles - Legislative	14,149	-	-	-	14,149
Vehicles - Police	175,227	28,616	6,000	-	209,843
Vehicles - Streets	517,881	67,270	-	-	585,151
Park Maintenance	224,914	-	-	-	224,914
Total other capital assets at historical cost	<u>\$ 5,159,878</u>	<u>\$ 173,613</u>	<u>\$ 6,000</u>	<u>\$ -</u>	<u>\$ 5,339,491</u>
Less: accumulated depreciation	<u>\$ (3,622,295)</u>	<u>\$ (217,541)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3,839,836)</u>
Total	<u>\$ 1,727,853</u>	<u>\$ (43,928)</u>	<u>\$ 6,000</u>	<u>\$ (1,900)</u>	<u>\$ 1,688,025</u>

Governmental activities depreciation expense was charged to functions as follows:

Governmental Activities:	
General government	\$ 51,919
Public safety	26,485
Public works	119,818
Culture and recreation	<u>19,319</u>
Total governmental activities depreciation expense	<u>\$ 217,541</u>

CITY OF CUT BANK
GLACIER COUNTY, MONTANA
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June 30, 2014

A summary of changes in business-type capital assets was as follows:

Business-type activities:

	Balance <u>July 1, 2013</u>	<u>Additions</u>	Balance <u>June 30, 2014</u>
Capital assets not being depreciated:			
Construction in progress	\$ -	\$ 1,319,980	\$ 1,319,980
Other capital assets:			
Buildings	\$ 4,879,032	\$ 48,832	\$ 4,927,864
Machine and equipment	370,793	230,552	601,345
Source and supply	4,305,239	-	4,305,239
Vehicles	440,463	-	440,463
Transmission and distribution	1,021,633	-	1,021,633
Equipment/Sewer vehicle	23,294	-	23,294
Total other capital assets at historical cost	\$ 11,040,454	\$ 279,384	\$ 11,319,838
Less: accumulated depreciation	\$ (5,410,934)	\$ (272,843)	\$ (5,683,777)
Total	<u>\$ 5,629,520</u>	<u>\$ 1,326,521</u>	<u>\$ 6,956,041</u>

NOTE 7. LONG TERM DEBT OBLIGATIONS

In the governmental-wide and proprietary financial statements, outstanding debt is reported as liabilities. Bond issuance costs, bond discounts or premiums, are expensed at the date of sale.

Changes in Long-Term Debt Liabilities - During the year ended June 30, 2014, the following changes occurred in liabilities reported in long-term debt:

Governmental Activities:

	Balance <u>July 1, 2013</u>	<u>Additions</u>	Balance <u>June 30, 2014</u>	Due Within <u>One Year</u>
Compensated absences	\$ 83,900	\$ 15,012	\$ 98,912	\$ 78,829
Other post-employment benefits*	165,525	71,274	236,799	-
Total	<u>\$ 249,425</u>	<u>\$ 86,286</u>	<u>\$ 335,711</u>	<u>\$ 78,829</u>

*See Note 8

In prior years the general fund was used to liquidate compensated absences and claims and judgments.

CITY OF CUT BANK
GLACIER COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

Business-type Activities:

	Balance			Balance		Due Within
	<u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2014</u>	<u>One Year</u>	
Revenue bonds	\$ 1,747,142	\$ 444,083	\$ (187,442)	\$ 2,003,783	\$ 195,154	
Bond anticipation note	-	198,572	-	198,572	-	
Compensated absences	74,453	-	(1,473)	72,980	48,723	
Other post-employment benefits*	111,536	53,768	-	165,304	-	
Total	<u>\$ 1,933,131</u>	<u>\$ 696,423</u>	<u>\$ (188,915)</u>	<u>\$ 2,440,639</u>	<u>\$ 243,877</u>	

*See Note 8

Revenue Bonds - The City also issues bonds where the City pledges income derived from the acquired or constructed assets to pay debt service. Revenue bonds outstanding at year-end were as follows:

<u>Purpose</u>	<u>Origination Date</u>	<u>Interest Rate</u>	<u>Bond Term</u>	<u>Maturity Date</u>	<u>Bonds Amount</u>	<u>Annual Payment</u>	<u>Balance June 30, 2014</u>
Water System Upgrade (99) SRF	3/12/13	2.00%	6 yrs	7/1/19	\$ 283,000	Varies	\$ 100,000
Water System Upgrade (2000) SRF	3/12/13	1.25%	3 yrs	1/1/16	576,000	Varies	97,000
Rural Development Loan Water	6/30/06	4.25%	40 yrs	6/30/46	1,100,000	Varies	964,543
FY09 SRF Water Bond (Bonds Payable)	9/21/09	0.75%	20 yrs	7/1/29	333,700	Varies	263,157
Phase II Sewer System	3/12/13	1.25%	3 yrs	7/1/16	800,000	Varies	135,000
Wastewater System Series 2014A	12/19/13	3.00%	20 yrs	1/1/34	<u>1,125,000</u>	Varies	<u>444,083</u>
					<u>\$ 4,217,700</u>		<u>\$ 2,003,783</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) specify minimum required operating revenue; and 3) specific and timely reporting of financial information to bond holders and the registrar. The City was in compliance with applicable covenants as of June 30, 2014.

CITY OF CUT BANK
 GLACIER COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2014

Annual requirement to amortize debt:

<u>For Fiscal</u> <u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 195,154	\$ 58,533
2016	197,898	55,375
2017	123,674	52,538
2018	99,483	49,847
2019	101,327	47,141
2020	95,208	44,347
2021	88,127	41,751
2022	91,086	39,158
2023	95,087	36,476
2024	62,214	33,815
2025	44,220	32,305
2026	45,356	31,034
2027	46,541	29,714
2028	47,778	28,342
2029	49,069	26,916
2030	41,572	25,435
2031	33,820	23,996
2032	35,286	22,530
2033	36,815	21,001
2034	38,411	19,405
2035	40,075	17,741
2036	41,812	16,004
2037	43,624	14,192
2038	45,515	12,301
2039	47,487	10,329
2040	49,545	8,271
2041	51,692	6,124
2042	53,932	3,884
2043	56,270	1,546
2044	5,705	20
Total	<u>\$ 2,003,783</u>	<u>\$ 810,071</u>

CITY OF CUT BANK
GLACIER COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

Bond Anticipation Note

The City obtained a bond anticipation note to finance Phase I of the new wastewater treatment plant and sludge removal and disposition and rehabilitation of the existing City wastewater lagoon. Phase I of the project is preliminary engineering, design, permitting, and other engineering services estimated to cost \$1,136,700, respectively. The City had received an offer from the Department of Natural Resources (DNRC) to lend the City an amount up to \$1,136,700 in anticipation of the receipt of a 20 year term revenue bond. The bond anticipation note shall mature on October 1, 2016 and bears an interest rate of 1.25% per annum. Principle and accrued interest is due at maturity. As of June 30, 2014, the City had made draws totaling \$198,572, respectively.

Compensated Absences

Compensated absences are absences for which employees will be paid for time off earned for time during employment, such as earned vacation and sick leave. It is the City's policy and state law to permit employees to accumulate a limited amount of earned but unused vacation benefits, which will be paid to employees upon separation from City service. Employees are allowed to accumulate and carry over a maximum of two times their annual accumulation of vacation, but no more than 90 days into the new calendar year. There is no restriction on the amount of sick leave that may be accumulated. Upon separation, employees are paid 100 percent of accumulated vacation and 25 percent of accumulated sick leave. The liability associated with governmental fund-type employees is reported in the governmental activities, while the liability associated with proprietary fund-type employees is recorded in the business-type activities/respective proprietary fund.

NOTE 8. POSTEMPLOYMENT HEALTHCARE PLAN

Plan Description. The healthcare plan provides for, and Montana State Law (2-18-704) requires local governments to allow employees with at least 5 years of service and who are at least age 50 along with surviving spouses and dependents to stay on the government's health care plan as long as they pay the same premium. Since retirees are usually older than the average age of the plan participants they receive a benefit of lower insurance rates. This benefit is reported as the Other Post Employment Benefits (OPEB) liability. The government has less than 100 plan members and thus qualifies to use the "Alternative Measurement Method" for calculating the liability. The above described OPEB plan does not provide a stand-alone financial report.

Funding Policy. The government pays OPEB liability costs on a pay-as-you-go basis. A trust fund for future liabilities has not been established.

CITY OF CUT BANK
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NOTES TO THE FINANCIAL STATEMENTS
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Funding Status and funding Progress. The funded status of the plan as of June 30, 2014, was as follows:

Actuarial Accrued Liability (AAL)	\$	619,642
Actuarial value of plan assets	\$	-
Unfunded Actuarial Accrued Liability (UAAL)	\$	619,642
Funded ratio (actuarial value of plan assets/AAL)		0%
Covered payroll (active plan members)	\$	1,025,232
UAAL as a percentage of covered payroll		60.44%

Annual OPEB Cost and Net OPEB Obligation. The government's annual other post employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount determined in accordance with the parameter of GASB statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty (30) years. The following table shows the components of the government's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the government's net OPEB obligation.

Annual Required Contribution (ARC)	\$	125,042
Interest on net OPEB obligation	\$	-
Adjustment to ARC	\$	-
Annual OPEB cost (expense)	\$	125,042
Contributions made	\$	-
Increase in net OPEB obligation	\$	125,042
Net OPEB obligation - beginning of year	\$	277,061
Net OPEB obligation - end of year	\$	402,103

Actuarial Methods and Assumptions. The following actuarial methods and assumptions were used:

	Unit Credit Cost Method
Actuarial cost method	
Average age of retirement (based on historical data)	62
Discount rate (average anticipated rate)	0.50%
Average salary increase (Consumer Price Index)	2.80%

CITY OF CUT BANK
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NOTES TO THE FINANCIAL STATEMENTS
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Health care cost rate trend (Federal Office of the Actuary)

<u>Year</u>	<u>% Increase</u>
2014	7.8%
2015	6.4%
2016	6.2%
2017	6.0%
2018	6.4%
2019	6.8%
2020	6.9%
2021	6.7%
2022 and after	6.9%

NOTE 9. INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances as of June 30, 2014, was as follows:

<u>Advances to/from other funds:</u>		<u>Payable Fund</u>	<u>Amount</u>
<u>Purpose</u>	<u>Receivable Fund</u>		
Repairs and improvements	Park Maintenance #1 – Major Governmental	Water – Major Proprietary	\$ 32,852
Repairs and improvements	Park Maintenance #1 – Major Governmental	Sewer – Major Proprietary	32,852
Repairs and improvements	Park Maintenance #1 – Major Governmental	Solid Waste – Major Proprietary	<u>61,183</u>
			<u>\$ 126,887</u>

Interfund Transfers

The following is an analysis of operating transfers in and out during fiscal year 2014:

<u>Purpose</u>	<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Residual equity transfer	General – Major Governmental	Local Gov. Review – Permissive Levy – Nonmajor Governmental	\$ 29
Residual equity transfer	Street Maintenance #1 – Major Governmental	CIP Streets #1 – Nonmajor Governmental	247,432
Residual equity transfer	Street Maintenance #2 – Nonmajor Governmental	CIP Streets #2 – Nonmajor Governmental	33,384
Residual equity transfer	Street Maintenance #3 – Nonmajor Governmental	CIP Streets #3 – Nonmajor Governmental	78,607
Residual equity transfer	Street Maintenance #4 – Nonmajor Governmental	CIP Streets #4 – Nonmajor Governmental	<u>139,183</u>
			<u>\$ 498,635</u>

CITY OF CUT BANK
 GLACIER COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2014

NOTE 10. STATE-WIDE RETIREMENT PLANS

All full-time City employees are covered under one of the following retirement plans: Montana Public Employees Retirement System (PERS), and Municipal Police Officers Retirement System (MPORS). The plans are established by State law and administered by the State of Montana. The plans are cost-sharing multiple-employer defined benefit plans that provide retirement, disability and death benefits to plan members and beneficiaries, with amounts determined by the State. However, PERS members may have chosen the defined contribution retirement plan. Under this plan it puts the employee in control of investments options and their retirement is based upon the cash in their investment account.

Contribution rates are required and determined by State law. The contribution rates, expressed as a percentage of covered payroll for the fiscal year ended June 30, 2014 for the defined benefit plans, were:

	<u>PERS**</u>	<u>MPORS</u>
Employer	8.07%	14.41%
Employee	7.90%*	***
State	0.10%	29.37%

* For PERS members hired before 7/1/2011 that rate is 6.9%

** For the defined contribution plan all rates are the same except only 4.19% of the employer amount is added to the individuals account.

*** If first employed: on or before 6/30/75- 5.8%, after 6/30/75 - 7%, after 6/30/79 - 8.5%, on & after 7/1/97 - 9% w/ GABA - 9%

The State contribution qualifies as an on-behalf payment. The amount for MPORS have been recorded in the City's financial statements and the amount for PERS have not been recorded in the City's financial statements and were considered immaterial.

Publicly available financial reports that include financial statements and required supplementary information may be obtained for the plans by writing or calling: Montana Public Employee Retirement Administration, P.O. Box 200131, Helena, Montana 59620-0131 Phone: 1-406-444-3154.

The City's contributions for the years ended June 30, 2012, 2013, and 2014, as listed below, were equal to the required contributions for each year.

	<u>PERS</u>	<u>MPORS</u>
2012	\$ 53,012	\$ 31,953
2013	\$ 57,457	\$ 35,076
2014	\$ 67,191	\$ 38,533

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 GLACIER COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2014

NOTE 11. LOCAL RETIREMENT PLANS

Fire Department Relief Association Disability and Pension Fund

City volunteer firefighters are covered by the Fire Department Relief Association Disability and Pension Fund, which is established by State Law. The Association is managed by a Board of Trustees made up of members of the fire department, and is accounted for as a pension trust fund of the town.

A member of a volunteer fire department who has served 20 years or more is entitled to benefits regardless of age. Volunteer serving less than 20 years but more than 10 years may receive reduced benefits. The amount of the pension benefits are set by the Association's Board of Trustees.

NOTE 12. FUND BALANCE CLASSIFICATION POLICIES AND PROCEDURES

The government considers restricted amounts to have been spent first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available.

The government considers that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Restricted Fund Balance

<u>Major Fund</u>	<u>Amount</u>	<u>Purpose of Restriction</u>
Street Maintenance #1	\$ 416,691	Public works
All other aggregate:		
	132,990	General government
	70,096	Public safety
	742,652	Public works
	<u>13,039</u>	Public health
	<u>\$ 1,375,468</u>	

Committed Fund Balance

<u>Major Fund</u>	<u>Amount</u>	<u>Purpose of Commitment</u>
All other aggregate:	\$ <u>213,520</u>	General government capital improvement projects

CITY OF CUT BANK
 GLACIER COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2014

NOTE 13. DEFICIT FUND BALANCES/NET POSITION

<u>Fund Name</u>	<u>Amount</u>	<u>Reason for Deficit</u>	<u>How Deficit will be Eliminated</u>
Safe Routes to Schools Grant	\$ 47	Expenditures exceeded revenues	Future grant revenues received
COPS Grant	\$ 2,186	Expenditures exceeded revenues	Future grant revenues received

NOTE 14. RESTATEMENTS

During the current fiscal year, the following adjustments relating to prior years' transactions were made to fund balance and net position.

<u>Fund</u>	<u>Amount</u>	<u>Reason for Adjustment</u>
Park Maintenance Dist. #1	\$ 200,183	Prior period undistributed revenues from Glacier County
Governmental Activities	<u>(1,900)</u>	Prior period capital asset adjustment
	<u>\$ 198,283</u>	

NOTE 15. JOINT VENTURES

Joint ventures are independently constituted entities generally created by two or more governments for a specific purpose which are subject to joint control, in which the participating governments retain 1) an ongoing financial interest or 2) an ongoing financial responsibility.

The Cities of Conrad, Cut Bank, and Shelby entered into a joint venture agreement for the purpose of acquiring, maintaining, and operating major items of equipment which each city could not individually afford. The joint venture is administered by a nine member board. Each city appoints three member to the Board, one of which is to be the Mayor. The joint venture is hereafter named Tri-City Interlocal Equipment Pool.

Annually, each city contributes an amount agreed upon by all parties, but not less than \$20,000. The Board prepared an operating budget each year, and presents the budget to each of the cities. Monies approved by the cities are deposited in a fund controlled by the Board. This fund is held in a bank account separate from the accounts of any participating cities, and is accounted for within the records of the City of Cut bank as an investment in joint venture that is reported both in the Statement of Net Position and in the Sewer fund. The title to the equipment purchased by the joint venture vests in the cities in direct proportion to their contributions. If any equipment is sold during the course of the joint venture, the proceeds realized from the sale will be distributed to the cities in direct proportion to their contribution

The following is a summary of the Tri-City Interlocal joint venture operation for the fiscal year ended June 30, 2014:

CITY OF CUT BANK
 GLACIER COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2014

	<u>Total</u>	<u>Cut Bank's Share</u>
Total Assets	\$ 509,038	\$ 169,679
Total Liabilities	\$ 108,286	\$ 36,095
Total Net Position	\$ 400,752	\$ 133,584
Total Revenues	\$ 76,973	\$ 25,658
Total Expenditure	\$ 101,647	\$ 33,882
Total Increase (Decrease) in Net Position	\$ (24,674)	\$ (8,225)

As of June 30, 2014, the City of Cut Bank's share of the joint venture assets was \$169,679. The joint venture assets include some related to the City's governmental fund operations and some related to the City's enterprise fund operations.

As required by the generally accepted accounting principles, the equity method of accounted was adopted by the City for the enterprise fund's involvement in the joint venture. An investment in Tri-City Interlocal Equipment Pool in the amount of \$53,434 was reported in the Statement of Net Position at June 30, 2014.

The City's governmental fund investment in the joint venture was reported under the equity method in the Statement of Net Position, as required by the generally accepted accounting principles. An investment in the amount of \$80,150 was reported as governmental activities on the Statement of Net position as of June 30, 2014.

Audited financial statements of the Tri-City Interlocal Equipment Pool are available at the City of Cut Bank, 221 West Main, Cut Bank, Montana 59427.

NOTE 16. SERVICES PROVIDED TO OTHER GOVERNMENTS

County Provided Services

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

NOTE 17. RISK MANAGEMENT

The City faces 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, (e) workers' compensation, i.e., employee injuries, and (f) medical insurance costs of employees. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

CITY OF CUT BANK
GLACIER COUNTY, MONTANA
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June 30, 2014

Insurance Policies:

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

Insurance Pools:

The City participates in the state-wide public safety risk pool, Montana Municipal Insurance Authority for workers' compensation.

In 1986, the City joined together with other Montana cities to form the Montana Municipal Insurance Authority which established a workers' compensation plan and a tort liability plan. Both public entity risk pools currently operate as common risk management and insurance programs for the member governments. The liability limits for damages in tort action are \$750,000 per claim and \$1.5 million per occurrence with a \$3.750 deductible per occurrence. State tort law limits the City's liability to \$1.5 million. The City pays an annual premium for its employee injury insurance coverage, which is allocated to the employer funds based on total salaries and wages. The agreements for formation of the pools provide that they will be self-sustaining through member premiums.

Separate audited financial statements are available from the Montana Municipal Insurance Authority.

NOTE 18. SUBSEQUENT EVENTS

The City of Cut Bank received a total of \$250,583 in revenue that was receipted into its Park Maintenance Fund in September of 2014. This money had been held by Glacier County for five years and should have been distributed to the City each year. The City realized that it had not been receiving this money and notified the County. In September of 2014, the County sent the money owed to the City related to this fund.

NOTE 19. SIGNIFICANT CONSTRUCTION COMMITMENTS AND/OR OTHER CONTINGENCIES

The City of Cut Bank was involved in two major construction projects during fiscal year 2014. The first involved repair work on one of the City's main sewer lines. Minor repair work had been completed in the past, but the City knew that more extensive repair work was needed to make it functional for the future. This project was completed by the Spring of 2015.

CITY OF CUT BANK
 GLACIER COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
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The City of Cut Bank was also involved in the planning stages of a new wastewater treatment plant. The current lagoon did not meet the state and federal requirements. It was decided that the City would construct a new wastewater treatment plant to meet the necessary requirements. The pre-bidding process was about to begin as of April 2015 with construction to commence shortly after this process is completed and approved.

<u>Project Name</u>	<u>Project Authorization</u>	<u>Expended to Date</u>	<u>Commitment</u>
Wastewater Force Main	\$ 1,225,000	\$ 532,583	\$ 692,417
Wastewater Treatment Plant	<u>1,136,700</u>	<u>198,572</u>	<u>938,128</u>
Total	<u>\$ 2,361,700</u>	<u>\$ 731,155</u>	<u>\$ 1,630,545</u>

NOTE 20 PENDING LITIGATION

The following is a list of litigation pending against the City and the amount of damages claimed by the Plaintiff. The City Attorney has made no evaluation as to the outcome of each case. The City has liability insurance which may cover all or part of the damages requestd.

<u>Case</u>	<u>Damages Requested</u>	<u>Potential of Loss</u>
Blackfeet Tribe water plant reservoir claim vs. City of Cut Bank	Not Stated	Not Stated
Rod Bartleson vs. City of Cut Bank	Not Stated	Less than 50%
Sober Living, LLC vs. City of Cut Bank	Not Stated	Not Stated

**REQUIRED SUPPLEMENTAL
INFORMATION**

City of Cut Bank, Glacier County, Montana
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2014

	General			
	BUDGETED AMOUNTS		ACTUAL AMOUNTS (BUDGETARY BASIS) See Note A	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL		
RESOURCES (INFLOWS):				
Taxes and assessments	\$ 409,010	\$ 409,010	\$ 440,940	\$ 31,930
Licenses and permits	52,300	52,300	50,299	(2,001)
Intergovernmental	594,534	594,534	601,013	6,479
Charges for services	72,770	72,770	69,928	(2,842)
Fines and forfeitures	48,100	48,100	32,896	(15,204)
Miscellaneous	49,800	49,800	100,742	50,942
Investment earnings	4,000	4,000	3,169	(831)
Amounts available for appropriation	\$ 1,230,514	\$ 1,230,514	\$ 1,298,987	\$ 68,473
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
General government	\$ 390,765	\$ 390,765	\$ 317,160	\$ 73,605
Public safety	529,325	529,325	562,100	(32,775)
Public works	23,200	23,200	15,464	7,736
Public health	63,780	63,780	43,543	20,237
Culture and recreation	278,905	278,905	210,417	68,488
Capital outlay	56,000	56,000	25,000	31,000
Total charges to appropriations	\$ 1,341,975	\$ 1,341,975	\$ 1,173,684	\$ 168,291
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ -	\$ -	\$ 29	\$ 29
Net change in fund balance			\$ 125,332	
Fund balance - beginning of the year			\$ 864,378	
Fund balance - end of the year			\$ 989,710	

City of Cut Bank, Glacier County, Montana
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2014

Street Maintenance #1				
	BUDGETED AMOUNTS		ACTUAL	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL	AMOUNTS (BUDGETARY BASIS) See Note A	
RESOURCES (INFLOWS):				
Taxes and assessments	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-
Intergovernmental	-	-	-	-
Charges for services	2,700	2,700	760	(1,940)
Fines and forfeitures	-	-	-	-
Miscellaneous	268,500	268,500	277,052	8,552
Investment earnings	2,000	2,000	1,627	(373)
Amounts available for appropriation	\$ 273,200	\$ 273,200	\$ 279,439	\$ 6,239
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
General government	\$ -	\$ -	\$ -	\$ -
Public safety	-	-	-	-
Public works	336,000	336,000	283,131	52,869
Public health	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	10,000	10,000	108,735	(98,735)
Total charges to appropriations	\$ 346,000	\$ 346,000	\$ 391,866	\$ (45,866)
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ -	\$ -	\$ 247,432	\$ 247,432
Net change in fund balance			\$ 135,005	
Fund balance - beginning of the year			\$ 281,686	
Fund balance - end of the year			\$ 416,691	

City of Cut Bank, Glacier County, Montana
REQUIRED SUPPLEMENTAL INFORMATION
Schedule of Funding Progress
For the Fiscal Year Ended June 30, 2014

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Unit Credit Cost Method (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/(c))
July 1, 2009	\$ -	\$ 261,733	\$ 261,733	0%	\$ 989,332	26%
July 1, 2012	\$ -	\$ 619,642	\$ 619,642	0%	\$ 1,025,232	60%

SINGLE AUDIT SECTION

City of Cut Bank, Glacier County, Montana
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2014

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Federal Expenditure June 30, 2014</u>
<u>U.S. Department of Justice</u>			
<i>Direct:</i>			
Public Safety Partnership and Community Policing Grants	16.710	2010UMWX0186	\$ 13,563
Public Safety Partnership and Community Policing Grants	16.710	2013UMWX0199	27,094
Total U.S. Department of Justice			\$ <u>40,657</u>
<u>U.S. Department of Transportation</u>			
<i>Passed through Montana Department of Transportation:</i>			
Highway Planning and Construction	20.205	8555	\$ 11,255
Highway Planning and Construction	20.205	7963	10,758
State and Community Highway Safety	20.600	107269	669
Total U.S. Department of Transportation			\$ <u>22,682</u>
<u>U.S. Environmental Protection Agency</u>			
<i>Passed through Montana Department of Natural Resources:</i>			
Capitalization Grants for Clean Water State Revolving Funds	66.458	SRF-14349	\$ 756,855
Capitalization Grants for Clean Water State Revolving Funds	66.458	SRF-14354	231,700
Total U.S. Environmental Protection Agency			\$ <u>988,555</u>
Total Federal Financial Assistance			\$ <u>1,051,894</u>

CITY OF CUT BANK

GLACIER COUNTY, MONTANA

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2014

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of City of Cut Bank, Glacier County, Montana, and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in preparation of, the basic financial statements.

Denning, Downey & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

1740 U.S. Hwy 93 South - Suite 101 Kalispell, MT 59901

**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***

Mayor and City Council
City of Cut Bank
Glacier County
Cut Bank, Montana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of City of Cut Bank, Glacier County, 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 Cut Bank's basic financial statements and have issued our report thereon dated June 15, 2015.

Internal Control Over Financial Reporting

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

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified certain deficiencies in internal control that we 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 statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses as identified as item 2014-001.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We did not identify any significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Cut Bank'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 and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Cut Bank's Response to Findings

City of Cut Bank's response to the findings identified in our audit is described in the Schedule of Findings and Questioned Costs. City of Cut Bank's response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or 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.

Derrington, Downey and Associates, CPAs, P.C.

June 15, 2015

Denning, Downey & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

1740 U.S. Hwy 93 South, P.O. Box 1957, Kalispell, MT 59903-1957

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

Mayor and City Council
City of Cut Bank
Glacier County
Cut Bank, Montana

Report on Compliance for Each Major Federal Program

We have audited City of Cut Bank, Glacier County, Montana, compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of City of Cut Bank's major federal programs for the year ended June 30, 2014. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, City of Cut Bank, Glacier County, Montana, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2014-002. Our opinion on each major federal program is not modified with respect to these matters.

Report on Internal Control Over Compliance

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

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

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

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

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

Denning, Downey and Associates, CPA's, P.C.

June 15, 2015

CITY OF CUT BANK

GLACIER COUNTY, MONTANA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Fiscal Year Ended June 30, 2014

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued	<i>Unmodified</i>
Internal control over financial reporting:	
Material weakness(es) identified?	Yes
Significant deficiency(s) identified not considered to be material weaknesses	None Reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(s) identified not considered to be material weaknesses	None Reported
Type of auditor’s report issued on compliance for major programs:	<i>Unmodified</i>
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	Yes

Identification of major programs:

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

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	No

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

Section II – Financial Statement Findings

2014-001 City Court

Condition:

The following internal control weaknesses were noted during the audit of the City Court:

- 1) In most situations when a payment is received the court clerk directly enters payment into the courts accounting system and the accounting system generates a receipt for the defendant. On occasion, payments are received when the court clerk is not present. In those situations the court uses a manual receipt book. The manual receipt book is generic type that can be purchased from an office supply store. It is not preprinted with the Court's name and receipt numbers are not tracked for completeness.
- 2) When a defendant posts a bond with the court the bond is entered into the courts accounting system. Upon dissolution of the case, the bond is removed from the system and either returned to the defendant or remitted to the City as a fine. The court had several transactions that were over one year old that the bond had not been removed from the accounting system.

Criteria:

- 1) Manual generic receipts increase the risk of accounting error from the difficulty in tracking multiple receipt books.
- 2) A good court control system should ensure that dissolution of all cases be timely updated in the accounting system.

Effect:

The effect of these factors weakens the internal controls of the City Court.

Cause:

The Court Clerk is continuing to learn the position and the reports that are needed to ensure adequate follow-up procedures are in place for bond collection.

Recommendation:

- 1) We continue to recommend the Court Clerk only obtain manual receipts that have the Court's name on them and are pre-numbered. Additionally we recommend the court secure and account for all unused pre-numbered receipt books
- 2) We recommend the Court timely follow up on all old bonds outstanding.

Auditee Response:

Cash Receipts:

We will purchase and use a more purpose orientated receipt book in order to better track cash payments received when the Cut Bank City Court Clerk is not available to take the payment, immediately enter the payment into Full Court, and general a Full Court receipt.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

Old Bonds:

The Cut Bank City Court did have a number of outstanding bail bonds. Many of those bonds were security bonds that had just not been exonerated by the court and so entered in Full Court. There were several cash bonds that were due to a bonding company that had gone out of business and the owner's location was unknown. That owner has been located and the money returned. One cash bond was due to be forfeited and had just not been done. Cases in which bail bonds are posted are normally, but not always, completed within a year. We will be alert to keep the status of bail bonds current as the case progress allows.

Section III – Federal Award Findings and Questioned Costs

2014-002 Federal Finding

CFDA Title: Capitalization Grants for Clean Water State Revolving Funds

CFDA Number: 66.458

Federal Award Number: SRF-14349 & SRF-14354 2014

Federal Agency: U.S. Environmental Protection Agency

Pass-through Entity: Montana Department of Natural Resources

Condition:

The City of Cut Bank did not file their federal audit by the required deadline.

Criteria:

OMB Circular A-133 - section.320(1) states, "The audit shall be completed and the data collection form described in paragraph (b) of this section and reporting package described in paragraph (c) of this section shall be submitted within the earlier of 30 days after receipt of the auditor's report, or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit."

Effect:

The City was late in filing the federal audit for 2014.

Cause:

The City did not realize the funding for the wastewater projects contained a majority of federal dollars which caused it to go over the \$500,000 threshold in determining if the audit required to be covered by OMB Circular A-133.

Recommendation:

The City should thoroughly review grant monies that are received to determine the total amount of federal revenue and expenditures each fiscal year.

Auditee Response:

I will be very attentive to the fact that all the funds that we received from the state are not just the state, but also contain federal funds. When I am aware that the funding we have received has reached the requirements for a federal audit, I will ensure that an federal audit is added to our normal audit requirements.

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REPORT ON PRIOR AUDIT REPORT RECOMMENDATIONS

Mayor and City Council
City of Cut Bank
Glacier County
Cut Bank, Montana

The prior audit report contained two recommendations. The action taken on each recommendation is as follows:

<u>Recommendation</u>	<u>Action Taken</u>
City Court	Repeated
Exceeding Budget Authority	Implemented

Denning, Downey and Associates, CPA's, P.C.

June 15, 2015