

CITY OF EAST HELENA
LEWIS & CLARK COUNTY, MONTANA
Fiscal Year Ended June 30, 2014

AUDIT REPORT

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

CITY OF EAST HELENA
LEWIS & CLARK COUNTY, MONTANA

Fiscal Year Ended June 30, 2014

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CITY OF EAST HELENA
LEWIS & CLARK COUNTY, MONTANA

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CITY OF EAST HELENA
LEWIS & CLARK COUNTY, MONTANA

ORGANIZATION

Fiscal Year Ended June 30, 2014

James Schell

Mayor

CITY COUNCIL

Kit Johnson

Council Member

Don Dahl

Council Member

Scott St. Clair

Council Member

Judy Leland

Council Member

CITY OFFICIALS

Michael J. Reiley

Attorney

Dennis Loveless

City Judge

Sandra K. Milsten

Clerk / Treasurer

Dale Aschim

Chief of Police

Steve Leitcke

Public Works Director

Elroy Golemon

Fire Chief

City of East Helena, Montana
Management's Discussion and Analysis
June 30, 2014

As management of the City of East Helena, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ending June 30, 2014. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the City's financial statements, which follow this narrative.

Financial Highlights

- The assets of the City of East Helena exceeded its liabilities at the close of the fiscal year by \$10,466,382.
- The government's total net assets increased by \$1,269,736. This increase is primarily attributable to increases in the business type activities of capital assets purchased and infrastructure improvements in progress.
- As of the close of the current fiscal year, the City of East Helena's governmental funds reported combined ending fund balances of \$408,394, a decrease of \$37,344 in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$234,646.
- The City's total debt increased by \$2,742,521 during the current fiscal year. The key factor in this increase is an addition in principal of \$2,809,551 of INTERCAP Loans and other post-employment benefits (OPEB). Reductions were reported in Capital Leases, Compensated Absences Payable, ARRA Loans, and Revenue Bonds.

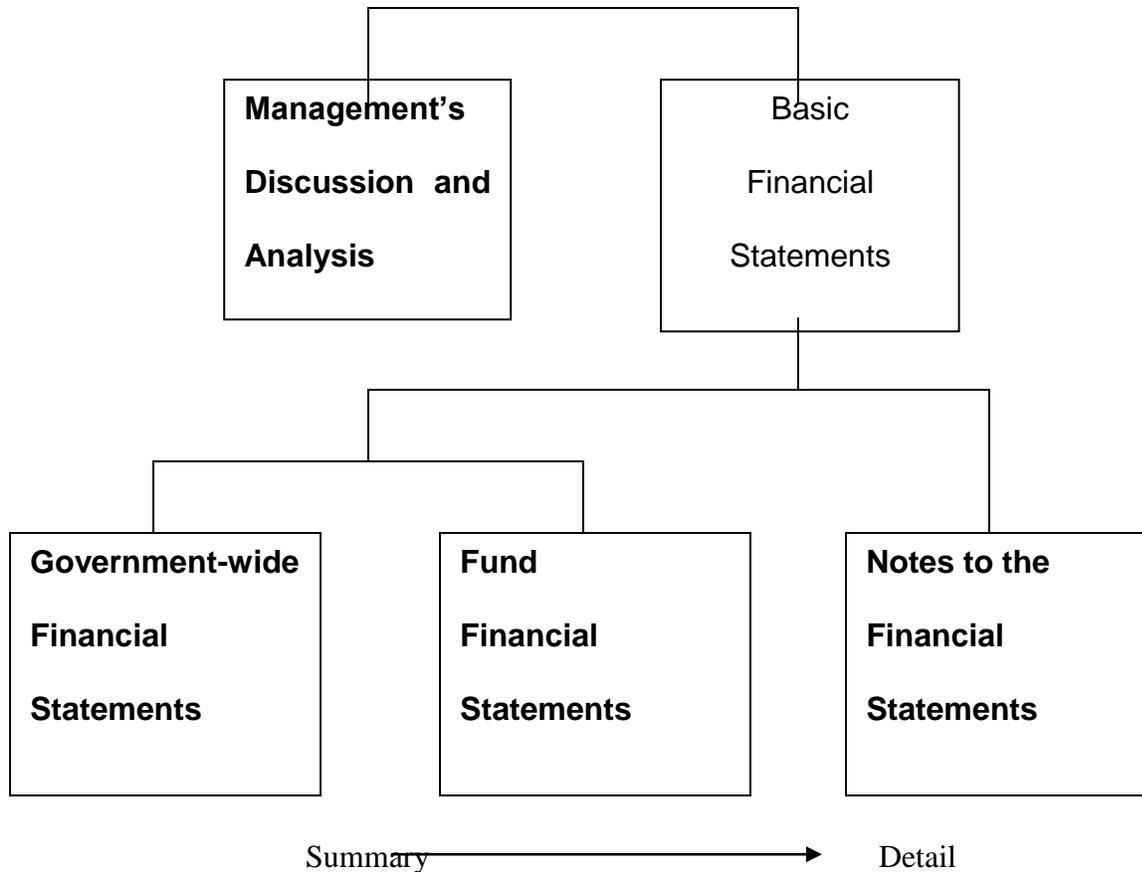
Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of East Helena's basic financial statements. The City's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the City through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the City of East Helena.

**City of East Helena, Montana
Management's Discussion and Analysis
June 30, 2014**

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the City's financial status.

The next statements are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the City's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; and 3) the proprietary fund statements.

The next section of the basic financial statements are the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the City's individual funds. Budgetary information required by the General Statues also can be found in this part of the statements.

City of East Helena, Montana
Management's Discussion and Analysis
June 30, 2014

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the City's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the City's financial status as a whole.

The two government-wide statements report the City's net assets and how they have changed. Net assets are the difference between the City's total assets and total liabilities. Measuring net assets is one way to gauge the City's financial condition.

The government-wide statements are divided into two categories: 1) governmental activities; and 2) business-type activities. The governmental activities include most of the City's basic services such as public safety, parks and recreation, and general administration. Property taxes, intergovernmental revenues, and state and federal grant funds finance most of these activities. The business-type activities are those that the City charges customers to provide. These include the water and sewer and solid waste services offered by the City of East Helena.

Fund Financial Statements

The fund financial statements provide a more detailed look at the City's most significant activities. A fund is a grouping of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The City of East Helena, like all other governmental entities in Montana, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the City's budget ordinance. All of the funds of the City of East Helena can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called modified accrual accounting that provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her to determine if there are more or less financial resources available to finance the City's programs. The relationship between government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

City of East Helena, Montana
Management's Discussion and Analysis
June 30, 2014

The City of East Helena adopts an annual budget for its governmental funds, and a budget for its proprietary fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the City, the management of the City, and the decisions of the Council about which services to provide and how to pay for them. It also authorized the City to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for in the General Fund demonstrates how well the City complied with the budget ordinance and whether or not the City succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the Council; 2) the final budget as amended by the council; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement.

Proprietary Funds – The City of East Helena has one kind of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of East Helena uses enterprise funds to account for its water and wastewater utilities and solid waste service. These funds are the same as those functions shown in the business-type activities in the Statement of Net Assets and the Statement of Activities.

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

Government-Wide Financial Analysis
The City of East Helena's Net Assets
Figure 1

Table 1 - Net Position

	Governmental Activities			Business-type Activities		
	<u>FY14</u>	<u>FY13</u>	<u>Change Inc (Dec)</u>	<u>FY14</u>	<u>FY13</u>	<u>Change Inc (Dec)</u>
Current and other assets	\$ 602,187	\$ 530,243	\$ 71,944	\$ 2,006,272	\$ 1,687,007	\$ 319,265
Capital assets	3,543,827	3,622,609	(78,782)	12,303,792	8,646,818	3,656,974
Total assets	\$ 4,146,014	\$ 4,152,852	\$ (6,838)	\$ 14,310,064	\$ 10,333,825	\$ 3,976,239
Long-term debt outstanding	\$ 570,997	\$ 638,026	\$ (67,029)	\$ 7,321,184	\$ 4,511,633	\$ 2,809,551
Other liabilities	17,032	20,582	(3,550)	80,483	119,790	(39,307)
Total liabilities	\$ 588,029	\$ 658,608	\$ (70,579)	\$ 7,401,667	\$ 4,631,423	\$ 2,770,244
Net investment in capital assets	\$ 3,104,454	\$ 3,086,689	\$ 17,765	\$ 5,048,789	\$ 4,195,221	\$ 853,568
Restricted	153,684	196,743	(43,059)	410,448	561,198	(150,750)
Unrestricted (deficit)	299,847	210,812	89,035	1,449,160	945,983	503,177
Total net position	\$ 3,557,985	\$ 3,494,244	\$ 63,741	\$ 6,908,397	\$ 5,702,402	\$ 1,205,995

City of East Helena, Montana
Management's Discussion and Analysis
June 30, 2014

Government-Wide Financial Analysis
The City of East Helena's Changes in Net Position
Figure 2

Table 2 - Changes in Net Position

	Governmental Activities			Business-type Activities		
	<u>FY14</u>	<u>FY13</u>	<u>Change Inc (Dec)</u>	<u>FY14</u>	<u>FY13</u>	<u>Change Inc (Dec)</u>
Revenues						
<i>Program revenues (by major source):</i>						
Charges for services	\$ 58,511	\$ 57,183	\$ 1,328	\$ 1,453,166	\$ 1,207,745	\$ 245,421
Operating grants and contributions	114,082	157,552	(43,470)	486,077	-	486,077
Capital grants and contributions	29,425	569	28,856	-	488,230	(488,230)
<i>General revenues (by major source):</i>						
Property taxes for general purposes	523,877	506,987	16,890	-	-	-
Miscellaneous	30,008	21,809	8,199	5,140	-	5,140
Interest/investment earnings	392	646	(254)	1,658	-	1,658
State entitlement	534,642	515,355	19,287	-	-	-
Licenses and permits	12,668	12,472	196	-	-	-
Local option taxes	48,023	47,064	959	-	-	-
Contributions & donations	2,027	30,729	(28,702)	349,363	-	349,363
Total revenues	<u>\$ 1,353,655</u>	<u>\$ 1,350,366</u>	<u>\$ 3,289</u>	<u>\$ 2,295,404</u>	<u>\$ 1,695,975</u>	<u>\$ 599,429</u>
Program expenses						
General government	\$ 425,090	\$ 384,075	\$ 41,015			
Public safety	539,171	548,623	(9,452)			
Public works	145,680	165,430	(19,750)			
Public health	65,311	3,995	61,316			
Culture and recreation	66,979	121,099	(54,120)			
Debt service - interest	6,761	7,112	(351)			
Miscellaneous	40,922	48,931	(8,009)			
Water Utility				\$ 427,918	\$ 405,330	\$ 22,588
Sewer Utility				510,788	511,732	(944)
Solid Waste				150,703	171,587	(20,884)
Total expenses	<u>\$ 1,289,914</u>	<u>\$ 1,279,265</u>	<u>\$ 10,649</u>	<u>\$ 1,089,409</u>	<u>\$ 1,088,649</u>	<u>\$ 760</u>
Increase (decrease) in net position	<u>\$ 63,741</u>	<u>\$ 71,101</u>	<u>\$ (7,360)</u>	<u>\$ 1,205,995</u>	<u>\$ 607,326</u>	<u>\$ 598,669</u>

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of the City of East Helena exceeded liabilities by \$10,466,382 as of June 30, 2014. The City's net assets increased by \$1,269,736 for the fiscal year ending June 30, 2014. The City of East Helena uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of East Helena's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the City of East Helena's net assets, \$596,602 represents resources that are subject to external restrictions on how these may be used. The remaining balance of \$2,629,447 is unrestricted.

City of East Helena, Montana
Management's Discussion and Analysis
June 30, 2014

Governmental activities – Governmental activities increased the City's net assets by \$63,741. The cost of all governmental activities this year was \$1,289,914. Property taxes, Federal/State shared revenue and grants accounted for the majority of the revenues used to finance governmental activities.

Business-type activities – Business-type activities increased the City of East Helena' net assets by \$1,205,995. Key elements of this increase are as follows:

- On July 1, 2011 wastewater user monthly service rate increased from \$ 38.92 to \$46.40 per equivalent user. The basis of the rate increase was a combination of increased operation & maintenance costs, as well as an initial phase of the anticipated rate increase to fund necessary improvements to comply with EPA/DEQ discharge permit requirements and completion of the storm drain/sewer separation project. An additional \$20 increase in the sewer rates was implemented July 2013.
- Grants & Contributions of \$486,077, to record revenues reported for grants & loans related to the Wastewater Improvement Project
- The City's total outstanding water and sewer system debt increased by \$2,809,551 during fiscal year 2013-2014. The increase was primarily due to an additional INTERCAP Loan, required to provide interim financing to fund the Wastewater Metals Removal Project.

Financial Analysis of the City's Funds

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

Governmental Funds - The focus of the City of East Helena's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the City of East Helena's financing requirements. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the City of East Helena. At the end of the current fiscal year, the total General Fund balance of \$234,646 was unreserved. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 18 percent of total General Fund expenditures.

At June 30, 2014, the governmental funds of the City of East Helena reported a combined fund balance of \$408,394, an 8 percent decrease from the prior year.

Budgetary Highlights – During the fiscal year, the City revised the budget upward within the General Government activity for a state grant.

Total budgeted expenditures for Governmental activities were \$1,545,332 and actual expenditures totaled \$1,296,039; with unused appropriations of \$249,294.

Total revenues received for the governmental activities of \$1,241,082 were less than the budgeted revenues of \$1,364,077 by \$122,995.

City of East Helena, Montana
Management's Discussion and Analysis
June 30, 2014

Proprietary Funds – The City's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the Water, Wastewater, and Solid Waste at the end of the fiscal year amounted to \$1,449,160. The total growth in net assets for all proprietary funds was \$1,205,995. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

Capital Assets and Debt Administration

Capital Assets – The City of East Helena's investment in capital assets for its governmental and business-type activities as of June 30, 2014 include buildings, improvements other than buildings, roads, land, machinery and equipment, park facilities, vehicles, and utility system infrastructure.

Major capital asset transactions during the year include the following additions & disposals:

Additions:

- Street improvements
- City Hall improvements
- Speed sign & trailer
- Sidewalk improvements
- Improvements to the wastewater and water systems

Disposals:

- 2002 Dodge Intrepid
- Crown Vic

City of East Helena, Montana
Management's Discussion and Analysis
June 30, 2014
City of East Helena's Capital Assets
Figure 4

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 118,268	\$ 118,268	\$ -	\$ -	\$ 118,268	\$ 118,268
Building & Systems	753,575	753,575	-	-	753,575	753,575
Improvements other than Buildings	2,475,031	2,412,264	-	-	2,475,031	2,412,264
Machinery and Equipment	986,203	1,020,458	376,767	283,354	1,362,970	1,303,812
Infrastructure	342,797	342,797	12,528,044	11,808,660	13,146,841	12,151,457
Construction in progress	178,966	175,403	4,692,361	1,463,418	4,871,327	1,638,821
	<u>\$ 4,854,840</u>	<u>\$ 14,822,765</u>	<u>\$ 17,597,171</u>	<u>\$ 13,555,432</u>	<u>\$ 22,728,012</u>	<u>\$ 18,378,197</u>

Additional information on the City's capital assets can be found in note 4C of the Basic Financial Statements.

Long-term Debt – As of June 30, 2014, the City of East Helena had total bonded debt outstanding of \$3,739,003. The bonded debt of the City debt represents bonds secured solely by specified revenue sources (i.e. revenue bonds, special assessments).

The City of East Helena has INTERCAP Loans with outstanding debt of \$3,804,954. The INTERCAP Loans were originated in 2007 for the construction of a new shop building, in 2008 for the reconstruction of a new swimming pool, and in 2013 as interim financing for the 2013 Wastewater Improvements Project.

The City of East Helena has a Capital Lease Obligation of \$20,419, this lease was to procure a 2013 Ford Explorer Police vehicle.

Other obligations include accrued vacation leave and sick leave (compensated absences payable) in the amount of \$90,112, and other post-employment benefits (OPEB) of \$107,692.

**City of East Helena, Montana
Management's Discussion and Analysis
June 30, 2014**

**City of East Helena's Outstanding Debt
Revenue Bonds, Intercap Loans, and Compensated Absences
(Figure 5)**

	Governmental Activities		Business-Type Activities		Total	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Capital Leases	\$ 20,419	\$ 29,710	\$ -	\$ -	\$ 20,419	\$ 29,710
Revenue Bonds	\$ -	\$ -	\$3,869,003	\$4,170,603	\$3,869,003	\$ 4,170,603
Intercap Loans	\$ 56,066	\$506,210	\$3,386,000	\$ 280,994	\$3,804,954	\$ 787,204
Comp Absences	\$ 75,557	\$ 1,231	\$ 34,046	\$ 37,982	\$ 90,112	\$ 89,213
OPEB	<u>\$ 75,557</u>	<u>\$ 0,875</u>	<u>\$ 32,135</u>	<u>\$ 22,054</u>	<u>\$ 107,692</u>	<u>\$ 72,929</u>
Total	<u>\$570,996</u>	<u>\$638,026</u>	<u>\$7,321,184</u>	<u>\$4,511,633</u>	<u>\$7,892,180</u>	<u>\$ 5,149,659</u>

The City of East Helena's total debt increased, by \$2,742,521, during the past fiscal year. Additional information regarding the City of East Helena's long-term debt can be found in the Notes to the Basic Financial Statements of this report.

Request for Information

This report is designed to provide an overview of the City's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to:

Sandra K. Milsten, City Clerk/Treasurer
City of East Helena
P.O. Box 1170
East Helena, MT 59635
(406)227-5321

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 East Helena
Lewis & Clark County
East Helena, 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 East Helena, Lewis & Clark 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 from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of East Helena, Lewis & Clark 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.

Change in Accounting Principle

As described in Note 1 to the financial statements, in 2014, the City of East Helena, Lewis & Clark 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 10, 44 and 45 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 basic 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 March 26, 2015, on our consideration of the City of East Helena, Lewis & Clark 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 East Helena, Lewis & Clark County, Montana's internal control over financial reporting and compliance.

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

March 26, 2015

City of East Helena, Lewis & Clark 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	\$ 405,963	\$ 1,209,652	\$ 1,615,615
Taxes and assessments receivable, net	176,761	-	176,761
Accounts receivable - net	-	182,548	182,548
Due from other governments	17,466	203,627	221,093
Total current assets	<u>\$ 600,190</u>	<u>\$ 1,595,827</u>	<u>\$ 2,196,017</u>
Noncurrent assets			
Restricted cash and investments	\$ 1,997	\$ 410,445	\$ 412,442
Capital assets - land	118,268	-	118,268
Capital assets - construction in progress	178,966	4,692,360	4,871,326
Capital assets - depreciable, net	3,246,593	7,611,432	10,858,025
Total noncurrent assets	<u>\$ 3,545,824</u>	<u>\$ 12,714,237</u>	<u>\$ 16,260,061</u>
Total assets	<u>\$ 4,146,014</u>	<u>\$ 14,310,064</u>	<u>\$ 18,456,078</u>
LIABILITIES			
Current liabilities			
Accounts payable	\$ 6,569	\$ 74,416	\$ 80,985
Accrued payroll	10,463	6,030	16,493
Refunds Payable	-	37	37
Current portion of long-term capital liabilities	101,001	309,000	410,001
Current portion of compensated absences payable	42,007	25,284	67,291
Total current liabilities	<u>\$ 160,040</u>	<u>\$ 414,767</u>	<u>\$ 574,807</u>
Noncurrent liabilities			
Noncurrent portion of long-term liabilities	\$ 75,558	\$ 32,135	\$ 107,693
Noncurrent portion of long-term capital liabilities	338,372	6,946,003	7,284,375
Noncurrent portion of compensated absences	14,059	8,762	22,821
Total noncurrent liabilities	<u>\$ 427,989</u>	<u>\$ 6,986,900</u>	<u>\$ 7,414,889</u>
Total liabilities	<u>\$ 588,029</u>	<u>\$ 7,401,667</u>	<u>\$ 7,989,696</u>
NET POSITION			
Net investment in capital assets	\$ 3,104,454	\$ 5,048,789	\$ 8,153,243
Restricted for bond indenture requirements	-	401,831	401,831
Restricted for general government	12,406	-	12,406
Restricted for public safety	63,749	-	63,749
Restricted for public works	77,529	-	77,529
Restricted for other purposes	-	8,617	8,617
Unrestricted	299,847	1,449,160	1,749,007
Total net position	<u>\$ 3,557,985</u>	<u>\$ 6,908,397</u>	<u>\$ 10,466,382</u>

See accompanying Notes to the Financial Statements

City of East Helena, Lewis & Clark County, Montana
Statement of Activities
For the Fiscal Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Primary government:							
Governmental activities:							
General government	\$ 425,090	\$ 34,907	\$ 346	\$ 29,425	\$ (360,412)	\$ -	\$ (360,412)
Public safety	539,171	13,736	61,518	-	(463,917)	-	(463,917)
Public works	145,680	175	52,218	-	(93,287)	-	(93,287)
Public health	65,311	63	-	-	(65,248)	-	(65,248)
Culture and recreation	66,979	9,630	-	-	(57,349)	-	(57,349)
Debt service - interest	6,761	-	-	-	(6,761)	-	(6,761)
Miscellaneous	40,922	-	-	-	(40,922)	-	(40,922)
Total governmental activities	\$ <u>1,289,914</u>	\$ <u>58,511</u>	\$ <u>114,082</u>	\$ <u>29,425</u>	\$ <u>(1,087,896)</u>	\$ <u>-</u>	\$ <u>(1,087,896)</u>
Business-type activities:							
Water Utility	\$ 427,918	\$ 426,996	\$ -	\$ -	\$ -	\$ (922)	\$ (922)
Sewer Utility	510,788	850,071	486,077	-	-	825,360	825,360
Solid Waste	150,703	176,099	-	-	-	25,396	25,396
Total business-type activities	\$ <u>1,089,409</u>	\$ <u>1,453,166</u>	\$ <u>486,077</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>849,834</u>	\$ <u>849,834</u>
Total primary government	\$ <u>2,379,323</u>	\$ <u>1,511,677</u>	\$ <u>600,159</u>	\$ <u>29,425</u>	\$ <u>(1,087,896)</u>	\$ <u>849,834</u>	\$ <u>(238,062)</u>
General Revenues:							
Property taxes for general purposes					\$ 523,877	\$ -	\$ 523,877
Miscellaneous					30,008	5,140	35,148
Interest/investment earnings					392	1,658	2,050
State entitlement					534,642	-	534,642
Licenses and permits					12,668	-	12,668
Local option taxes					48,023	-	48,023
Contributions & donations					2,027	349,363	351,390
Total general revenues, special items and transfers					\$ <u>1,151,637</u>	\$ <u>356,161</u>	\$ <u>1,507,798</u>
Change in net position					\$ <u>63,741</u>	\$ <u>1,205,995</u>	\$ <u>1,269,736</u>
Net position - beginning					\$ 3,494,244	\$ 5,702,402	\$ 9,196,646
Net position - end					\$ <u>3,557,985</u>	\$ <u>6,908,397</u>	\$ <u>10,466,382</u>

See accompanying Notes to the Financial Statements

City of East Helena, Lewis & Clark County, Montana
Balance Sheet
Governmental Funds
June 30, 2014

	General	Other Governmental Funds	Total Governmental Funds
ASSETS			
Current assets:			
Cash and investments	\$ 233,090	\$ 172,873	\$ 405,963
Taxes and assessments receivable, net	164,355	12,406	176,761
Due from other governments	17,466	-	17,466
Total current assets	\$ 414,911	\$ 185,279	\$ 600,190
Noncurrent assets:			
Restricted cash and investments	\$ 1,122	\$ 875	\$ 1,997
Total noncurrent assets	\$ 1,122	\$ 875	\$ 1,997
Total assets	\$ 416,033	\$ 186,154	\$ 602,187
Current liabilities:			
Accounts payable	\$ 6,569	\$ -	\$ 6,569
Accrued payroll	10,463	-	10,463
Total current liabilities	\$ 17,032	\$ -	\$ 17,032
Total liabilities	\$ 17,032	\$ -	\$ 17,032
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources	\$ 164,355	\$ 12,406	\$ 176,761
Total deferred inflows of resources	\$ 164,355	\$ 12,406	\$ 176,761
FUND BALANCES			
Restricted	\$ -	\$ 141,278	\$ 141,278
Committed	-	32,470	32,470
Unassigned fund balance	234,646	-	234,646
Total fund balance	\$ 234,646	\$ 173,748	\$ 408,394

See accompanying Notes to the Financial Statements

City of East Helena, Lewis & Clark County, Montana
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Position
June 30, 2014

Total fund balances - governmental funds	\$ 408,394
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	3,543,827
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.	176,761
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.	(570,997)
Total net position - governmental activities	\$ <u><u>3,557,985</u></u>

See accompanying Notes to the Financial Statements

City of East Helena, Lewis & Clark County, Montana
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2014

	General	Other Governmental Funds	Total Governmental Funds
REVENUES			
Taxes and assessments	\$ 429,723	\$ 28,948	\$ 458,671
Licenses and permits	17,753	-	17,753
Intergovernmental	636,266	52,564	688,830
Charges for services	9,868	-	9,868
Fines and forfeitures	32,883	-	32,883
Miscellaneous	32,428	-	32,428
Investment earnings	384	-	384
Total revenues	\$ 1,159,305	\$ 81,512	\$ 1,240,817
EXPENDITURES			
General government	\$ 383,711	\$ 346	\$ 384,057
Public safety	498,620	3,696	502,316
Public works	101,289	4,800	106,089
Public health	1,183	-	1,183
Culture and recreation	66,979	-	66,979
Debt service - principal	87,256	9,291	96,547
Debt service - interest	4,845	1,916	6,761
Miscellaneous	(392)	39,355	38,963
Capital outlay	19,272	55,994	75,266
Total expenditures	\$ 1,162,763	\$ 115,398	\$ 1,278,161
Excess (deficiency) of revenues over expenditures	\$ (3,458)	\$ (33,886)	\$ (37,344)
OTHER FINANCING SOURCES (USES)			
Transfers in	\$ -	\$ 16,771	\$ 16,771
Transfers out	(16,771)	-	(16,771)
Total other financing sources (uses)	\$ (16,771)	\$ 16,771	\$ -
Net Change in Fund Balance	\$ (20,229)	\$ (17,115)	\$ (37,344)
Fund balances - beginning	\$ 254,875	\$ 190,863	\$ 445,738
Fund balance - ending	\$ 234,646	\$ 173,748	\$ 408,394

See accompanying Notes to the Financial Statements

City of East Helena, Lewis & Clark 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 \$ (37,344)

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	75,266
- Depreciation expense	(152,089)

In the Statement of Activities, the loss or gain on the sale or disposal of capital assets is recognized. The fund financial statements recognize only the proceeds from the sale of these assets:

- Loss on disposal of capital assets	(1,959)
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Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:

- Long-term receivables (deferred revenue)	112,838
--	---------

The change in compensated absences is shown as an expense in the Statement of Activities

(4,835)

Repayment of debt principal is an expenditures in the governmental funds, but the repayment reduces long-term debt in the Statement of Net Position:

- Long-term debt principal payments	96,547
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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:

- Post-employment benefits other than retirement liability	(24,683)
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Change in net position - Statement of Activities **\$ 63,741**

City of East Helena, Lewis & Clark County, Montana
Statement of Net Position
Proprietary Funds
June 30, 2014

	Business-Type Activities - Enterprise Funds			
	Water Utility	Sewer Utility	Solid Waste	Totals
ASSETS				
Current assets:				
Cash and investments	\$ 603,365	\$ 505,974	\$ 100,313	\$ 1,209,652
Accounts receivable - net	64,569	98,098	19,881	182,548
Due from other governments	-	203,627	-	203,627
Total current assets	<u>\$ 667,934</u>	<u>\$ 807,699</u>	<u>\$ 120,194</u>	<u>\$ 1,595,827</u>
Noncurrent assets:				
Restricted cash and investments	\$ 165,882	\$ 244,563	\$ -	\$ 410,445
Capital assets - construction in progress	-	4,692,360	-	4,692,360
Capital assets - depreciable, net	3,471,587	4,072,287	67,558	7,611,432
Total noncurrent assets	<u>\$ 3,637,469</u>	<u>\$ 9,009,210</u>	<u>\$ 67,558</u>	<u>\$ 12,714,237</u>
Total assets	<u>\$ 4,305,403</u>	<u>\$ 9,816,909</u>	<u>\$ 187,752</u>	<u>\$ 14,310,064</u>
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 4,853	\$ 60,104	\$ 9,459	\$ 74,416
Accrued payroll	2,037	2,622	1,371	6,030
Refunds Payable	-	-	37	37
Current portion of long-term capital liabilities	97,000	212,000	-	309,000
Current portion of compensated absences payable	10,447	8,452	6,385	25,284
Total current liabilities	<u>\$ 114,337</u>	<u>\$ 283,178</u>	<u>\$ 17,252</u>	<u>\$ 414,767</u>
Noncurrent liabilities:				
Noncurrent portion of long-term liabilities	\$ 14,450	\$ 11,254	\$ 6,431	\$ 32,135
Noncurrent portion of long-term capital liabilities	1,744,000	5,202,003	-	6,946,003
Noncurrent portion of compensated absences	3,675	2,953	2,134	8,762
Total noncurrent liabilities	<u>\$ 1,762,125</u>	<u>\$ 5,216,210</u>	<u>\$ 8,565</u>	<u>\$ 6,986,900</u>
Total liabilities	<u>\$ 1,876,462</u>	<u>\$ 5,499,388</u>	<u>\$ 25,817</u>	<u>\$ 7,401,667</u>
NET POSITION				
Net investment in capital assets	\$ 1,630,587	\$ 3,350,644	\$ 67,558	\$ 5,048,789
Restricted for bond indenture requirements	157,266	244,565	-	401,831
Restricted for other purposes	8,617	-	-	8,617
Unrestricted	632,471	722,312	94,377	1,449,160
Total net position	<u>\$ 2,428,941</u>	<u>\$ 4,317,521</u>	<u>\$ 161,935</u>	<u>\$ 6,908,397</u>
Total liabilities and net position	<u>\$ 4,305,403</u>	<u>\$ 9,816,909</u>	<u>\$ 187,752</u>	<u>\$ 14,310,064</u>

See accompanying Notes to the Financial Statements

City of East Helena, Lewis & Clark 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>Utility</u>	<u>Sewer Utility</u>	<u>Solid Waste</u>	<u>Totals</u>
OPERATING REVENUES				
Charges for services	\$ 426,996	\$ 850,070	\$ 176,123	\$ 1,453,189
Miscellaneous revenues	349,363	5,118	-	354,481
Total operating revenues	<u>\$ 776,359</u>	<u>\$ 855,188</u>	<u>\$ 176,123</u>	<u>\$ 1,807,670</u>
OPERATING EXPENSES				
Personal services	\$ 112,897	\$ 92,265	\$ 68,470	\$ 273,632
Supplies	30,493	28,594	12,295	71,382
Purchased services	78,441	114,745	64,534	257,720
Depreciation	148,733	230,628	5,404	384,765
Total operating expenses	<u>\$ 370,564</u>	<u>\$ 466,232</u>	<u>\$ 150,703</u>	<u>\$ 987,499</u>
Operating income (loss)	<u>\$ 405,795</u>	<u>\$ 388,956</u>	<u>\$ 25,420</u>	<u>\$ 820,171</u>
NON-OPERATING REVENUES (EXPENSES)				
Intergovernmental revenue	\$ -	\$ 486,076	\$ -	\$ 486,076
Interest revenue	913	661	84	1,658
Debt service interest expense	(57,354)	(44,556)	-	(101,910)
Total non-operating revenues (expenses)	<u>\$ (56,441)</u>	<u>\$ 442,181</u>	<u>\$ 84</u>	<u>\$ 385,824</u>
Income (loss) before contributions and transfers	<u>\$ 349,354</u>	<u>\$ 831,137</u>	<u>\$ 25,504</u>	<u>\$ 1,205,995</u>
Change in net position	<u>\$ 349,354</u>	<u>\$ 831,137</u>	<u>\$ 25,504</u>	<u>\$ 1,205,995</u>
Net Position - Beginning of the year	\$ 2,079,587	\$ 3,486,384	\$ 136,431	\$ 5,702,402
Net Position - End of the year	<u>\$ 2,428,941</u>	<u>\$ 4,317,521</u>	<u>\$ 161,935</u>	<u>\$ 6,908,397</u>

See accompanying Notes to the Financial Statements

City of East Helena, Lewis & Clark, Montana
Statement of Cash Flows
Proprietary Fund
Fiscal Year Ended June 30, 2014

	Business - Type Activities - Enterprise Funds			
	<u>Water Utility</u>	<u>Sewer Utility</u>	<u>Solid Waste</u>	<u>Totals</u>
Cash flows from operating activities:				
Cash received from providing services	\$ 407,738	\$ 825,456	\$ 174,612	\$ 1,407,806
Cash received from miscellaneous sources	349,363	5,118	-	354,481
Cash payments to suppliers	(28,529)	(256,097)	(10,925)	(295,551)
Cash payments for professional services	(78,441)	(114,745)	(64,534)	(257,720)
Cash payments to employees	(109,097)	(93,557)	(63,598)	(266,252)
Net cash provided (used) by operating activities	<u>\$ 541,034</u>	<u>\$ 366,175</u>	<u>\$ 35,555</u>	<u>\$ 942,764</u>
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	\$ (653,967)	\$ (3,380,547)	\$ (7,225)	\$ (4,041,739)
Principal paid on debt	(93,600)	(208,000)	-	(301,600)
Interest paid on debt	(57,354)	(44,556)	-	(101,910)
Proceeds from bonds, loans and advances	-	3,105,006	-	3,105,006
Net cash provided (used) by capital and related financing activities	<u>\$ (804,921)</u>	<u>\$ (528,097)</u>	<u>\$ (7,225)</u>	<u>\$ (1,340,243)</u>
Cash flows from non-capital financing activities:				
Cash received from other governments	\$ -	\$ 486,076	\$ -	\$ 486,076
Net cash provided (used) from non-capital financing activities	<u>\$ -</u>	<u>\$ 486,076</u>	<u>\$ -</u>	<u>\$ 486,076</u>
Cash flows from investing activities:				
Interest on investments	\$ 913	\$ 661	\$ 84	\$ 1,658
Net cash provided (used) by investing activities	<u>\$ 913</u>	<u>\$ 661</u>	<u>\$ 84</u>	<u>\$ 1,658</u>
Net increase (decrease) in cash and cash equivalents	\$ (262,974)	\$ 324,815	\$ 28,414	\$ 90,255
Cash and cash equivalents at beginning	<u>1,032,221</u>	<u>425,722</u>	<u>71,899</u>	<u>1,529,842</u>
Cash and cash equivalents at end	<u>\$ 769,247</u>	<u>\$ 750,537</u>	<u>\$ 100,313</u>	<u>\$ 1,620,097</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 405,795	\$ 388,956	\$ 25,420	\$ 820,171
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation	148,733	230,628	5,404	384,765
Other post-employment benefits	4,519	3,824	1,738	10,081
Changes in assets and liabilities:				
Accounts receivable	(19,258)	(24,614)	(1,511)	(45,383)
Accounts payable	1,964	(227,503)	1,370	(224,169)
Compensated absences	(719)	(5,116)	3,134	(2,701)
Net cash provided (used) by operating activities	<u>\$ 541,034</u>	<u>\$ 366,175</u>	<u>\$ 35,555</u>	<u>\$ 942,764</u>

See accompanying notes to the financial statements

City of East Helena, Lewis & Clark County, Montana
Statement of Net Position
Fiduciary Funds
June 30, 2014

		<u>Agency Funds</u>
ASSETS		
Cash and short-term investments	\$	<u>185,564</u>
Total assets	\$	<u><u>185,564</u></u>
LIABILITIES		
Warrants payable	\$	161,256
Due to others		<u>24,308</u>
Total liabilities	\$	<u><u>185,564</u></u>

See accompanying Notes to the Financial Statements

CITY OF EAST HELENA
LEWIS & CLARK COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City 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.

GASBS No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, incorporates the pre-November 30, 1989 FASB, APB, and ARB pronouncements that the GASB considers to be applicable to state and local governments. This standard is effective for fiscal year ending June 30, 2013.

GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. This standard is effective for fiscal year ending June 30, 2012.

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.

CITY OF EAST HELENA
LEWIS & CLARK COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

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.

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 EAST HELENA
LEWIS & CLARK 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.

CITY OF EAST HELENA
LEWIS & CLARK COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

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.

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.

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.

CITY OF EAST HELENA
LEWIS & CLARK COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

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.

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.

Fiduciary Funds

Fiduciary funds presented using the economic resources measurement focus and the accrual basis of accounting (except for the recognition of certain liabilities of defined benefit pension plans and certain postemployment healthcare plans). The required financial statements are a statement of fiduciary net position and a statement of changes in fiduciary net assets. The fiduciary funds are:

Agency Funds – To report resources held by the reporting government in a purely custodial capacity (assets equal liabilities). This fund primarily consist of assets held by the City as an agent for individuals, private organizations, other local governmental entities and the City’s claims and payroll clearing funds

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	\$	400
Cash in banks:		
Demand deposits		781,549
<u>Investments:</u>		
State Short-Term Investment Pool (STIP)		1,431,672
Total	\$	<u><u>2,213,621</u></u>

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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;
- (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.

Section 7-6-202, MCA, as amended, now limits authorized investments in certain securities that previously were permissible investments. The amendment does not apply to and does not require the sale of securities that were legal investments before the effective date of this act. However, the investments reported as collateralized mortgage obligations above are not authorized investments at the current time.

The government has no investment policy that would further limit its investment choices.

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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)	<u>21,000,000</u>	A1+	<u>1</u>
Total Investments	<u>\$ 2,535,153,167</u>		<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.

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:

<u>Depository Account</u>	June 30, 2014 <u>Balance</u>
Insured	\$ 250,000
- Collateral held by the pledging bank's trust department but not in the City's name.	277,056
Uninsured and uncollateralized	222,576
Total deposits and investments	<u>\$ 749,632</u>

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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 ratio 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.

Cash equivalents

For purposes of the statement of cash flows, the enterprise and internal services 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 Assets.

<u>Description</u>	<u>Amount</u>
Park Subdivision	\$ 1,122
Fire Department Donations	875
SRF Reserve	401,830
Replacement and Depreciation	<u>8,615</u>
	<u>\$ 412,442</u>

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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 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

The cost of inventories are recorded as an expenditure 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:

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Buildings	50 years
Improvements	10 – 50 years
Equipment	6 – 20 years
Infrastructure	10 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.

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

Governmental activities:

	Balance July 1, 2013	Additions	Deletions	Transfers	Balance June 30, 2014
Capital assets not being depreciated:					
Land	\$ 118,268	\$ -	\$ -	\$ -	\$ 118,268
Construction in progress	175,403	10,336	-	(6,773)	178,966
Total capital assets not being depreciated	<u>\$ 293,671</u>	<u>\$ 10,336</u>	<u>\$ -</u>	<u>\$ (6,773)</u>	<u>\$ 297,234</u>
Other capital assets:					
Buildings	\$ 753,575	\$ -	\$ -	\$ -	\$ 753,575
Improvements other than buildings	2,412,264	55,994	-	6773	2,475,031
Machinery and equipment	1,020,458	8,936	(43,191)	\$ -	986,203
Infrastructure	342,797	-	-	\$ -	342,797
Total other capital assets at historical cost	\$ 4,529,094	\$ 64,930	\$ (43,191)	\$ 6,773	\$ 4,557,606
Less: accumulated depreciation	\$ (1,200,156)	\$ (152,089)	\$ 41,232	\$ -	\$ (1,311,013)
Total	<u>\$ 3,622,609</u>	<u>\$ (76,823)</u>	<u>\$ (1,959)</u>	<u>\$ -</u>	<u>\$ 3,543,827</u>

Governmental activities depreciation expense was charged to functions as follows:

Governmental Activities:	
General government	\$ 11,515
Public safety	36,855
Public works	39,591
Culture and recreation	<u>64,128</u>
Total governmental activities depreciation expense	<u>\$152,089</u>

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

Business-type activities:

	Balance <u>7/1/2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	Balance <u>6/30/2014</u>
Capital assets not being depreciated:					
Construction in progress	\$ 1,463,418	\$ 3,288,284	\$ -	\$ (59,342)	\$ 4,692,360
Other capital assets:					
Machinery and equipment	\$ 283,354	\$ 93,413	\$ -	\$ -	\$ 376,767
Source of supply	2,034,103	34,710	-	-	2,068,813
Pumping plant	176,845	-	-	-	176,845
Treatment plant	6,951,214	6,075	-	-	6,957,289
Transmission and distribution	2,614,888	269,894	349,363	59,342	3,293,487
General plant	31,610	-	-	-	31,610
Total other capital assets at historical cost	\$ 12,092,014	\$ 404,092	\$ 349,363	\$ 59,342	\$ 12,904,811
Less: accumulated depreciation	\$ (4,908,614)	\$ (384,765)	\$ -	\$ -	\$ (5,293,379)
Total	<u>\$ 8,646,818</u>	<u>\$ 3,307,611</u>	<u>\$ 349,363</u>	<u>\$ -</u>	<u>\$ 12,303,792</u>

NOTE 7. LONG TERM DEBT OBLIGATIONS

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

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

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>	<u>Deletions</u>	Balance <u>June 30, 2014</u>	Due Within <u>One Year</u>
Compensated absences	\$ 51,231	\$ 4,835	\$ -	\$ 56,066	\$ 42,007
Intercap loans	506,210	-	(87,256)	418,954	91,111
Capital leases	29,710	-	(9,291)	20,419	9,890
Other post-employment benefits*	50,875	24,683	-	75,558	-
Total	<u>\$ 638,026</u>	<u>\$ 29,518</u>	<u>\$ (96,547)</u>	<u>\$ 570,997</u>	<u>\$ 143,008</u>

*See Note 8

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

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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	\$ 4,034,603	\$ -	\$ (295,600)	\$ 3,739,003	\$	303,000
Compensated absences	37,982	3,028	(6,964)	34,046		25,284
Intercap loans	280,994	3,105,006	-	3,386,000		-
ARRA Loans	136,000	-	(6,000)	130,000		6,000
Other post-employment benefits*	22,054	10,081	-	32,135		-
Total	<u>\$ 4,511,633</u>	<u>\$ 3,118,115</u>	<u>\$ (308,564)</u>	<u>\$ 7,321,184</u>	<u>\$</u>	<u>334,284</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, net of an unamortized premium 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>
1999 Drinking water	07/01/99	3.00%	30 yrs	07/01/29	\$ 3,234,000	Varies	\$ 1,841,000
1999 Sewer system	11/01/99	3.00%	20 yrs	07/01/19	91,000	Varies	30,000
Wastewater SRF Phase IIB -2003	06/01/03	4.00%	20 yrs	01/01/23	1,494,000	Varies	716,000
Wastewater SRF Phase IIA - 2002	09/01/02	3.00%	20 yrs	07/01/22	1,983,000	Varies	918,003
Wastewater SRF 2007 A&B	10/01/07	2.75%	20 yrs	07/01/27	<u>500,000</u>	Varies	<u>234,000</u>
					<u>\$ 7,302,000</u>		<u>\$ 3,739,003</u>

Reported in business-type activities

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.

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Annual requirement to amortize debt:

<u>For Fiscal</u> <u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 303,000	\$ 66,808
2016	311,000	61,946
2017	318,000	56,978
2018	325,000	51,884
2019	335,000	46,679
2020	338,000	41,351
2021	344,000	36,072
2022	352,003	30,566
2023	189,000	24,603
2024	148,000	20,732
2025	153,000	17,608
2026	157,000	14,388
2027	162,000	11,078
2028	151,000	7,666
2029	153,000	4,286
Total	<u>\$ 3,739,003</u>	<u>\$ 492,645</u>

Loans/Contracted Debt

Loans/contracted debts outstanding as of June 30, 2014 were as follows:

<u>Purpose</u>	<u>Origination</u> <u>Date</u>	<u>Interest</u> <u>Rate</u>	<u>Term</u>	<u>Maturity</u> <u>Date</u>	<u>Principal</u> <u>Amount</u>	<u>Balance</u> <u>June 30, 2014</u>
Wastewater SRF ARRA	02/11/10	0.75%	20 yrs	01/01/30	<u>\$157,300</u>	<u>\$130,000</u>

Reported in business-type activities.

Annual requirement to amortize debt:

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For Fiscal <u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 6,000	\$ 964
2016	6,000	919
2017	6,000	874
2018	6,000	829
2019	7,000	783
2020	8,000	727
2021	8,000	667
2022	8,000	607
2023	9,000	547
2024	10,000	477
2025	10,000	401
2026	10,000	326
2027	10,000	251
2028	10,000	176
2029	10,000	101
2030	6,000	23
Total	<u>\$ 130,000</u>	<u>\$ 8,672</u>

Intercap Loans

Intercap loans have variable interest rates. Interest rates are subject to change annually. Interest rates to the borrower are adjusted on February 16th of each year and are based on a spread over the interest paid on one-year term, tax-exempt bonds which are sold to fund the loans.

Intercap loans outstanding as of June 30, 2014 were as follows:

<u>Purpose</u>	<u>Origination Date</u>	<u>Interest Rate</u>	<u>Term</u>	<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Balance June 30, 2014</u>
New shop building (1)	06/22/07	4.25- 4.85%	10 yrs	08/15/17	\$177,208	\$ 71,422
Reconstruction of pool (1)	09/12/08	3.25- 4.25%	10 yrs	08/15/18	692,958	347,532
Wastewater treatment plant (2)	06/21/13	1.00%	10 yrs	08/15/15	<u>3,386,000</u>	<u>3,386,000</u>
Total					<u>\$4,256,166</u>	<u>\$ 3,804,954</u>

(1) Reported in the governmental activities.

(2) Reported in business-type activities.

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Annual requirement to amortize debt:

For Fiscal <u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 91,111	\$ 37,467
2016	3,481,136	4,098
2017	99,337	2,909
2018	91,497	1,667
2019	41,873	523
Total	<u>\$ 3,804,954</u>	<u>\$ 46,664</u>

Capital Leases

The City has entered into a lease(s) which meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee when all terms of the lease agreements are met. Capital lease obligations outstanding as of June 30, 2014 were as follows:

<u>Purpose</u>	<u>Origination Date</u>	<u>Interest rate</u>	<u>Capitalized Original Cost</u>	<u>Remaining Payments as of June 30, 2014</u>
Police interceptor	05/02/13	6.45%	\$ <u>40,917</u>	\$ <u>20,419</u>

Reported in the governmental activities.

Annual requirement to amortize debt:

For Fiscal <u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 9,890	\$ 1,317
2016	10,529	679
Total	<u>\$ 20,419</u>	<u>\$ 1,996</u>

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.

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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.

Funding Status and funding Progress. The funded status of the plan as of June 30, 2014, was as follows:

Actuarial Accrued Liability (AAL)	\$	191,208
Actuarial value of plan assets	\$	-
Unfunded Actuarial Accrued Liability (UAAL)	\$	<u>191,208</u>
Funded ratio (actuarial value of plan assets/AAL)		0%
Covered payroll (active plan members)	\$	453,234
UAAL as a percentage of covered payroll		42%

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)	\$	34,764
Interest on net OPEB obligation	\$	-
Adjustment to ARC	\$	-
Annual OPEB cost (expense)	\$	<u>34,764</u>
Contributions made	\$	-
Increase in net OPEB obligation	\$	34,764
Net OPEB obligation - beginning of year	\$	<u>72,929</u>
Net OPEB obligation - end of year	\$	<u>107,693</u>

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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)	2.66%
Average salary increase (Consumer Price Index)	2.80%
<u>Health care cost rate trend (Federal Office of the Actuary)</u>	
<u>Year</u>	<u>% Increase</u>
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

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>
To cover shortage due to tax revenues not received yet	Comprehensive Liability – Nonmajor Governmental	General – Major Governmental	\$ 4,356
Fore police and public works expenditures	Equipment Fund – Nonmajor Governmental	General – Major Governmental	<u>12,415</u>
			<u>\$ 16,771</u>

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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 Montana 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>	<u>FURS</u>
Employer	8.07%	14.41%	14.36%
Employee	7.90%*	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%	9.5% w/o GABA 10.7% w/GABA Also – 1% withheld & paid to Montana State Firemen’s Association
State	0.10%	29.37%	32.61%

* 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.

The State contribution qualifies as an on-behalf payment. These amounts 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:

1. Montana Public Employee Retirement Administration, P.O. Box 200131, Helena, Montana 59620-0131 Phone: 1-406-444-3154.

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NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

The Entity'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	\$ 25,711	\$ 29,498
2013	\$ 27,322	\$ 30,901
2014	\$ 29,039	\$ 30,183

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 an agency 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

Restricted Fund Balance

<u>Major Fund</u>	<u>Amount</u>	<u>Purpose of Restriction</u>
All other aggregate:	\$ 63,749	Public safety
	75,891	Public works
	<u>1,638</u>	Capital projects
	<u>\$ 141,278</u>	

Committed Fund Balance

<u>Major Fund</u>	<u>Amount</u>	<u>Purpose of Commitment</u>
All other aggregate	\$ <u>32,470</u>	Capital projects

NOTE 13. SWIMMING POOL MANAGEMENT

The City entered into an agreement with Young Men's Christian Association of Helena (YMCA) for the YMCA to operate the public swimming pool during fiscal year 2014. The agreement called for the YMCA to manage the pool and pay to the City 50% of the gate receipts. In addition, the City agreed to reimburse YMCA up to \$2,000 of actual financial loss.

CITY OF EAST HELENA
LEWIS & CLARK COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 14. SERVICES PROVIDED TO OTHER GOVERNMENTS

County Provided Services

The City is provided various financial services by Lewis & Clark 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 16. 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.

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.

**REQUIRED SUPPLEMENTAL
INFORMATION**

City of East Helena, Lewis & Clark 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
	<u>ORIGINAL</u>	<u>FINAL</u>		
RESOURCES (INFLOWS):				
Taxes and assessments	\$ 511,328	\$ 511,328	\$ 429,723	\$ (81,605)
Licenses and permits	24,500	24,500	17,753	(6,747)
Intergovernmental	634,685	634,685	636,266	1,581
Charges for services	9,400	9,400	9,868	468
Fines and forfeitures	37,500	37,500	32,883	(4,617)
Miscellaneous	21,500	21,500	32,428	10,928
Investment earnings	600	600	384	(216)
Amounts available for appropriation	\$ <u>1,239,513</u>	\$ <u>1,239,513</u>	\$ <u>1,159,305</u>	\$ <u>(80,208)</u>
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
General government	\$ 439,140	\$ 439,140	\$ 383,711	\$ 55,429
Public safety	539,075	539,075	498,620	40,455
Public works	114,100	114,100	101,289	12,811
Public health	3,386	3,386	1,183	2,203
Culture and recreation	94,750	94,750	66,979	27,771
Debt service - principal	87,257	87,257	87,256	1
Debt service - interest	4,845	4,845	4,845	-
Capital outlay	45,500	45,500	19,272	26,228
Total charges to appropriations	\$ <u>1,328,053</u>	\$ <u>1,328,053</u>	\$ <u>1,162,763</u>	\$ <u>165,290</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	\$ <u>(21,687)</u>	\$ <u>(21,687)</u>	\$ <u>(16,771)</u>	\$ <u>4,916</u>
Net change in fund balance			\$ <u>(20,229)</u>	
Fund balance - beginning of the year			\$ <u>254,875</u>	
Fund balance - end of the year			\$ <u><u>234,646</u></u>	

City of East Helena, Lewis & Clark County, Montana
REQUIRED SUPPLEMENTAL INFORMATION
Schedule of Funding Progress
For the Fiscal Year Ended June 30, 2013

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	\$ -	\$ 68,463	\$ 68,463	0%	\$ 499,836	14%
July 1, 2012	\$ -	\$ 191,208	\$ 191,208	0%	\$ 453,234	42%

SINGLE AUDIT SECTION

City of East Helena, Lewis and Clark 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 Agriculture</u>			
<i>Direct:</i>			
Water and Waste Disposal Systems for Rural Communities	10.760	RRG - 12-1512	\$ 488,754
Water and Waste Disposal Systems for Rural Communities	10.760	N/A	<u>2,959,076</u>
Total U.S. Department of Agriculture			\$ <u>3,447,830</u>
<u>U.S. Department of Housing and Urban Development</u>			
<i>Passed through Montana Department of Commerce:</i>			
Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228	MT-CDBG-12PL-05	<u>\$ 29,431</u>
<u>U.S. Department of Transportation</u>			
<i>Passed through Montana Department of Transportation:</i>			
Highway planning and construction	20.205	7711	<u>\$ 3,290</u>
<u>U.S. Department of Environmental Protection Agency</u>			
<i>Direct:</i>			
Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	66.082	V-97889501	<u>\$ 346</u>
Total Federal Financial Assistance			\$ <u>3,480,897</u>

N/A = Not Applicable or Not Available

CITY OF EAST HELENA

LEWIS & CLARK 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 East Helena, Lewis & Clark 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.

Value of Federal Awards Expended in the form of Noncash Assistance

The federal loan program listed below is administered by the City of East Helena and balances and transactions relating to this program is included in the City of East Helena's basic financial statements. The loan made during the year is included in the federal expenditures presented in the schedule. The balance of loans outstanding at June 30, 2014 consists of:

<u>CFDA Number</u>	<u>Program Name</u>	<u>Outstanding Balance at June 30, 2014</u>
10.760	Water and Waste Disposal Systems for Rural Communities	\$3,386,000

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 East Helena
Lewis & Clark County
East Helena, 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 East Helena, Lewis & Clark 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 East Helena's basic financial statements and have issued our report thereon dated March 26, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of East Helena, Lewis & Clark 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 East Helena, Lewis & Clark County, Montana's internal control. Accordingly, we do not express an opinion on the effectiveness of City of East Helena's internal control over financial reporting.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of East Helena'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 *Governmental Auditing Standards*.

City of East Helena's Response to Findings

City of East Helena's response to the finding identified in our audit is in the Auditee's Response to Findings. City of East Helena'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 on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

March 26, 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 East Helena
Lewis & Clark County
East Helena, Montana

Report on Compliance for Each Major Federal Program

We have audited City of East Helena, Lewis & Clark County, Montana's, 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 East Helena'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 East Helena, Lewis & Clark 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 East Helena, Lewis & Clark 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.

Report on Internal Control Over Compliance

Management of City of East Helena, Lewis & Clark 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.

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.

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

March 26, 2015

CITY OF EAST HELENA

LEWIS & CLARK 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?	No
Significant deficiency(s) identified not considered to be material weaknesses	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(s) identified	None
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 OMB Circular A-133, Section .510(a)?	No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.760	Water and Waste Disposal Systems for Rural Communities

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 Uninsured Cash Balance

Condition:

The City has an excessive amount of monies uninsured and uncollateralized deposits. On June 30, 2014, the City has \$222,576 in uninsured and uncollateralized deposits.

Context:

During the audit, each cash account balance as of June 30, 2014 was scheduled and compared with related insurance and pledged securities. During this process, it was discovered that although they have adequate pledged securities, they have \$222,576 in uninsured and uncollateralized deposits.

Criteria:

There is no legal requirement in how much a City can have in uninsured and uncollateralized deposits as long as they meet the requirements of MCA 7-6-207 concerning the required pledged securities. However, the higher the amount in uninsured and uncollateralized deposits, the higher the risk is for the City should one of those institutions fail.

Effect:

The City is at risk should one of the institutions fail that has deposits that are uninsured and uncollateralized.

Cause:

The City was only monitoring compliance with MCA 7-6-207 and not realizing that there was a large portion uninsured uncollateralized portion of their deposits.

Recommendation:

The City should review its investment risks for each bank account and make changes as they seem appropriate to limit risk.

Views of Responsible Officials and Planned Corrective Action:

In accordance with the Audit's recommendation, the City has reviewed balances in financial establishments and made appropriate transfers to ensure 100% pledged security for deposits over FDIC coverage. Accounts will be monitored on a regular basis for future compliance.

Section III – Federal Award Findings and Questioned Costs

There were no federal award findings or questioned costs reported.

Denning, Downey & Associates, P.C.
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1740 U.S. Hwy 93 South, P.O. Box 1957, Kalispell, MT 59903-1957

REPORT ON PRIOR AUDIT REPORT RECOMMENDATIONS

Mayor and City Council
City of East Helena
Lewis & Clark County
East Helena, Montana

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

<u>Recommendation</u>	<u>Action Taken</u>
Exceeding Budget Authority	Implemented

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

March 26, 2015