

**CITY OF LEWISTOWN
FERGUS COUNTY
LEWISTOWN, MONTANA**

FINANCIAL STATEMENTS

For the Year Ended June 30, 2014

OLNESS & ASSOCIATES, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

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CITY OF LEWISTOWN

ORGANIZATION

June 30, 2014

CITY COMMISSION

Frank Gremaux	Commissioner
Diana Hewitt	Commissioner
Alissa Berry	Commissioner
Rick Poss	Commissioner
Patty Turk	Commissioner
Gayle Doney	Commissioner
Beth Putman	Commissioner

CITY STAFF

Kevin Myhre	City Manager
Nikki Brummond	Finance Director
Jack Shields	City Judge
Monte Boettger	City Attorney
Cory Birdwell	Police Chief
Keith Kucera	Fire Chief

OLNESS & ASSOCIATES, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

BRENT D. OLNESS, CPA
CURT D. WYSS, CPA

ERNEST J. OLNESS, CPA

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INDEPENDENT AUDITOR'S REPORT

To the City Commission and City Manager
City of Lewistown
Lewistown, Montana

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lewistown, Montana (the government) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the government'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.

Basis for Qualified Opinions

Management has not recorded the OPEB liability and related expense in the governmental activities, business-type activities and proprietary funds. Accounting principles generally accepted in the United States of America require that the OPEB liability and related expense be recorded, which would increase the liabilities, decrease net position and change expenses in the governmental activities, business-type activities and proprietary funds. The amount by which this departure would affect the liabilities, net position and expenses has not been determined.

Because we did not observe year-end inventory counts and because the government's accounting records related to inventory do not permit adequate retroactive tests of inventory quantities, we were unable to form an opinion regarding the amounts at which inventory was recorded in the business-type activities and water fund.

Qualified Opinions

In our opinion, except for the effects of the matter described in the first paragraph under the heading "Basis for Qualified Opinions" and except for the possible effects of the matter discussed in the second paragraph under the heading "Basis for Qualified Opinions" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, business-type activities and proprietary funds of the government, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (Continued)

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major governmental fund and the aggregate remaining fund information of the government as of June 30, 2014, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis identified in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. Although our opinions on the basic financial statements are not affected, the following material departure from the prescribed guidelines exist; the management's discussion and analysis is not in conformity with accounting principles generally accepted in the United States because it did not contain all of the elements required by GASB Statement No. 34, as amended by GASB Statement No. 37. We do not express an opinion or provide any assurance on the information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 2, 2015, on our consideration of the government's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the government's internal control over financial reporting and compliance.

O'Leary & Associates, PC

Billings, Montana
March 2, 2015

CITY OF LEWISTOWN
MANAGEMENT'S DISCUSSION & ANALYSIS

The following discussion and analysis of the City of Lewistown's financial performance provides an overview of the government's financial activities for the year ended June 30, 2014. Please read the information here in conjunction with our financial statements and footnotes which begin on page 8.

FINANCIAL HIGHLIGHTS

- The net position of our business-type activities increased by \$626,345, or nearly four percent and net position of our governmental activities increased by \$350,997.
- During the year, our government had net expenses of \$2,281,158 less than the \$2,632,155 generated in tax and other revenues for governmental programs.
- In the business-type activities, revenues increased to \$2,427,350 and expenses decreased from \$1,834,657 to \$1,801,005.

USING THIS AUDIT REPORT

This annual report consists of a series of financial statements. The government-wide financial statements provide information about the activities of the government as a whole and present a longer-term view of the finances. For governmental activities, fund statements tell how these services were financed in the short term, as well as, what remains for future spending. Fund financial statements also report the government's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which the government acts solely as a trustee or agent for the benefit of those outside of the government.

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-wide financial statements One of the most important questions asked about the government's finances is, "Is the City, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities (pages 8 and 9) report information about the government as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the net position and changes in them. You can think of net position—the difference between assets and liabilities—as one way to measure the financial health, or financial position. Over time, increases or decreases in net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the property tax base and the condition of the capital assets, to assess the overall health.

In the Statement of Net Position and the Statement of Activities, our government is divided into two kinds of activities:

Governmental activities—Basic services are reported here, including the police, fire, public works, and parks departments, and general administration. Property taxes and state and federal grants finance most of these activities.

Business-type activities—Fees charged to customers to help it cover all or most of the cost of certain services it provides. The water and sewer system and solid waste services are reported here.

Fund financial statements The fund financial statements (pages 10 and 11) provide detailed information about the most significant funds—not the government as a whole. Some funds are required to be established by State law and by bond covenants. Also, the governing body establishes many other funds to help it control and manage money for particular purposes or to meet legal responsibilities for using certain taxes, grants and other money. We utilize the following funds:

Governmental funds—Basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliations (pages 10 and 12, respectively).

Proprietary funds—Fees charged to customers for the services it provides—whether to outside customers or to other units of the government—these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements, but provide more detail and additional information, such as cash flows, for proprietary funds.

CITY OF LEWISTOWN
MANAGEMENT'S DISCUSSION & ANALYSIS

Fiduciary funds—Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds use the accrual basis of accounting. We exclude these activities from the other financial statements because we cannot use these assets to finance our operations. We are responsible for ensuring that the assets reported in these funds are used for their intended purposes.

THE GOVERNMENT AS A WHOLE

Total net position has remained relatively stable from the previous year. The City of Lewistown did not have any major projects this fiscal year and were conservative with regards to spending.

NET POSITION:	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	4,726,691	4,406,365	3,459,992	3,170,914	8,186,683	7,577,279
Capital assets	9,392,031	9,170,741	17,990,907	18,294,840	27,382,938	27,465,581
Total assets	14,118,722	13,577,106	21,450,899	21,465,754	35,569,621	35,042,860
Other liabilities	118,386	102,839	18,967	12,488	137,353	115,327
Long-term liabilities outstanding	1,421,033	1,424,055	4,307,502	4,955,181	5,728,535	6,379,236
Total liabilities	1,539,419	1,526,894	4,326,469	4,967,669	5,865,888	6,494,563
Unavailable revenue-assessments	840,627	918,210	-	-	840,627	918,210
Total deferred inflows of resources	840,627	918,210	-	-	840,627	918,210
Net position:						
Net investment of capital assets	8,313,738	8,083,563	13,728,907	13,377,840	22,042,645	21,461,403
Restricted	2,630,634	2,999,262	553,134	553,134	3,183,768	3,552,396
Unrestricted	794,304	49,177	2,842,389	2,567,111	3,636,693	2,616,288
	\$ 11,738,676	\$ 11,132,002	\$ 17,124,430	\$ 16,498,085	\$ 28,863,106	\$ 27,630,087

By far the largest portion of the City's net position (76%) reflects its net investment in capital assets (e.g.) land, building, trails, wastewater treatment plant, machinery, equipment and infrastructure, net of any related debt used to acquire those assets that is still outstanding. The City uses these assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position (11%) represents resources that are subject to external restriction on how they may be used. Restricted net position reported for the business-type activities was \$553,134, which is related to the debt service reserve required for the issuance of revenue related debt. The restricted net position for the governmental activities remained virtually unchanged.

CITY OF LEWISTOWN
MANAGEMENT'S DISCUSSION & ANALYSIS

CHANGE IN NET POSITION:	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program revenues:						
Charges for services	1,525,594	1,352,609	2,424,023	2,439,901	3,949,617	3,792,510
Operating grants and contributions	1,043,253	1,159,352	-	-	1,043,253	1,159,352
Capital grants and contributions	358,765	43,539	-	-	358,765	43,539
General revenues:						
Taxes	1,657,360	1,695,681	-	-	1,657,360	1,695,681
Licenses and permits	1,225	1,130	-	-	1,225	1,130
Intergovernmental	872,320	825,580	-	-	872,320	825,580
Interest	8,390	11,803	2,011	3,521	10,401	15,324
Miscellaneous	92,860	81,555	1,316	1,704	94,176	83,259
Gain on disposal of capital assets	-	3,371	-	-	-	3,371
Total revenues	5,559,767	5,174,620	2,427,350	2,445,126	7,987,117	7,619,746
Expenses:						
General government	385,039	366,317	-	-	385,039	366,317
Public safety	2,689,317	2,594,053	-	-	2,689,317	2,594,053
Public works	1,108,066	1,283,959	-	-	1,108,066	1,283,959
Public health	57,951	55,965	-	-	57,951	55,965
Culture and recreation	839,299	815,846	-	-	839,299	815,846
Housing and community development	36,489	13,577	-	-	36,489	13,577
Water	-	-	778,466	813,255	778,466	813,255
Sewer	-	-	1,022,539	1,021,402	1,022,539	1,021,402
Other current charges	47,165	72,141	-	-	47,165	72,141
Interest on long-term debt	45,444	83,517	-	-	45,444	83,517
Total expenses	5,208,770	5,285,375	1,801,005	1,834,657	7,009,775	7,120,032
Change in net position	350,997	(110,755)	626,345	610,469	977,342	499,714
Net position, beginning	11,132,002	11,242,757	16,498,085	15,887,616	27,630,087	27,130,373
Prior period adjustments	255,677	-	-	-	255,677	-
Net position, ending	\$ 11,738,676	\$ 11,132,002	\$ 17,124,430	\$ 16,498,085	\$ 28,863,106	\$ 27,630,087

The City of Lewistown's total revenues were \$7,987,117. The total cost of all programs and services was \$7,009,775. The City was able to cover this year's costs in both governmental and business-type activities. Our analysis below separately considers the operations of governmental and business-type activities.

Governmental Activities Revenue for the most recent year from governmental activities was \$5,559,767 while expenses were \$5,208,770; therefore, expense exceeded revenues by \$350,997. The increase in revenues and the decrease in expenses is due to very few projects along with a minimal increase in salaries, increase in health insurance premiums, increase in utilities and general supply.

Business-type Activities Revenue for the most recent year from business-type activities was \$2,427,350 and expenses were \$1,801,005. The revenue continues to decrease which is down due to a cool summer. The expenses have decreased which was largely due to no large projects and the minimal cost of living increase in salaries, increase in health insurance premiums, and increase in utility and general supply.

FUND FINANCIAL STATEMENTS

The fund financial statements provide detailed information about the major (most significant) funds. To be reported as a major fund, a fund must meet certain criteria. Governments may choose to report other governmental and enterprise funds as major funds, even though they do not meet this test. The General fund is always reported as a major fund.

The City of Lewistown has one major fund, the general fund. They are presented separately in the Governmental Fund Financial Statements with the remaining governmental funds combined into a single aggregated presentation labeled Other Governmental Funds. Individual fund information for the non-major funds is presented as other supplemental information elsewhere in the document.

CITY OF LEWISTOWN
MANAGEMENT'S DISCUSSION & ANALYSIS

The City adopts an annual appropriated budget for each of the governmental funds. A budgetary comparison schedule for the General Fund is included as required supplementary information to demonstrate compliance with the adopted budget.

The City maintains two enterprise funds (water and sewer) they are listed individually and are considered to be major funds. The City also adopts an annual appropriated budget for each of the enterprise funds. There were no significant changes for any of the major funds.

CAPITAL ASSET AND DEBT ADMINISTRATION

The City of Lewistown's net investment in capital assets for its governmental and business-type activities as of June 30, 2014, is \$22,042,645 (net of accumulated depreciation). This investment includes land, trails, buildings, improvements, machinery and equipment, infrastructure and construction in process.

State statute limits the amount of general obligation debt a governmental entity may issue to 2.5% of its total assessed value of taxable property. The current legal debt capacity of the City of Lewistown is \$5,362,903. This is based on a total assessed value of taxable property for the City of Lewistown of \$214,516,105. For more information related to the long-term debt of the City, see the notes to the basic financial statements.

THE GOVERNMENT'S FUTURE

The City of Lewistown continues to have a very stable population with limited business development. Retail commercial activity seems to be declining and causing vacancies in the downtown commercial district. The City has been working in several areas to create changes in the overall business climate in the community. In 2014, a Tax Increment Financing District was created for the downtown area and with that, some tools have been put in place to encourage development. A Tourism Business Improvement District was created in 2013 which began to build revenues and work on bring more tourism type activities to the community. At the City's urging, the Fergus County Commissioners placed a recreation district levy on the ballot in 2014 which was passed by the voters. The district will be funded by a \$35 dwelling assessment which for the most part will go to retire the debt of upgrading the City's pool which is approaching fifty years of age. The district is the first time in Lewistown history that recreation activities will be funded by taxes collected from a regional area instead of by the property owners within the incorporated boundary of Lewistown.

Lewistown government activities are highly dependent upon grants and loans for major projects and has little to offer new business in the way of unique incentives. Traditional grant sources are becoming much more competitive as they receive fewer funds from state and federal appropriations. The City struggles to provide a full spectrum of services to a population of both county and city residents. In the future, growth within the City limits will be needed to maintain the current level of services.

CITY OF LEWISTOWN
STATEMENT OF NET POSITION
June 30, 2014

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and equivalents	\$ 2,742,970	\$ 559,255	\$ 3,302,225
Receivables:			
Taxes/assessments	968,789	-	968,789
Utility	-	229,327	229,327
Cemetery	1,050	-	1,050
City license	3,510	-	3,510
Economic development	72,882	-	72,882
Central Montana Foundation	278,998	-	278,998
Other	72,288	-	72,288
Governments	531,039	52,944	583,983
Inventories	-	55,856	55,856
Prepays	55,165	-	55,165
Restricted assets:			
Cash and equivalents	-	2,562,610	2,562,610
Capital assets:			
Land and construction-in-progress	3,351,637	115,584	3,467,221
Capital assets, net of accumulated depreciation	6,040,394	17,875,323	23,915,717
	<u>14,118,722</u>	<u>21,450,899</u>	<u>35,569,621</u>
LIABILITIES			
Accounts payable-vendors	17,172	3,183	20,355
Accrued wages and benefits	81,964	15,784	97,748
Due to other governmental agencies	19,250	-	19,250
Long-term liabilities:			
Due within one year:			
Bonds and notes	17,056	667,000	684,056
Compensated absences	34,274	4,550	38,824
Due in more than one year:			
Bonds and notes	1,061,237	3,595,000	4,656,237
Compensated absences	308,466	40,952	349,418
	<u>1,539,419</u>	<u>4,326,469</u>	<u>5,865,888</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue-special assessments	840,627	-	840,627
	<u>840,627</u>	<u>-</u>	<u>840,627</u>
NET POSITION			
Net investment in capital assets	8,313,738	13,728,907	22,042,645
Restricted for:			
Nonexpendable:			
Permanent fund-perpetual cemetery	285,618	-	285,618
General government	22,938	-	22,938
Public safety	404,486	-	404,486
Public works	1,089,733	-	1,089,733
Culture and recreation	126,930	-	126,930
Housing and community development	132,783	-	132,783
Debt service	213,380	553,134	766,514
Capital projects	354,766	-	354,766
Unrestricted	794,304	2,842,389	3,636,693
	<u>\$ 11,738,676</u>	<u>\$ 17,124,430</u>	<u>\$ 28,863,106</u>

See notes to basic financial statements.

CITY OF LEWISTOWN
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
Governmental activities:							
General government	\$ 385,039	\$ 218,238	\$ -	\$ -	\$ (166,801)	\$ -	\$ (166,801)
Public safety	2,689,317	155,600	656,746	358,765	(1,518,206)	-	(1,518,206)
Public works	1,108,066	1,078,173	202,885	-	172,992	-	172,992
Public health	57,951	2,093	-	-	(55,858)	-	(55,858)
Culture and recreation	839,299	71,490	177,622	-	(590,187)	-	(590,187)
Housing and community development	36,489	-	6,000	-	(30,489)	-	(30,489)
Other current charges	47,165	-	-	-	(47,165)	-	(47,165)
Interest on long-term debt	45,444	-	-	-	(45,444)	-	(45,444)
Total governmental activities	5,208,770	1,525,594	1,043,253	358,765	(2,281,158)	-	(2,281,158)
Business-type activities:							
Water	778,466	1,159,166	-	-	-	380,700	380,700
Sewer	1,022,539	1,264,857	-	-	-	242,318	242,318
Total business-type activities	1,801,005	2,424,023	-	-	-	623,018	623,018
Total	\$ 7,009,775	\$ 3,949,617	\$ 1,043,253	\$ 358,765	(2,281,158)	623,018	(1,658,140)
General revenues:							
Property taxes, levied for general purposes					1,547,211	-	1,547,211
Property taxes, levied for debt service					110,149	-	110,149
Licenses and permits					1,225	-	1,225
Intergovernmental					872,320	-	872,320
Unrestricted investment earnings					8,390	2,011	10,401
Miscellaneous					92,860	1,316	94,176
Total general revenues					2,632,155	3,327	2,635,482
Change in net position					350,997	626,345	977,342
Net position - beginning					11,132,002	16,498,085	27,630,087
Prior period adjustment					255,677	-	255,677
Net position - ending					\$ 11,738,676	\$ 17,124,430	\$ 28,863,106

CITY OF LEWISTOWN
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2014

	General	Street Maintenance	SID No. 2001	SID No. 2005	Total Nonmajor Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 378,053	\$ 871,056	\$ 27,211	\$ 65,101	\$ 1,401,549	\$ 2,742,970
Receivables:						
Taxes/assessments	73,311	34,473	307,958	469,465	83,582	968,789
Cemetery	1,050	-	-	-	-	1,050
City license	3,510	-	-	-	-	3,510
Economic development	-	-	-	-	72,882	72,882
Central Montana Foundation	278,998	-	-	-	-	278,998
Other	72,288	-	-	-	-	72,288
Governments	403,811	-	-	-	127,228	531,039
Prepaid items	-	-	-	-	55,165	55,165
Total assets	\$ 1,211,021	\$ 905,529	\$ 335,169	\$ 534,566	\$ 1,740,406	\$ 4,726,691
LIABILITIES						
Accounts payable-vendors	\$ 3,439	\$ 2,000	\$ -	\$ -	\$ 11,733	\$ 17,172
Accrued salaries and benefits	54,290	6,702	-	-	20,972	81,964
Payable to other governments	-	-	-	-	19,250	19,250
Total liabilities	57,729	8,702	-	-	51,955	118,386
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenue-taxes/assessments	73,311	34,473	307,958	469,465	83,582	968,789
Total deferred inflows of resources	73,311	34,473	307,958	469,465	83,582	968,789
FUND BALANCES (DEFICITS)						
Nonspendable:						
Prepaid items	-	-	-	-	55,165	55,165
Permanent fund-perpetual cemetery	-	-	-	-	285,618	285,618
Restricted for:						
General government	-	-	-	-	15,833	15,833
Public safety	-	-	-	-	349,321	349,321
Public works	-	862,354	-	-	185,817	1,048,171
Culture and recreation	-	-	-	-	126,930	126,930
Housing and community development	-	-	-	-	132,783	132,783
Debt service	-	-	27,211	65,101	114,884	207,196
Capital projects	-	-	-	-	354,766	354,766
Committed for:						
Culture and recreation	-	-	-	-	18,132	18,132
Unassigned	1,079,981	-	-	-	(34,380)	1,045,601
Total fund balances (deficits)	1,079,981	862,354	27,211	65,101	1,604,869	3,639,516
Total liabilities, deferred inflows of resources and fund balances (deficits)	\$ 1,211,021	\$ 905,529	\$ 335,169	\$ 534,566	\$ 1,740,406	\$ 4,726,691

See notes to basic financial statements.

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

Total fund balances, governmental funds	\$ 3,639,516
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds.	9,392,031
Other long-term assets are not available to pay current period expenditures and, therefore, are reported as unavailable revenue in the funds.	128,162
Long-term liabilities, (such as bonds, notes and compensated absences) are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(1,421,033)</u>
Net position of governmental activities	<u><u>\$ 11,738,676</u></u>

CITY OF LEWISTOWN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2014

	General	Street Maintenance	SID No. 2001	SID No. 2005	Total Nonmajor Funds	Total Governmental Funds
REVENUES						
Taxes/assessments	\$ 1,434,098	\$ 930,037	\$ 31,300	\$ 73,958	\$ 248,434	\$ 2,717,827
Fines and forfeitures	38,967	-	-	-	1,573	40,540
Licenses and permits	52,364	-	-	-	62,004	114,368
Intergovernmental	1,499,461	51,725	-	-	623,194	2,174,380
Charges for services	319,735	-	-	-	7,111	326,846
Investment earnings	2,546	340	-	56	5,448	8,390
Miscellaneous	43,164	5,012	-	-	172,692	220,868
Total revenues	3,390,335	987,114	31,300	74,014	1,120,456	5,603,219
EXPENDITURES						
Current:						
General government	318,100	27,541	-	-	21,483	367,124
Public safety	1,752,286	-	-	-	702,562	2,454,848
Public works	67,751	751,812	-	-	249,699	1,069,262
Public health	58,297	-	-	-	-	58,297
Culture and recreation	380,347	-	-	-	395,762	776,109
Housing and community development	23,608	-	-	-	12,881	36,489
Other current charges	47,165	-	-	-	-	47,165
Debt service:						
Principal	8,885	-	-	-	-	8,885
Interest and other charges	789	-	17,983	22,555	4,117	45,444
Capital outlay	484,609	99,760	-	-	13,140	597,509
Total expenditures	3,141,837	879,113	17,983	22,555	1,399,644	5,461,132
Excess (deficiency) of revenues over expenditures	248,498	108,001	13,317	51,459	(279,188)	142,087
OTHER FINANCING SOURCES (USES)						
Transfers in	119,932	-	-	-	396,472	516,404
Transfers out	(391,472)	-	-	-	(124,932)	(516,404)
Total other financing sources (uses)	(271,540)	-	-	-	271,540	-
Net change in fund balances	(23,042)	108,001	13,317	51,459	(7,648)	142,087
Fund balances - beginning	847,346	754,353	13,894	13,642	1,612,517	3,241,752
Prior period adjustments	255,677	-	-	-	-	255,677
Fund balances - ending	\$ 1,079,981	\$ 862,354	\$ 27,211	\$ 65,101	\$ 1,604,869	\$ 3,639,516

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

Net change in fund balances - total governmental funds	\$	142,087
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report capital outlay as expenditures. In contrast, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
This is the amount by which capital outlay (\$597,509) exceeded depreciation (\$376,219) in the current period.		221,290
<p>Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the statement of activities when earned.</p>		
		(15,402)
<p>Governmental funds report debt proceeds as current financial resources. In contrast, the statement of activities treats such issuance of debt as a liability. Governmental funds report repayment of debt service principal as an expenditure. In contrast, the statement of activities treats such repayments as a reduction in long-term liabilities. This is the amount of long-term debt repayments.</p>		
		8,885
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:</p>		
Compensated absences		<u>(5,863)</u>
Change in net position of governmental activities	\$	<u><u>350,997</u></u>

CITY OF LEWISTOWN
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2014

	Enterprise Funds		
	Water	Sewer	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 507,973	\$ 51,282	\$ 559,255
Accounts receivable:			
Utility	107,052	122,275	229,327
Due from other governments	-	52,944	52,944
Inventories	55,856	-	55,856
Total current assets	670,881	226,501	897,382
Non-current assets:			
Restricted assets:			
Cash and cash equivalents	1,538,305	1,024,305	2,562,610
	<u>1,538,305</u>	<u>1,024,305</u>	<u>2,562,610</u>
Capital assets:			
Land	29,754	20,529	50,283
Construction in progress	26,301	39,000	65,301
Buildings and systems	11,475,409	12,368,223	23,843,632
Machinery and equipment	346,042	178,642	524,684
Less: accumulated depreciation	(4,308,275)	(2,184,718)	(6,492,993)
Capital assets, net	7,569,231	10,421,676	17,990,907
Total non-current assets	9,107,536	11,445,981	20,553,517
Total assets	9,778,417	11,672,482	21,450,899
LIABILITIES			
Current liabilities:			
Accounts payable-vendors	1,837	1,346	3,183
Accrued salaries and benefits	6,666	9,118	15,784
Compensated absences	1,906	2,644	4,550
Bonds	349,000	318,000	667,000
Total current liabilities	359,409	331,108	690,517
Non-current liabilities:			
Compensated absences	17,151	23,801	40,952
Bonds	352,000	3,243,000	3,595,000
Total non-current liabilities	369,151	3,266,801	3,635,952
Total liabilities	728,560	3,597,909	4,326,469
NET POSITION			
Net investment in capital assets	6,868,231	6,860,676	13,728,907
Restricted for debt service	158,100	395,034	553,134
Unrestricted	2,023,526	818,863	2,842,389
Total net position	\$ 9,049,857	\$ 8,074,573	\$ 17,124,430

CITY OF LEWISTOWN
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
For the Year Ended June 30, 2014

	Enterprise Funds		
	Water	Sewer	Total
REVENUES			
Charges for services	\$ 1,159,166	\$ 1,264,857	\$ 2,424,023
Total operating revenues	<u>1,159,166</u>	<u>1,264,857</u>	<u>2,424,023</u>
OPERATING EXPENSES			
Personal services	310,161	394,133	704,294
Supplies	114,802	60,737	175,539
Purchased services	90,601	203,780	294,381
Fixed charges	87,208	94,679	181,887
Depreciation	163,694	185,810	349,504
Total operating expenses	<u>766,466</u>	<u>939,139</u>	<u>1,705,605</u>
Operating income	<u>392,700</u>	<u>325,718</u>	<u>718,418</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest and investment revenue	1,192	819	2,011
Miscellaneous revenue	1,316	-	1,316
Interest expense	<u>(12,000)</u>	<u>(83,400)</u>	<u>(95,400)</u>
Total non-operating revenues (expenses)	<u>(9,492)</u>	<u>(82,581)</u>	<u>(92,073)</u>
Change in net position	383,208	243,137	626,345
Net position - beginning	<u>8,666,649</u>	<u>7,831,436</u>	<u>16,498,085</u>
Net position - ending	<u><u>\$ 9,049,857</u></u>	<u><u>\$ 8,074,573</u></u>	<u><u>\$ 17,124,430</u></u>

CITY OF LEWISTOWN
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2014

	Enterprise Funds		
	Water	Sewer	Total
CASH FLOWS FROM OPERATIONS:			
Cash received from customers	\$ 1,162,776	\$ 1,269,170	\$ 2,431,946
Cash paid to employees	(308,330)	(385,347)	(693,677)
Cash paid to suppliers for goods and services	(285,156)	(357,850)	(643,006)
Net cash provided by operating activities	<u>569,290</u>	<u>525,973</u>	<u>1,095,263</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Cash received from miscellaneous sources	1,316	-	1,316
Net cash provided by noncapital financing activities	<u>1,316</u>	<u>-</u>	<u>1,316</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:			
Purchase of capital assets	(6,571)	(39,000)	(45,571)
Principal payments on debt	(345,000)	(310,000)	(655,000)
Interest paid	(12,000)	(83,400)	(95,400)
Net cash used by capital financing activities	<u>(363,571)</u>	<u>(432,400)</u>	<u>(795,971)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest received	1,192	819	2,011
Net cash provided by investing activities	<u>1,192</u>	<u>819</u>	<u>2,011</u>
Change in cash and cash equivalents	208,227	94,392	302,619
Cash and cash equivalents - beginning	1,838,051	981,195	2,819,246
Cash and cash equivalents - ending	<u>\$ 2,046,278</u>	<u>\$ 1,075,587</u>	<u>\$ 3,121,865</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income	\$ 392,700	\$ 325,718	\$ 718,418
Adjustment to reconcile operating income to net cash provided by operating activities:			
Depreciation	163,694	185,810	349,504
Decrease in accounts receivable	3,610	4,313	7,923
Decrease in inventory	5,618	-	5,618
Increase in accounts payable	1,837	1,346	3,183
Increase in accrued salaries and benefits	850	2,446	3,296
Increase in compensated absences	981	6,340	7,321
Net cash provided by operating activities	<u>\$ 569,290</u>	<u>\$ 525,973</u>	<u>\$ 1,095,263</u>

CITY OF LEWISTOWN
STATEMENT OF NET POSITION
FIDUCIARY FUND
June 30, 2014

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	<u>\$ 107,627</u>
Total assets	<u><u>\$ 107,627</u></u>
LIABILITIES	
Accounts payable	\$ 64,590
Due to other governments	<u>43,037</u>
Total liabilities	<u><u>\$ 107,627</u></u>

CITY OF LEWISTOWN
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the government have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations).

The government's significant accounting policies are described below.

Reporting Entity

For financial reporting purposes, the government has included all funds, organizations, agencies, boards, commissions and authorities. The government has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the government are such that exclusion would cause the government's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. Based on the criteria established by the Governmental Accounting Standards Board, the government has no component units.

Related Organizations - The City Commission are responsible for appointing members of the boards of other organizations, but the government's accountability for these organizations does not extend beyond making the appointments.

Government-wide and Fund Financial Statements

The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Fiduciary funds are excluded from the government-wide financial statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or identifiable activity. Program revenues include 1) charges for services which report fees and other charges provided by a given function or identifiable activity 2) operating grants and contributions and 3) capital grants and contributions. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund financial statements are provided for governmental, proprietary and fiduciary funds. Major individual governmental funds and major individual enterprise funds are reported in separate columns in the fund financial statements. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, 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.

CITY OF LEWISTOWN
NOTES TO BASIC FINANCIAL STATEMENTS

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the 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 nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

The government reports the following major governmental funds:

The general fund is used to account for all financial resources, except those required by law or administrative action to be accounted for in another fund. The general fund is always reported as a major fund in the governmental fund statements.

Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted by law or administrative action to expenditure for specific purposes other than debt service or capital projects. The following special revenue funds are reported as major:

The street maintenance fund accounts for assessments and other revenues and payments made for the maintenance and repair of paved streets.

The SID No. 2001 debt service fund accounts for the resources accumulated and payments made for principal and interest on improvements related to SID No. 2001.

The SID No. 2005 debt service fund accounts for the resources accumulated and payments made for principal and interest on improvements related to SID No. 2005.

The government reports the following major proprietary fund:

The water fund accounts for the activities of the government's water services.

The sewer fund accounts for the activities of the government's wastewater services.

Additionally, the government reports the following fund types:

Agency funds are custodial in nature and are used to account for assets that the government holds for others in an agency capacity.

Assets, Liabilities, Deferred Inflows and Net Position/Fund Balance

Cash and Investments

The City maintains a cash and investment portfolio for all funds. Investments are managed by the Finance Director and overseen by the City Commission and City Manager. The Finance Director is responsible for setting the investment policies for the portfolio, reviewing and monitoring investments to ensure the City's investment policies are met and ensuring investments are in compliance with State statute.

Allowable investments include direct obligations of the United States Government, repurchase agreements, savings or time deposits in a state or national bank, building and loan associations, savings and loan associations, or credit unions insured by the FDIC, FSLIC, or NCUA and the State Short Term Investment Pool (STIP). STIP is classified as a 2a7-like pool, and as such, uses amortized cost to report unit values. Investments are reported at fair value. Fair value is determined annually, based on year-end market values. Short-term investments are reported at cost, which approximates fair value. Cash on hand, demand, savings and time deposits, STIP and short-term investments with original maturities of three months or less from the date of acquisition are considered cash equivalents. Investment income is allocated to individual funds owning the investment. The net change in fair value is also allocated to individual funds owning the investment.

Receivables

Receivable bad debts are written-off using the direct write-off method. Use of this method does not result in a material difference from the allowance method required by generally accepted accounting principles.

Receivables from and payables to external parties are reported separately and are not offset in the proprietary fund financial statements and business-type activities of the government-wide financial statements, unless a right of offset exists.

CITY OF LEWISTOWN
NOTES TO BASIC FINANCIAL STATEMENTS

Most property taxes are levied in September of each fiscal year, based on assessments as of the prior January 1. Real property taxes are billed as of November 1 and are payable in two payments, November 30 and May 31. Unpaid taxes become delinquent on December 1 and June 1. Most personal property taxes are due and payable on January 1 and become delinquent February 1. Property taxes are maintained and collected by the County Treasurer. No allowance is made for uncollectible taxes as they are not considered significant.

Inventories and Prepaid Items

Inventory items purchased through the governmental funds are recorded as expenditures at the time of purchase. Inventory at year-end was not material and therefore not recorded. Material and supplies inventory in the enterprise funds is valued at cost. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Restricted Assets

Certain cash assets of the enterprise funds have been set aside and are classified by applicable bond covenants. The "revenue bond-future debt service" account (\$553,134) is used to report resources set aside to make up potential future deficiencies in the revenue bond-current debt service account. The "replacement and depreciation" account (\$2,009,476) is used to report resources set aside to meet unexpected contingencies or to fund asset renewals and replacements.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. The government has elected not to report major infrastructure assets retroactively. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Contributed capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Interest incurred during the construction phase of capital assets of enterprise funds is included as part of the capitalized value of the assets constructed. There was no capitalized interest for the year ended June 30, 2014.

Depreciation on capital assets is calculated on the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and systems	50-100
Infrastructure	20-45
Improvements	75
Machinery and equipment	8-35

Collections Not Capitalized

Certain collections of historic artifacts and works of art are not reported in the accompanying financial statements. These assets have not been capitalized because they meet all of the conditions that qualify them as collections that are not required to be capitalized. These conditions are the collections are held for public exhibition or education in the furtherance of public service, not held for financial gain; the collections are protected, kept unencumbered, cared for, and preserved; and any sale proceeds are expected to be used to acquire other items for the collections.

Compensated Absences

Liabilities associated with accumulated vacation and sick leave are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

CITY OF LEWISTOWN
NOTES TO BASIC FINANCIAL STATEMENTS

Employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Accumulated vacation is restricted under State statute to a maximum accumulation of two times the amount earned annually. Sick leave is accumulated at 12 days per year with no limitations on the amount that may be accumulated. Upon retirement or resignation, an employee is eligible for 100 percent of the accumulated vacation leave and 25 percent of the accumulated sick leave.

Long-term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. In the fund financial statements, the face amount of debt issued is reported as other financing sources.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

It is the government's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

Net Position

In the government-wide statements, equity is classified as net position and displayed in three components:

Net investment in capital assets - consists of capital assets (net of accumulated depreciation), plus capital-related deferred outflows of resources, less capital-related borrowings and deferred inflows of resources.

Restricted - consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted - any portion of net position that does not meet the definition of "net investment in capital assets" or "restricted."

Proprietary fund equity is classified the same as in the government-wide statements.

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

Fund Balance

In the fund statements, governmental fund equity is classified as fund balance. The following classifications describe the relative strength of the spending constraints:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed fund balance - amounts constrained to specific purposes by the government itself, using its highest level of decision-making authority (i.e., governing body). The government establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. To be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.

Assigned fund balance - amounts the government intends to use for a specific purpose. Intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.

Unassigned fund balance - amounts that are available for any purpose. Positive amounts are reported only in the general fund.

CITY OF LEWISTOWN
NOTES TO BASIC FINANCIAL STATEMENTS

The governing body has by resolution authorized the finance director and/or city manager to assign fund balance. There was no assigned fund balance in the general fund at year-end.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the government considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the government considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the governing body has provided otherwise in its commitment or assignment actions.

Use of Estimates

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

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Deficit Fund Equity

The CDBG-Oulette (\$1,732), Disaster (\$20,180), Chokecherry Trail (\$5,588), CDBG Planning (\$6,582), dispatch (\$2,101) and Urban Migratory (\$4,779) funds had deficit fund balances as of June 30, 2014. The deficits in the CDBG-Oulette, Chokecherry Trial, Urban Migratory and Disaster funds are a carryover from the prior year. The deficits in the CDBG Planning and Dispatch funds were the result of current year expenditures exceeding revenues. The deficits are expected to be eliminated through a contribution from the General fund.

NOTE 3. DETAILED NOTES ON ALL FUNDS

Cash and Cash Equivalents and Investments

The government's cash, cash equivalents and investments are reported as follows:

Governmental activities	\$ 2,742,970
Business-type activities	3,121,865
Fiduciary funds	107,627
	\$ 5,972,462

Total carrying value of cash, cash equivalents as of June 30, 2014, consisted of the following:

Cash on hand	\$ 300
Cash in banks:	
Demand deposits	2,072,818
Short-term Investment Program (STIP)	3,376,957
Repurchase agreements	522,387
	\$ 5,972,462

Custodial Credit Risk—Deposits. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. As of June 30, 2014, \$1,641,868 of the government's bank balance of \$2,036,948 was exposed to custodial credit risk as follows:

Uninsured and collateral held by the pledging bank's trust department not in the government's name	\$ 1,641,868
--	--------------

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

CITY OF LEWISTOWN
NOTES TO BASIC FINANCIAL STATEMENTS

Interest Rate Risk. The government does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, under state statute, an investment 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.

Credit Risk. Allowable investments include direct obligations of the United States Government, repurchase agreements, savings or time deposits in a state or national bank, building and loan associations, savings and loan associations, or credit unions insured by the FDIC, FSLIC, or NCUA and the State Short Term Investment Pool (STIP). STIP is classified as a 2a7-like pool, and as such, uses amortized cost to report unit values. The government has no investment policy that would further limit its investment choices. The Short-Term Investment Pool (STIP) maintained by the State of Montana has certain investments in derivatives. GASB requires the nature of the underlying securities and market, credit and legal risks be disclosed. Reference to the audit of the State of Montana would identify the level of risk associated with STIP.

Investments made by the government are summarized below. The investments that are represented by specific identifiable investment securities are categorized in the following manner: Category 1-Insured or registered, with securities held by the government or its agent in the government's name; Category 2-Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the government's name; Category 3-Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the government's name.

	Custodial Credit Risk Category			Carrying Amount	Fair Value
	1	2	3		
Repurchase agreements	\$ -	\$ -	\$ 522,387	\$ 522,387	\$ 522,387
	\$ -	\$ -	\$ 522,387	522,387	522,387
STIP				3,376,957	3,376,957
				<u>\$ 3,899,344</u>	<u>\$ 3,899,344</u>

Capital Assets

Capital asset activity for the year ended June 30, 2014, was as follows:

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Governmental activities:				
Capital assets, not being depreciated				
Land	\$ 3,351,637	\$ -	\$ -	\$ 3,351,637
Total capital assets, not being depreciated	<u>3,351,637</u>	<u>-</u>	<u>-</u>	<u>3,351,637</u>
Capital assets, being depreciated				
Buildings/improvements	1,582,157	48,182	-	1,630,339
Improvements other than buildings	553,186	-	-	553,186
Machinery and equipment	3,465,850	489,265	-	3,955,115
Infrastructure	4,235,410	60,062	-	4,295,472
Total capital assets, being depreciated	<u>9,836,603</u>	<u>597,509</u>	<u>-</u>	<u>10,434,112</u>
Less accumulated depreciation for:				
Buildings/improvements	(659,470)	(23,280)	-	(682,750)
Improvements other than buildings	(312,655)	(11,284)	-	(323,939)
Machinery and equipment	(1,887,492)	(277,642)	-	(2,165,134)
Infrastructure	(1,157,882)	(64,013)	-	(1,221,895)
Total accumulated depreciation	<u>(4,017,499)</u>	<u>(376,219)</u>	<u>-</u>	<u>(4,393,718)</u>
Total capital assets, being depreciated, net	<u>5,819,104</u>	<u>221,290</u>	<u>-</u>	<u>6,040,394</u>
Governmental activities capital assets, net	<u>\$ 9,170,741</u>	<u>\$ 221,290</u>	<u>\$ -</u>	<u>\$ 9,392,031</u>

CITY OF LEWISTOWN
NOTES TO BASIC FINANCIAL STATEMENTS

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Business-type activities:				
Capital assets, not being depreciated				
Land	\$ 50,283	\$ -	\$ -	\$ 50,283
Construction-in-progress	26,301	39,000	-	65,301
Total capital assets, not being depreciated	<u>76,584</u>	<u>39,000</u>	<u>-</u>	<u>115,584</u>
Capital assets, being depreciated				
Buildings and systems	23,843,632	-	-	23,843,632
Machinery and equipment	518,113	6,571	-	524,684
Total capital assets, being depreciated	<u>24,361,745</u>	<u>6,571</u>	<u>-</u>	<u>24,368,316</u>
Less accumulated depreciation for:				
Buildings and systems	(5,818,484)	(314,340)	-	(6,132,824)
Machinery and equipment	(325,005)	(35,164)	-	(360,169)
Total accumulated depreciation	<u>(6,143,489)</u>	<u>(349,504)</u>	<u>-</u>	<u>(6,492,993)</u>
Total capital assets, being depreciated, net	<u>18,218,256</u>	<u>(342,933)</u>	<u>-</u>	<u>17,875,323</u>
Business-type activities capital assets, net	<u>\$ 18,294,840</u>	<u>\$ (303,933)</u>	<u>\$ -</u>	<u>\$ 17,990,907</u>

Depreciation expense was charged as follows:

Governmental activities:	
General government	\$ 11,141
Public safety	234,105
Public works	90,487
Culture and recreation	<u>40,486</u>
Total depreciation-governmental activities	<u>\$ 376,219</u>
Business-type activities:	
Water	\$ 163,694
Sewer	<u>185,810</u>
Total depreciation-business-type activities	<u>\$ 349,504</u>

Interfund Transfers

Interfund transfers consisted of the following:

	Transfers In	Transfers Out
Governmental activities:		
General	\$ 119,932	\$ (391,472)
Nonmajor governmental funds	<u>396,472</u>	<u>(124,932)</u>
Total governmental activities	<u>\$ 516,404</u>	<u>\$ (516,404)</u>

Transfers use unrestricted revenues collected to finance various programs accounted for in other funds in accordance with budgetary authorizations.

CITY OF LEWISTOWN
NOTES TO BASIC FINANCIAL STATEMENTS

Long-Term Debt

Notes payables are as follows:

	<u>Original Amount</u>	<u>Matures</u>	<u>Interest Rate</u>	<u>Governmental Activities</u>
Berg land	\$ 91,005	September 2017	0.00%	\$ 91,005
Airport infrastructure (1)	89,902	August 2021	1.00%	72,288
				<u>\$ 163,293</u>

(1) Through Montana Board of Investments-INTERCAP, interest adjusted each February 1, up to a maximum of 15%.

Annual debt service requirements to maturity for notes payable are as follows:

<u>Year ending June 30,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 9,056	\$ 700	\$ 9,756
2016	9,229	609	9,838
2017	9,406	517	9,923
2018	100,592	422	101,014
2019	9,771	326	10,097
2020-2022	25,239	381	25,620
	<u>\$ 163,293</u>	<u>\$ 2,955</u>	<u>\$ 166,248</u>

The government issued special improvement bonds to provide funds for street overlay and curbs and gutter projects. Special improvement bonds outstanding are as follows:

	<u>Original Amount</u>	<u>Term</u>	<u>Interest Rate</u>	<u>Balance June 30, 2014</u>
SID No. 2002	\$ 155,700	20 yr	2.00-5.00%	\$ 80,000
SID No. 2005	742,500	20 yr	3.65-4.625%	485,000
SID No. 2001	818,000	20 yr	3.15-5.15%	350,000
				<u>\$ 915,000</u>

Annual debt service requirements to maturity for special improvement bonds are as follows:

<u>Year ending June 30,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 8,000	\$ 43,805	\$ 51,805
2016	59,000	43,445	102,445
2017	64,000	40,581	104,581
2018	85,000	34,525	119,525
2019	115,000	29,242	144,242
2020-2024	409,000	60,425	469,425
2025-2028	175,000	8,325	183,325
	<u>\$ 915,000</u>	<u>\$ 260,348</u>	<u>\$ 1,175,348</u>

CITY OF LEWISTOWN
NOTES TO BASIC FINANCIAL STATEMENTS

Bonds were issued through the Department of Natural Resources and Conservation (DNRC) where the government pledged income derived from the acquired or constructed assets to pay debt service. Bonds payable are as follows:

	Amount	Matures	Interest Rate	Business-type Activities
Water revenue bonds	\$ 1,387,000	June 2016	1.25%	\$ 701,000
Sewer revenue bond	332,000	June 2024	2.25%	284,000
Sewer revenue bond	3,702,000	June 2024	2.25%	3,152,000
Sewer revenue bond	161,159	June 2030	0.75%	125,000
				<u>\$ 4,262,000</u>

The following are the significant water bond provisions:

Debt Service Account-Current A sinking and interest account will be established and credited monthly with one-sixth of the principal and interest due within the next six months to meet payments of principal and interest on the bonds as they come due.

Reserve Account Establish a reserve account equal to \$158,100 of the original principal.

Net Revenues Produce net revenues at least equal to 125% of the maximum principal and interest due in any fiscal year.

Replacement and Depreciation Account A replacement and depreciation account will be established for repair and replacement of the water system.

The government is in substantial compliance with the water bond provisions.

The following are the significant sewer bond provisions:

Debt Service Account-Current A sinking and interest account will be established and credited monthly with one-sixth of the principal and interest due within the next six months to meet payments of principal and interest on the bonds as they come due.

Reserve Account Establish a reserve account equal to \$395,034.

Net Revenues Produce net revenues at least equal to 125% of the maximum principal and interest due in any fiscal year.

Replacement and Depreciation Account A replacement and depreciation account will be established for repair and replacement of the water system.

The government is in substantial compliance with the wastewater bond provisions.

Annual debt service requirements to maturity for revenue bonds are as follows:

Year ending June 30,	Business-type Activities		
	Principal	Interest	Total
2015	\$ 667,000	\$ 84,176	\$ 751,176
2016	677,000	72,721	749,721
2017	332,000	62,193	394,193
2018	340,000	54,800	394,800
2019	347,000	47,225	394,225
2020-2024	1,854,000	116,658	1,970,658
2024-2029	40,000	1,014	41,014
2030	5,000	19	5,019
	<u>\$ 4,262,000</u>	<u>\$ 438,806</u>	<u>\$ 4,700,806</u>

CITY OF LEWISTOWN
NOTES TO BASIC FINANCIAL STATEMENTS

Long-term liability activity for the year ended June 30, 2014 was as follows:

	Balance July 1, 2013	Additions	Retirements	Balance June 30, 2014	Due Within One Year
Governmental activities:					
Special assessment bonds	\$ 915,000	\$ -	\$ -	\$ 915,000	\$ 8,000
Notes payable	172,178	-	(8,885)	163,293	9,056
Compensated absences	336,877	5,863	-	342,740	34,274
Governmental activity long-term liabilities	\$ 1,424,055	\$ 5,863	\$ (8,885)	\$ 1,421,033	\$ 51,330
Business-type activities:					
Revenue bonds	\$ 4,917,000	\$ -	\$ (655,000)	\$ 4,262,000	\$ 667,000
Compensated absences	38,181	7,321	-	45,502	4,550
Business-type activity long-term liabilities	\$ 4,955,181	\$ 7,321	\$ (655,000)	\$ 4,307,502	\$ 671,550

For the governmental activities, general obligation and special assessment bonds are liquidated by the debt service funds. Compensated absences and notes payable are generally liquidated by the general fund.

NOTE 4. OTHER INFORMATION

Risk Management

The government is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; professional liability (i.e., errors and omissions); workers compensation (i.e., employee injuries); medical insurance costs; and environmental damages. A variety of methods is used to provide insurance for these risks. The government participates in a state-wide public risk pool, MMIA, for workers' compensation coverage. The government pays monthly premiums for its employee injury insurance coverage. Tax exempt bonds were issued to fund reserves. The agreement for formation of the pool provides that it will be self-sustaining through member premiums. There are deductible and maximum coverage limits. The government also participates in MMIA's liability plan which offers insurance for other risks of loss. Given lack of coverage available, the government has no coverage for potential losses from environmental damages. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

Interlocal Agreements

The City and Fergus County entered into an agreement to fund a library for City and County residents. The City maintains the library accounting records and includes the financial activities of the library in its financial statements. The County contributed \$43,497 for the year ended June 30, 2014.

The City-County Airport is owned and operated jointly by the City and Fergus County. The operation of the Airport is accounted for by the County as an enterprise fund. All capital assets are recorded within the County's accounting records. The Airport is administered by a five-member board, consisting of the City's manager, a City-appointed member, one County commissioner, a County-appointed member and one member-at-large appointed by the Airport Board. The budget is approved by the controlling members. The Airport Board exercises control over the Airport's normal operations.

In April 1991, the City and the Lewistown Rural Fire District entered into an agreement whereby the Fire District will provide fire fighting equipment and the City will house the equipment and provide the personnel to operate the equipment. The Fire District contributed \$87,100 to the City during 2014.

The City and County entered into an agreement whereby the County provides a justice of the peace to act as the City judge. The County contributes the greater of fifty-five percent of fines and assessments collected or \$25,000. The County maintains the accounting records and remits a monthly accounting to the City.

Commitments and Contingencies

At year-end, the government had commitments outstanding, in the form of contracts, of approximately \$555,000, primarily for construction projects and equipment.

CITY OF LEWISTOWN
NOTES TO BASIC FINANCIAL STATEMENTS

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any to be immaterial.

Prior Period Adjustments

Prior period adjustments resulted from recording certain transactions in the incorrect accounting period.

Retirement Plans

The government participates in three statewide mandatory cost-sharing multiple employer defined benefit retirement plans which cover all employees. The Municipal Police Officers' Retirement System (MPORS) covers city police officers. The Firefighters' Unified Retirement System (FURS) covers city firefighters. The Public Employee Retirement System (PERS) covers all other city employees. The plans are established by State law and are administered by the State of Montana. The plans provide retirement, disability, and death benefits to plan members and beneficiaries.

The plans issue a publicly available financial report that include financial statements and required supplementary information. The reports may be obtained from the Public Employees' Retirement Board, 100 North Park, P.O. Box 200131, Helena, Montana 59620-0131, telephone (406) 444-3154.

Contribution rates for the plans are required and determined by State law. The contribution rates, expressed as a percentage of covered payroll, were as follows:

	Employer	Employee	Total
MPORS	14.410%	9.000%	23.410%
FURS	14.360%	10.700%	25.060%
PERS	8.070%	7.900%	15.970%

PERS:

On January 1 following an actuarial valuation, the employee contribution rate will be reduced to 6.9%, and the additional contributions by the employer (1%) and the State of Montana will terminate, if the actuarial valuation determines that these reductions and terminations would not cause the amortization period to exceed 25 years. Effective July 1, 2013, retired members who return to active service are subject to the above employee, employer, and state contributions. For retired members who return to work in a covered position, but who have not become active members, the employer and state shall contribute the amounts specified in Sections 19-3-316 and 319. (MCA 19-3-1113)

The State of Montana contributes .1% per year to the PERS plan, 29.37% to the MPORS (\$180,461) plan and 32.61% to the FURS (\$109,247) plan on behalf of the employer. The on-behalf contributions, except for PERS, have been recorded in the financial statements.

The amounts contributed to the plans during the years ended June 30, 2014, 2013 and, 2012, were equal to the required contributions for each year. The amounts contributed by both the government and its employees (including additional voluntary contributions by employees as permitted by State law) were as follows:

	2014	2013	2012
MPORS	\$ 143,841	\$ 139,491	\$ 133,197
FURS	83,954	80,736	78,147
PERS	244,921	211,498	198,795
	\$ 472,716	\$ 431,725	\$ 410,139

CITY OF LEWISTOWN
NOTES TO BASIC FINANCIAL STATEMENTS

Future Implementation of GASB Pronouncements

The GASB has issued the following pronouncements:

Statement No. 68 - Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27. Effective Date: The provisions of Statement 68 are effective for fiscal years beginning after June 15, 2014.

Statement No. 71 - Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68 Effective Date: The provisions of this Statement should be applied simultaneously with the provisions of Statement 68.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LEWISTOWN
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
General Fund
For the Year Ended June 30, 2014

	Budgeted Amounts		Actual Amounts
	Original	Final	
REVENUES			
Property Taxes	\$ 1,447,552	\$ 1,447,552	\$ 1,434,098
Fees and fines	42,500	42,500	38,967
Licenses and permits	55,000	55,000	52,364
Intergovernmental	1,171,691	1,491,509	1,499,461
Charges for services	336,240	336,240	319,735
Investment earnings	4,000	4,000	2,546
Miscellaneous	21,953	21,953	43,164
Total revenues	<u>3,078,936</u>	<u>3,398,754</u>	<u>3,390,335</u>
EXPENDITURES			
Current:			
General government	358,368	358,368	318,100
Public safety	1,664,444	1,984,262	1,752,286
Public works	90,310	90,310	67,751
Public health	61,189	62,299	58,297
Culture and recreation	465,601	465,601	380,347
Housing and community development	30,000	37,599	23,608
Other current charges	55,000	55,000	47,165
Debt service:			
Principal	18,889	18,889	8,885
Interest and other charges	1,000	1,000	789
Capital outlay	407,817	407,817	484,609
Total expenditures	<u>3,152,618</u>	<u>3,481,145</u>	<u>3,141,837</u>
Excess (deficiency) of revenues over expenditures	<u>(73,682)</u>	<u>(82,391)</u>	<u>248,498</u>
OTHER FINANCING SOURCES (USES)			
Long-term debt issued	150,000	150,000	-
Sale of capital assets	10,000	10,000	-
Transfers in	121,543	121,543	119,932
Transfers out	(513,972)	(513,972)	(391,472)
Total other financing sources and uses	<u>(232,429)</u>	<u>(232,429)</u>	<u>(271,540)</u>
Net change in fund balance	<u>\$ (306,111)</u>	<u>\$ (314,820)</u>	<u>(23,042)</u>
Fund balance - beginning			847,346
Prior period adjustments			<u>255,677</u>
Fund balance - ending			<u>\$ 1,079,981</u>

CITY OF LEWISTOWN
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Street Maintenance Fund
For the Year Ended June 30, 2014

	<u>Budgeted Amounts</u>		Actual Amounts
	<u>Original</u>	<u>Final</u>	
REVENUES			
Property Taxes	\$ 930,652	\$ 930,652	\$ 930,037
Intergovernmental	41,711	41,711	51,725
Investment earnings	700	700	340
Miscellaneous	5,000	5,000	5,012
Total revenues	<u>978,063</u>	<u>978,063</u>	<u>987,114</u>
EXPENDITURES			
Current:			
General government	32,846	32,846	27,541
Public works	1,364,720	1,364,720	751,812
Capital outlay	120,000	120,000	99,760
Total expenditures	<u>1,517,566</u>	<u>1,517,566</u>	<u>879,113</u>
Net change in fund balance	<u>\$ (539,503)</u>	<u>\$ (539,503)</u>	108,001
Fund balance - beginning			<u>754,353</u>
Fund balance - ending			<u>\$ 862,354</u>

CITY OF LEWISTOWN
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2014

BUDGETARY INFORMATION

Money may not be disbursed, expended or obligated except pursuant to an appropriation for which working capital is or will be available. The final budget is legally enacted by the governing body by the first Thursday after the first Tuesday in September or within 30 calendar days of receiving certified taxable values from the department of revenue, after holding public hearings as required by state statute. Budgeted fund expenditures/expenses are limited by state law to budgeted amounts. Budgets may be amended for circumstances described by state law. The budgeted amounts as shown in the financial statements are as originally adopted or as revised by legal budget transfers and amendments, if applicable. All appropriations, except for construction-in-progress, lapse at year-end. The government does not utilize a formal encumbrance accounting system.

For the year ended June 30, 2014, expenditures exceeded appropriations in the Disaster (\$2,546), 911 (\$13,165) and Homeland Security Grant (\$21,809) funds.

OLNESS & ASSOCIATES, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

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

To the City Commission and City Manager
City of Lewistown
Lewistown, 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, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lewistown, Montana (the government) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the government's basic financial statements, and have issued our report thereon dated March 2, 2015. The report on governmental and business-type activities and proprietary funds was qualified because management has not recorded the other post employment benefit (OPEB) liability and related expense. Also, the report on the business-type activities and water fund was qualified because we did not observe year-end inventory counts and because the government's accounting records related to inventory do not permit retroactive tests of inventory quantities.

Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses. (Findings 2014-001 through 2014-005)

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies. (Findings 2014-006 through 2014-008)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the government's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2014-007 and 2014-008.

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 (CONTINUED)

The Government's Response to Findings

The government's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The government's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

O'Leary & Associates, PC

Billings, Montana
March 2, 2015

CITY OF LEWISTOWN
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2014

2014-001. FINANCIAL STATEMENT PREPARATION

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

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

Cause: The government is a small organization with limited resources.

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

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

Client Response: The City Manager and Finance Officer have reviewed the employees and management's necessary qualifications and training and all are capable of fulfilling their assigned daily functions. However, the cost outweighs the benefit for the City to hire an additional employee with skills and knowledge to apply generally accepted accounting principles in relation to preparation of the financial statements or to prevent, detect and correct a material financial statement misstatement.

2014-002. OTHER POST EMPLOYMENT BENEFIT LIABILITY NOT RECORDED

Criteria: U.S. generally accepted accounting principles require the OPEB liability and related expense be recorded in the financial statements.

Condition: The government did not record the other post employment benefit (OPEB) liability and related expense (GASB Statement No. 45) in the financial statements.

Cause: The government did not engage an actuarial firm to assist in determining the OPEB liability and related expense as of and for the year ended June 30, 2014.

Effect: The governmental activities, business-type activities and proprietary funds' liabilities are understated, net position is overstated and expenses would change.

Recommendation: The government should engage an actuarial firm to determine the OPEB liability and related expense.

Client Response: The Finance Officer is working with the City's health insurance provider to be able to properly account for the Other Post Employment Benefit (OPEB) liability. If it is unable to be done properly through the City's health insurance provider the City Manager and Finance Officer will work to engage an actuarial firm to determine the OPEB liability and related expenses.

2014-003. SEGREGATION OF DUTIES

Criteria: Segregation of duties refers to assigning tasks among personnel so that no one person handles substantially all aspects of a transaction.

Condition: In many financial areas, including federal award programs, the government lacks segregation of duties.

Cause: The extent to which the government can segregate duties is limited based on the number of personnel, their skill set and work load, and organizational structure.

Effect: The risk of errors or irregularities occurring and not being detected in a timely manner increases when a lack of segregation of duties exists.

Recommendation: There are inherent inefficiencies with full segregation of duties and inherent risks with the lack of segregation of duties. The cost versus benefits for both should be considered. The government should continue to

CITY OF LEWISTOWN
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2014

evaluate its segregation of duties and when possible assign tasks to strengthen controls.

Client Response: The City of Lewistown's City Office has a staff of four. The City Manager and Finance Officer have reviewed the segregation of duties and reviewing and approving reconciliations is completed on a regular basis and the approval of control of documents is in place. The current segregation of duties is effective and the City Manager feels that hiring more employees to implement additional segregation of duties would be much more costly than beneficial.

2014-004. CASH NOT RECONCILED IN A TIMELY MANNER

Criteria: In order to make the financial reports generated by the accounting system as meaningful as possible, the finance office should reconcile the bank accounts to the general ledger cash accounts in a timely manner.

Condition: The bank accounts were not reconciled to the general ledger cash accounts in a timely manner during fiscal year 2014. Further, as of our fieldwork date, cash had not been reconciled for the months of July 2014 through November 2014.

Cause: Unknown.

Effect: Financial reports provided to management and others may not be accurate.

Recommendation: The bank accounts should be reconciled to the general ledger cash accounts by the 15th of the following month. Copies of the reconciliations should be provided to the city manager for review and approval.

Client Response: There has been a high rate of turnover the last couple of years in the City Office and last fiscal year the bookkeeper retired after 25 years. It has been a challenge to get the office staffed and trained. This is a short term situation and is in the process of being rectified. The Finance Officer is also working to cross train the staff to help in situations of her absence.

2014-005. PAYROLL CLEARING FUND NOT RECONCILED

Criteria: At least monthly, the balances in the payroll clearing fund should be reviewed and reconciled to determine if they are accurate and complete.

Condition: The payroll clearing fund was not reconciled throughout the year.

Cause: Unknown.

Effect: Financial reports provided to management and others may not be accurate.

Recommendation: At least monthly, the balances in the payroll clearing fund should be reviewed and reconciled. Unreconciled or unknown amounts should be investigated and resolved immediately.

Client Response: The bookkeeper retired after 25 years and with that a lot of knowledge went with him. It is going to take staff some time to understand some of his areas of expertise. The importance and impact of balancing the payroll clearing fund was unknown. Staff now knows the importance of balancing the payroll clearing fund, and the payroll clearing fund is being reviewed and reconciled monthly.

2014-006. ADOPTED PURCHASING POLICY NOT FOLLOWED

Criteria: Policy requires all purchases in excess of \$5,000 be approved by the city manager using a purchase requisition. For each purchase, the department head is required to obtain price quotes from no less than two vendors. Documentation of the quotes is required to be attached to the purchase requisition. Further, policy requires all claims to be supported by invoices.

Condition: Examples were found where the requisitions and/or invoices were not attached to the claim or were not signed by the city manager.

Cause: Unknown.

Effect: Policy states that violations may be cause for disciplinary action.

Recommendation: Department heads should adhere to the city's current purchasing policy.

Client Response: There has been some turnover in Department Heads and the City Manager and Finance Officer are

CITY OF LEWISTOWN
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2014

working with them to understand and adhere to the City's current purchasing policy. The new bookkeeper is also learning how the purchasing policy works and is returning claims that are not in compliance with the policy.

2014-007. STATE PREVAILING WAGE RATES

Criteria: Per Section 18-2-422, MCA, all public works contracts and the bid specifications for those contracts must contain (1) a provision stating for each job classification the standard prevailing wage rate, including fringe benefits, that the contractors and employers shall pay during construction of the project; (2) a provision requiring each contractor and employer to maintain payroll records in a manner readily capable of being certified for submission to the Department of Labor & Industry for not less than 3 years after the contractor's or employer's completion of work on the project; and (3) a provision requiring each contractor to post a statement of all wages and fringe benefits.

Condition: The bids and contracts for the 2013 street paving and asphalt/cement recycling projects did not contain the required state prevailing wage rate language.

Cause: Unknown

Effect: Failure to include these provisions in a public works contract relieves the contractor from the obligation to pay the standard prevailing wage rate and places the obligation on the public contracting agency. (MCA 18-2-403(9); ARM 24.17.144)

Recommendation: All public works contracts and the bid specifications for those contracts should contain the provisions that will satisfy the requirements of the Montana Prevailing Wage statutes.

Client Response: The City Manager has discussed with all department heads the need to make sure that when any contract is advertised or awarded for the City of Lewistown that the bid specifications contain the provisions that will satisfy the requirements of the Montana Prevailing Wage statutes.

2014-008. EXPENDITURES LIMITED TO APPROPRIATIONS

Criteria: Local government officials may not make a disbursement or an expenditure or incur an obligation in excess of the total appropriations for a fund. (MCA 7-6-4005)

Condition: For the year ended June 30, 2014, expenditures exceeded appropriations in the Disaster (\$2,546), 911 (\$13,165) and Homeland Security Grant (\$21,809) funds.

Cause: Unknown.

Effect: Noncompliance with laws and regulations.

Recommendation: Procedures should be developed to monitor budget to actual results. If necessary, budget amendments should be developed, approved and posted to the accounting records.

Client Response: The Finance Officer has reviewed the accounts where the expenditures exceeded appropriations and understands why it happened. The Finance Officer is doing budget reviews more often and if needed a budget amendment will be done to fix any concerns.

CITY OF LEWISTOWN
SCHEDULE OF PRIOR YEAR FINANCIAL STATEMENT FINDINGS

<u>PRIOR YEAR FINANCIAL STATEMENT FINDINGS</u>	<u>STATUS</u>
2013-1. FINANCIAL STATEMENT PREPARATION	CONTINUED DISCLOSURE
2013-2. OTHER POST EMPLOYMENT BENEFIT LIABILITY NOT RECORDED	NOT IMPLEMENTED
2013-3. SEGREGATION OF DUTIES	CONTINUED DISCLOSURE
2013-4. CREDIT CARD USE	IMPLEMENTED
2013-5. EXCESS VACATION LEAVE	IMPLEMENTED
2013-6. PLEDGES	IMPLEMENTED
2013-7. EXPENDITURES LIMITED TO APPROPRIATIONS	NOT IMPLEMENTED