

**City of Libby, Montana**

**Fiscal Year Ended  
June 30, 2014**

**Audit Report**

**CITY OF LIBBY, MONTANA**  
**Fiscal Year Ended June 30, 2014**

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**CITY OF LIBBY, MONTANA**

**ORGANIZATION**

Fiscal Year Ended June 30, 2014

**MAYOR**

Doug Roll

**CITY COUNCIL**

Robin Benson

Bill Bischoff

Barb Desch

Brent Teske

Allen Olsen

Peggy Williams

**CITY OFFICIALS**

Jim Reintsma

Attorney

Glena Hook

Clerk/Treasurer

Lucille Briggs

City Judge

Jim Smith

Chief of Police

***Nicole M. Noonan, CPA, P.C.***

*435 Little Mill Creek Road*

*St. Regis, Montana 59866*

*Phone and FAX: (406) 649-2436*

*Cell phone: (406) 239-4260*

*E-mail: noonanaccounting@hotmail.com*

**INDEPENDENT AUDITOR'S REPORT**

Mayor and City Council  
City of Libby  
Libby, Montana

**Report on the Financial Statements**

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

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## ***Opinions***

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

## ***Change in Accounting Principle***

As described in Note 1 to the financial statements, in fiscal year 2014, the City adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. My opinion is not modified with respect to this matter.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5-12 and pages 44-48 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. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Libby, Montana's basic financial statements. The accompanying schedule of expenditures of federal awards on page 49 is presented for purposes of additional analysis as required by United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, I have also issued my report dated April 28, 2015, on my consideration of the City of Libby, Montana's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Libby, Montana's internal control over financial reporting and compliance.

*Nicole M. Noonan, CPA, P.C.*

Nicole M. Noonan, CPA, P.C.  
St. Regis, Montana  
April 28, 2015

**City of Libby**  
**Management's Discussion and Analysis**  
**June 30, 2014**

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

**Financial Highlights**

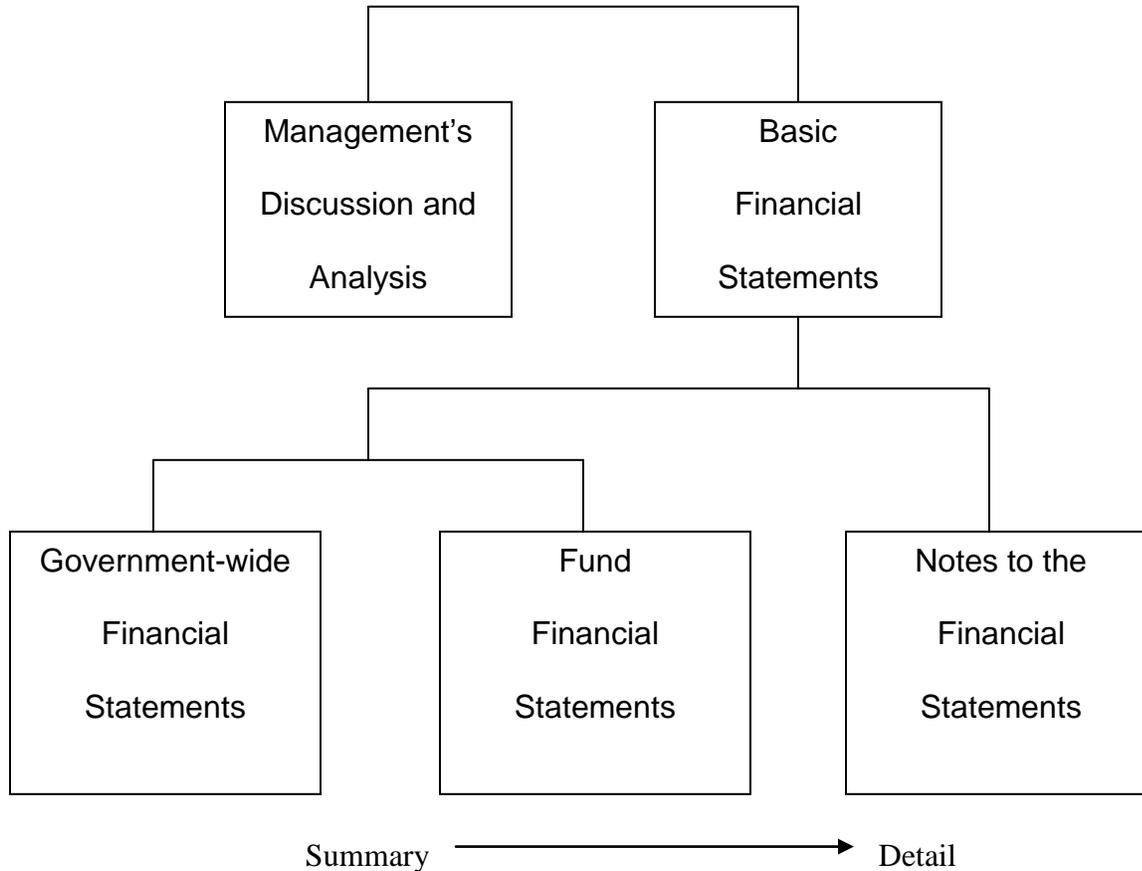
- The assets of the City of Libby exceeded its liabilities at the close of the fiscal year by \$17,825,755.86.
- The government's total net position increased by \$493,026.86.
- As of the close of the current fiscal year, the City of Libby's governmental funds reported combined ending fund balances of \$2,634,358.92 a decrease of \$194,668.42 in comparison with the prior year decrease of \$236,189.69. At the end of the current fiscal year, fund balance for the General Fund was \$236,292.85 or 17 percent of total general fund expenditures for the fiscal year.
- The City's total debt increased by \$2,395,462.49 during the current fiscal year. This was mainly due to a new interim loan for the water distribution project.

**Overview of the Financial Statements**

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

## Required Components of Annual Financial Report

Figure 1



### Basic Financial Statements

The first two statements (pages 13 and 14) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the City's financial status.

The next statements (pages 15 through 21) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the City's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the proprietary fund statements; and 3) the fiduciary fund statements.

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

## **Government-wide Financial Statements**

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

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

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

The government-wide financial statements are on pages 13 and 14 of this report.

## **Fund Financial Statements**

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

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

## **Fund Financial Statements**

### **Governmental Funds – continued**

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

**Proprietary Funds** – The City of Libby has two enterprise funds. Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Libby uses enterprise funds to account for its water and sewer services. These funds are the same as those functions shown in the business-type activities in the Statement of Net Position and the Statement of Activities.

**Fiduciary Funds** – The City of Libby has two fiduciary funds. Fiduciary funds are trust or agency funds used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. These may include (a) expendable trust funds, (b) nonexpendable trust funds, (c) pension trust funds and (d) agency funds. The city uses fiduciary funds to account for court bonds and fire relief pension.

**Notes to the Financial Statements** – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 22 to 43 of this report.

**City of Libby  
MD & A Comparisons  
June 30, 2014**

<b>Net Position</b>	<b>Governmental Activities</b>			<b>Business-type Activities</b>		
	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>Change Increase (Decrease)</u>	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>Change Increase (Decrease)</u>
Current and other assets	\$ 5,458,789.87	\$ 5,929,640.00	\$ (470,850.13)	\$ 1,017,263.95	\$ 663,687.00	\$ 353,576.95
Capital assets	4,070,829.14	3,941,321.00	129,508.14	15,672,246.18	12,863,877.00	2,808,369.18
Total assets	<u>\$ 9,529,619.01</u>	<u>\$ 9,870,961.00</u>	<u>\$ (341,341.99)</u>	<u>\$ 16,689,510.13</u>	<u>\$ 13,527,564.00</u>	<u>\$ 3,161,946.13</u>
Long-term debt outstanding	\$ 102,874.47	\$ 61,347.00	\$ 41,527.47	\$ 7,649,469.02	\$ 5,295,534.00	\$ 2,353,935.02
Other liabilities	94,603.78	84,948.00	9,655.78	546,426.01	591,767.00	(45,340.99)
Total liabilities	<u>\$ 197,478.25</u>	<u>\$ 146,295.00</u>	<u>\$ 51,183.25</u>	<u>\$ 8,195,895.03</u>	<u>\$ 5,887,301.00</u>	<u>\$ 2,308,594.03</u>
Total deferred inflows of resources	\$ -	\$ 32,200.00	\$ (32,200.00)	\$ -	\$ -	\$ -
Net Position:						
Net investment in capital assets	\$ 3,967,954.67	\$ 3,879,974.00	\$ 87,980.67	\$ 7,200,682.16	\$ 6,690,260.00	\$ 510,422.16
Restricted	627,335.53	838,828.00	(211,492.47)	505,379.00	408,324.00	97,055.00
Unrestricted (deficit)	4,736,850.56	4,973,664.00	(236,813.44)	787,553.94	541,679.00	245,874.94
Total net position	<u><u>\$ 9,332,140.76</u></u>	<u><u>\$ 9,692,466.00</u></u>	<u><u>\$ (360,325.24)</u></u>	<u><u>\$ 8,493,615.10</u></u>	<u><u>\$ 7,640,263.00</u></u>	<u><u>\$ 853,352.10</u></u>

**City of Libby  
MD & A Comparisons  
June 30, 2014**

**Changes in Net Position**

	<b>Governmental Activities</b>			<b>Business-type Activities</b>					
	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>Change Increase (Decrease)</u>	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>Change Increase (Decrease)</u>			
<b>Revenues</b>									
Program revenues (by major source):									
Charges for services	\$ 421,388.26	\$ 431,385.00	\$ (9,996.74)	\$ 1,705,868.49	\$ 1,755,929.00	\$ (50,060.51)			
Operating grants and contributions	201,556.61	153,370.00	48,186.61	-	10,000.00	(10,000.00)			
Capital grants and contributions	214,952.09	7,749.00	207,203.09	400,490.35	141,818.00	258,672.35			
General revenues (by major source):									
Property taxes for general purposes	377,386.38	372,535.00	4,851.38	-	-	-			
Local option tax	57,179.88	56,402.00	777.88	-	-	-			
Permits & Licenses	41,328.93	97,367.00	(56,038.07)	-	-	-			
Unrestricted Federal/State shared revenues	530,630.77	511,511.00	19,119.77	-	-	-			
Unrestricted investment earnings	7,440.31	14,848.00	(7,407.69)	8,336.12	12,284.00	(3,947.88)			
<b>Total revenues</b>	<b>\$ 1,851,863.23</b>	<b>\$ 1,645,167.00</b>	<b>\$ 206,696.23</b>	<b>\$ 2,114,694.96</b>	<b>\$ 1,920,031.00</b>	<b>\$ 194,663.96</b>			
<b>Program expenses</b>									
General government	\$ 347,201.76	\$ 393,889.00	\$ (46,687.24)						
Public safety	574,680.38	573,459.00	1,221.38						
Public works	629,103.19	619,442.00	9,661.19						
Public health	10,800.00	10,800.00	-						
Culture and recreation	98,392.31	97,324.00	1,068.31						
Housing and community development	213,968.54	140,890.00	73,078.54						
Debt service - interest	4,635.33	8,152.00	(3,516.67)						
Miscellaneous	34,634.00	43,276.00	(8,642.00)						
Water							\$ 1,053,947.17	\$ 1,160,785.00	\$ (106,837.83)
Sewer							632,176.77	628,306.00	3,870.77
<b>Total expenses</b>	<b>\$ 1,913,415.51</b>	<b>\$ 1,887,232.00</b>	<b>\$ 26,183.51</b>	<b>\$ 1,686,123.94</b>	<b>\$ 1,789,091.00</b>	<b>\$ (102,967.06)</b>			
Excess (deficiency) before special items, extraordinary items and transfers	\$ (61,552.28)	\$ (242,065.00)	\$ 180,512.72	\$ 428,571.02	\$ 130,940.00	\$ 297,631.02			
Special items - net	12,434.40	-	12,434.40	-	-	-			
Transfers - net	(319,030.70)	(427,293.00)	108,262.30	319,030.70	427,293.00	(108,262.30)			
<b>Increase (decrease) in Net Position</b>	<b>\$ (368,148.58)</b>	<b>\$ (669,358.00)</b>	<b>\$ 301,209.42</b>	<b>\$ 747,601.72</b>	<b>\$ 558,233.00</b>	<b>\$ 189,368.72</b>			

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets of the City of Libby exceeded liabilities by \$17,825,755.86 as of June 30, 2014. The City's net position increased by \$493,026.86 for the fiscal year ended June 30, 2014. The City of Libby uses capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Libby's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the City of Libby's net position, \$1,132,714.53 represents resources that are subject to external restrictions on how they may be used. Of the total restricted net position, \$627,335.53 represents restrictions for Governmental Activities. The remaining restricted net position of \$505,379.00 represents restrictions for Business-type Activities.

**Governmental activities:** Governmental activities decreased the City's net position by \$360,325.24. The key element of this decrease is as follows;

- International Paper Settlement funds transfer to the Water fund for the Dam Project of \$319,030.70.

**Business-type activities:** Business-type activities increased the City of Libby's net position by \$853,352.10. The key element of this increase is as follows;

- Increase in capital assets including the Flower Creek Dam and the Water Distribution Project.

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

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

The general fund is the chief operating fund of the City of Libby. At the end of the current fiscal year, total fund balance of the General Fund was \$236,292.85. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents approximately 17% percent of total General Fund expenditures.

At June 30, 2014, the governmental funds of the City of Libby reported a combined fund balance of \$2,634,358.92, a 6 percent decrease over last year.

**Governmental Fund Budgetary Highlights:** Total revenues received for the General Fund activities of \$1,400,405.16 were more than the budgeted revenues of \$1,160,281.00 by \$240,124.16. This was mainly due to unanticipated revenues of \$175,469.59 for the Transportation Enhancement Program. Total revenues received for the Economic Development Fund were \$28,644.77, less than the budgeted amount of \$104,995.00. This was mainly due to no payments being received in the Economic Development Fund.

**Proprietary Funds.** The City's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Water, and Sewer at the end of the fiscal year amounted to a positive \$787,553.94. The total change in net position for all proprietary funds was \$853,352.10 for this fiscal year.

### **Capital Asset and Debt Administration**

**Capital assets.** The City of Libby's investment in capital assets for its governmental and business-type activities as of June 30, 2014, totals \$19,743,075.32 (net of depreciation). These assets include buildings, improvements other than buildings, land, machinery and equipment, park facilities, vehicles, and utility system infrastructure. The major capital asset transaction during the year was the Flower Creek Dam and Water Distribution Projects of \$3,213,964.57.

**Long-term Debt.** As of June 30, 2014, the City of Libby had total bonded debt outstanding of \$7,500,356.04. The bonded debt of the City debt represents bonds secured solely by specified revenue sources (i.e. revenue bonds, special assessments). Other debt includes loans with outstanding debt of \$194,842.00 and leases with outstanding debt of \$57,130.00.

Additional information regarding the City of Libby's long-term debt can be found in the Notes To The Basic Financial Statements of this report.

### **Current Conditions**

The city has long term plans to maintain its' sewer and water systems by replacing parts of the sewer and water lines yearly. The city is working on the replacement of the Flower Creek Dam which is the Libby Water Plant's source of water and a Water Distribution Project replacing several portions of its water mains and a portion of the raw water main which is almost complete. Long term the city hopes to bring in more revenue for the city businesses by continuing the effort to beautify its' downtown area. Plans to start on the new Dam are set for FY-2015.

### **Requests for Information**

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

Glena L. Hook  
City of Libby, Clerk/Treasurer  
PO Box 1428  
Libby, MT. 59923

***BASIC***

***FINANCIAL***

***STATEMENTS***

**CITY OF LIBBY, MONTANA**  
**Statement of Net Position**  
**June 30, 2014**

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash and investments	\$ 1,490,128	\$ 692,899	\$ 2,183,027
Receivables:			
Taxes and assessments	91,597	-	91,597
Settlement receivable	1,200,000	-	1,200,000
Accounts receivable - net	-	119,929	119,929
Accrued interest on loans receivable	3,545	-	3,545
Due from other governments	5,837	400,491	406,328
Internal balances	822,095	(822,095)	-
Inventory	-	120,662	120,662
Restricted assets:			
Cash and investments	128,000	505,379	633,379
Loans receivable, net of allowance	1,697,228	-	1,697,228
Nondepreciable capital assets	765,789	5,408,243	6,174,032
Depreciable capital assets, net of accumulated depreciation	3,305,040	10,264,004	13,569,044
Special assessments receivable-to be billed	20,359	-	20,359
Total Assets	<u>9,529,618</u>	<u>16,689,512</u>	<u>26,219,130</u>
<b>Liabilities</b>			
Accounts payable	11,700	438,551	450,251
Deposits payable	-	46,255	46,255
Compensated absences:			
Due within one year	20,726	15,406	36,132
Due in more than one year	62,176	46,215	108,391
Long-term debt:			
Due within one year	59,885	750,788	810,673
Due in more than one year	42,989	6,898,681	6,941,670
Total Liabilities	<u>197,476</u>	<u>8,195,896</u>	<u>8,393,372</u>
<b>Net Position</b>			
Net investment in capital assets	3,967,955	7,200,683	11,168,638
Restricted for:			
Replacement and depreciation	-	196,680	196,680
Capital projects	-	67,392	67,392
Debt service	-	194,957	194,957
Public safety	513	-	513
Public works	398,525	-	398,525
Housing & community development	228,298	-	228,298
Restricted for water deposits	-	46,350	46,350
Unrestricted	<u>4,736,851</u>	<u>787,554</u>	<u>5,524,405</u>
Total Net Position	<u>9,332,142</u>	<u>8,493,616</u>	<u>17,825,758</u>
Total Liabilities and Net Position	<u>\$ 9,529,618</u>	<u>\$ 16,689,512</u>	<u>\$ 26,219,130</u>

See accompanying notes to the financial statements.

**CITY OF LIBBY, MONTANA**  
**Statement of Activities**  
**For the Year Ended June 30, 2014**

Program Activities	Expenses	Program Revenues			Net (Expenses) Revenue and Changes in Net Position		
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 347,202	\$ 134,692	\$ -	\$ -	\$ (212,510)	\$ -	\$ (212,510)
Public safety	574,680	-	-	-	(574,680)	-	(574,680)
Public works	629,103	249,806	66,297	175,470	(137,530)	-	(137,530)
Public health	10,800	-	-	-	(10,800)	-	(10,800)
Cultural and recreational	98,392	10,826	4,750	39,482	(43,334)	-	(43,334)
Housing and community development	213,969	26,065	130,510	-	(57,394)	-	(57,394)
Miscellaneous	34,634	-	-	-	(34,634)	-	(34,634)
Interest on long-term debt	4,635	-	-	-	(4,635)	-	(4,635)
Total governmental activities	<u>1,913,415</u>	<u>421,389</u>	<u>201,557</u>	<u>214,952</u>	<u>(1,075,517)</u>	<u>-</u>	<u>(1,075,517)</u>
Business-type activities:							
Water	1,053,947	1,132,991	-	400,490	-	479,534	479,534
Sewer	632,177	572,878	-	-	-	(59,299)	(59,299)
Total business-type activities	<u>1,686,124</u>	<u>1,705,869</u>	<u>-</u>	<u>400,490</u>	<u>-</u>	<u>420,235</u>	<u>420,235</u>
Total government	<u>\$ 3,599,539</u>	<u>\$ 2,127,258</u>	<u>\$ 201,557</u>	<u>\$ 615,442</u>	<u>(1,075,517)</u>	<u>420,235</u>	<u>(655,282)</u>
General revenues:							
Taxes					377,386	-	377,386
Local option tax					57,180	-	57,180
Licenses and permits					41,329	-	41,329
Investment earnings					7,443	8,336	15,779
Intergovernmental revenues					530,631	-	530,631
Total general revenues					<u>1,013,969</u>	<u>8,336</u>	<u>1,022,305</u>
Transfer - net					(319,031)	319,031	-
Special items					12,434	-	12,434
Total general revenues and transfers					<u>707,372</u>	<u>327,367</u>	<u>1,034,739</u>
Change in net position					(368,145)	747,602	379,457
Net position, beginning of year					9,692,466	7,640,263	17,332,729
Restatement					7,821	105,751	113,572
Net position, beginning of year, restated					<u>9,700,287</u>	<u>7,746,014</u>	<u>17,446,301</u>
Net position, end of year					<u>\$ 9,332,142</u>	<u>\$ 8,493,616</u>	<u>\$ 17,825,758</u>

See accompanying notes to the financial statements.

**CITY OF LIBBY, MONTANA**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2014**

	Major Funds					Total Governmental Funds
	General Fund	IP Settlement Fund	Street Maintenance Fund	Economic Development Fund	Other Governmental Funds	
<b>Assets</b>						
Cash and Investments	\$ 342,814	\$ 38,668	\$ 225,306	\$ 750,768	\$ 132,572	\$ 1,490,128
Restricted Cash and Investments	-	-	-	128,000	-	128,000
Taxes and Assessments Receivable	49,599	-	34,794	-	7,204	91,597
Due from Other Governments	327	-	-	-	5,510	5,837
Settlement Receivable:						
Due within one year		200,000				200,000
Due in more than one year		1,000,000				1,000,000
Accrued Interest on Loans Receivable	-	-	-	3,545	-	3,545
Loans Receivable, Net of Allowance:						
Due within one year	-	-	-	-	-	-
Due in more than one year	-	-	-	1,697,228	-	1,697,228
Due from Other Funds	6,093	-	-	-	-	6,093
Advances to Other Funds:						
Due within one year	-	-	-	79,387	-	79,387
Due in more than one year	-	-	-	866,049	-	866,049
Special Assessments Receivable, To Be Billed	-	-	-	-	20,359	20,359
Total Assets	<u>\$ 398,833</u>	<u>\$ 1,238,668</u>	<u>\$ 260,100</u>	<u>\$ 3,524,977</u>	<u>\$ 165,645</u>	<u>\$ 5,588,223</u>
<b>Liabilities, Deferred Inflows, and Fund Balances</b>						
<b>Liabilities</b>						
Accounts Payable	\$ 9,722	\$ -	\$ -	\$ 1,978	\$ -	\$ 11,700
Due to Other Funds	-	-	-	-	6,093	6,093
Advances from Other Funds:						
Due within one year	20,000	-	-	-	2,000	22,000
Due in more than one year	83,219	-	-	-	18,122	101,341
Total Liabilities	<u>112,941</u>	<u>-</u>	<u>-</u>	<u>1,978</u>	<u>26,215</u>	<u>141,134</u>
Deferred Inflows of Resources						
Deferred Tax/Special Assessment Revenue	49,599	-	34,794	-	27,563	111,956
Deferred IP Settlement Revenue	-	1,000,000	-	-	-	1,000,000
Deferred Loans Receivable Revenue	-	-	-	1,700,773	-	1,700,773
Total Deferred Inflows of Resources	<u>49,599</u>	<u>1,000,000</u>	<u>34,794</u>	<u>1,700,773</u>	<u>27,563</u>	<u>2,812,729</u>
<b>Fund Balances</b>						
Restricted for:						
Public Safety	-	-	-	-	513	513
Public Works	-	-	225,306	-	132,059	357,365
Housing and Community Development	-	-	-	208,323	-	208,323
Committed for:						
Public Works	-	238,668	-	-	-	238,668
Housing and Community Development	-	-	-	1,613,903	-	1,613,903
Assigned to:						
Public Safety	72,204	-	-	-	-	72,204
Unassigned:	164,089	-	-	-	(20,705)	143,384
Total Fund Balance	<u>236,293</u>	<u>238,668</u>	<u>225,306</u>	<u>1,822,226</u>	<u>111,867</u>	<u>2,634,360</u>
Total Liabilities, Deferred Inflows, and Fund Balance	<u>\$ 398,833</u>	<u>\$ 1,238,668</u>	<u>\$ 260,100</u>	<u>\$ 3,524,977</u>	<u>\$ 165,645</u>	<u>\$ 5,588,223</u>
<b>Reconciliation of the Balance Sheet to the Statement of Net Position</b>						
Total fund balance for governmental funds						\$ 2,634,360
Amounts reported for governmental activities in the statement of net position are different because:						
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.						4,070,829
Other assets are not available for current-period expenditures and, therefore, are deferred in the funds.						2,812,729
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.						(185,776)
Net position of governmental activities						<u>\$ 9,332,142</u>

See accompanying notes to the financial statements.

**CITY OF LIBBY, MONTANA**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Governmental Funds**  
**For the Year Ended June 30, 2014**

	Major Funds					Total Governmental Funds
	General Fund	IP Settlement Fund	Street Maintenance Fund	Economic Development Fund	Other Governmental Funds	
<b>Revenues</b>						
Taxes/Special Assessments	\$ 439,413	\$ -	\$ 213,221	\$ -	\$ 7,180	\$ 659,814
Licenses and Permits	41,329	-	-	-	-	41,329
Intergovernmental Revenue	715,850	-	-	-	196,807	912,657
Charges for Services	33,241	-	-	-	-	33,241
Fines and Forfeitures	43,112	-	-	-	-	43,112
Miscellaneous	126,052	-	-	-	7,000	133,052
Investment Earnings	1,410	947	1,432	28,646	1,073	33,508
Total Revenue	<u>1,400,407</u>	<u>947</u>	<u>214,653</u>	<u>28,646</u>	<u>212,060</u>	<u>1,856,713</u>
<b>Expenditures</b>						
Current:						
General Government	292,111	-	-	-	-	292,111
Public Safety	510,363	-	-	-	-	510,363
Public Works	385,568	-	184,040	-	167,132	736,740
Public Health	10,800	-	-	-	-	10,800
Culture and Recreation	86,973	-	-	-	-	86,973
Housing and Community Development	-	-	-	25,438	130,510	155,948
Miscellaneous	34,634	-	-	-	-	34,634
Capital Outlay	107,105	-	7,500	39,500	-	154,105
Debt Service - principal	15,603	-	-	-	-	15,603
Debt Service - interest	3,587	-	-	-	1,048	4,635
Total Expenditures	<u>1,446,744</u>	<u>-</u>	<u>191,540</u>	<u>64,938</u>	<u>298,690</u>	<u>2,001,912</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(46,337)</u>	<u>947</u>	<u>23,113</u>	<u>(36,292)</u>	<u>(86,630)</u>	<u>(145,199)</u>
<b>Other Financing Sources (Uses)</b>						
Transfers In	19,975	-	-	-	-	19,975
Transfers Out	-	(319,031)	-	(19,975)	-	(339,006)
Proceeds of General Long-Term Debt	57,130	-	-	-	-	57,130
Total Other Financing Sources (Uses)	<u>77,105</u>	<u>(319,031)</u>	<u>-</u>	<u>(19,975)</u>	<u>-</u>	<u>(261,901)</u>
<b>Special Items</b>	<u>-</u>	<u>212,434</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>212,434</u>
Net Change in Fund Balance	30,768	(105,650)	23,113	(56,267)	(86,630)	(194,666)
Fund Balance - July 1, 2013	205,525	344,318	202,193	1,878,493	198,497	2,829,026
Fund Balance - June 30, 2014	<u>\$ 236,293</u>	<u>\$ 238,668</u>	<u>\$ 225,306</u>	<u>\$ 1,822,226</u>	<u>\$ 111,867</u>	<u>\$ 2,634,360</u>

See accompanying notes to the financial statements.

**CITY OF LIBBY, MONTANA**  
**Reconciliation of the Statement of Revenues, Expenditures, and Changes**  
**in Fund Balances of Governmental Funds to the Statement of Activities**  
**For the Year Ended June 30, 2014**

<b>Net change in fund balance-total governmental funds (page 16)</b>	<b>\$ (194,666)</b>
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:	
Capital assets purchased	347,922
Depreciation expense	(218,414)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:	
Change in deferred inflow - taxes and assessments receivable	(4,846)
Change in deferred inflow - settlement receivable	(200,000)
Long-term debt proceeds provide current financial resources to the government funds, but issuing debt increases long-term liabilities in the Statement of Net Position:	
Proceeds from long-term debt	(57,130)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term debt in the Statement of Net Position:	
Long-term debt principal payments	15,603
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:	
Change in compensated absences	(5,106)
Change in allowance for uncollectible notes receivable	(51,508)
<b>Change in Net Position in Governmental Activities (page 14)</b>	<b><u><u>\$ (368,145)</u></u></b>

See accompanying notes to the financial statements.

**CITY OF LIBBY, MONTANA**  
**Balance Sheet**  
**Proprietary Funds**  
**June 30, 2014**

	Major Funds		
	Water	Sewer	Total
	Fund	Fund	
<b>Assets</b>			
<b>Current assets</b>			
Cash and investments	\$ 451,185	\$ 241,714	\$ 692,899
Accounts receivable	78,465	41,464	119,929
Due from other governments	400,491	-	400,491
Inventory	120,662	-	120,662
Total current assets	<u>1,050,803</u>	<u>283,178</u>	<u>1,333,981</u>
<b>Noncurrent assets</b>			
Restricted cash and investments	328,979	176,400	505,379
Nondepreciable capital assets	5,408,243	-	5,408,243
Depreciable capital assets, net of accumulated depreciation	6,035,206	4,228,798	10,264,004
Total noncurrent assets	<u>11,772,428</u>	<u>4,405,198</u>	<u>16,177,626</u>
 Total Assets	 <u>\$ 12,823,231</u>	 <u>\$ 4,688,376</u>	 <u>\$ 17,511,607</u>
<b>Liabilities and Net Position</b>			
<b>Current liabilities</b>			
Accounts payable	\$ 437,270	\$ 1,281	\$ 438,551
Compensated absences, current portion	11,436	3,970	15,406
Long-term debt, current portion	670,984	79,804	750,788
Advances from other funds, current portion	46,677	10,710	57,387
Total current liabilities	<u>1,166,367</u>	<u>95,765</u>	<u>1,262,132</u>
<b>Noncurrent liabilities</b>			
Deposits payable	46,255	-	46,255
Compensated absences, noncurrent portion	34,307	11,908	46,215
Long-term debt, noncurrent portion	4,676,254	2,222,427	6,898,681
Advances from other funds, noncurrent portion	583,364	181,344	764,708
Total noncurrent liabilities	<u>5,340,180</u>	<u>2,415,679</u>	<u>7,755,859</u>
Total Liabilities	<u>6,506,547</u>	<u>2,511,444</u>	<u>9,017,991</u>
<b>Net Position:</b>			
Net investment in capital assets	5,466,170	1,734,513	7,200,683
Restricted for:			
Replacement and depreciation	117,000	79,680	196,680
Capital projects	-	67,392	67,392
Debt service	165,629	29,328	194,957
Water deposits	46,350	-	46,350
Unrestricted	521,535	266,019	787,554
Total Net Position	<u>6,316,684</u>	<u>2,176,932</u>	<u>8,493,616</u>
 Total Liabilities and Net Position	 <u>\$ 12,823,231</u>	 <u>\$ 4,688,376</u>	 <u>\$ 17,511,607</u>

See accompanying notes to the financial statements.

**CITY OF LIBBY, MONTANA**  
**Statement of Revenues, Expenses, and Changes in Fund Net Position**  
**Proprietary Funds**  
**For the Year Ended June 30, 2014**

	Major Funds		Total
	Water Fund	Sewer Fund	
<b>Operating Revenues</b>			
Charges for Services	\$ 1,132,293	\$ 572,877	\$ 1,705,170
Miscellaneous revenues	699	-	699
Total Operating Revenues	<u>1,132,992</u>	<u>572,877</u>	<u>1,705,869</u>
<b>Operating Expenses</b>			
Personal Services	468,367	256,504	724,871
Supplies	173,140	44,962	218,102
Purchased Services	113,691	105,786	219,477
Fixed Charges	18,017	17,267	35,284
Depreciation and Amortization	265,520	143,201	408,721
Total Operating Expenses	<u>1,038,735</u>	<u>567,720</u>	<u>1,606,455</u>
Net Operating Income (Loss)	<u>94,257</u>	<u>5,157</u>	<u>99,414</u>
<b>Non-Operating Revenues (Expenses)</b>			
Interest Revenue	5,746	2,590	8,336
Debt service interest expense	(15,212)	(64,457)	(79,669)
Total Non-Operating Revenues (Expenses)	<u>(9,466)</u>	<u>(61,867)</u>	<u>(71,333)</u>
Change in Net Position Before Capital Contributions and Transfers In	84,791	(56,710)	28,081
Transfers In	319,031	-	319,031
Capital Contributions	400,490	-	400,490
Change in Net Position	804,312	(56,710)	747,602
Net Position, July 1, 2013	5,406,621	2,233,642	7,640,263
Restatement	105,751	-	105,751
Net Position, July 1, 2013, Restated	<u>5,512,372</u>	<u>2,233,642</u>	<u>7,746,014</u>
Net Position, June 30, 2014	<u>\$ 6,316,684</u>	<u>\$ 2,176,932</u>	<u>\$ 8,493,616</u>

See accompanying notes to the financial statements.

**CITY OF LIBBY, MONTANA**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2014**

	Major Funds		Total
	Water Fund	Sewer Fund	
<b>Cash Flows from Operating Activities</b>			
Receipts from Customers	\$ 1,135,631	\$ 571,104	\$ 1,706,735
Other Receipts	699	-	699
Payments to Employees	(475,844)	(267,717)	(743,561)
Payments to Suppliers	(343,447)	(168,479)	(511,926)
Net Cash Provided by Operating Activities	<u>317,039</u>	<u>134,908</u>	<u>451,947</u>
<b>Cash Flows from Capital and Related Financing Activities</b>			
Purchase/Construction of Capital Assets	(2,609,044)	-	(2,609,044)
Transfer from IP Settlement Fund	319,031	-	319,031
Payment on Accounts Payable	(422,417)	-	(422,417)
Principal Paid on Debt	(118,618)	(78,254)	(196,872)
Interest Paid on Debt	(49,628)	(59,394)	(109,022)
Proceeds from Debt	2,529,491	-	2,529,491
Principal Paid on Interfund Advance	(45,538)	(10,450)	(55,988)
Interest Paid on Interfund Advance	(16,890)	(5,063)	(21,953)
Net Cash Used by Capital and Related Financing Activities	<u>(413,613)</u>	<u>(153,161)</u>	<u>(566,774)</u>
<b>Cash Flows from Investing Activities</b>			
Interest on Investments	<u>5,746</u>	<u>2,590</u>	<u>8,336</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(90,828)	(15,663)	(106,491)
Cash and cash equivalents, beginning of year	870,992	433,777	1,304,769
Cash and cash equivalents, end of year	<u>\$ 780,164</u>	<u>\$ 418,114</u>	<u>\$ 1,198,278</u>
<b>Reconciliation of Cash and Cash Equivalents to Statement of Net Position</b>			
Cash and Investments	\$ 451,185	\$ 241,714	\$ 692,899
Restricted Cash and Investments	328,979	176,400	505,379
Cash and Cash Equivalents	<u>\$ 780,164</u>	<u>\$ 418,114</u>	<u>\$ 1,198,278</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:</b>			
Net Operating Income (Loss)	\$ 94,257	\$ 5,157	\$ 99,414
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	265,520	143,201	408,721
Refunding Bond Fee	7,595	-	7,595
(Increase)/Decrease in Accounts Receivable	(1,817)	(1,773)	(3,590)
Increase/(Decrease) in Accounts Payable	(46,194)	(464)	(46,658)
Increase/(Decrease) in Customer Deposits	5,155	-	5,155
Increase/(Decrease) in Compensated Absences Payable	(7,477)	(11,213)	(18,690)
Net Cash Provided by Operating Activities	<u>\$ 317,039</u>	<u>\$ 134,908</u>	<u>\$ 451,947</u>

**Disclosure of Non-Cash Transactions:**

In the Water fund, capital additions were funded with accounts payable for \$437,270. Revenue bonds payable of \$2,421,441 were refunded with bonds of \$2,442,756, which included \$7,595 in bond costs and \$13,720 in interest expense. In addition, \$65,026 of interest expense was capitalized.

See accompanying notes to the financial statements.

**CITY OF LIBBY, MONTANA**  
**Statement of Fiduciary Net Position**  
**Fiduciary Funds**  
**June 30, 2014**

	Agency Funds
<b>Assets</b>	
Cash	\$ 452,809
Taxes receivable	2,067
Total Assets	454,876
 <b>Liabilities</b>	
Warrants payable	440,232
Due to others	14,644
Total Liabilities	454,876
 <b>Net Position</b>	\$ -

See accompanying notes to the financial statements.

**CITY OF LIBBY, MONTANA**  
**Notes to the Financial Statements**  
**June 30, 2014**

1. **Summary of Significant Accounting Policies**

The City follows U.S. generally accepted accounting principles (GAAP), which includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. The City has adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* in fiscal year 2014. This statement defines new financial statement items called deferred inflows of resources and deferred outflows of resources, and reclassifies certain items previously classified as assets or liabilities. For the City, the statement required the reclassification of deferred revenues from a liability to a deferred inflow of resources in the governmental fund financial statements.

In fiscal year 2015, the City will adopt the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This statement addresses accounting and financial reporting for pensions that are provided to the employees of state and local governments, establishing standards for measuring and recognizing net pension liabilities, deferred inflows and outflows of resources, and expenses/expenditures. For defined benefit pension plans, this statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. The statement is effective for fiscal years beginning after June 15, 2014. The effect of adoption of this statement cannot be determined at this time.

The following is a summary of the City's significant accounting policies:

**Reporting Entity**

The City of Libby was incorporated in 1909 as a municipal corporation. It operates under the Mayor-Council form of government. Six members are elected to the City Council for four-year terms with half elected every other year. The Mayor is elected for a four-year term. In November, 1989, the voters adopted a charter form of government. As a result, on January 1, 1990, the City acquired self-government powers. The City provides the usual range of services to its citizens including a volunteer fire department, police department, water and sewer utilities, recreation, cultural, building safety, and general administration. Although the City makes a tax levy for the Fire Department Relief Association, it has no control or authority over the association, therefore, the Relief Association is not included in these financial statements.

The City is a primary government as defined by generally accepted accounting principles. A financial reporting entity is the primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. The City has no component units.

**CITY OF LIBBY, MONTANA**  
**Notes to the Financial Statements**  
**June 30, 2014**

1. **Summary of Significant Accounting Policies - continued**

**Basis of Presentation**

*Government-wide Financial Statements:*

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. Certain interfund transactions are eliminated to avoid overstating revenues and expenses. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Net Position presents the financial condition of the governmental and business-type activities of the City at year end. The Statement of Activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental and business-type activities. Direct expenses are those that are specifically associated with a service, program, or department. Program revenues include charges paid by the recipient for the goods or services offered by the program and grants and contributions that are restricted for the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the City. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City. Generally, the City uses restricted net position first, when both restricted and unrestricted net position is available for an expense.

*Fund Financial Statements:*

Fund financial statements are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

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

**CITY OF LIBBY, MONTANA**  
**Notes to the Financial Statements**  
**June 30, 2014**

1. **Summary of Significant Accounting Policies - continued**

**Governmental Funds**

Governmental funds are those through which most governmental functions of the City are financed. Governmental fund reporting focuses on the sources, use, and balances of current financial resources. The City reports the following major governmental funds:

General Fund - The primary operating fund of the City and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

IP Settlement Fund - Used to account for the proceeds from the International Paper Settlement relating to water contamination. Revenues of the fund are committed to water distribution projects.

Street Maintenance Fund – Used to account for proceeds from assessments levied for street maintenance.

Economic Development Fund - Used to account for the City’s economic development activities funded by a federal grant. Revenues from loan repayment and interest are committed to economic development activities.

**Proprietary Funds**

Enterprise Funds - Used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The City reports the following major enterprise funds:

Water Fund - Used to account for the City’s water service which is funded primarily through charges for services.

Sewer Fund - Used to account for the City’s sewer service which is funded primarily through user charges.

**Fiduciary Funds**

Trust and Agency Funds - Used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. These may include (a) expendable trust funds, (b) nonexpendable trust funds, (c) pension trust funds and (d) agency funds.

**CITY OF LIBBY, MONTANA**  
**Notes to the Financial Statements**  
**June 30, 2014**

1. **Summary of Significant Accounting Policies - continued**

**Basis of Accounting and Measurement Focus**

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

**Measurement Focus**

On the government-wide Statement of Net Position and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus as defined in item b below.

- a) All governmental funds utilize a current financial resources measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b) The proprietary funds utilize an economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.
- c) Fiduciary trust funds use the economic resources measurement focus. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

**Basis of Accounting**

In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when measurable and available. Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

**CITY OF LIBBY, MONTANA**  
**Notes to the Financial Statements**  
**June 30, 2014**

1. **Summary of Significant Accounting Policies - continued**

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are generally charges for utility services. Operating expenses are costs incurred to provide the good or service that is the primary activity of the proprietary fund. Revenues and expenses that do not meet these criteria are considered non-operating and reported as such.

Fiduciary funds use the accrual basis of accounting.

**Budgets and Budgetary Accounting**

An annual appropriated operating budget is adopted each fiscal year for all of the City's funds on the modified accrual basis of accounting. The final budget is legally enacted by the City on the second Monday in August or within 45 days of receiving certified taxable values from the State Department of Revenue after holding public hearings as required by State statutes.

The operating budgets can be increased when additional revenues are available, as specified by State statutes. Budget appropriation transfers may be made between the general classifications of salaries and wages, maintenance and operation, and capital outlay.

**Encumbrances**

All appropriations, except for construction in progress, lapse at the end of the fiscal year. The City does not utilize a formal encumbrance accounting system, and there were no encumbrances as of June 30, 2014.

**Capital Assets**

Capital assets, including infrastructure and intangibles, with a cost of \$5,000 or more are capitalized. The accounting treatment of capital assets depends on whether the assets are used in governmental or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

*Government-wide Financial Statements*

In the government-wide financial statements, all capital assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of donation.

**CITY OF LIBBY, MONTANA**  
**Notes to the Financial Statements**  
**June 30, 2014**

1. **Summary of Significant Accounting Policies - continued**

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings	20-50 years
Improvements	10-50 years
Machinery and Equipment	3-20 years
Source of Supply	50 years
Treatment Plant	5-50 years
Transmission and Distribution	5-50 years
Infrastructure	50 years

*Fund Financial Statements*

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary funds operations are accounted for in the same manner as in the government-wide financial statements.

**Taxes and Assessments**

An allowance for uncollectible accounts was not maintained for real and personal property taxes and special assessments receivable, as any such allowance is not considered to be material.

**Cash and Cash Equivalents**

For purposes of reporting cash flows, cash and cash equivalents include all cash and investment accounts, since investment accounts are all considered highly liquid. Restricted cash is also considered cash and cash equivalents for cash flow reporting purposes since it is available to meet current needs.

**Enterprise Accounts Receivable**

An allowance for uncollectible accounts receivable is estimated based on identification of uncollectible accounts. At June 30, 2014, the estimate was not considered material and was not recorded. The City has passed a resolution so that unpaid enterprise accounts receivable can be attached as a lien on property.

**Notes Receivable**

In the governmental fund statements, revenue from notes receivable is deferred until received. Notes receivable are reported net of an allowance for uncollectible accounts. The allowance is determined by reviewing potential collectability of each individual note. The allowance at June 30, 2014 was \$155,092.

**CITY OF LIBBY, MONTANA**  
**Notes to the Financial Statements**  
**June 30, 2014**

1. **Summary of Significant Accounting Policies - continued**

**Inventories**

Inventories of materials and supplies for the water fund are recorded at estimated cost. In the fund financial statements, the purchase method is used, inventory items are recorded as expenditures when purchased and the reported balance is offset by nonspendable fund balance. In the government-wide financial statements inventory is recorded using the consumption method, inventory is recorded as an asset when purchased and an expense when used.

**Compensated Absences**

The City's policies regarding vacation and sick leave permit employees to accumulate earned but unused vacation and sick leave. The liability for these compensated absences is recorded as long-term debt in the government-wide financial statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while the proprietary funds report the liability as it is incurred.

**Long-Term Debt**

The accounting treatment of long-term debt depends on whether the liability relates to governmental fund operations or proprietary fund operations and whether it is reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources is reported as a liability in the government-wide financial statements. The City's long-term debt consists primarily of bonds and notes payable and accrued compensated absences.

Long-term debt for governmental funds is not reported as a liability in the fund financial statements. The debt proceeds are reported as other financing sources and payments of principal and interest are reported as expenditures. The accounting for proprietary funds is the same in the fund financial statements as it is in the government-wide financial statements.

**Equity Classifications**

*Government-wide Financial Statements*

Equity is classified as net position and displayed in three components:

- a) Net investment in capital assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

**CITY OF LIBBY, MONTANA**  
**Notes to the Financial Statements**  
**June 30, 2014**

1. **Summary of Significant Accounting Policies - continued**

- b) Restricted net position - 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.
- c) Unrestricted net position - All other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

*Fund Financial Statements*

Governmental fund equity is classified as fund balance. The City categorizes fund balance of the governmental funds into the following categories:

Nonspendable – resources not in spendable form, such as inventory, or those legally required to be maintained intact, such as the principal portion of permanent funds.

Restricted – constraint is externally imposed by a third party, State Constitution or enabling legislation.

Committed – constraint is internally imposed by the City Council by formal action.

Assigned – constraint is internally expressed by City Clerk/Treasurer, Mayor, or City Council.

Unassigned – negative fund balance in all funds, or fund balance with no constraints in the General fund.

When more than one category of resources is available, the City has adopted a spending policy to establish spending order. It is as follows:

General and Economic Development Funds:

- 1<sup>st</sup>: Restricted
- 2<sup>nd</sup>: Committed
- 3<sup>rd</sup>: Assigned
- 4<sup>th</sup>: Unassigned

Special Revenue and Debt Service Funds:

- 1<sup>st</sup>: Assigned
- 2<sup>nd</sup>: Committed
- 3<sup>rd</sup>: Restricted

2. **Property Taxes and Assessments**

Property tax levies are set in August in connection with the budget process, and are based on taxable values as of January 1 for all property located in the City. Taxable values are established by the State Department of Revenue based on market values. A valuation of all property is required to be completed on a periodic basis. Taxable value is defined by State statute as a fixed percentage of market value.

**CITY OF LIBBY, MONTANA**  
**Notes to the Financial Statements**  
**June 30, 2014**

2. **Property Taxes and Assessments - continued**

Real property taxes and special assessments are generally billed in October and are payable 50% by November 30 and 50% by May 31. After these dates, taxes and assessments become delinquent and become a lien on the property. Personal property is assessed and personal property taxes are billed throughout the year, with a significant portion generally billed in May, June, and July. Personal property taxes are based on levies set during the prior August. These taxes become delinquent 30 days after billing.

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

The City is permitted by State statutes to levy taxes up to certain fixed limits for various purposes. The taxes levied by the City for the year ended June 30, 2014, were within the legal limits. The tax levies for the fiscal year ended June 30, 2014, were based on a taxable value of \$2,857,460.

The City also assesses fees for special improvement districts and lighting and street maintenance. These amounts are billed out and collected with property taxes by the County. Amounts due to the City for these special taxes are recorded as assessments receivable. The City receives information on taxes and assessments receivable from the County Treasurer.

3. **Cash and Investments**

The City maintains a cash and investment pool for all funds, except the Economic Development fund, under the control of the Treasurer. The Economic Development fund has its own cash and investment accounts separate from the City pool.

Cash and investments may include cash and cash items; demand, time, savings, and fiscal agent deposits; investments in the State Short-Term Investment Pool (STIP); repurchase agreements; U.S. government treasury bills, notes, bonds, and other treasury obligations such as state and local government series; general obligations of certain agencies of the United States such as Federal Home Land Bank; and U.S. government security money market funds if the fund meets certain conditions.

The State short-term investment pool is an external investment pool administered by the State of Montana in a manner similar to money market funds under SEC Rule 2a7. Montana statutes (MCA Title 17, chapter 6) and related administrative rules govern the operation of STIP, which is managed by the Montana Board of Investments. The reported share value of STIP (\$1) is equal to the fair value of its underlying investments. A credit quality rating was not available for STIP.

**CITY OF LIBBY, MONTANA**  
**Notes to the Financial Statements**  
**June 30, 2014**

3. **Cash and Investments** – continued

During the fiscal year ended June 30, 2014, the City's cash was kept in demand and savings accounts with local banks. The City had investments in certificates of deposit and the State's short-term investment pool (STIP). The City has a formal investment policy, which limits its exposure to credit risk (the risk that an issuer or other counter party to an investment will not fulfill its obligation) by diversifying specific instruments, financial institutions, or maturities. Investments in certificates of deposit are recorded at cost.

At June 30, 2014, the City's investments in the Economic Development fund include a \$128,000 certificate of deposit pledged as collateral for a bank loan. This deposit is at risk of being claimed by a financial institution if the borrower fails to repay the loan.

Montana statutes require that the City 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. securities equal to 100% of the uninsured deposits if the institution in which the deposits are made has a net worth to total assets ratio of less than 6%. The State statutes do not specify in whose custody or name the collateral is to be held.

Custodial credit risk is the risk that in the event of a financial institution failure, the City's deposits may not be returned or the City will not be able to recover the collateral securities in the possession of the outside party. The City minimizes custodial credit risk by restrictions set forth in State law and City policy. At June 30, 2014, the carrying amount of the City's demand deposits and certificates of deposit with local financial institutions was \$3,268,507 and the bank balance was \$3,295,756. Of the bank balance at June 30, 2014, \$575,215 was covered by federal depository insurance and \$2,720,541 was covered by securities held by the pledging financial institution's trust department or agent in the City's name.

Interest rate risk is the risk that the fair value of investments could decrease in a rising interest rate environment. To limit exposure to this risk, management limits long-term investments and has varied maturity dates for certificates of deposit.

The City's investments contain an element of concentration of credit risk since the investment in certificates of deposit represent over 5% of the City's total investments. The City does not further diversify investments because the investments are conservative and further diversification does not significantly reduce credit risk for the City.

**CITY OF LIBBY, MONTANA**  
**Notes to the Financial Statements**  
**June 30, 2014**

3. **Cash and Investments** – continued

The City's cash and investments consisted of the following:

	City Pool	Economic Development	Total
Cash on Hand	\$ 625	\$ -	\$ 625
Demand Deposits	2,389,822	750,685	3,140,507
Certificates of Deposit	-	128,000	128,000
State Short-Term Investment Pool	-	83	83
Total Cash and Investments	<u>\$ 2,390,447</u>	<u>\$ 878,768</u>	<u>\$ 3,269,215</u>

4. **Economic Development Loans Receivable**

The City manages an economic development loan fund. Loans receivable at June 30, 2014 consist of:

	Total Outstanding Balance	Allowance by Note	Net Outstanding Balance	Current Portion
Kootenai Paving and Construction, Inc., 4%, \$6,310 due May through January each year through June 2011.	\$ 103,016	\$ 103,016	\$ -	\$ -
Veterans of Foreign Wars Post 1548, 2%, with delayed payment terms of \$1,500 per month beginning when bank loan is paid, estimated September 2026.	208,304	52,076	156,228	-
Cabinet View Country Club, 0%, payments of 50% of proceeds from sale of subdivision lots.	1,541,000	-	1,541,000	-
	<u>\$ 1,852,320</u>	<u>\$ 155,092</u>	<u>\$ 1,697,228</u>	<u>\$ -</u>

**CITY OF LIBBY, MONTANA**  
**Notes to the Financial Statements**  
**June 30, 2014**

**5. Capital Assets**

A summary of changes in capital assets follows:

	Balance July 1, 2013	Restatement	Additions	Balance June 30, 2014
<b><u>Governmental Funds</u></b>				
Nondepreciable Capital Assets:				
Land	\$ 765,789	\$ -	\$ -	\$ 765,789
Depreciable Capital Assets				
Buildings	\$ 2,671,983	\$ -	\$ 49,975	\$ 2,721,958
Improvements other than buildings	437,127	-	-	437,127
Machinery and equipment	2,066,478	-	104,130	2,170,608
Infrastructure	1,047,961	-	193,817	1,241,778
Total	6,223,549	-	347,922	6,571,471
Less accumulated depreciation	(3,048,017)	-	(218,414)	(3,266,431)
Net Depreciable Capital Assets	\$ 3,175,532	\$ -	\$ 129,508	\$ 3,305,040

	Balance July 1, 2013	Restatement	Additions	Balance June 30, 2014
<b><u>Enterprise Funds</u></b>				
Nondepreciable Capital Assets:				
Land	\$ 59,929	\$ -	\$ -	\$ 59,929
Construction in Process	2,134,350	105,751	3,108,213	5,348,314
Total Nondepreciable Capital Assets	\$ 2,194,279	\$ 105,751	\$ 3,108,213	\$ 5,408,243
Depreciable Capital Assets				
Buildings	\$ 75,342	\$ -	\$ -	\$ 75,342
Improvements	20,174	-	-	20,174
Machinery and Equipment	736,530	-	3,126	739,656
Source of Supply	105,518	-	-	105,518
Treatment Plant	10,487,751	-	-	10,487,751
Transmission and Distribution	7,767,304	-	-	7,767,304
Total	19,192,619	-	3,126	19,195,745
Less accumulated depreciation	(8,523,020)	-	(408,721)	(8,931,741)
Net Depreciable Capital Assets	\$ 10,669,599	\$ -	\$ (405,595)	\$ 10,264,004

During fiscal year 2014, the water fund incurred interest expense of \$80,238, of that amount, \$65,026 was capitalized as an addition to construction in progress for the water distribution project and the Flower Creek dam project, leaving \$15,212 as an expense in the water fund.

**CITY OF LIBBY, MONTANA**  
**Notes to the Financial Statements**  
**June 30, 2014**

5. **Capital Assets – continued**

Depreciation expense was allocated to the following functions for governmental activities in the statement of activities:

General Government	\$ 54,256
Public Safety	61,972
Public Works	84,667
Culture and Recreation	11,007
Housing and Community Development	6,512
Total	<u>\$ 218,414</u>

6. **Long-Term Liabilities**

An analysis of the changes in long-term liabilities during the year ended June 30, 2014 follows:

**CHANGES IN LONG-TERM DEBT**

	Beginning Balance July 1, 2013	Increases	Reductions	Ending Balance June 30, 2014	Due Within One Year
<b>Governmental Activities</b>					
Notes Payable	\$ 61,347	\$ 57,130	\$ (15,603)	\$ 102,874	\$ 59,885
Compensated Absences	77,796	5,106	-	82,902	20,726
Total Governmental	<u>\$ 139,143</u>	<u>\$ 62,236</u>	<u>\$ (15,603)</u>	<u>\$ 185,776</u>	<u>\$ 80,611</u>
<b>Business-type Activities</b>					
Revenue Bonds	\$ 4,705,349	\$3,242,756	\$ (2,526,129)	\$ 5,421,976	\$ 155,039
Anticipation Notes	349,236	1,729,491	-	2,078,727	500,000
Notes Payable	240,949	-	(92,183)	148,766	95,749
Compensated Absences	80,311	-	(18,690)	61,621	15,406
Total Business-type	<u>\$ 5,375,845</u>	<u>\$4,972,247</u>	<u>\$ (2,637,002)</u>	<u>\$ 7,711,090</u>	<u>\$ 766,194</u>

For governmental activities, compensated absences are generally liquidated by the general fund and other special revenue funds, depending on employee department.

On August 22, 2013, the City issued Series 2013A and 2013B water system revenue refunding bonds in the amount of \$253,177 and \$2,189,579, respectively. The Series 2013A and 2013B refunding bonds have interest rates of 3.0% and 2.5%, respectively and were used to refund Series 1995 and Series 1998A and 1998B water revenue bonds, which had an interest rate of 4.5%. The result of the refunding was a reduction of total debt service payments of \$755,550 and an economic gain of \$504,517.

**CITY OF LIBBY, MONTANA**  
**Notes to the Financial Statements**  
**June 30, 2014**

6. **Long-Term Liabilities** – continued

At June 30, 2014, unmatured principal on long-term debt consisted of the following:

*Governmental Activities*

Note Payable - Utah Street House, 4.06% interest rate, monthly payments of \$428, through June 2015, balloon payment due June 2015	\$ 45,770
Note Payable - 2 Patrol Cars, 1.75% interest rate, semi-annual payments of \$7,350, through January 2018	57,130
	57,130
Total Governmental Activities	\$ 102,900
	102,900

*Business-Type Activities*

Water Fund

Note Payable, variable interest rate of 3.5% below index, (3.8% at June 30, 2014), semi-annual payments of \$29,089, through July 2015	\$ 86,285
DNRC Note, short term loan in anticipation of USDA Rural Development Bonds, 1.25% interest rate, maturity July 18, 2014 or before	500,000
Intercap Loan, short term loan in anticipation of USDA Rural Development Bonds, variable interest rate (1.00 % at June 30, 2014), semi-annual interest only payments through maturity of August 15, 2015 or before	1,578,727
* DNRC Coal Severance Tax Loan Program, Series 2013A Revenue Refunding Bonds, 20 years, 3.0% interest rate, semi-annual payments of \$8,463, through May 2033	243,777
* DNRC Drinking Water State Revolving Loan Program, Series 2013B Revenue Refunding Bonds, 22 years, 2.5% interest rate, semi-annual payments of approximately \$65,000, through July 2035	2,153,000
	2,153,000
Total Water Fund	4,561,789
	4,561,789

**CITY OF LIBBY, MONTANA**  
**Notes to the Financial Statements**  
**June 30, 2014**

6. **Long-Term Liabilities** – continued

Sewer Fund

Note Payable, variable interest rate of 3.5% below index, (3.8% at June 30, 2014) semi-annual payments of \$21,065, through July 2015	62,482
*USDA Rural Development Series 2011 Revenue Bonds, 40 years, 3% interest rate, monthly payments of \$2,428, through September 2051	652,792
*USDA Rural Development Series 2009 Revenue Bonds, 40 years, 2.25% interest rate, monthly payments of \$5,532, through October 2048	<u>1,586,802</u>
Total Sewer Fund	<u><u>2,302,076</u></u>
Total Business-Type Activities	<u><u>\$ 6,863,865</u></u>

\* Water and sewer revenue bonds are payable from service revenues generated in the water and sewer funds.

Interest rates on the variable rate debt issued by the Intercap program is determined annually by the State Board of Investments, based on program experience.

The annual debt service requirements for the year ended June 30, 2014 are as follows:

**GOVERNMENTAL ACTIVITIES**

**Notes Payable**

Year	Principal	Interest	Total
2015	\$ 59,885	\$ 2,379	\$ 62,264
2016	14,005	695	14,700
2017	14,253	447	14,700
2018	14,756	196	14,952
Total	<u><u>\$ 102,899</u></u>	<u><u>\$ 3,717</u></u>	<u><u>\$ 106,616</u></u>

**CITY OF LIBBY, MONTANA**  
**Notes to the Financial Statements**  
**June 30, 2014**

6. **Long-Term Liabilities** – continued

BUSINESS-TYPE ACTIVITIES

**Revenue Bonds**

Year	Principal	Interest	Total
2015	\$ 155,039	\$ 138,778	\$ 293,817
2016	161,703	134,639	296,342
2017	165,969	130,385	296,354
2018	170,295	126,022	296,317
2019	174,689	121,540	296,229
2020-2024	942,734	536,337	1,479,071
2025-2029	1,074,397	405,360	1,479,757
2030-2034	1,179,726	255,994	1,435,720
2035-2039	537,858	134,504	672,362
2040-2044	393,241	84,359	477,600
2045-2049	403,080	83,217	486,297
2050-2052	63,245	2,241	65,486
Total	<u>\$ 5,421,976</u>	<u>\$ 2,153,376</u>	<u>\$ 7,575,352</u>

**Anticipation Notes**

Year	Principal	Interest	Total
2015	\$ 500,000	\$ 12,205	\$ 512,205
2016	1,578,727	10,742	1,589,469
Total	<u>\$ 2,078,727</u>	<u>\$ 22,947</u>	<u>\$ 2,101,674</u>

**Notes Payable**

Year	Principal	Interest	Total
2015	\$ 95,749	\$ 4,560	\$ 100,309
2016	53,017	900	53,917
Total	<u>\$ 148,766</u>	<u>\$ 5,460</u>	<u>\$ 154,226</u>

7. **Bond Agreements**

The agreements for the water and sewer revenue bonds require the City to maintain adequate rates and charges; maintain certain cash accounts; maintain cash reserve accounts; provide customary types of insurance; and provide annual reports. The City was in substantial compliance with these provisions.

**CITY OF LIBBY, MONTANA**  
**Notes to the Financial Statements**  
**June 30, 2014**

8. **Pledged Revenues**

Charges for services revenues in the Water and Sewer funds are pledged for the payment of revenue bonds. These revenues are pledged until each revenue bond matures, which is disclosed in Note 6. For fiscal year 2014, the principal and interest payments on revenue bonds for the water fund were \$119,166 with pledged revenues of \$1,132,293. The Sewer fund had revenue bond principal and interest payments of \$95,536 with pledged revenues of \$572,877.

9. **Local Retirement Plans**

**Fire Department Relief Association Disability and Pension Fund**

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

The City contributes mills to the fund when it contains an amount less than .21% of the assessed value of the City's taxable property. The City contributed 6 mills in fiscal year 2014. The State contributes, out of moneys received for insurance premium taxes, an amount equal to 1 1/2 mills times the total taxable value of the City, but not less than \$100.

10. **Other Post Employment Benefits**

Retirees may remain on the City's health plan, provided they pay the monthly premiums. State law requires the City to provide this benefit until age 65. The City pays an implicit rate subsidy since generally there are higher medical costs for retirees, which results in higher premium rates for all members of the plan. The cost of providing this benefit has been estimated and is considered immaterial to the City's financial statements. There are no retired employees participating in the plan at June 30, 2014.

11. **State-Wide Retirement Plans**

The City participates in two state-administered cost-sharing multiple-employer defined benefit retirement plans. The plans provide retirement, death, and disability benefits to plan members and beneficiaries in amounts determined by the State of Montana. Police officers are covered under the Municipal Police Officers' Retirement System (MPORS). Substantially all other employees are covered by the Montana Public Employees' Retirement System (PERS). The PERS plan has an option for newly hired employees to make an irrevocable transfer to a defined contribution plan within the first year of employment. The contribution rates are the same for both PERS plans. The financial information for both retirement plans are reported in the Public Employees' Retirement Board's comprehensive annual financial report. This report is available from MPERA at 100 North Park Ave, P.O. Box 200131, Helena, MT 59620-0131, (406)444-3154 or [www.mpera.mt.gov](http://www.mpera.mt.gov).

**CITY OF LIBBY, MONTANA**  
**Notes to the Financial Statements**  
**June 30, 2014**

11. **State-Wide Retirement Plans** – continued

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

	<u>PERS</u>	<u>MPORS</u>
Employee	7.9%	9.0%
Employer	8.07%	14.41%
State	0.1%	29.37%

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

	<u>PERS</u>	<u>MPORS</u>
2014	\$ 64,137	\$ 31,488
2013	51,511	29,683
2012	51,817	30,875

The amounts reported above do not include the state contribution.

12. **County Provided Services**

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

13. **Restricted Cash/Investments**

The following restricted cash/investments were held by the City at June 30, 2014:

<u>Restricted Purpose</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Economic Development</u>	<u>Total</u>
Revenue Bonds	\$ 282,629	\$ 176,400	\$ -	\$ 459,029
Water Deposits	46,350	-	-	46,350
Certificates of Deposit pledged as collateral	-	-	128,000	128,000
<b>Total Restricted Cash/Investments</b>	<b>\$ 328,979</b>	<b>\$ 176,400</b>	<b>\$ 128,000</b>	<b>\$ 633,379</b>

**CITY OF LIBBY, MONTANA**  
**Notes to the Financial Statements**  
**June 30, 2014**

14. **Interfund Balances and Transfers**

*Interfund Balances*

During the year ended June 30, 2002, the Economic Development fund advanced \$886,345 to the water fund, and \$156,320 to the sewer fund to pay off long-term debt. During fiscal year 2008, an additional \$116,269 was loaned to the sewer fund. During fiscal year 2009, the Economic Development fund loaned the General fund \$92,967 to finance a new roof and \$27,500 to the SID debt service fund for Mineral Avenue improvements. During fiscal year 2012, the Economic Development fund advanced \$68,450 to both the General Fund and the Water Fund to purchase an asphalt zipper. Repayment terms for these advances are detailed below:

Governmental Activities

Mineral Ave SID Project

Economic Development Fund advance, 5.0% interest rate, annual payments of \$1,073 through 2027	\$ 20,122
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General Fund

Economic Development Fund advance, 2.5% interest rate, annual payments of \$7,410 through 2023	60,373
Economic Development Fund advance - Asphalt Zipper, 2.5% interest rate, annual payments of \$30,004 through June 2017	42,846

Business-type Activities

Water Fund

Economic Development Fund advance, 2.5% interest rate, annual payments of \$47,426 through 2029	587,195
Economic Development Fund advance - Asphalt Zipper, 2.5% interest rate, annual payments of \$30,004 through June 2017	42,846

Sewer Fund

Economic Development Fund advance, 2.5% interest rate, annual payments of \$15,511 through 2029	192,055
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Total Interfund Advances	<u><u>\$ 945,437</u></u>
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*Interfund Transfers*

During the fiscal year ended June 30, 2014, the City transferred \$319,031 from the IP Settlement Fund to the Water Fund to fund water distribution improvements.

**CITY OF LIBBY, MONTANA**  
**Notes to the Financial Statements**  
**June 30, 2014**

15. **Fund Balance**

The City had the following deficit fund balance as of June 30, 2014:

<u>Fund</u>	<u>Amount</u>	<u>Reason</u>
Nonmajor Fund:		
Mineral Avenue SID	\$ 20,705	Project financed with advance from other fund. Deficit will be eliminated with future special assessment revenues.

Governmental fund equity is classified as fund balance. Fund balance is further classified as unassigned, assigned, committed, restricted, or nonspendable.

<u>Fund Balances</u>	<u>Amount</u>	<u>Purpose</u>
<i>Restricted</i>		
Public Safety	\$ 513	Drug forfeiture funds restricted by state statute to drug laws enforcement
Public Works	357,365	Gas tax and assessments restricted by state statute to streets and lighting
Housing and Comm. Dev.	208,323	Economic development funds restricted by federal grant requirements
<i>Committed</i>		
Public Works	238,668	IP Settlement funds committed to water distribution projects
Housing and Comm. Dev.	1,613,902	Economic development income committed by council
<i>Assigned</i>		
Public Safety	72,204	Assigned by council intent during fiscal year 2015 budget process
<i>Unassigned</i>		
General	164,089	Remainder of fund balance
Mineral Ave SID Project	(20,705)	Unassigned due to negative fund balance
<b>Total Fund Balances</b>	<u><u>\$ 2,634,359</u></u>	

16. **Economic Development Funds**

On August 7, 2001, the City accepted funds of \$8,000,000 from the U.S. Department of Commerce to be used for economic development. The City established the Economic Development fund, a special revenue fund, to account for them. A non-profit corporation, Libby Area Development Corporation (LADC), was organized to administer the funds in accordance with legislative intent. The City Council approved recommendations of the corporation prior to implementation. As of June 30, 2005, LADC was dissolved by the City Council, and the City Council assumed responsibility to administer the funds.

At June 30, 2014, the City had \$878,768 of cash and investments to be used for economic development purposes. Of that amount the City had pledged \$128,000 of investments as collateral for bank loans to non-city entities. The City was not committed to provide any grants or loans at June 30, 2014. Uncommitted cash and investments totaled \$750,768 at June 30, 2014. Loans and advances receivable are committed to economic development when repayment is received.

**CITY OF LIBBY, MONTANA**  
**Notes to the Financial Statements**  
**June 30, 2014**

17. **Risk Management**

The City faces a considerable number of risks of loss including a) damage to and loss of property and contents, b) employee torts, c) professional liability, i.e., errors and omissions, d) environmental damage, e) workers compensation, i.e. employee injuries, and f) medical insurance costs of employees. A variety of methods are used to provide insurance for these risks. Commercial policies, transferring all risks of loss, except for relatively small deductible amounts are purchased for property and content damage. The City participates in two statewide public risk pools operated by the Montana Municipal Insurance Authority, for workers' compensation and for tort liability coverage. Employee medical insurance is provided through a private carrier. And, given the lack of coverage available, the City has no coverage for potential losses from environmental damages.

In 1989, the City joined together with other Montana cities to form the Montana Municipal Insurance Authority which established a workers' compensation plan and liability plan. Both public entity risk pools currently operate as common risk management and insurance programs for the member governments. The liability limits for damages in tort action are \$750,000 per claim and \$1.5 million per occurrence with a \$7,500 deductible per occurrence. State tort law limits the City's liability to \$1.5 million. The City pays an annual premium for its employee injury insurance coverage, which is allocated to the employer funds based on total salaries and wages. The agreements for formation of the pools provide that they will be self-sustaining through member premiums. The tort liability plan and workers' compensation program issued bonds in the amount of \$4.4 million and \$7.610 million, respectively, to immediately finance the necessary insurance reserves. All members signed a contingent note for a pro rata share of this liability in case operating revenues were insufficient to cover the debt service. Based on the plans' current financial position, the City doesn't expect to make any payments on these notes.

18. **Operating Leases**

The City owns office space that is leased to various tenants. At June 30, 2014, the City had signed lease agreements that were anticipated to generate \$209,831 in lease revenue through October 31, 2019.

19. **Commitments and Contingencies**

A certificate of deposit of \$128,000 at June 30, 2014 was pledged as collateral for a bank loan to a recipient of economic development assistance, and was at risk of loss. If the assistance recipient is unable to pay the bank loan, the bank may ultimately call upon the City to forfeit the certificate of deposit.

At June 30, 2014, the City had commitments of \$52,358 and \$407,382 for engineering and construction services, respectively, for the Water Distribution Project. The City also had a commitment for engineering services of \$1,176,981 for the Flower Creek Dam.

**CITY OF LIBBY, MONTANA**  
**Notes to the Financial Statements**  
**June 30, 2014**

20. **Special Item**

The City signed a settlement agreement for groundwater and soil contamination on May 18, 2011 with International Paper. The settlement was \$1,150,000 to compensate for previous years financial burden and an additional \$250,000 annually from July 1, 2011 through June 30, 2020, with an optional 10 year extension. Of the \$250,000 annual payment, attorney fees are 20%, leaving the city with a net annual payment of \$200,000. The annual settlement payments are adjusted annually for inflation. The annual settlement payment of \$200,000 was recorded as a special item for fiscal year 2014.

21. **Restatements**

During fiscal year 2014, capital assets in the water fund were restated to reflect capitalized interest in prior years in the amount of \$11,556 for the water distribution project and \$94,195 for the Flower Creek dam project. This restatement increased capital assets and net position for the water fund and business-type activities on the government-wide financial statements by a total of \$105,751.

Governmental activities net position in the government-wide financial statements was increased \$7,821, to reflect the correction of revenues recorded in prior periods for the annual inflationary adjustment in the IP settlement proceeds.

22. **Subsequent Events**

The City had several subsequent events, events after June 30, 2014, for the water fund. In July 2014, the City paid off interim financing on the water distribution project with a loan from Rural Development in the amount of \$2,268,000.

For the Flower Creek dam project, the City selected the contractor to complete the project based on a competitive bid process and work on replacing the dam was started. In September 2014, Rural Development awarded the City a loan of \$3,690,000 and a grant of \$5,140,000 to complete the dam project. To keep water rates down the City forgave two economic development fund loans to the water fund in the amount of \$672,887. The City also raised water rates to comply with the revenue bond agreement with Rural Development.

***REQUIRED***

***SUPPLEMENTARY***

***INFORMATION***

**CITY OF LIBBY, MONTANA**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual-General Fund**  
**For the Year Ended June 30, 2014**

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
<b>Revenues</b>				
Taxes/Special Assessments	\$ 441,338	\$ 441,338	\$ 439,413	\$ (1,925)
Licenses and Permits	30,850	37,588	41,329	3,741
Intergovernmental Revenue	531,503	711,723	715,850	4,127
Charges for Services	28,590	28,590	33,241	4,651
Fines and Forfeitures	45,000	45,000	43,112	(1,888)
Miscellaneous	80,000	80,000	126,052	46,052
Investment Earnings	3,000	3,000	1,410	(1,590)
Total Revenues	<u>1,160,281</u>	<u>1,347,239</u>	<u>1,400,407</u>	<u>53,168</u>
<b>Expenditures</b>				
Current:				
General Government	342,861	342,861	292,111	50,750
Public Safety	528,025	528,025	510,363	17,662
Public Works	302,552	501,770	385,568	116,202
Public Health	10,800	10,800	10,800	-
Culture and Recreation	117,150	117,370	86,973	30,397
Miscellaneous	39,000	39,000	34,634	4,366
Capital Outlay	20,000	69,975	107,105	(37,130)
Debt Service	5,132	5,132	19,190	(14,058)
Total Expenditures	<u>1,365,520</u>	<u>1,614,933</u>	<u>1,446,744</u>	<u>168,189</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(205,239)</u>	<u>(267,694)</u>	<u>(46,337)</u>	<u>221,357</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds of General Long-Term Debt	-	-	57,130	57,130
Transfers In	-	19,975	19,975	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>19,975</u>	<u>77,105</u>	<u>57,130</u>
Excess Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>\$ (205,239)</u>	<u>\$ (247,719)</u>	30,768	<u>\$ 278,487</u>
Fund Balance, July 1, 2013			205,525	
Fund Balance, June 30, 2014			<u>\$ 236,293</u>	

See accompanying notes.

**CITY OF LIBBY, MONTANA**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual-Major Special Revenue Fund**  
**For the Year Ended June 30, 2014**

	IP Settlement Fund			
	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
<b>Revenues</b>				
Miscellaneous	\$ 200,000	\$ 200,000	\$ 212,434	\$ 12,434
Investment Earnings	4,500	4,500	947	(3,553)
Total Revenue	204,500	204,500	213,381	8,881
<b>Expenditures</b>				
Current:				
Public Safety	344,000	344,000	-	344,000
<b>Other Financing Sources (Uses)</b>				
Transfers Out	-	-	(319,031)	(319,031)
Excess Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ (139,500)	\$ (139,500)	(105,650)	\$ 33,850
Fund Balance, July 1, 2013			344,318	
Fund Balance, June 30, 2014			\$ 238,668	

See accompanying notes.

**CITY OF LIBBY, MONTANA**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual-Major Special Revenue Fund**  
**For the Year Ended June 30, 2014**

	Street Maintenance Fund			
	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
<b>Revenues</b>				
Taxes/Special Assessments	\$ 204,800	\$ 204,800	\$ 213,221	\$ 8,421
Investment Earnings	900	900	1,432	532
Total Revenue	205,700	205,700	214,653	8,953
<b>Expenditures</b>				
Current:				
Public Works	382,200	382,200	184,040	198,160
Capital Outlay	-	-	7,500	(7,500)
Total Expenditures	382,200	382,200	191,540	190,660
Excess Revenues and Other Sources				
Over (Under) Expenditures and Other Uses	\$ (176,500)	\$ (176,500)	23,113	\$ 199,613
Fund Balance, July 1, 2013			202,193	
Fund Balance, June 30, 2014			\$ 225,306	

See accompanying notes.

**CITY OF LIBBY, MONTANA**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual-Major Special Revenue Fund**  
**For the Year Ended June 30, 2014**

	<u>Economic Development Fund</u>			
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
<b>Revenues</b>				
Investment Earnings	\$ 104,995	\$ 104,995	\$ 28,646	\$ (76,349)
<b>Expenditures</b>				
Current:				
Housing and Community Development	300,130	300,130	25,438	274,692
Capital Outlay	100,000	100,000	39,500	60,500
Total Expenditures	<u>400,130</u>	<u>400,130</u>	<u>64,938</u>	<u>335,192</u>
<b>Other Financing Sources (Uses)</b>				
Transfers Out	<u>-</u>	<u>-</u>	<u>(19,975)</u>	<u>(19,975)</u>
Excess Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>\$ (295,135)</u>	<u>\$ (295,135)</u>	(56,267)	<u>\$ 238,868</u>
Fund Balance, July 1, 2013			<u>1,878,493</u>	
Fund Balance, June 30, 2014			<u>\$ 1,822,226</u>	

See accompanying notes.

**CITY OF LIBBY, MONTANA**  
**Notes to the Budgetary Comparison Schedules**  
**June 30, 2014**

1. **Basis of Presentation**

The accompanying budgetary comparison schedules are presented on the modified accrual basis of accounting.

***SUPPLEMENTARY***

***INFORMATION***

**CITY OF LIBBY, MONTANA**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2014**

<b>Federal Grantor/Pass-Through Grantor/Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grantor's Number</b>	<b>Program or Award Amount</b>	<b>Federal Expenditure/Loan</b>
<b><u>U.S. Department of Commerce</u></b>				
<i>Direct:</i>				
Investment for Public Works and Economic Development Facilities	11.300	N/A	\$ 8,000,000	\$ <u>84,913</u>
<b><u>U.S. Department of Housing and Urban Development</u></b>				
<i>Passed through MT Department of Commerce:</i>				
Community Development Block Grants-State's Program	14.228	MT-EDA-ED13-01	125,000	125,000
Community Development Block Grants-State's Program	14.228	MT-CDBG-ED13-09	10,000	<u>5,510</u>
<b>Total U.S. Department of Housing and Urban Development</b>				<u>130,510</u>
<b><u>U.S. Department of Health and Human Services</u></b>				
<i>Passed through MT Department of Public Health and Human Services:</i>				
State Nutrition, Physical Activity, and Obesity Programs	93.548	6901W	5,000	<u>5,000</u>
<b><u>U.S. Department of Agriculture</u></b>				
<i>Direct:</i>				
Water and Waste Disposal Systems for Rural Communities	10.760	grant	1,750,000	400,490
Water and Waste Disposal Systems for Rural Communities	10.760	loan	2,268,000	<u>2,268,000</u>
Subtotal Water and Waste Disposal Systems for Rural Communities				2,668,490
<i>Passed through MT Department of Natural Resources and Conservation:</i>				
Cooperative Forestry Assistance	10.664	UCF-13-110	4,000	<u>4,000</u>
<b>Total U.S. Department of Agriculture</b>				<u>2,672,490</u>
<b><u>U.S. Department of Transportation</u></b>				
<i>Passed through MT Department of Transportation:</i>				
Highway Planning and Construction	20.205	STPE-27(40)	175,470	175,470
<b>Total Federal Financial Assistance</b>				<u>\$ 3,068,383</u>

See accompanying notes.

**CITY OF LIBBY, MONTANA**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**June 30, 2014**

1. **Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal program activity of the City of Libby, Montana and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

2. **Expenditures from Prior Periods**

Expenditures for the Water and Waste Water Disposal Systems for Rural Communities (CFDA 10.760) include \$408,765 in expenditures from prior periods that were not previously included in federal expenditures. The loan award approved in fiscal year 2014 will reimburse these expenditures so they are included in federal expenditures in the year the loan was approved.

***Nicole M. Noonan, CPA, P.C.***

*435 Little Mill Creek Road*

*St. Regis, Montana 59866*

*Phone and FAX: (406) 649-2436*

*Cell phone: (406) 239-4260*

*E-mail: noonanaccounting@hotmail.com*

**Independent Auditor's Report on Internal Control over Financial Reporting and on  
Compliance and Other Matters based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

Mayor and City Council  
City of Libby  
Libby, Montana

I 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 Libby, Montana, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City of Libby, Montana's basic financial statements, and have issued my report thereon dated April 28, 2015.

**Internal Control over Financial Reporting**

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

My 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 questioned costs, I identified certain deficiencies in internal control that I consider to be material weaknesses.

*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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. I consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2014-001 through 2014-003 to be material weaknesses.

### **Compliance and Other Matters**

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

### **City of Libby, Montana's Response to Findings**

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

### **Purpose of this Report**

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



Nicole M. Noonan, CPA, P.C.  
St. Regis, Montana  
April 28, 2015

**Nicole M. Noonan, CPA, P.C.**  
435 Little Mill Creek Road  
St. Regis, Montana 59866  
Phone and FAX: (406) 649-2436  
Cell phone: (406) 239-4260  
E-mail: noonanaccounting@hotmail.com

**Independent Auditor's Report on Compliance for Each Major Program and on  
Internal Control over Compliance Required by OMB Circular A-133**

Mayor and City Council  
City of Libby  
Libby, Montana

**Report on Compliance for Each Major Federal Program**

I have audited the City of Libby, Montana's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Libby, Montana's major federal programs for the year ended June 30, 2014. The City of Libby, Montana's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

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

I believe that my audit provides a reasonable basis for my opinion on compliance for each major federal program. However, my audit does not provide a legal determination of the City of Libby, Montana's compliance.

### ***Opinion on Each Major Federal Program***

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

### **Report on Internal Control over Compliance**

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

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

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

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



Nicole M. Noonan, CPA, P.C.  
St. Regis, Montana  
April 28, 2015

**CITY OF LIBBY, MONTANA**  
**Schedule of Findings and Questioned Costs**  
**June 30, 2014**

**Section I—Summary of Auditor's Results**

*Financial Statements*

Type of auditor's report issued: unqualified

Internal control over financial reporting:

- Material weaknesses identified?  yes  no
- Significant deficiencies identified that are not considered to be material weaknesses?  yes  none reported

Noncompliance material to financial statements noted?  yes  no

*Federal Awards*

Internal control over major programs:

- Material weaknesses identified?  yes  no
- Significant deficiencies identified that are not considered to be material weaknesses?  yes  none reported

Type of auditor's report issued on compliance for major programs: unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?  yes  no

Major Programs for the year ended June 30, 2014:

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

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee?  yes  no

**CITY OF LIBBY, MONTANA**  
**Schedule of Findings and Questioned Costs**  
**June 30, 2014**

**Section II—Financial Statement Findings**

**2014-001 Accounts Payable**

On a day to day basis the City records transactions on a cash basis of accounting. At the end of the year management adjusts the records so they are in accordance with generally accepted accounting principles (GAAP). For the fiscal year ended June 30, 2013, an audit adjustment for accounts payable was recorded for \$395,270 in the Water fund. This adjustment should have been reversed in fiscal year 2014, but was not, resulting in an overstatement in accounts payable and construction in progress at June 30, 2014. An audit adjustment was recorded to correct this, reducing accounts payable and construction in progress by \$385,270 in fiscal year 2014. In the future, applicable audit adjustments should be reversed in the subsequent fiscal year.

City Response

I was unaware that I needed to reverse this adjustment. I know now and will be sure to do it in the future.

**2014-002 Due from Other Governments for Loans and Grants**

There were two errors noted during the audit related to due from other governments.

- At June 30, 2014, due from other governments and loans payable were both overstated by \$189,173 in the Water fund. An interim loan financing draw for the water distribution project funded in July 2014 was accrued at June 30, 2014. While this is a correct accrual for grant revenue, it cannot be done with loan proceeds since this overstates the balance of the loan at year end.
- Due from other governments and capital contributions were understated by \$394,700 for a grant draw that was not accrued at June 30, 2014. This financing was also for the water distribution project.

These errors occurred because it was unclear to management which type of funding should be accrued. In the future, grant revenue should be accrued, but funding for loan proceeds should not be accrued at year end.

City Response

I got them reversed in my head. I am clear on what needs to be accrued now.

**2014-003 Capital Assets**

There were two capital asset classifications that were understated at June 30, 2014.

- Infrastructure assets should be included in capital assets when new items or betterments are constructed. During the audit it was noted that \$11,974 for a new lighting project was not included in infrastructure. In addition, sidewalk and curb betterments of \$181,843 were not added to infrastructure. These items were not added since it can be difficult to track infrastructure since many smaller expenditures can make up a system asset. It is recommended that larger betterments that can be separately identified be added to the system assets as constructed.

**CITY OF LIBBY, MONTANA**  
**Schedule of Findings and Questioned Costs**  
**June 30, 2014**

- For long-term construction projects the interest expense associated with disbursements for the project should be calculated. This interest is then capitalized as part of the cost of the project. For the Flower Creek Dam and the Water Distribution projects interest costs have not been calculated and recorded as part of the capital asset cost in prior years. For the Flower Creek Dam the interest cost through June 30, 2014 was \$139,529, with \$94,195 from prior years and \$45,334 from fiscal year 2014. The Water Distribution project had \$31,248 of interest cost, \$11,556 related to prior years and \$19,692 from fiscal year 2014. The costs of \$170,777 were added to construction in progress, reducing interest expense by \$65,026 in fiscal year 2014 and beginning fund balance by \$105,751. In the future, when the City has a long-term construction projects interest cost should be calculated and added to the cost of the capital asset if significant.

City Response

It was unclear on whether I should asset the sidewalk project but after talking to the auditor I will add larger projects to capital assets in the future. I was not aware that interest needed to be capitalized. I will do so in the future.

**Section III—Federal Award Findings and Questioned Costs**

There are no matters to report under OMB Circular A-133.

**Summary Schedule of Prior Audit Findings**

An audit under OMB Circular A-133 was not required for the year ended June 30, 2013.

**Nicole M. Noonan, CPA, P.C.**  
435 Little Mill Creek Road  
St. Regis, Montana 59866  
Phone and FAX: (406) 649-2436  
Cell phone: (406) 239-4260  
E-mail: noonanaccounting@hotmail.com

**REPORT ON PRIOR AUDIT REPORT RECOMMENDATIONS**

Mayor and City Council  
City of Libby  
Libby, Montana

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

<u>Number</u>	<u>Recommendation</u>	<u>Action Taken</u>
2013-1	Accounts Payable	Partially Implemented
2013-2	Deferred Revenue	Implemented

*Nicole M. Noonan, CPA, P.C.*

Nicole M. Noonan, CPA, P.C.  
St. Regis, Montana  
April 28, 2015

**Nicole M. Noonan, CPA, P.C.**

*435 Little Mill Creek Road*

*St. Regis, Montana 59866*

*Phone and FAX: (406) 649-2436*

*Cell phone: (406) 239-4260*

*E-mail: noonanaccounting@hotmail.com*

April 28, 2015

Mayor and City Council  
City of Libby  
Libby, Montana

In planning and performing my audit of the financial statements of the City of Libby, Montana for the year ended June 30, 2014. I considered its internal control in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide assurance on the internal control. This letter does not affect my report on those financial statements dated April 28, 2015.

However, I noted certain matters involving internal control and its operation that I consider opportunities for improvement. These and other matters are summarized below.

**Inventory**

A physical inventory of parts should be taken annually, close to fiscal year end. The value of inventory recorded should then be adjusted to reflect the physical inventory count. The City has not performed a physical inventory of parts for several years. This has been due to a lack of available time to perform the physical inventory count. Therefore, the inventory balance recorded at June 30, 2014 is not accurate. The City should take an annual inventory of parts at fiscal year end to ensure the value of recorded inventory is correct.

City Response

The form to do the inventory was sent out at fiscal year end. I did not receive them back. I was told they didn't have time to do inventory.

Findings from the June 30, 2013 management letter are shown below with their status as of June 30, 2014.

Finding

Inventory

Cost Allocation

Financial Statements

Status

Repeated

Implemented

Implemented

\* \* \* \* \*

This letter is intended solely for the information and use of management, City Council, others within the entity, federal awarding agencies, and the State of Montana and is not intended to be and should not be used by anyone other than these specified parties.

*Nicole M. Noonan, CPA, P.C.*

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