

TOWN OF MANHATTAN
GALLATIN COUNTY, MONTANA
Fiscal Year Ended June 30, 2014

AUDIT REPORT

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

TOWN OF MANHATTAN
GALLATIN COUNTY, MONTANA

Fiscal Year Ended June 30, 2014

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TOWN OF MANHATTAN
GALLATIN COUNTY, MONTANA

ORGANIZATION

Fiscal Year Ended June 30, 2014

David Rowell

Mayor

CITY COUNCIL

Gregg Dietz
Craig Bergstedt
Greg Schack
Dan Ryan

Council Member
Council Member
Council Member
Council Member

CITY OFFICIALS

Jane Mersen
Wanda Drusch
Pam Humphrey
Dennis Hengel
Stuart Cooper
Vicki Ellison

Attorney
City Judge
Clerk / Treasurer
Chief of Police
Public Works Director
Finance Administrator

**TOWN OF MANHATTAN, GALLATIN COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT
FISCAL YEAR ENDED JUNE 30, 2014**

The discussion and analysis of the Town of Manhattan's financial performance provides an overall review of the Town of Manhattan's financial activities for the fiscal year ending June 30, 2014. The intent of this discussion and analysis is to look at the Town's financial performance as a whole. Readers are encouraged to consider the information presented here in conjunction with additional information that has been furnished in the financial statements.

FINANCIAL HIGHLIGHTS

- ◆◆◆◆ The assets of the Town of Manhattan exceeded its liabilities at the close of the fiscal 13-14 by \$7,206,932 (net position).
- ◆◆◆◆ Governmental Fund Balance — \$604,541 compared with \$407,553 last year.
- ◆◆◆◆ The Town retired \$168,666 in bond principal
- ◆◆◆◆ The General Fund showed an excess of \$7,163 comparing revenues and expenses. .

Using this financial report

This discussion and analysis is intended to serve as an introduction to the Town of Manhattan's basic financial statements. The Town of Manhattan's basic financial statements are comprised of three components: 1) the government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the Town of Manhattan's finances, in a manner similar to a private-sector business. The Statement of Net Position presents information on all the Town of Manhattan's assets and liabilities, with the difference between the two reported as net position. Over time, an increase or decrease in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating. However, in evaluating the overall position of the Town, non-financial factors such as the Town's tax base, change in tax laws, and the condition of the capital assets should also be considered.

The statement of net position presents information on all of the Town of Manhattan's assets and liabilities, with the difference between the following activities:

- ◆ Governmental activities, normally supported by taxes and intergovernmental revenues, include general government, public safety, public works, parks and recreation.
- ◆ Business-type activities, which include water and sewer recover all or a significant portion of their costs through user fees and charges.

Fund Financial Statements

Fund Financial Statements reports detailed information about the Town. The emphasis of fund financial statements is to maintain control over resources that have been segregated for specific activities or objectives. The fund financial statements provide detailed information about the most significant funds. The Town's major Governmental fund is the General Fund. The Town's major Proprietary funds are the Water and Sewer Funds.

**TOWN OF MANHATTAN, GALLATIN COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT
FISCAL YEAR ENDED JUNE 30, 2014**

Governmental Funds

Most of the Town's basic services are reported in governmental funds, which focus on how moneys flow into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed shorter-term view of the Town's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance the Town's programs. The differences in results in the Governmental Fund financial statements to those in the Government-Wide financial statements are explained in reconciliation following each Governmental Fund financial statement. Both the governmental fund balance sheet and the government fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate a comparison between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds.

Propriety Funds

Propriety Funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the Town's enterprise fund is the same as the business-type activity we report in the government-wide statement but provides more detail and additional information such as cash flow for propriety funds.

The Town has two major Enterprise Funds consisting of the Water and Sewer Fund. The basic financial statements for the major funds are included in this report.

**TOWN OF MANHATTAN, GALLATIN COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT
FISCAL YEAR ENDED JUNE 30, 2014**

Town of Manhattan, Gallatin County, Montana
MD & A Comparisons
June 30, 2014

Table 1 - Net Position

	Governmental Activities			Business-type Activities		
	<u>FY14</u>	<u>FY13</u>	Change	<u>FY14</u>	<u>FY13</u>	Change
			<u>Inc (Dec)</u>			<u>Inc (Dec)</u>
Current and other assets	\$ 636,580	\$ 443,704	\$ 192,876	\$ 1,202,199	\$ 1,005,535	\$ 196,664
Capital assets	1,092,324	1,141,545	(49,221)	9,623,187	9,749,496	(126,309)
Total assets	<u>1,728,904</u>	<u>1,585,249</u>	<u>143,655</u>	<u>10,825,386</u>	<u>10,755,031</u>	<u>70,355</u>
Long-term debt outstanding	\$ 267,378	\$ 312,045	\$ (44,667)	\$ 5,000,542	\$ 5,119,147	\$(118,605)
Other liabilities	-	-	-	61,416	61,416	-
Total liabilities	<u>267,378</u>	<u>312,045</u>	<u>(44,667)</u>	<u>5,061,958</u>	<u>5,180,563</u>	<u>(118,605)</u>
Invested in capital assets, net of debt	880,798	890,977	(10,179)	4,644,825	4,662,474	(17,649)
Restricted	580,728	382,227	198,501	1,118,603	911,994	206,609
Total net position	<u>\$ 1,461,526</u>	<u>\$ 1,273,204</u>	<u>\$ 188,322</u>	<u>\$ 5,763,428</u>	<u>\$ 5,574,468</u>	<u>\$ 188,960</u>

Table 2 - Changes in Net Position

	Governmental Activities			Business-type Activities		
	<u>FY14</u>	<u>FY13</u>	Change	<u>FY14</u>	<u>FY13</u>	Change
			<u>Inc (Dec)</u>			<u>Inc (Dec)</u>
Revenues						
<i>Program revenues (by major source):</i>						
Charges for services	\$ 204,216	\$ 177,428	\$ 26,788	\$ 1,116,549	\$ 976,729	\$ 139,820
Operating grants and contributions	119,340	236,161	(116,821)	-	94,250	(94,250)
Capital grants and contributions	-	-	-	58,325	-	58,325
<i>General revenues (by major source):</i>						
Property taxes for general purposes	340,658	299,500	41,158	-	-	-
Local option tax	47,107	44,397	2,710	-	-	-
Unrestricted federal/state shared revenues	146,283	20,658	125,625	-	-	-
Interest/investment earnings	1,592	1,853	(261)	3,084	3,914	(830)
Miscellaneous	139,775	138,517	1,258	4,119	-	4,119
Total revenues	<u>\$ 998,971</u>	<u>\$ 918,514</u>	<u>\$ 80,457</u>	<u>\$ 1,182,077</u>	<u>\$ 1,074,893</u>	<u>\$ 107,184</u>
Program expenses						
General government	\$ 157,154	\$ 181,152	\$ (23,998)	\$ -	\$ -	\$ -
Public safety	414,549	390,110	24,439	-	-	-
Public works	169,202	238,184	(68,982)	-	-	-
Public health	66	66	-	-	-	-
Social and economic services	144	-	144	-	-	-
Culture and recreation	120,324	114,095	6,229	-	-	-
Conservation of natural resources	31,518	29,531	1,987	-	-	-
Debt service - interest	7,168	6,954	214	-	-	-
Water	-	-	-	329,898	319,654	10,244
Sewer	-	-	-	664,447	795,973	(131,526)
Total expenses	<u>\$ 900,125</u>	<u>\$ 960,092</u>	<u>\$ (59,967)</u>	<u>\$ 994,345</u>	<u>\$ 1,115,627</u>	<u>\$ (121,282)</u>
Excess (deficiency) before special items and transfers	\$ 98,846	\$ (41,578)	\$ 140,424	\$ 187,732	\$ (40,734)	\$ 228,466
Gain (loss) on sale of capital assets	1,550	8,464	(6,914)	1,600	-	1,600
Transfers - net	3,600	3,600	-	(3,600)	(3,600)	-
Increase (decrease) in net position	<u>\$ 103,996</u>	<u>\$ (29,514)</u>	<u>\$ 133,510</u>	<u>\$ 185,732</u>	<u>\$ (44,334)</u>	<u>\$ 230,066</u>

**TOWN OF MANHATTAN, GALLATIN COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT
FISCAL YEAR ENDED JUNE 30, 2014**

Governmental Activities

The cost of all Governmental activities this year was \$900,125. The largest portion of that expense is for public safety \$414,549. Shown in the Changes in Fund Balance, the amount that our taxpayers financed through Town taxes and assessments was \$387,765.

Business Type Activities

The cost of all proprietary (business type) activities this year was \$1,012,367. As shown in the Changes in Net Position, the amount paid by users of the system was \$1,116,549. The present user fees support the proprietary funds, but continual monitoring of expenses is mandatory to maintain this position.

Major Fund Classification

The General, Capital Projects, Water and Sewer Funds were classified major funds for this fiscal year.

Capital Assets

Capital assets shall be capitalized at a threshold of \$5,000 and all other assets inventoried at a value of \$250 -\$5,000. Physical inventory of all assets will be completed on an annual basis by the department heads. All equipment and machinery, buildings and infrastructure will be depreciated with calculations based on straight-line method.

Long-Term Debt

The Town long term was increased by the purchase of a backhoe in the Water Department in the amount of \$67,007.

Fixed Assets Purchases 13-14

Scagg Park Mower - \$12,933.48
Case Backhoe 580N w/ attachments - \$79,058
Kabota Loader - \$5,695
Generator - \$5,768
Water Rights - \$45,635

Economic Factors and Next Year's Budget and Rates

In Fiscal 2013-14 building permits were granted in 2012-2013 for 2 residential and 1 light industrial plant and in 2013-2014 for 6 residential and 1 financial institution. This shows a gradual increase of permits which is considered healthy for moderate growth. The Town Council is not looking to increase any utility rates for the next fiscal year. Grants have been awarded for the installation of an above ground water storage tank. The water tank will be installed sometime in middle of 2015. An agreement has been reached with the Amsterdam/Churchill Sewer District to connect to the Town's Wastewater Treatment Plant. Our treatment plant has more capacity than anticipated and additional sewage is beneficial for operating efficiency. Revenues received will offset operational costs and help build a reserve for replacement and depreciation.

**TOWN OF MANHATTAN, GALLATIN COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT
FISCAL YEAR ENDED JUNE 30, 2014**

Contacting the Town's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Town's finances and to show the Town's accountability for the funds and assets it receive. If you have any questions about this report or need additional information, contact the Financial Administrator of the Town of Manhattan, 120 West Main, Manhattan, MT 59741.

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

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

INDEPENDENT AUDITOR'S REPORT

Mayor and Town Council
Town of Manhattan
Gallatin County
Manhattan, Montana

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Change in Accounting Principle

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and the budgetary comparison information on pages 2 through 6, and 36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2015, on our consideration of the Town of Manhattan, Gallatin County, Montana's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Manhattan, Gallatin County, Montana's internal control over financial reporting and compliance.

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

June 26, 2015

Town of Manhattan, Gallatin County, Montana
Statement of Net Position
June 30, 2014

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and investments	\$ 573,962	\$ 678,413	\$ 1,252,375
Taxes and assessments receivable, net	32,041	-	32,041
Internal balances	(3,200)	3,200	-
Accounts receivable - net	1,976	98,437	100,413
Due from other governments	-	38,422	38,422
Total current assets	<u>\$ 604,779</u>	<u>\$ 818,472</u>	<u>\$ 1,423,251</u>
Noncurrent assets			
Restricted cash and investments	\$ 31,801	\$ 383,727	\$ 415,528
Capital assets - land	45,750	162,848	208,598
Capital assets - construction in progress	-	166,311	166,311
Capital assets - depreciable, net	1,046,574	9,294,028	10,340,602
Total noncurrent assets	<u>\$ 1,124,125</u>	<u>\$ 10,006,914</u>	<u>\$ 11,131,039</u>
Total assets	<u>\$ 1,728,904</u>	<u>\$ 10,825,386</u>	<u>\$ 12,554,290</u>
LIABILITIES			
Current liabilities			
Revenues collected in advance	\$ -	\$ 61,416	\$ 61,416
Current portion of long-term capital liabilities	35,516	177,102	212,618
Current portion of compensated absences payable	44,807	17,109	61,916
Total current liabilities	<u>\$ 80,323</u>	<u>\$ 255,627</u>	<u>\$ 335,950</u>
Noncurrent liabilities			
Noncurrent portion of long-term capital liabilities	\$ 176,010	\$ 4,801,260	\$ 4,977,270
Noncurrent portion of compensated absences	11,045	5,071	16,116
Total noncurrent liabilities	<u>\$ 187,055</u>	<u>\$ 4,806,331</u>	<u>\$ 4,993,386</u>
Total liabilities	<u>\$ 267,378</u>	<u>\$ 5,061,958</u>	<u>\$ 5,329,336</u>
NET POSITION			
Net investment in capital assets	\$ 880,798	\$ 4,644,825	\$ 5,525,623
Restricted for debt service	-	276,855	276,855
Restricted for capital projects	32,375	106,871	139,246
Restricted for special revenue	343,168	-	343,168
Unrestricted	205,185	734,877	940,062
Total net position	<u>\$ 1,461,526</u>	<u>\$ 5,763,428</u>	<u>\$ 7,224,954</u>

See accompanying Notes to the Financial Statements

Town of Manhattan, Gallatin County, Montana
Statement of Activities
For the Fiscal Year Ended June 30, 2014

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Position</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Primary government:							
Governmental activities:							
General government	\$ 157,154	\$ 90,550	\$ -	\$ -	\$ (66,604)	\$ -	\$ (66,604)
Public safety	414,549	3,936	29,615	-	(380,998)	-	(380,998)
Public works	169,202	68,880	37,870	-	(62,452)	-	(62,452)
Public health	66	2,590	-	-	2,524	-	2,524
Social and economic services	144	-	-	-	(144)	-	(144)
Culture and recreation	120,324	1,463	51,855	-	(67,006)	-	(67,006)
Conservation of natural resources	31,518	36,797	-	-	5,279	-	5,279
Debt service - interest	7,168	-	-	-	(7,168)	-	(7,168)
Total governmental activities	\$ <u>900,125</u>	\$ <u>204,216</u>	\$ <u>119,340</u>	\$ <u>-</u>	\$ <u>(576,569)</u>	\$ <u>-</u>	\$ <u>(576,569)</u>
Business-type activities:							
Water	\$ 329,898	\$ 368,695	\$ -	\$ 58,325	\$ -	\$ 97,122	\$ 97,122
Sewer	664,447	747,854	-	-	-	83,407	83,407
Total business-type activities	\$ <u>994,345</u>	\$ <u>1,116,549</u>	\$ <u>-</u>	\$ <u>58,325</u>	\$ <u>-</u>	\$ <u>180,529</u>	\$ <u>180,529</u>
Total primary government	\$ <u>1,894,470</u>	\$ <u>1,320,765</u>	\$ <u>119,340</u>	\$ <u>58,325</u>	\$ <u>(576,569)</u>	\$ <u>180,529</u>	\$ <u>(396,040)</u>
General Revenues:							
Property taxes for general purposes					\$ 340,658	\$ -	\$ 340,658
Local option tax					47,107	-	47,107
Unrestricted federal/state shared revenues					146,283	-	146,283
Interest/investment earnings					1,592	3,084	4,676
Miscellaneous					139,775	4,119	143,894
Gain (loss) on sale of capital assets					1,550	1,600	3,150
Transfers - net					3,600	(3,600)	-
Total general revenues, special items and transfers					\$ <u>680,565</u>	\$ <u>5,203</u>	\$ <u>685,768</u>
Change in net position					\$ <u>103,996</u>	\$ <u>185,732</u>	\$ <u>289,728</u>
Net position - beginning					\$ 1,273,204	\$ 5,574,468	\$ 6,847,672
Restatements					84,326	3,228	87,554
Net position - beginning - restated					\$ <u>1,357,530</u>	\$ <u>5,577,696</u>	\$ <u>6,935,226</u>
Net position - end					\$ <u>1,461,526</u>	\$ <u>5,763,428</u>	\$ <u>7,224,954</u>

See accompanying Notes to the Financial Statements

Town of Manhattan, Gallatin County, Montana
Balance Sheet
Governmental Funds
June 30, 2014

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS				
Current assets:				
Cash and investments	\$ 249,528	\$ 186,354	\$ 138,081	\$ 573,963
Taxes and assessments receivable, net	23,891	-	8,150	32,041
Accounts receivable - net	1,976	-	-	1,976
Total current assets	<u>\$ 275,395</u>	<u>\$ 186,354</u>	<u>\$ 146,231</u>	<u>\$ 607,980</u>
Noncurrent assets:				
Restricted cash and investments	\$ -	\$ 5,779	\$ 26,023	\$ 31,802
Total noncurrent assets	<u>\$ -</u>	<u>\$ 5,779</u>	<u>\$ 26,023</u>	<u>\$ 31,802</u>
Total assets	<u>\$ 275,395</u>	<u>\$ 192,133</u>	<u>\$ 172,254</u>	<u>\$ 639,782</u>
Current liabilities:				
Due to other funds	\$ 3,200	\$ -	\$ -	\$ 3,200
Total current liabilities	<u>\$ 3,200</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,200</u>
Total liabilities	<u>\$ 3,200</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,200</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows of resources	\$ 23,891	\$ -	\$ 8,150	\$ 32,041
Total deferred inflows of resources	<u>\$ 23,891</u>	<u>\$ -</u>	<u>\$ 8,150</u>	<u>\$ 32,041</u>
FUND BALANCES				
Restricted	\$ -	\$ -	\$ 158,949	\$ 158,949
Committed	-	192,133	5,155	197,288
Unassigned fund balance	248,304	-	-	248,304
Total fund balance	<u>\$ 248,304</u>	<u>\$ 192,133</u>	<u>\$ 164,104</u>	<u>\$ 604,541</u>

See accompanying Notes to the Financial Statements

Town of Manhattan, Gallatin County, Montana
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Position
June 30, 2014

Total fund balances - governmental funds	\$ 604,541
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	1,092,323
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.	32,040
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.	(267,378)
Total net position - governmental activities	<u>\$ 1,461,526</u>

See accompanying Notes to the Financial Statements

Town of Manhattan, Gallatin County, Montana
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2014

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Taxes and assessments	\$ 293,896	\$ 47,107	\$ 150,445	\$ 491,448
Licenses and permits	39,188	-	23,797	62,985
Intergovernmental	146,284	-	45,901	192,185
Charges for services	-	-	15,162	15,162
Fines and forfeitures	24,510	-	-	24,510
Miscellaneous	18,746	51,047	145,410	215,203
Investment earnings	1,046	206	340	1,592
Total revenues	<u>\$ 523,670</u>	<u>\$ 98,360</u>	<u>\$ 381,055</u>	<u>\$ 1,003,085</u>
EXPENDITURES				
General government	\$ 116,669	\$ -	\$ 24,760	\$ 141,429
Public safety	307,357	-	71,595	378,952
Public works	39,927	-	100,605	140,532
Public health	66	-	-	66
Social and economic services	144	-	-	144
Culture and recreation	52,344	349	60,290	112,983
Conservation of natural resources	-	-	31,817	31,817
Debt service - principal	-	23,039	15,767	38,806
Debt service - interest	-	3,841	3,328	7,169
Capital outlay	-	-	26,858	26,858
Total expenditures	<u>\$ 516,507</u>	<u>\$ 27,229</u>	<u>\$ 335,020</u>	<u>\$ 878,756</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 7,163</u>	<u>\$ 71,131</u>	<u>\$ 46,035</u>	<u>\$ 124,329</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from the sale of general capital asset disposition	\$ 1,550	\$ 67,509	\$ -	\$ 69,059
Transfers in	3,600	-	25,000	28,600
Transfers out	(25,000)	-	-	(25,000)
Total other financing sources (uses)	<u>\$ (19,850)</u>	<u>\$ 67,509</u>	<u>\$ 25,000</u>	<u>\$ 72,659</u>
Net Change in Fund Balance	<u>\$ (12,687)</u>	<u>\$ 138,640</u>	<u>\$ 71,035</u>	<u>\$ 196,988</u>
Fund balances - beginning	\$ 260,991	\$ 53,493	\$ 93,069	\$ 407,553
Fund balance - ending	<u>\$ 248,304</u>	<u>\$ 192,133</u>	<u>\$ 164,104</u>	<u>\$ 604,541</u>

See accompanying Notes to the Financial Statements

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

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

Net change in fund balances - total governmental funds \$ 196,988

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	26,858
- Depreciation expense	(92,661)

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

- Proceeds from the sale of capital assets	(69,059)
- Gain on the sale of capital assets	1,550

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:

- Long-term receivables (deferred revenue)	(4,112)
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The change in compensated absences is shown as an expense in the Statement of Activities

5,626

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

- Long-term debt principal payments	38,806
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Change in net position - Statement of Activities \$ 103,996

See accompanying Notes to the Financial Statements

Town of Manhattan, Gallatin County, Montana
Statement of Net Position
Proprietary Funds
June 30, 2014

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Totals
ASSETS			
Current assets:			
Cash and investments	\$ 553,789	\$ 124,625	\$ 678,414
Accounts receivable - net	30,787	67,649	98,436
Due from other funds	1,600	1,600	3,200
Due from other governments	38,423	-	38,423
Total current assets	\$ 624,599	\$ 193,874	\$ 818,473
Noncurrent assets:			
Restricted cash and investments	\$ 81,740	\$ 301,986	\$ 383,726
Capital assets - land	300	162,548	162,848
Capital assets - construction in progress	166,311	-	166,311
Capital assets - depreciable, net	1,707,308	7,586,720	9,294,028
Total noncurrent assets	\$ 1,955,659	\$ 8,051,254	\$ 10,006,913
Total assets	\$ 2,580,258	\$ 8,245,128	\$ 10,825,386
LIABILITIES			
Current liabilities:			
Revenues collected in advance	\$ 61,416	\$ -	\$ 61,416
Current portion of long-term capital liabilities	19,408	157,694	177,102
Current portion of compensated absences payable	2,702	14,407	17,109
Total current liabilities	\$ 83,526	\$ 172,101	\$ 255,627
Noncurrent liabilities:			
Noncurrent portion of long-term capital liabilities	\$ 189,198	\$ 4,612,062	\$ 4,801,260
Noncurrent portion of compensated absences	797	4,274	5,071
Total noncurrent liabilities	\$ 189,995	\$ 4,616,336	\$ 4,806,331
Total liabilities	\$ 273,521	\$ 4,788,437	\$ 5,061,958
NET POSITION			
Net investment in capital assets	\$ 1,665,313	\$ 2,979,512	\$ 4,644,825
Restricted for debt service	16,653	260,202	276,855
Restricted for capital projects	65,087	41,784	106,871
Unrestricted	559,684	175,193	734,877
Total net position	\$ 2,306,737	\$ 3,456,691	\$ 5,763,428
Total liabilities and net position	\$ 2,580,258	\$ 8,245,128	\$ 10,825,386

See accompanying Notes to the Financial Statements

Town of Manhattan, Gallatin County, Montana
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Fiscal Year Ended June 30, 2014

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Totals
OPERATING REVENUES			
Charges for services	\$ 368,694	\$ 747,854	\$ 1,116,548
Miscellaneous revenues	629	2,519	3,148
Total operating revenues	\$ 369,323	\$ 750,373	\$ 1,119,696
OPERATING EXPENSES			
Personal services	\$ 102,584	\$ 204,824	\$ 307,408
Supplies	53,241	99,299	152,540
Purchased services	34,198	73,507	107,705
Depreciation	136,845	175,790	312,635
Total operating expenses	\$ 326,868	\$ 553,420	\$ 880,288
Operating income (loss)	\$ 42,455	\$ 196,953	\$ 239,408
NON-OPERATING REVENUES (EXPENSES)			
Interest revenue	\$ 1,943	\$ 1,141	\$ 3,084
Debt service interest expense	(3,032)	(111,026)	(114,058)
Total non-operating revenues (expenses)	\$ (1,089)	\$ (109,885)	\$ (110,974)
Income (loss) before contributions and transfers	\$ 41,366	\$ 87,068	\$ 128,434
Capital contributions	57,696	-	57,696
Transfers out	(1,800)	(1,800)	(3,600)
SPECIAL AND EXTRAORDINARY ITEMS			
Gain (loss) on sale of capital assets	1,600	1,600	3,200
Change in net position	\$ 98,862	\$ 86,868	\$ 185,730
Net Position - Beginning of the year	\$ 2,207,574	\$ 3,366,897	\$ 5,574,471
Restatements	301	2,926	3,227
Net Position - Beginning of the year - Restated	\$ 2,207,875	\$ 3,369,823	\$ 5,577,698
Net Position - End of the year	\$ 2,306,737	\$ 3,456,691	\$ 5,763,428

See accompanying Notes to the Financial Statements

Town of Manhattan, Gallatin County, Montana
Statement of Cash Flows
Proprietary Funds
Fiscal Year Ended June 30, 2014

	Business - Type Activities -		Enterprise
	Funds		
	Water	Sewer	Totals
Cash flows from operating activities:			
Cash received from providing services	\$ 367,144	\$ 746,421	\$ 1,113,565
Cash received from miscellaneous sources	629	2,519	3,148
Cash payments to suppliers	(53,241)	(99,299)	(152,540)
Cash payments for professional services	(34,198)	(73,507)	(107,705)
Cash payments to employees	(114,180)	(203,173)	(317,353)
Net cash provided (used) by operating activities	\$ 166,154	\$ 372,961	\$ 539,115
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	\$ (180,359)	\$ 460	\$ (179,899)
Principal paid on debt	(14,401)	(154,265)	(168,666)
Interest paid on debt	(3,032)	(111,026)	(114,058)
Proceeds from bonds, loans and advances	60,007	-	60,007
Net cash provided (used) by capital and related financing activities	\$ (137,785)	\$ (264,831)	\$ (402,616)
Cash flows from non-capital financing activities:			
Due from (to) other funds	\$ (1,600)	\$ (1,600)	\$ (3,200)
Transfers from (to other funds)	(1,800)	(1,800)	(3,600)
Cash received from other sources	19,273	-	19,273
Net cash provided (used) from non-capital financing activities	\$ 15,873	\$ (3,400)	\$ 12,473
Cash flows from investing activities:			
Interest on investments	\$ 1,943	\$ 1,141	\$ 3,084
Net cash provided (used) by investing activities	\$ 1,943	\$ 1,141	\$ 3,084
Net increase (decrease) in cash and cash equivalents	\$ 46,185	\$ 105,871	\$ 152,056
Cash and cash equivalents at beginning	589,344	320,740	910,084
Restatements - Includes beginning restricted cash			-
Cash and cash equivalents at end	\$ 635,529	\$ 426,611	\$ 1,062,140
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ 24,433	196,953	\$ 221,386
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation	154,867	175,790	330,657
Changes in assets and liabilities:			
Increase/Decrease in accounts receivable	(1,550)	(1,433)	(2,983)
Increase/decrease in compensated absences	(11,596)	1,651	(9,945)
Net cash provided (used) by operating activities	\$ 166,154	\$ 372,961	\$ 539,115

See accompanying notes to the financial statements

Town of Manhattan, Gallatin County, Montana
Statement of Net Position
Fiduciary Funds
June 30, 2014

		<u>Agency Funds</u>
ASSETS		
Cash and short-term investments	\$	<u>60,279</u>
Total assets	\$	<u><u>60,279</u></u>
LIABILITIES		
Warrants payable	\$	70,601
Due to others		<u>(10,322)</u>
Total liabilities	\$	<u><u>60,279</u></u>

See accompanying Notes to the Financial Statements

TOWN OF MANHATTAN
GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Financial Reporting Entity

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

Primary Government

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

Basis of Presentation, Measurement Focus and Basis of Accounting.

Government-wide Financial Statements:

Basis of Presentation

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

TOWN OF MANHATTAN
GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function. The Town does not charge indirect expenses to programs or functions. The types of transactions reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity and 2) operating grants and contributions, and 3) capital grants and contributions. Revenues that are not classified as program revenues, including all property taxes, are presented as general revenues.

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

Measurement Focus and Basis of Accounting

Government-Wide Financial Statements

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

TOWN OF MANHATTAN
GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

Fund Financial Statements:

Basis of Presentation

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

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

Measurement Focus and Basis of Accounting

Governmental Funds

Modified Accrual

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

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

TOWN OF MANHATTAN
GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

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

Major Funds:

The Town reports the following major governmental funds:

General Fund – This is the Town’s primary operating fund and it accounts for all financial resources of the Town except those required to be accounted for in other funds.

Capital Projects Fund – A capital projects fund established to account for general long term projects and major capital improvements of the Town.

Proprietary Funds:

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

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

Major Funds:

The Town reports the following major proprietary funds:

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

TOWN OF MANHATTAN
GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

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

Fiduciary Funds

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

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

NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash Composition

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

	<u>Primary Government</u>
<u>Cash on hand and deposits:</u>	
Cash on hand	
Petty Cash	\$ 125
Cash in banks:	
Demand deposits	684,708
Time deposits	1,043,349
Total	\$ <u><u>1,728,182</u></u>

Credit Risk

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

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

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

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

TOWN OF MANHATTAN
GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

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

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

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

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

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

The government has no investments that require credit risk disclosure.

Custodial Credit Risk

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

	June 30, 2014 <u>Balance</u>
<u>Depository Account</u>	
Insured	\$ 750,000
- Collateral held by the pledging bank's trust department but not in the Town's name.	864,786
Total deposits and investments	\$ <u><u>1,614,786</u></u>

Deposit Security

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

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

TOWN OF MANHATTAN
GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

(b) 100% if the institution in which the deposit is made has a net worth of total assets ratio of less than 6%.

The amount of collateral held for Town deposits at June 30, 2014, equaled or exceeded the amount required by State statutes.

Cash equivalents

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

NOTE 3. RESTRICTED CASH/INVESTMENTS

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

<u>Description</u>	<u>Amount</u>
Impact Fees Administration	\$ 7,498
Police Impact Fees	5,779
Street Impact Fees	18,601
Fire Impact Fees	4,441
Water/Sewer Impact Fees	102,225
Bond Reserve	276,855
Recycling	129
	<u>\$ 415,528</u>

NOTE 4. RECEIVABLES

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

TOWN OF MANHATTAN
GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

Real property (and certain attached personal property) taxes are billed within ten days after the third Monday in October and are due in equal installments on November 30 and the following May 31. After those dates, they become delinquent (and a lien upon the property). After three years, the County may exercise the lien and take title to the property. Special assessments are either billed in one installment due November 30 or two equal installments due November 30 and the following May 31. Personal property taxes (other than those billed with real estate) are generally billed no later than the second Monday in July (normally in May or June), based on the prior November's levies. Personal property taxes, other than mobile homes, are due thirty days after billing. Mobile home taxes are billed in two halves, the first due thirty days after billing; the second due September 30. The tax billings are considered past due after the respective due dates and are subject to penalty and interest charges.

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

NOTE 5. INVENTORIES

The costs of inventories are recorded as an expenditure when purchased.

NOTE 6. CAPITAL ASSETS

The Town's assets are capitalized at historical cost or estimated historical cost. Town policy has set the capitalization threshold for reporting capital assets at \$1,500. Gifts or contributions of capital assets are recorded at fair market value when received. The costs of normal maintenance and repairs are charged to operations as incurred. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable. Depreciation is recorded on a straight-line basis over the useful lives of the assets as follows:

Buildings	10 – 50 years
Improvements other than buildings	10 – 30 years
Machinery and Equipment	5 – 20 years
Sewer Lines and Pump Stations	5 – 50 years
Vehicles and Heavy Equipment	5 – 50 years

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

TOWN OF MANHATTAN
GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

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

Governmental activities:

	<u>Balance</u>				<u>Balance</u>
	<u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Restatements</u>	<u>June 30, 2014</u>
Capital assets not being depreciated:					
Land	\$ 45,750	\$ -	\$ -	\$ -	\$ 45,750
Other capital assets:					
Buildings	\$ 586,931	\$ -	\$ -	\$ -	\$ 586,931
Improvements other than buildings	762,307	-	-	-	762,307
Machinery and equipment	871,013	26,858	(9,134)	-	888,737
Infrastructure	65,833	-	-	-	65,833
Total other capital assets at historical cost	\$ 2,286,084	\$ 26,858	\$ (9,134)	\$ -	\$ 2,303,808
Less: accumulated depreciation	\$ (1,190,289)	\$ (92,661)	\$ 9,134	\$ 16,582	\$ (1,257,234)
Total	<u>\$ 1,141,545</u>	<u>\$ (65,803)</u>	<u>\$ -</u>	<u>\$ 16,582</u>	<u>\$ 1,092,324</u>

Governmental activities depreciation expense was charged to functions as follows:

Governmental Activities:		
General government		\$ 8,162
Public safety		43,692
Public works		31,667
Culture and recreation		<u>9,140</u>
Total governmental activities depreciation expense		<u>\$ 92,661</u>

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

Business-type activities:

	<u>Balance</u>				<u>Balance</u>
	<u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Restatements</u>	<u>June 30, 2014</u>
Capital assets not being depreciated:					
Land	\$ 162,848	\$ -	\$ -	\$ -	\$ 162,848
Construction in progress	127,889	38,423	-	-	166,312
Total capital assets not being depreciated	<u>\$ 290,737</u>	<u>\$ 38,423</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 329,160</u>
Other capital assets:					
Source of supply	\$ 649,312	\$ 68,707	\$ -	\$ -	\$ 718,019
Treatment plant	8,283,414	-	-	-	8,283,414
Transmission and distribution	2,447,736	75,971	(9,420)	-	2,514,287
General plant	39,380	-	-	-	39,380
Total other capital assets at historical cost	\$ 11,419,842	\$ 144,678	\$ (9,420)	\$ -	\$ 11,555,100
Less: accumulated depreciation	\$ (1,961,085)	\$ (330,657)	\$ 9,420	\$ 3,227	\$ (2,279,095)
Total	<u>\$ 9,749,494</u>	<u>\$ (147,556)</u>	<u>\$ -</u>	<u>\$ 3,227</u>	<u>\$ 9,605,165</u>

TOWN OF MANHATTAN
GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 7. LONG TERM DEBT OBLIGATIONS

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

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

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

Governmental Activities:

	Balance			Balance		Due Within
	<u>July 1, 2013</u>	<u>Deletions</u>	<u>Restatements</u>	<u>June 30, 2014</u>		<u>One Year</u>
Contracted debt	\$ 246,000	\$ (34,238)	\$ (236)	\$ 211,526	\$	35,516
Compensated absences	61,478	(5,626)	-	55,852		44,807
Intercap loans	4,568	(4,568)	-	-		-
Total	<u>\$ 312,046</u>	<u>\$ (44,432)</u>	<u>\$ (236)</u>	<u>\$ 267,378</u>	\$	<u>80,323</u>

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

Business-type Activities:

	Balance			Balance		Due Within
	<u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2014</u>		<u>One Year</u>
Revenue bonds	\$ 5,087,021	\$ -	\$ (162,265)	\$ 4,924,756	\$	165,694
Loans/Contracted debt	-	60,007	(6,401)	53,606		11,408
Compensated absences	32,125	1,651	(11,596)	22,180		17,109
Total	<u>\$ 5,119,146</u>	<u>\$ 61,658</u>	<u>\$ (180,262)</u>	<u>\$ 5,000,542</u>	\$	<u>194,211</u>

Revenue Bonds - The Town issues bonds where the Town pledges income derived from the acquired or constructed assets to pay debt service.

<u>Purpose</u>	<u>Origination Date</u>	<u>Interest Rate</u>	<u>Bond Term</u>	<u>Maturity Date</u>	<u>Bonds Amount</u>	<u>Annual Payment</u>	<u>Balance June 30, 2014</u>
Wastewater Improvements (Series 2006)*, **	4/24/13	3.00%	20 yrs	7/1/37	\$4,757,000	Varies	\$ 3,668,000
Wastewater Development Loan (WDL-11)	6/23/11	3.00%	20 yrs	7/1/31	1,215,000	\$40,692	1,101,756
Drinking Water – ARRA Loan B	8/1/09	0.75%	20 yrs	7/1/29	146,400	Varies	85,000
Drinking Water – SRF	4/24/13	2.25%	20 yrs	1/1/28	<u>194,000</u>	Varies	<u>70,000</u>
					<u>\$6,312,400</u>		<u>\$ 4,924,756</u>

Reported in Business-type activities

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Revenue bond resolutions include various restrictive covenants. The more significant covenants 1) require that cash be restricted and reserved for operations, construction, debt service, and replacement and depreciation; 2) specify minimum required operating revenue; and 3) specific and timely reporting of financial information to bond holders and the registrar. The Town was in compliance with applicable covenants as of June 30, 2014.

Annual requirement to amortize debt:

For Fiscal <u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 165,694	\$ 107,002
2016	171,165	103,252
2017	176,681	99,376
2018	181,244	95,380
2019	186,853	91,282
2020	193,511	57,057
2021	199,219	82,694
2022	206,979	78,192
2023	212,792	73,540
2024	218,660	68,752
2025	224,584	63,828
2026	230,565	58,766
2027	238,608	53,554
2028	244,712	48,170
2029	245,880	42,661
2030	250,112	37,033
2031	254,412	31,282
2032	221,085	25,361
2033	187,000	21,110
2034	193,000	17,340
2035	199,000	13,450
2036	204,000	9,450
2037	211,000	5,330
2038	108,000	1,080
Total	<u>\$ 4,924,756</u>	<u>\$ 1,284,942</u>

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GALLATIN COUNTY, MONTANA
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June 30, 2014

Loans/Contracted Debt

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

<u>Purpose</u>	<u>Origination Date</u>	<u>Interest Rate</u>	<u>Term</u>	<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Balance June 30, 2014</u>
Commercial Buildings Loans (1)	12/20/10	3.25%	10 yrs	2/20/20	\$ 85,000	\$ 55,247
Fire Truck Pumper (1)	6/26/12	3.00%	10 yrs	7/10/22	125,015	103,971
Police Cars (1)	12/10/12	2.75%	5 yrs	12/10/17	75,000	52,308
Backhoe(2)	11/5/13	3.50%	5 yrs	11/20/18	<u>60,007</u>	<u>53,606</u>
Total					\$ <u>345,022</u>	\$ <u>265,132</u>

(1) Reported in the governmental activities.

(2) Reported in business-type activities.

Annual requirement to amortize debt:

<u>For Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 46,924	\$ 7,560
2016	48,390	6,094
2017	49,914	4,571
2018	41,958	3,070
2019	28,909	1,925
2020	19,838	1,161
2021	13,822	683
2022	14,242	262
2023	1,135	2
Total	\$ <u>265,132</u>	\$ <u>25,328</u>

Compensated Absences

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

TOWN OF MANHATTAN
GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 8. INTERFUND RECEIVABLES AND PAYABLES

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

<u>Purpose</u>	Due to/from other funds:		<u>Amount</u>
	<u>Receivable Fund</u>	<u>Payable Fund</u>	
Capital asset proceeds	Water – Major Proprietary	General – Major Governmental	\$ 1,600
Capital asset proceeds	Sewer – Major Proprietary	General – Major Governmental	<u>1,600</u>
			<u>\$ 3,200</u>

Interfund Transfers

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

<u>Purpose</u>	<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Rent for shop building owned by General fund	General – Major Governmental	Water – Major Proprietary	\$ 1,800
Rent for shop building owned by General fund	General – Major Governmental	Sewer – Major Proprietary	1,800
Budget transfer	Library – Nonmajor Governmental	General – Major Governmental	15,000
Budget transfer	Planning & Zoning – Nonmajor Governmental	General – Major Governmental	7,000
Allocation for part of the Mower purchase and sprinklers	Park CIP – Nonmajor Governmental	General – Major Governmental	<u>3,000</u>
			<u>\$ 28,600</u>

NOTE 9. STATE-WIDE RETIREMENT PLANS

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

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

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 June 30, 2014

PERS**

Employer	8.07%
Employee	7.90%*
State	0.10%

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

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

The State contribution qualifies as an on-behalf payment. These amounts have not been recorded in the Town's financial statements and were considered immaterial.

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

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

	<u>PERS</u>
2012	\$ 37,958
2012	\$ 36,326
2014	\$ 49,797

NOTE 10. LOCAL RETIREMENT PLANS

Deferred Compensation Plan

The Entity offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan available to all Entity employees permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

Fire Department Relief Association Disability and Pension Fund

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

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

TOWN OF MANHATTAN
GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 11. FUND BALANCE CLASSIFICATION POLICIES AND PROCEDURES

For assigned fund balance the body or official authorized to assign amounts to a specific purpose is required to be set at a board meeting and the policy established by the governing body pursuant to which that authorization is given is required to be set at a board meeting.

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

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

Restricted Fund Balance

<u>Major Fund</u>	<u>Amount</u>	<u>Purpose of Restriction</u>
All other aggregate:	\$ 12,945	General government
	87,717	Public safety
	44,590	Public works
	<u>13,697</u>	Culture and recreation
Total	\$ <u>158,949</u>	

Committed Fund Balance

<u>Major Fund</u>	<u>Amount</u>	<u>Purpose of Commitment</u>
Capital Projects	\$ 192,133	General government
All other aggregate:	<u>5,155</u>	Culture and recreation
Total	\$ <u>197,288</u>	

NOTE 12. RESTATEMENTS

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

<u>Fund</u>	<u>Amount</u>	<u>Reason for Adjustment</u>
Water	\$ 301	Adjustment for depreciation
Sewer	2,926	Adjustment for depreciation
Governmental activities	16,582	Adjustment for depreciation
Governmental activities	236	Loan payment correction
Governmental activities	<u>67,509</u>	Restate acquisition of land
	\$ <u>87,554</u>	

TOWN OF MANHATTAN
GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 13. SERVICES PROVIDED BY OTHER GOVERNMENTS

County Provided Services

The Town is provided various financial services by Gallatin County. The County also serves as cashier and treasurer for the Town 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 Town are accounted for in an agency fund in the Town's name and are periodically remitted to the Town by the County Treasurer. No service charges have been recorded by the Town or the County.

NOTE 14. RISK MANAGEMENT

The Town faces considerable number of risks of loss, including (a) damage to and loss of property and contents, (b) employee torts, (c) professional liability, i.e., errors and omissions, (d) environmental damage, (e) workers' compensation, i.e., employee injuries, and (f) medical insurance costs of employees. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Insurance Policies:

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

Insurance Pools:

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

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

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

TOWN OF MANHATTAN
GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 15. IMPACT FEES

Impact fee credits may be established per MCA 7-6-1603 at the discretion of the Town to offset the future impact fee charged. The Town exercised this option in December 2003 for future impact fees as noted below.

Established on December 9, 2003 as a credit for impact fees received for the Farmstead Planned Unit Development. The impact fee credit has an original balance of \$100,000 and is reported in the Town's Water fund as revenues collected in advance. The current balance as of June 30, 2014 is \$61,416.

NOTE 16. SUBSEQUENT EVENTS

The Town of Manhattan completed a renovation of what was previously a medical building in the Town. The Town decided to purchase this building and renovate the building to be used as a community building. This building has neared completion and will be ready for occupancy at an estimated date of July 2015. Costs of around \$60,000 were spent to prepare this building for occupancy for its new use.

NOTE 17. SIGNIFICANT CONSTRUCTION COMMITMENTS AND/OR OTHER CONTINGENCIES

The Town of Manhattan will be installing a new Water Tower to meet new federal and state regulations that have been adopted. Thus far, the Town has had expenditures related to engineering and geotechnical costs, site title costs, and bid advertising. Actual construction has not begun, however the bid for construction has been awarded and the Town anticipates construction to start very soon.

<u>Project Name</u>	<u>Project Authorization</u>	<u>Expended to Date</u>	<u>Commitment</u>
Water Tower	\$ 1,587,000	\$ 56,064	\$ 1,530,936

**REQUIRED SUPPLEMENTAL
INFORMATION**

Town of Manhattan, Gallatin County, Montana
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2014

	General			
	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL	AMOUNTS (BUDGETARY BASIS) See Note A	WITH FINAL BUDGET
RESOURCES (INFLOWS):				
Taxes and assessments	\$ 273,366	\$ 273,366	\$ 293,895	\$ 20,529
Licenses and permits	71,650	71,650	63,698	(7,952)
Intergovernmental	143,365	143,365	146,284	2,919
Miscellaneous	8,500	8,500	18,746	10,246
Investment earnings	1,110	1,110	1,046	(64)
Amounts available for appropriation	<u>\$ 497,991</u>	<u>\$ 497,991</u>	<u>\$ 523,669</u>	<u>\$ 25,678</u>
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
General government	\$ 113,905	\$ 113,905	\$ 116,668	\$ (2,763)
Public safety	325,116	325,116	307,357	17,759
Public works	36,851	36,851	39,927	(3,076)
Public health	100	100	66	34
Social and economic services	-	-	144	(144)
Culture and recreation	73,823	73,823	52,344	21,479
Total charges to appropriations	<u>\$ 549,795</u>	<u>\$ 549,795</u>	<u>\$ 516,506</u>	<u>\$ 33,289</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from the sale of general capital asset disposition	\$ -	\$ -	\$ 1,550	\$ 1,550
Transfers in	3,600	3,600	3,600	-
Transfers out	-	-	(25,000)	(25,000)
Total other financing sources (uses)	<u>\$ 3,600</u>	<u>\$ 3,600</u>	<u>\$ (19,850)</u>	<u>\$ (23,450)</u>
Net change in fund balance			<u>\$ (12,687)</u>	
Fund balance - beginning of the year			<u>\$ 260,991</u>	
Fund balance - end of the year			<u><u>\$ 248,304</u></u>	

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

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

**INDEPENDENT AUDITOR'S REPORT ON 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 Town Council
Town of Manhattan
Gallatin County
Manhattan, Montana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Town of Manhattan, Gallatin County, Montana, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town of Manhattan's basic financial statements and have issued our report thereon dated June 26, 2015.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described below to be material weaknesses as identified as item 2014-001 and 2014-002.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described below to be significant deficiencies as identified as items 2014-003 and 2014-004.

2014-001 Financial Reporting

Condition:

The Town of Manhattan failed to record the revenues received from Pioneer Crossing in the Application Fee fund in the amount of \$63,731 respectively. The Town also failed to eliminate transfers within the Water fund in the amount of \$38,423. We also discovered that the Town had not recorded land on their books when it had been purchased in a prior year. In the water fund, we also noted that a portion of the generator purchase had not been capitalized but instead expensed and that the depreciation was understated.

Context:

When examining changes in fund balance, it was noted that the Application Fee fund's deficit fund balance had been eliminated. When looking at how it had been eliminated, it was noted that the Town failed to record the revenue side of the receipt and instead credited fund balance directly, thus understating revenues. An audit adjustment was made to correct this material error.

The Water funds is broken into 5 funds for tracking purposes within their accounting system but are combined into one fund for financial reporting purposes. When scheduling out transfers it was discovered that the transfers within the Water Funds were not eliminated in the financial statement thus overstating transfers in and transfers out by \$38,423. This was corrected for financial reporting purposes

In reviewing the Town's Council Minutes and in reviewing the fiscal year 2014 revenues, it was discovered that the Town had sold land in the amount of \$67,509 respectively that was not listed on their capital asset schedule and had classified the revenues as miscellaneous instead of proceeds from the sale of capital assets. This amount was material to the financial statements and was corrected for reporting purposes.

In the water fund, we also noted that a portion of the generator purchase had not been capitalized but instead expensed in the amount of \$17,304, respectively; and that the depreciation was understated by \$20,856, respectively

Criteria:

Generally Accepted Accounting Principles indicates revenues should be recognized as they are received, transfers within the same fund for financial reporting purposes should be eliminated, capital assets should be recorded in the year purchased for the full amount, and depreciation should tie to the capital asset schedule so that the net for financial reporting purposes is correct.

Effect:

Revenues before the audit adjustment were understated by \$63,731 respectively. Transfers in and transfers out in the Water fund were overstated by \$38,423. Capital Assets in prior years had been understated by \$67,509 respectively and revenues on the Statement of Activities had been overstated in the Current year by \$67,509 respectively in the Governmental government wide financial statements, and Capital assets, net of depreciation in the Water fund had been overstated by \$3,252 and expenditures had been understated by a net amount of 3,252, respectively.

Cause:

The Town incorrectly credited directly to fund balance instead of the revenue account. When preparing the financial statements and combining the 5 Water Funds into one fund the transfers between the Water Funds were not eliminated and the Town failed to record the original purchase of the land in their depreciation schedule. The Town also failed to properly record the full amount of the generator as a capital asset and did not properly record the full amount of depreciation as shown on the capital asset schedule.

Recommendation:

The Town should be sure to correctly record revenues as they are receipted in and not directly to fund balance. The Town should also be sure to eliminate transfers with in the Water Funds for reporting purposes on the financial statements and Record all capital asset purchases in the year they are purchased. The Town should be sure to record the full amount of a capital asset purchase as a capital asset and should be sure to tie the depreciation as reported to the capital asset schedule.

Auditee Response:

The Town will evaluate revenues and the use of transfers more closely so that they will be correctly recorded.

The Town will record the land in its fixed assets.

2014-002 Revenue Coding Errors**Condition:**

A comparison was made of audited revenue coding to the Statement of Activities and it was noted that there were material classification errors made on the Statement of Activities for the Governmental revenues and a small error for the Proprietary revenues

Context:

When comparing audited revenue coding to the Statement of Activities, the following errors were noted:

<u>Governmental</u>			
	<u>Per Audit</u>	<u>Per Client</u>	<u>Difference</u>
Charges for Services:			
General Government	88,022	90,550	2,528
Public Safety	3,750	3,936	186
Public Works	110,795	68,880	(41,915)
Public Health	-	2,590	2,590
Conservation of Natural Resources	-	36,797	36,797
Operating Grants & Contributions			
Public Works	38,056	37,870	(186)

Criteria:

GASB #34 establishes reporting requirements for the Statement of Activities. Furthermore, GASB 34 states, "The government-wide statement of activities should be presented in a format that reports expenses reduced by program revenues, resulting in a measurement of "net (expense) revenue" for each of the government's functions. Program expenses should include all direct expenses.

Effect:

Revenues are classified incorrectly on the Statement of Activities and because of such, the measurement of net (expense) revenue for each of these government functions is incorrect.

Cause:

In preparation of the financial statements, revenues were coded incorrectly.

Recommendation:

Revenues should be properly coded the proper program and function based on how the revenues were expended.

Auditee Response:**2014-003 Fund Balance Classification and Statement of Net Position Restrictions****Condition:**

When scheduling out the ending fund balances to tie to the fund Balance Sheet and the restrictions per the Statement of Net Position there were notable differences in the classifications of the Client's financial statements. These were corrected for financial reporting purposes since they were material classification errors.

Context:

When scheduling out the fund balances and the restricted or committed portion of the special revenue funds and capital projects funds, the following errors were noted:

<u>Fund Balance Sheet</u>			
	<u>Per Audit</u>	<u>Per Client</u>	<u>Difference</u>
Restricted	\$ 158,949	\$ 163,402	\$ (4,453)
Committed	197,288		197,288
Assigned	-	192,835	(192,835)
Unassigned	248,304	248,304	-
Total	\$ 604,541	\$ 604,541	\$ -

<u>Statement of Net Position</u>			
	<u>Per Audit</u>	<u>Per Client</u>	<u>Difference</u>
General Government	\$ 205,078	\$ 12,944	\$ 192,134
Public Safety	87,474	82,696	4,778
Public Works	25,762	11,234	14,528
Culture & Recreation	13,697	13,698	(1)
Capital Projects	32,375	31,672	703
Total Restricted	\$ 364,386	\$ 152,244	\$ 212,142

Criteria:

GASB #34 and #54 establishes fund balance and net position reporting requirements.

Effect:

The fund balances and the statement of position had classification issues that would have resulted in material errors. They were corrected for this audit report.

Cause:

Town was unfamiliar with fund and statement of net position classification requirements

Recommendation:

The Town should be sure to properly classify fund balances and net position for financial reporting purposes.

Auditee Response:

The Town will review GASB #54 and #34 for clarification on how to properly classify fund balances and net position.

2014-004 Compensated Absences**Condition:**

The compensated absences as displayed in the annual financial report submitted by the client for the audit did not agree with the clients subsidiary schedule of compensated absences as also provided for the audit.

Context:

When scheduling long term debt and tying to the financial statements as present by the client, it was found that the compensated absences liabilities in the Government wide financial statements as well as the Water and the Sewer Fund financial statements did not balance to the subsidiary ledger for compensated absences by the following amounts:

Governmental: \$9,363

Proprietary: \$4,025

Water: \$510

Sewer: \$3,515

Furthermore, the current and noncurrent portions were also incorrect. The audit report, however, has been updated to correct these errors.

Criteria:

Generally accepted accounting principles indicates that subsidiary ledgers to reconcile to the accounting system and financial statements.

Effect:

The compensated absences liabilities, prior to the audit adjustment were understated.

Cause:

The financial statements were not tied to the subsidiary ledgers.

Recommendation:

The Town should be sure that the financial statements tie to the subsidiary ledgers.

Auditee Response:

The error in the compensated absences has been noted by the Town. This will be checked more closely in the next year for accuracy.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Manhattan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards* and which are described below as item 2014-005.

2015-002 Taxes Levied**Condition:**

For the fiscal years ending June 30, 2013 and 2014 the Town levied mills in excess of those allowed.

Context:

In the prior year the client over levied taxes which resulted in a finding. In the current year, the Town should have reduced the mill levy by \$2,188 to account for the amount over levied in the prior year. We tested the current year levy and found that the Town over levied a minor amount of \$45, respectively. The Town, however, did not reduce the levy in the current year to make up for the prior year over levy of \$2,188. The total over levy is \$2,233.

Criteria:

MCA 15-10-420 defines the number of mills the Town is allowed to levy.

Effect:

The following is the mills and amounts over levied:

	<u>Mills over levied</u>	<u>Dollars over levied</u>
Fiscal year 2013	0.88	\$ 2,188
Fiscal year 2014	0.02	<u>\$ 45</u>
Total		\$ 2,233

Cause:

The Town made a clerical error in the calculation of maximum mills levied in the prior year and did not reduce their levy in the current year to account for the error.

Recommendation:

We recommend the Town review the procedures for the calculation of maximum mill levies.

Auditee Response:

The Town will review the figures for 2015-16.

Town of Manhattan’s Response to Findings

Town of Manhattan’s response to the findings identified in our audit is described above. Town of Manhattan’s response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

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

June 26, 2015

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

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

REPORT ON PRIOR AUDIT REPORT RECOMMENDATIONS

Mayor and Town Council
Town of Manhattan
Gallatin County
Manhattan, Montana

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

<u>Recommendation</u>	<u>Action Taken</u>
Financial Reporting	Repeated
Incorrect Tax Levy	Repeated
Exceeding Budgetary Authority	Implemented

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

June 26, 2015