

CITY OF SIDNEY
RICHLAND COUNTY, MONTANA
Fiscal Year Ended June 30, 2014

AUDIT REPORT

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

CITY OF SIDNEY
RICHLAND COUNTY, MONTANA

Fiscal Year Ended June 30, 2014

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CITY OF SIDNEY

RICHLAND COUNTY, MONTANA

ORGANIZATION

Fiscal Year Ended June 30, 2014

Rick Norby

Mayor

CITY COUNCIL

Ken Koffler

Council Member

Bryan Gartner

Council Member

Dan Smith

Council Member

Debra Gilbert

Council Member

Tami Christensen

Council Member

Janet Sergent

Council Member

CITY OFFICIALS

Gerald Navratil

Attorney

Gregory Mohr

City Judge

Jessica Redfield

Clerk

Kelly Dey

Treasurer

Frank DiFonzo

Chief of Police

BreeAnn Sauber

Water Cashier

CITY OF SIDNEY
RICHLAND COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2014

This management discussion and analysis provides an overview of the City of Sidney's financial activities for the fiscal year ended June 30, 2014. Please review this information in conjunction with the financial statements.

FINANCIAL HIGHLIGHTS-PRIMARY GOVERNMENT

- Government-Wide Highlights

The assets of the City of Sidney exceeded its liabilities as of June 30, 2014 by \$28,420,183 compared to \$21,258,279 for the fiscal year ending June 30, 2013. The unrestricted amount of \$7,680,171 may be used to meet the government's general obligations.

- Fund Highlights

The City's government activity funds reported a total net position of \$10,141,242. Of this amount, \$2,109,368 is restricted, \$5,140,067 is the net investment in capital assets, and the unrestricted balance is \$2,891,807.

The City's business-type activity funds reported a net position of \$14,216,451. Of this amount, \$1,115,401 is restricted, \$8,312,686 is net investment in capital assets, and the unrestricted balance is \$4,788,364.

As of fiscal year 2014, the City's governmental funds reported combined fund balance of \$4,123,987 compared to \$4,550,681 in fiscal year 2013. Of that amount, \$2,031,810 was reported as unassigned fund balance, which is available to finance future appropriated expenditures. The restricted balance was \$1,652,591 and the remaining \$439,586 is reserved for specific purposes. The General Fund's unreserved fund balance increased in fiscal year 2014 to \$2,069,004 from \$1,143,225 in fiscal year 2013.

- Long-term Debt

The City's total bonds, notes payable, OPEB and compensated absences for governmental activities increased to \$2,101,448 from \$2,066,782 in fiscal year 2013.

Business type activities bonds, notes payable, OPEB and compensated absences reported total \$1,608,166 in fiscal year 2014, decreased from \$1,678,759 in fiscal year 2013.

OVERVIEW OF THE FINANCIAL STATEMENTS

The City of Sidney's basic financial statements include three components: 1. the government-wide financial statements, 2. fund financial statements, and 3. notes to the financial statements. The report also includes additional supplementary information.

CITY OF SIDNEY
RICHLAND COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2014

- **Government-wide Financial Statements**

The government-wide financial statements provide a broad view of the City's operations in a manner similar to a private-sector business. The statements include two statements. The *Statement of Net Assets* presents all of the government's assets and liabilities. The difference between the assets and liabilities is reported as "net assets". Over time, increases or decreases may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. The *Statement of Activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave).

The two above financial statements have separate sections for the two different types of city activities as follows:

- **Governmental Activities** – The activities in this section are mostly supported by taxes and intergovernmental revenues. Services reported here include, but are not limited to, general government (legislative, accounting and legal), public safety (law enforcement and fire), public works (streets and roads), and culture and recreation (parks).
- **Business-type Activities** – These functions are normally intended to recover all or a significant portion of their costs through user fees and charges. The major business-type activities of the City include water, sewer, and solid waste.

The City of Sidney does not have any component units.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The City's funds can be divided into three categories as follows:

- **Governmental Funds** – Governmental funds are to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources. This is known as the modified accrual basis of accounting. Revenues should be recognized in the accounting period in which they become available and measurable. Expenditures should be recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on long-term debt, which should be recognized when due. They also focus on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the government's near-term financing requirements.

CITY OF SIDNEY
RICHLAND COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2014

The City's three major funds for reporting purposes for fiscal year 2014 are the General Fund, SID #102 Debt Service Fund, and SID#104 Debt Service Fund.

- Propriety Funds – The City charges customers for the services it provides. The three major services the City of Sidney provides are for water, sewer, and solid waste. Propriety funds utilize the accrual accounting. Revenues are recorded when earned and expenses are recorded at the time the liability is incurred, regardless of when the related cash flows take place.
- Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside state government. They are not included in the financial statements as the City is not allowed to use these funds to finance its operations.

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.

Required Supplementary Information

Presented in this section of the Annual Financial Summary submitted to the State are the combined statements of non-major funds, cash receipts and disbursements, and the cash reconciliation.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position.

City of Sidney, Richland County, Montana
MD & A Comparisons
June 30, 2014

Table 1 - Net Position

	Governmental Activities			Business-type Activities		
	FY14	FY13	Change	FY14	FY13	Change
			Inc (Dec)			Inc (Dec)
Current and other assets	\$ 5,916,288	\$ 4,548,953	\$ 1,367,335	\$ 6,379,214	\$ 4,855,627	\$ 1,523,587
Capital assets	6,512,603	6,553,267	(40,664)	9,612,078	9,045,778	566,300
Total assets	\$ 12,428,891	\$ 11,102,220	\$ 1,326,671	\$ 15,991,292	\$ 13,901,405	\$ 2,089,887
Long-term debt outstanding	\$ 2,101,448	\$ 2,066,782	\$ 34,666	\$ 1,608,166	\$ 1,644,112	\$ (35,946)
Other liabilities	186,201	-	186,201	132,223	34,452	97,771
Total liabilities	\$ 2,287,649	\$ 2,066,782	\$ 220,867	\$ 1,740,389	\$ 1,678,564	\$ 61,825
Net investment in capital assets	\$ 5,140,067	\$ 5,084,303	\$ 55,764	\$ 8,312,686	\$ 7,652,378	\$ 660,308
Restricted	2,109,368	3,992,185	(1,882,817)	1,115,401	2,373,072	(1,257,671)
Unrestricted (deficit)	2,891,807	(41,050)	2,932,857	4,788,364	2,197,391	2,590,973
Total net position	\$ 10,141,242	\$ 9,035,438	\$ 1,105,804	\$ 14,216,451	\$ 12,222,841	\$ 1,993,610

Table 2 - Changes in Net Position

	Governmental Activities			Business-type Activities		
	FY14	FY13	Change	FY14	FY13	Change
			Inc (Dec)			Inc (Dec)
Revenues						
<i>Program revenues (by major source):</i>						
Charges for services	\$ 804,928	\$ 768,604	\$ 36,324	\$ 3,207,164	\$ 2,910,585	\$ 296,579
Operating grants and contributions	120,359	11,689	108,670	-	-	-
Capital grants and contributions	451,173	173,725	277,448	15,150	45,226	(30,076)
<i>General revenues (by major source):</i>						
Property taxes for general purposes	970,162	762,565	207,597	513,232	-	513,232
Licenses and permits	372,095	91,277	280,818	-	-	-
Unrestricted Federal/State Shared Revenues	-	1,673,907	(1,673,907)	-	-	-
State Entitlement Share	728,232	-	728,232	-	-	-
Oil and Gas Production Tax	1,259,445	-	1,259,445	-	-	-
Interest/investment earnings	16,070	21,455	(5,385)	937	16,221	(15,284)
Miscellaneous	99,675	72,441	27,234	51,314	9,249	42,065
Oil Royalties	10,510	-	10,510	-	-	-
Total revenues	\$ 4,832,649	\$ 3,575,663	\$ 1,256,986	\$ 3,787,797	\$ 2,981,281	\$ 806,516
Program expenses						
General government	\$ 660,872	\$ 490,574	\$ 170,298			
Public safety	1,564,441	1,266,894	297,547			
Public works	1,119,708	918,611	201,097			
Public health	3,657	1,190	2,467			
Culture and recreation	447,202	537,305	(90,103)			
Debt service - interest	65,387	74,673	(9,286)			
Water Utility				\$ 730,000	\$ 672,863	\$ 57,137
Sewer Utility				436,074	461,317	(25,243)
Solid Waste				396,061	413,965	(17,904)
Sweeping Operation				232,052	171,057	60,995
Total expenses	\$ 3,861,267	\$ 3,289,247	\$ 572,020	\$ 1,794,187	\$ 1,719,202	\$ 74,985
Excess (deficiency) before special items and transfers	\$ 971,382	\$ 286,416	\$ 684,966	\$ 1,993,610	\$ 1,262,079	\$ 731,531
Gain (loss) on sale of capital assets	(66,875)	4,103	(70,978)	-	-	-
Transfers - net	-	(20,000)	20,000	-	20,000	(20,000)
Increase (decrease) in net position	\$ 904,507	\$ 270,519	\$ 633,988	\$ 1,993,610	\$ 1,282,079	\$ 711,531

CITY OF SIDNEY
 RICHLAND COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
 Fiscal Year Ended June 30, 2014

FINANCIAL ANALYSIS OF THE CITY'S GOVERNMENT'S FUNDS

At the 2013 fiscal year end, the City of Sidney reported fund balances for the governmental funds of \$4,123,987. Of that amount, \$1,652,591 is listed as restricted and \$439,586 is listed as committed, which means that it is dedicated for a specific future use. The balance of \$2,031,810 is reported as unreserved and is therefore available for financing future appropriated expenditures.

General Fund

The General Fund is the chief operating fund of the City. The revenue is generated primarily from property taxes, licenses and permits, intergovernmental (state entitlements and court allocations), swimming pool user fees, and investment earnings. This fund maintains the overall functions of the governmental unit.

Beginning Fund Balance	Revenue & Other	Expenditures & Other	Ending Fund Balance
\$1,143,225	\$4,085,287	\$3,159,508	\$2,069,004

Revenues and expenditures were up considerably from last year due to the influx of people contributing to the retrieval of oil in the Bakken Oil Formation. While more building permits and other revenues were realized, more stress on infrastructure increased expenditures exponentially.

Special Revenue funds

The majority of the revenue in these funds is from local property taxes, assessments, or shared revenue from another government.

The Oil/Gas Severance Funds is one of the city's major funds. Net Oil revenue increased \$269,686 in fiscal year 2014. The majority of oil revenue was used for the following:

- Phase 1 of New Lagoon System
- Water Main installation
- General government-Library/PERS/Employer Health Insurance/Employee Stipends
- City Planner Services
- Contributions to Organizations
- Recreational and Cultural Conditions
- Police and Fire
- Curb and Sidewalk
- SID #104

Debt Service Funds

The City of Sidney has set up separate debt service for each bond. The purpose of each of these funds is to account for the payment of principal and interest on bonded debt.

Debt service funds related to special improvement districts include SID 101A, SID 102, SID 103, and SID 104. Of these debt service funds, SID 102 and SID 104 are major funds for fiscal year 2014.

CITY OF SIDNEY
RICHLAND COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2014

Capital Projects Funds

These funds are used to acquire or construct capital facilities.

Enterprise Funds

The Enterprise Funds are used to account for self-supporting activities of the City. These funds are primarily financed from user charges. The City of Sidney has four enterprise funds:

- Water – Major Fund
- Sewer – Major Fund
- Solid Waste- Major Fund
- Sweeping

There were no major increases in rates for any of these accounts in fiscal year 2014.

The City of Sidney has no Internal Service Funds or Permanent Funds.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets includes land, buildings, improvements other than buildings, machinery and equipment, infrastructure (roads, lighting systems, curb, gutters, etc.), source of supply, treatment plant, general plant and land which is not depreciable. Only assets with a cost of \$5,000 or more are capitalized. Total capital assets decreased by \$40,664 for governmental activities and increased by \$566,300 for business type activities during fiscal year 2014.

Debt Administration

Long term debt increased \$34,666 from fiscal year 2013 to fiscal year 2014 for governmental activities but decreased \$35,946 for business type activities during the same time period.

ECONOMIC CONDITION AND OUTLOOK

The City of Sidney is still enjoying a good financial position as a result of the Bakken Oil Play. New construction of multi and single family dwellings and commercial growth is steady. The City is continuing with its timeline for infrastructure replacement, specifically the new lagoon and the upkeep on existing and newly created city streets. The City has replaced and/or added vehicles and equipment as needed.

Looking to the future, the plans include completing the lagoon replacement, adding a water treatment plant, replacing aged equipment, purchasing solid waste and road equipment, and budgeting for additional staff that will be needed for the expanding services provided by the City.

There were 162.6 mills authorized for the City levy for fiscal year 2014. In addition, 40 carryover mills from previous years were used for a total of 202.6 mills levied for fiscal year 2014. The reason for using the carry over mills was to increase the general fund's revenue, which was needed to accommodate increased expenditures in all aspects of governmental operations.

CITY OF SIDNEY
RICHLAND COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2014

REQUESTS FOR INFORMATION

The financial report is designed to provide a general overview of the City of Sidney's finances for all those with an interest in the government's finances and to demonstrate the City of Sidney's accountability for the money it receives. If you have any questions about this report or need additional information, please contact the City of Sidney, 115 2nd St. SE, Sidney, MT 59270.

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

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

INDEPENDENT AUDITOR'S REPORT

Mayor and City Council
City of Sidney
Richland County
Sidney, Montana

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedule of funding for other post employment benefits other than pensions on pages 2 through 8, 42 through 43, and 44 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 August 25, 2015, on our consideration of the City of Sidney, Richland County, Montana's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Sidney, Richland County, Montana's internal control over financial reporting and compliance.

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

August 25, 2015

City of Sidney, Richland County, Montana
Statement of Net Position
June 30, 2014

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and investments	\$ 4,139,769	\$ 4,965,682	\$ 9,105,451
Taxes and assessments receivable, net	105,910	-	105,910
Special assessments receivable	1,481,808	5,003	1,486,811
Accounts receivable - net	-	258,676	258,676
Capital credits	16,632	34,452	51,084
Total current assets	<u>\$ 5,744,119</u>	<u>\$ 5,263,813</u>	<u>\$ 11,007,932</u>
Noncurrent assets			
Restricted cash and investments	\$ 172,169	\$ 1,115,401	\$ 1,287,570
Capital assets - land	303,777	22,189	325,966
Capital assets - construction in progress	324,857	1,004,877	1,329,734
Capital assets - depreciable, net	5,883,969	8,585,012	14,468,981
Total noncurrent assets	<u>\$ 6,684,772</u>	<u>\$ 10,727,479</u>	<u>\$ 17,412,251</u>
Total assets	<u>\$ 12,428,891</u>	<u>\$ 15,991,292</u>	<u>\$ 28,420,183</u>
LIABILITIES			
Current liabilities			
Accounts payable	\$ 175,669	\$ 121,421	\$ 297,090
Due to other governments	10,532	-	10,532
Revenues collected in advance	-	10,802	10,802
Current portion of long-term capital liabilities	114,324	94,596	208,920
Current portion of compensated absences payable	125,011	46,718	171,729
Total current liabilities	<u>\$ 425,536</u>	<u>\$ 273,537</u>	<u>\$ 699,073</u>
Noncurrent liabilities			
Noncurrent portion of long-term liabilities - OPEB	\$ 515,840	\$ 231,755	\$ 747,595
Noncurrent portion of long-term capital liabilities	1,258,212	1,204,796	2,463,008
Noncurrent portion of compensated absences	88,061	30,301	118,362
Total noncurrent liabilities	<u>\$ 1,862,113</u>	<u>\$ 1,466,852</u>	<u>\$ 3,328,965</u>
Total liabilities	<u>\$ 2,287,649</u>	<u>\$ 1,740,389</u>	<u>\$ 4,028,038</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred capital credits	<u>\$ -</u>	<u>\$ 34,452</u>	<u>\$ 34,452</u>
NET POSITION			
Net investment in capital assets	\$ 5,140,067	\$ 8,312,686	\$ 13,452,753
Restricted for capital projects	439,586	45,204	484,790
Restricted for debt service	442,723	2,511	445,234
Restricted for special projects	1,227,059	-	1,227,059
Restricted for public works	-	1,067,686	1,067,686
Unrestricted	2,891,807	4,788,364	7,680,171
Total net position	<u>\$ 10,141,242</u>	<u>\$ 14,216,451</u>	<u>\$ 24,357,693</u>

See accompanying Notes to the Financial Statements

City of Sidney, Richland County, Montana
Statement of Activities
For the Fiscal Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business- type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 660,872	\$ 175,866	\$ -	\$ -	\$ (485,006)	\$ -	\$ (485,006)
Public safety	1,564,441	209,361	7,596	-	(1,347,484)	-	(1,347,484)
Public works	1,119,708	14,806	112,763	750	(991,389)	-	(991,389)
Public health	3,657	-	-	-	(3,657)	-	(3,657)
Culture and recreation	447,202	39,627	-	450,423	42,848	-	42,848
Debt service - principal	-	97,931	-	-	97,931	-	97,931
Debt service - interest	65,387	54,798	-	-	(10,589)	-	(10,589)
Miscellaneous	-	212,539	-	-	212,539	-	212,539
Total governmental activities	\$ <u>3,861,267</u>	\$ <u>804,928</u>	\$ <u>120,359</u>	\$ <u>451,173</u>	\$ <u>(2,484,807)</u>	\$ <u>-</u>	\$ <u>(2,484,807)</u>
Business-type activities:							
Water Utility	\$ 730,000	\$ 1,640,696	\$ -	\$ -	-	910,696	910,696
Sewer Utility	436,074	1,540,646	-	15,000	-	1,119,572	1,119,572
Solid Waste	396,061	25,822	-	150	-	(370,089)	(370,089)
Sweeping Operation	232,052	-	-	-	-	(232,052)	(232,052)
Total business-type activities	\$ <u>1,794,187</u>	\$ <u>3,207,164</u>	\$ <u>-</u>	\$ <u>15,150</u>	\$ <u>-</u>	\$ <u>1,428,127</u>	\$ <u>1,428,127</u>
Total primary government	\$ <u>5,655,454</u>	\$ <u>4,012,092</u>	\$ <u>120,359</u>	\$ <u>466,323</u>	\$ <u>(2,484,807)</u>	\$ <u>1,428,127</u>	\$ <u>(1,056,680)</u>
General Revenues:							
Property taxes for general purposes					\$ 970,162	\$ 513,232	\$ 1,483,394
Licenses and permits					372,095	-	372,095
State Entitlement Share					728,232	-	728,232
Oil and Gas Production Tax					1,259,445	-	1,259,445
Interest/investment earnings					16,070	937	17,007
Miscellaneous					99,675	51,314	150,989
Oil Royalties					10,510	-	10,510
Gain (loss) on sale of capital assets					(66,875)	-	(66,875)
Total general revenues, special items and transfers					\$ <u>3,389,314</u>	\$ <u>565,483</u>	\$ <u>3,954,797</u>
Change in net position					\$ <u>904,507</u>	\$ <u>1,993,610</u>	\$ <u>2,898,117</u>
Net position - beginning					\$ 9,035,438	\$ 12,222,841	\$ 21,258,279
Restatements					201,297	-	201,297
Net position - beginning - restated					\$ <u>9,236,735</u>	\$ <u>12,222,841</u>	\$ <u>21,459,576</u>
Net position - end					\$ <u>10,141,242</u>	\$ <u>14,216,451</u>	\$ <u>24,357,693</u>

See accompanying Notes to the Financial Statements

City of Sidney, Richland County, Montana
Balance Sheet
Governmental Funds
June 30, 2014

	General	SID #102	SID #104	Other Governmental Funds	Total Governmental Funds
ASSETS					
Current assets:					
Cash and investments	\$ 2,210,557	\$ 57,738	\$ (9,925)	\$ 1,881,399	\$ 4,139,769
Taxes and assessments receivable, net	88,719	-	-	17,191	105,910
Special assessments receivable	-	577,159	548,814	355,835	1,481,808
Due from other funds	-	-	-	1,728	1,728
Capital credits	16,632	-	-	-	16,632
Total current assets	<u>\$ 2,315,908</u>	<u>\$ 634,897</u>	<u>\$ 538,889</u>	<u>\$ 2,256,153</u>	<u>\$ 5,745,847</u>
Noncurrent assets:					
Restricted cash and investments	\$ -	\$ -	\$ -	\$ 172,169	\$ 172,169
Total noncurrent assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 172,169</u>	<u>\$ 172,169</u>
Total assets	<u>\$ 2,315,908</u>	<u>\$ 634,897</u>	<u>\$ 538,889</u>	<u>\$ 2,428,322</u>	<u>\$ 5,918,016</u>
Current liabilities:					
Accounts payable	\$ 139,803	\$ -	\$ -	\$ 35,866	\$ 175,669
Due to other funds	-	-	-	1,728	1,728
Due to other governments	-	-	-	10,532	10,532
Total liabilities	<u>\$ 139,803</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 48,126</u>	<u>\$ 187,929</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows of resources	\$ 88,719	\$ -	\$ -	\$ 17,191	\$ 105,910
Deferred special assessments	1,750	577,159	548,814	355,835	1,483,558
Deferred capital credits	16,632	-	-	-	16,632
Total deferred inflows of resources	<u>\$ 107,101</u>	<u>\$ 577,159</u>	<u>\$ 548,814</u>	<u>\$ 373,026</u>	<u>\$ 1,606,100</u>
FUND BALANCES					
Restricted	\$ -	\$ 57,738	\$ -	\$ 1,594,853	\$ 1,652,591
Committed	-	-	-	439,586	439,586
Unassigned fund balance	2,069,004	-	(9,925)	(27,269)	2,031,810
Total fund balance	<u>\$ 2,069,004</u>	<u>\$ 57,738</u>	<u>\$ (9,925)</u>	<u>\$ 2,007,170</u>	<u>\$ 4,123,987</u>

See accompanying Notes to the Financial Statements

City of Sidney, Richland County, Montana
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Position
June 30, 2014

Total fund balances - governmental funds	\$	4,123,987
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		6,512,603
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.		(33,709)
Special assessments will be collected this year, but are not available soon enough to pay for the current period's expenditures, and are therefore deferred in the funds.		83,325
Capital credits accumulated but not received are deferred in the funds.		(1,420)
Total net position - governmental activities	\$	<u><u>10,684,786</u></u>

See accompanying Notes to the Financial Statements

City of Sidney, Richland 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>SID #102</u>	<u>SID #104</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES					
Taxes and assessments	\$ 884,670	\$ 62,628	\$ 42,036	\$ 394,238	\$ 1,383,572
Licenses and permits	271,569	-	-	-	271,569
Intergovernmental	2,089,550	-	-	120,359	2,209,909
Charges for services	63,280	-	-	167,069	230,349
Fines and forfeitures	200,598	-	-	8,713	209,311
Miscellaneous	549,556	-	-	-	549,556
Investment earnings	24,776	15	1	1,787	26,579
Total revenues	<u>\$ 4,083,999</u>	<u>\$ 62,643</u>	<u>\$ 42,037</u>	<u>\$ 692,166</u>	<u>\$ 4,880,845</u>
EXPENDITURES					
General government	\$ 474,948	\$ -	\$ -	\$ 50,618	\$ 525,566
Public safety	1,267,695	-	-	202,027	1,469,722
Public works	481,596	-	-	348,201	829,797
Public health	3,657	-	-	-	3,657
Culture and recreation	185,410	-	-	144,846	330,256
Debt service - principal	-	53,269	25,615	17,544	96,428
Debt service - interest	-	26,743	26,379	12,265	65,387
Capital outlay	358,541	-	-	173,458	531,999
Total expenditures	<u>\$ 2,771,847</u>	<u>\$ 80,012</u>	<u>\$ 51,994</u>	<u>\$ 948,959</u>	<u>\$ 3,852,812</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 1,312,152</u>	<u>\$ (17,369)</u>	<u>\$ (9,957)</u>	<u>\$ (256,793)</u>	<u>\$ 1,028,033</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	\$ 1,288	\$ 53,573	\$ -	\$ 391,730	\$ 446,591
Transfers out	(387,661)	-	-	(58,930)	(446,591)
Total other financing sources (uses)	<u>\$ (386,373)</u>	<u>\$ 53,573</u>	<u>\$ -</u>	<u>\$ 332,800</u>	<u>\$ -</u>
Net Change in Fund Balance	<u>\$ 925,779</u>	<u>\$ 36,204</u>	<u>\$ (9,957)</u>	<u>\$ 76,007</u>	<u>\$ 1,028,033</u>
Fund balances - beginning	\$ 1,143,225	\$ 21,534	\$ 32	\$ 1,729,866	\$ 2,894,657
Restatements	-	-	-	201,297	201,297
Fund balances - beginning, restated	<u>\$ 1,143,225</u>	<u>\$ 21,534</u>	<u>\$ 32</u>	<u>\$ 1,931,163</u>	<u>\$ 3,095,954</u>
Fund balance - ending	<u>\$ 2,069,004</u>	<u>\$ 57,738</u>	<u>\$ (9,925)</u>	<u>\$ 2,007,170</u>	<u>\$ 4,123,987</u>

See accompanying Notes to the Financial Statements

City of Sidney, Richland 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 \$ 1,028,033

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	531,999
- Depreciation expense	(505,788)

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:

- Gain on the sale of capital assets	(66,875)
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Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:

- Long-term receivables (deferred revenue)	(48,196)
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The change in compensated absences is shown as an expense in the Statement of Activities

(27,926)

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

- Long-term debt principal payments	96,428
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Termination benefits are shown as an expense in the Statement of Activities and not reported on the Statement of Revenues, Expenditures and Changes in Fund Balance:

- Termination benefits, end of the year	(103,168)
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Change in net position - Statement of Activities \$ 904,507

See accompanying Notes to the Financial Statements

City of Sidney, Richland County, Montana
Statement of Net Position
Proprietary Funds
June 30, 2014

Business-Type Activities - Enterprise Funds

	<u>Water Utility</u>	<u>Sewer Utility</u>	<u>Solid Waste</u>	<u>Non-major Enterprise</u>	<u>Totals</u>
ASSETS					
Current assets:					
Cash and investments	\$ 1,847,866	\$ 1,714,401	\$ 886,644	\$ 516,771	\$ 4,965,682
Special assessments receivable	-	-	4,118	885	5,003
Accounts receivable - net	97,911	160,765	-	-	258,676
Capital credits	22,968	11,484	-	-	34,452
Total current assets	<u>\$ 1,968,745</u>	<u>\$ 1,886,650</u>	<u>\$ 890,762</u>	<u>\$ 517,656</u>	<u>\$ 5,263,813</u>
Noncurrent assets:					
Restricted cash and investments	\$ 503,861	\$ 611,540	\$ -	\$ -	\$ 1,115,401
Capital assets - land	-	-	18,239	3,950	22,189
Capital assets - construction in progress	593,699	411,178	-	-	1,004,877
Capital assets - depreciable, net	4,371,750	3,835,110	287,961	90,191	8,585,012
Total noncurrent assets	<u>\$ 5,469,310</u>	<u>\$ 4,857,828</u>	<u>\$ 306,200</u>	<u>\$ 94,141</u>	<u>\$ 10,727,479</u>
Total assets	<u>\$ 7,438,055</u>	<u>\$ 6,744,478</u>	<u>\$ 1,196,962</u>	<u>\$ 611,797</u>	<u>\$ 15,991,292</u>
LIABILITIES					
Current liabilities:					
Accounts payable	\$ -	\$ 121,421	\$ -	\$ -	\$ 121,421
Revenues collected in advance	4,088	6,714	-	-	10,802
Current portion of long-term capital liabilities	94,596	-	-	-	94,596
Current portion of compensated absences payable	12,934	19,881	7,641	6,262	46,718
Total current liabilities	<u>\$ 111,618</u>	<u>\$ 148,016</u>	<u>\$ 7,641</u>	<u>\$ 6,262</u>	<u>\$ 273,537</u>
Noncurrent liabilities:					
Noncurrent portion of long-term liabilities - OPEB	\$ 74,760	\$ 67,285	\$ 89,710	\$ -	\$ 231,755
Noncurrent portion of long-term capital liabilities	1,204,796	-	-	-	1,204,796
Noncurrent portion of compensated absences	11,190	8,463	6,068	4,580	30,301
Total noncurrent liabilities	<u>\$ 1,290,746</u>	<u>\$ 75,748</u>	<u>\$ 95,778</u>	<u>\$ 4,580</u>	<u>\$ 1,466,852</u>
Total liabilities	<u>\$ 1,402,364</u>	<u>\$ 223,764</u>	<u>\$ 103,419</u>	<u>\$ 10,842</u>	<u>\$ 1,740,389</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred capital credits	\$ 22,968	\$ 11,484	\$ -	\$ -	\$ 34,452
NET POSITION					
Net investment in capital assets	\$ 3,666,057	\$ 4,246,288	\$ 306,200	\$ 94,141	\$ 8,312,686
Restricted for capital projects	45,204	-	-	-	45,204
Restricted for debt service	2,511	-	-	-	2,511
Restricted for Public Works	456,146	611,540	-	-	1,067,686
Unrestricted	1,842,805	1,651,402	787,343	506,814	4,788,364
Total net position	<u>\$ 6,012,723</u>	<u>\$ 6,509,230</u>	<u>\$ 1,093,543</u>	<u>\$ 600,955</u>	<u>\$ 14,216,451</u>
Total liabilities and net position	<u>\$ 7,415,087</u>	<u>\$ 6,732,994</u>	<u>\$ 1,196,962</u>	<u>\$ 611,797</u>	<u>\$ 15,956,840</u>

See accompanying Notes to the Financial Statements

City of Sidney, Richland 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 Utility	Sewer Utility	Solid Waste	Non-major Enterprise	Totals
OPERATING REVENUES					
Charges for services	\$ 1,640,171	\$ 1,540,646	\$ 25,822	\$ 80,299	\$ 3,286,938
Miscellaneous revenues	1,508	34,228	16,103	273	52,112
Total operating revenues	<u>\$ 1,641,679</u>	<u>\$ 1,574,874</u>	<u>\$ 41,925</u>	<u>\$ 80,572</u>	<u>\$ 3,339,050</u>
OPERATING EXPENSES					
Personal services	\$ 208,740	\$ 166,831	\$ 246,421	\$ 184,266	\$ 806,258
Supplies	153,001	73,106	37,396	8,199	271,702
Purchased services	87,023	47,002	39,772	3,170	176,967
Fixed charges	9,909	12,826	7,385	2,697	32,817
Depreciation	233,672	136,309	65,087	33,720	468,788
Total operating expenses	<u>\$ 692,345</u>	<u>\$ 436,074</u>	<u>\$ 396,061</u>	<u>\$ 232,052</u>	<u>\$ 1,756,532</u>
Operating income (loss)	<u>\$ 949,334</u>	<u>\$ 1,138,800</u>	<u>\$ (354,136)</u>	<u>\$ (151,480)</u>	<u>\$ 1,582,518</u>
NON-OPERATING REVENUES (EXPENSES)					
Taxes/assessments revenue	\$ 7,895	\$ -	\$ 424,765	\$ -	\$ 432,660
Licenses/permits revenue	-	-	150	-	150
Intergovernmental revenue	-	15,000	-	-	15,000
Interest revenue	372	302	142	121	937
Debt service interest expense	(37,655)	-	-	-	(37,655)
Total non-operating revenues (expenses)	<u>\$ (29,388)</u>	<u>\$ 15,302</u>	<u>\$ 425,057</u>	<u>\$ 121</u>	<u>\$ 411,092</u>
Income (loss) before contributions and transfers	<u>\$ 919,946</u>	<u>\$ 1,154,102</u>	<u>\$ 70,921</u>	<u>\$ (151,359)</u>	<u>\$ 1,993,610</u>
Change in net position	<u>\$ 919,946</u>	<u>\$ 1,154,102</u>	<u>\$ 70,921</u>	<u>\$ (151,359)</u>	<u>\$ 1,993,610</u>
Net Position - Beginning of the year	\$ 5,092,777	\$ 5,355,128	\$ 1,022,622	\$ 752,314	\$ 12,222,841
Net Position - End of the year	<u>\$ 6,012,723</u>	<u>\$ 6,509,230</u>	<u>\$ 1,093,543</u>	<u>\$ 600,955</u>	<u>\$ 14,216,451</u>

See accompanying Notes to the Financial Statements

City of Sidney, Richland County, Montana
Combined Statement of Cash Flows
All Proprietary Fund Types
Fiscal Year Ended June 30, 2014

Business - Type Activities

	<u>Water</u>	<u>Sewer</u>	<u>Solid Waste</u>	<u>Sweeping</u>	<u>Totals</u>
Cash flows from operating activities:					
Cash received from providing services	\$ 1,640,518	\$ 1,448,095	\$ 27,012	\$ 80,299	\$ 3,195,924
Cash received from miscellaneous sources	1,508	34,228	16,103	273	52,112
Cash payments to suppliers	(153,001)	(73,106)	(37,396)	(8,199)	(271,702)
Cash payments for professional services	(96,932)	(59,828)	(47,157)	(5,867)	(209,784)
Cash payments to employees	(194,657)	(8,737)	(224,868)	(187,711)	(615,973)
Net cash provided (used) by operating activities	<u>\$ 1,197,436</u>	<u>\$ 1,340,652</u>	<u>\$ (266,306)</u>	<u>\$ (121,205)</u>	<u>\$ 2,150,577</u>
Cash flows from capital and related financing activities:					
Acquisition and construction of capital assets	\$ (593,699)	\$ (413,418)	\$ (27,971)	\$ -	\$ (1,035,088)
Principal paid on debt	(94,008)	-	-	-	(94,008)
Interest paid on debt	(37,655)	-	-	-	(37,655)
Net cash provided (used) by capital and related financing activities	<u>\$ (725,362)</u>	<u>\$ (413,418)</u>	<u>\$ (27,971)</u>	<u>\$ -</u>	<u>\$ (1,166,751)</u>
Cash flows from non-capital financing activities:					
Tax levies and contributions from the County	\$ 7,895	\$ -	\$ 448,041	\$ 4,119	\$ 460,055
Intergovernmental revenues	-	15,000	-	-	15,000
Net cash provided (used) from non-capital financing activities	<u>\$ 7,895</u>	<u>\$ 15,000</u>	<u>\$ 448,191</u>	<u>\$ 4,119</u>	<u>\$ 475,205</u>
Cash flows from investing activities:					
Interest on investments	\$ 372	\$ 302	\$ 142	\$ 121	\$ 937
Net cash provided (used) by investing activities	<u>\$ 372</u>	<u>\$ 302</u>	<u>\$ 142</u>	<u>\$ 121</u>	<u>\$ 937</u>
Net increase (decrease) in cash and cash equivalents	\$ 480,341	\$ 942,536	\$ 154,056	\$ (116,965)	\$ 1,459,968
Cash and cash equivalents at beginning	<u>1,871,386</u>	<u>1,383,405</u>	<u>732,588</u>	<u>633,736</u>	<u>4,621,115</u>
Cash and cash equivalents at end	<u>\$ 2,351,727</u>	<u>\$ 2,325,941</u>	<u>\$ 886,644</u>	<u>\$ 516,771</u>	<u>\$ 6,081,083</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	\$ 949,334	\$ 1,138,800	\$ (354,136)	\$ (151,480)	\$ 1,582,518
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation	233,672	136,309	65,087	33,720	468,788
Other post-employment benefits	14,952	13,457	17,942	-	46,351
Changes in assets and liabilities:					
Decrease (increase) in accounts receivable	347	(92,551)	1,190	-	(91,014)
(Decrease) increase in compensated absences	(4,957)	16,502	3,611	(3,445)	11,711
Increase in accounts payable		121,421	-	-	121,421
Increase in revenues collected in advance	4,088	6,714			
Net cash provided (used) by operating activities	<u>\$ 1,197,436</u>	<u>\$ 1,340,652</u>	<u>\$ (266,306)</u>	<u>\$ (121,205)</u>	<u>\$ 2,139,775</u>

See accompanying notes to the financial statements

City of Sidney, Richland County, Montana
Statement of Net Position
Fiduciary Funds
June 30, 2014

		<u>Private Purpose Trust Funds</u>		<u>Agency Funds</u>
ASSETS				
Cash and short-term investments	\$	76,056	\$	165,748
Total assets	\$	<u>76,056</u>	\$	<u>165,748</u>
LIABILITIES				
Warrants payable	\$	-	\$	176,924
Due to others		-		(11,176)
Total liabilities	\$	<u>-</u>	\$	<u>165,748</u>
NET POSITION				
Assets held in trust	\$	<u>76,056</u>		

See accompanying Notes to the Financial Statements

City of Sidney, Richland County, Montana
Statement of Changes in Net Position
Fiduciary Funds
For the Fiscal Year Ended June 30, 2014

		<u>Private Purpose Trust Funds</u>
ADDITIONS		
Investment earnings:		
Interest and change in fair value of investments	\$	<u>15</u>
Total additions	\$	<u>15</u>
DEDUCTIONS		
Other expenditures	\$	<u>1,642</u>
Total deductions	\$	<u>1,642</u>
Change in net position	\$	<u>(1,627)</u>
Net Position - Beginning of the year	\$	284,594
Restatements		<u>(206,911)</u>
Net Position - Beginning of the year - Restated	\$	<u>77,683</u>
Net Position - End of the year	\$	<u><u>76,056</u></u>

See accompanying Notes to the Financial Statements

CITY OF SIDNEY
RICHLAND COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Financial Reporting Entity

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

Primary Government

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

Basis of Presentation, Measurement Focus and Basis of Accounting.

Government-wide Financial Statements:

Basis of Presentation

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

CITY OF SIDNEY
RICHLAND COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

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

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

Measurement Focus and Basis of Accounting

Government-Wide Financial Statements

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

CITY OF SIDNEY
RICHLAND COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

Fund Financial Statements:

Basis of Presentation

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

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

Measurement Focus and Basis of Accounting

Governmental Funds

Modified Accrual

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

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

CITY OF SIDNEY
RICHLAND COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

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

Major Funds:

The City reports the following major governmental funds:

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

SID #102 – Hilltop/Hillside – This is a debt service fund that accounts for bond principal and interest payments related to Special Improvement District #102.

SID #104 – Wilkinson/Peterson – This is a debt service fund that accounts for bond principal and interest payments related to Special Improvement District #104.

Proprietary Funds:

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

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

Major Funds:

The City reports the following major proprietary funds:

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

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

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

Fiduciary Funds

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

Private-purpose Trust Funds – To report all other trust arrangements under which the principal and income benefit individuals, private organizations, or other governments.

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

NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash Composition

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

	<u>Primary Government</u>
<u>Cash on hand and deposits:</u>	
Cash in banks:	
Demand deposits	1,898,452
Savings deposits	172
<u>Investments:</u>	
State Short-Term Investment Pool (STIP)	10,467
Repurchase agreements	8,725,734
Total	\$ 10,634,825

Repurchase Agreements

An agreement in which a governmental entity (buyer-lender) transfers cash to a broker dealer or financial institution (seller-borrower); the broker-dealer or financial institution

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transfers securities to the entity and promises to repay the cash plus interest in exchange for the same securities.

Credit Risk

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

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

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

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

- (i) federal home loan bank;
- (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.

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

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

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

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

Custodial Credit Risk

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

<u>Depository Account</u>	June 30, 2014 <u>Balance</u>
Insured	\$ 250,172
- Collateral held by the pledging bank's trust department but not in the City's name.	1,647,333
Total deposits and investments	\$ <u><u>1,897,505</u></u>

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Deposit Security

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

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

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

NOTE 3. RESTRICTED CASH/INVESTMENTS

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

<u>Description</u>	<u>Amount</u>
Impact Fees	\$ 1,239,855
Debt Service	45,204
Replacement & Depreciation	<u>2,511</u>
	<u>\$ 1,287,570</u>

NOTE 4. RECEIVABLES

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

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

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

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

NOTE 5. INVENTORIES

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

NOTE 6. CAPITAL ASSETS

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

Buildings	30 – 50 years
Improvements	20 – 50 years
Equipment	5 – 50 years
Infrastructure	20 – 50 years

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

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

Governmental activities:

	Balance <u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2014</u>
Capital assets not being depreciated:				
Land	\$ 303,777	\$ -	\$ -	\$ 303,777
Construction in progress	18,256	306,601	-	324,857
Total capital assets not being depreciated	<u>\$ 322,033</u>	<u>\$ 306,601</u>	<u>\$ -</u>	<u>\$ 628,634</u>
Other capital assets:				
Buildings	\$ 406,566	\$ -	\$ -	\$ 406,566
Improvements other than buildings	2,981,184	10,595	-	2,991,779
Machinery and equipment	2,669,277	149,357	-	2,818,634
Infrastructure	10,648,599	65,446	-	10,714,045
Total other capital assets at historical cost	<u>\$ 16,705,626</u>	<u>\$ 225,398</u>	<u>\$ -</u>	<u>\$ 16,931,024</u>
Less: accumulated depreciation	\$ (10,474,392)	\$ (505,788)	\$ (66,875)	\$ (11,047,055)
Total	<u>\$ 6,553,267</u>	<u>\$ 26,211</u>	<u>\$ (66,875)</u>	<u>\$ 6,512,603</u>

Governmental activities depreciation expense was charged to functions as follows:

Governmental Activities:	
General government	\$ 4,212
Public safety	94,719
Public works	289,911
Culture and recreation	<u>116,946</u>
Total governmental activities depreciation expense	<u>\$ 505,788</u>

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

Business-type activities:

	Balance <u>July 1, 2013</u>	<u>Additions</u>	Balance <u>June 30, 2014</u>
Capital assets not being depreciated:			
Land	\$ 22,189	\$ -	\$ 22,189
Construction in progress	-	1,004,877	1,004,877
Total capital assets not being depreciated	<u>\$ 22,189</u>	<u>\$ 1,004,877</u>	<u>\$ 1,027,066</u>
Other capital assets:			
Buildings	\$ 18,203	\$ -	\$ 18,203
Improvements other than buildings	26,830	-	26,830
Machinery and equipment	1,288,569	27,970	1,316,539
Treatment plant	3,175,768	-	3,175,768
Source of supply	1,301,720	-	1,301,720
Transmission and distribution	9,206,974	-	9,206,974
General plant	<u>814,515</u>	<u>2,240</u>	<u>816,755</u>
Total other capital assets at historical cost	\$ 15,832,579	\$ 30,210	\$ 15,862,789
Less: accumulated depreciation	<u>\$ (6,808,989)</u>	<u>\$ (468,788)</u>	<u>\$ (7,277,777)</u>
Total	<u>\$ 9,045,779</u>	<u>\$ 566,299</u>	<u>\$ 9,612,078</u>

NOTE 7. LONG TERM DEBT OBLIGATIONS

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

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

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

Governmental Activities:

	Balance <u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2014</u>	Due Within <u>One Year</u>
Special assessment bond	\$ 1,468,964	\$ -	\$ (96,428)	\$ 1,372,536	\$ 114,324
Other post-employment benefits*	412,672	103,168	-	515,840	-
Total	<u>\$ 1,881,636</u>	<u>\$ 103,168</u>	<u>\$ (96,428)</u>	<u>\$ 1,888,376</u>	<u>\$ 114,324</u>

*See Note 8

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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	\$ 749,953	\$ -	\$ (13,578)	\$ 736,375	\$	14,166
Intercap loans	643,447	-	(80,430)	563,017		80,430
Other post-employment benefits*	185,404	46,351	-	231,755		-
Total	<u>\$ 1,578,804</u>	<u>\$ 46,351</u>	<u>\$ (94,008)</u>	<u>\$ 1,531,147</u>	\$	<u>94,596</u>

*See Note 8

Special Assessment Debt - Special assessment bonds are payable from the collection of special assessments levied against benefited property owners within defined special improvement districts. The bonds are issued with specific maturity dates, but must be called and repaid earlier, at par plus accrued interest, if the related special assessments are collected. Rural special improvement districts bonds were issued with revolving fund backing. The City is (or is not) obligated to levy and collect a general property tax on all taxable property in the Entity to provide additional funding for the debt service payments. The cash balance in the Revolving Fund must equal at least 5% of the principal amount of bonds outstanding. Special assessment bonds outstanding as of June 30, 2014 were as follows:

<u>Purpose</u>	<u>Origination Date</u>	<u>Interest Rate</u>	<u>Bond Term</u>	<u>Maturity Date</u>	<u>Bonds Amount</u>	<u>Annual Payment</u>	<u>Balance June 30, 2014</u>
SID 100	10/1/01	5.39%	18 yrs	7/1/20	\$ 250,000	Varies	\$ 80,000
SID 101A	9/1/04	2-5.5%	18 yrs	7/1/22	285,000	Varies	145,000
SID 102	4/1/07	4.49%	18 yrs	1/1/23	970,000	Varies	555,511
SID 103	10/1/08	4.65%	10 yrs	7/1/18	258,000	Varies	73,109
SID 104	9/21/10	4.90%	20 yrs	7/1/29	<u>665,000</u>	Varies	<u>518,916</u>
					<u>\$ 2,428,000</u>		<u>\$ 1,372,536</u>

Reported in governmental activities

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Annual requirement to amortize debt:

<u>For Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 113,028	\$ 54,805
2016	117,716	49,922
2017	147,628	48,832
2018	147,059	42,321
2019	136,096	36,067
2020	140,714	30,119
2021	125,556	24,205
2022	125,630	18,873
2023	68,919	13,657
2024	38,484	11,115
2025	40,562	9,205
2026	42,752	7,190
2027	45,061	5,068
2028	47,494	2,830
2029	35,837	2,423
Total	<u>\$ 1,372,536</u>	<u>\$ 356,632</u>

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

<u>Purpose</u>	<u>Origination Date</u>	<u>Interest Rate</u>	<u>Bond Term</u>	<u>Maturity Date</u>	<u>Bonds Amount</u>	<u>Annual Payment</u>	<u>Balance June 30, 2014</u>
USDA Loan – Water	11/18/04	4.25%	40 yrs	3/18/42	\$ <u>860,000</u>	Varies	\$ <u>736,375</u>

Reported in business-type activities.

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

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Annual requirement to amortize debt:

<u>For Fiscal</u> <u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 14,166	\$ 31,038
2016	14,780	30,424
2017	15,421	29,783
2018	16,090	29,114
2019	16,788	28,416
2020	17,515	27,689
2021	18,275	26,929
2022	20,723	24,481
2023	18,237	26,967
2024	20,757	24,447
2025	21,656	23,548
2026	22,595	22,609
2027	25,610	19,594
2028	22,562	22,642
2029	25,664	19,540
2030	26,776	18,428
2031	27,938	17,266
2032	29,148	16,056
2033	30,413	14,791
2034	31,731	13,473
2035	33,107	12,097
2036	34,542	10,662
2037	36,040	9,164
2038	37,603	7,601
2039	39,233	5,971
2040	40,934	4,270
2041	42,721	2,483
2042	35,350	9,853
Total	\$ <u><u>736,375</u></u>	\$ <u><u>529,336</u></u>

Intercap Loans

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

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

<u>Purpose</u>	<u>Origination Date</u>	<u>Term</u>	<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Balance June 30, 2014</u>
Filter Loan – Water Reported in business-type activities.	12/15/10	10 yrs	8/15/20	\$ <u>884,307</u>	\$ <u>563,017</u>

Annual requirement to amortize debt:

<u>For Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 80,430	\$ 5,630
2016	80,430	4,826
2017	80,430	4,022
2018	80,430	3,217
2019	80,430	2,413
2020	80,430	1,609
2021	80,437	804
Total	<u>\$ 563,017</u>	<u>\$ 22,521</u>

Compensated Absences

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

NOTE 8. POSTEMPLOYMENT HEALTHCARE PLAN

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

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

Funding Status and funding Progress. The funded status of the plan as of June 30, 2010, was as follows:

Actuarial Accrued Liability (AAL)	\$	849,573
Actuarial value of plan assets	\$	-
Unfunded Actuarial Accrued Liability (UAAL)	\$	849,573
Funded ratio (actuarial value of plan assets/AAL)		0%
Covered payroll (active plan members)	\$	1,172,333
UAAL as a percentage of covered payroll		72%

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

Annual Required Contribution (ARC)	\$	149,519
Interest on net OPEB obligation	\$	-
Adjustment to ARC	\$	-
Annual OPEB cost (expense)	\$	149,519
Contributions made	\$	-
Increase in net OPEB obligation	\$	149,519
Net OPEB obligation - beginning of year	\$	598,076
Net OPEB obligation - end of year	\$	747,595

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

	Unit Credit Cost Method
Actuarial cost method	
Average age of retirement (based on historical data)	62
Discount rate (average anticipated rate)	0.23%
Average salary increase (Consumer Price Index)	2.80%

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Health care cost rate trend (Federal Office of the Actuary)

<u>Year</u>	<u>% Increase</u>
2014	6.60%
2015	6.70%
2016	7.00%
2017	6.80%
2018	6.80%
2019 and after	6.60%

NOTE 9. INTERFUND RECEIVABLES AND PAYABLES

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

<u>Purpose</u>	<u>Due to/from other funds:</u> <u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Tree removal	Capital Projects Street Equipment – Nonmajor Governmental	SID 100 MV Paving – Nonmajor Governmental	\$ <u>1,728</u>

Interfund Transfers

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

<u>Purpose</u>	<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Residual equity	General – Major Governmental	1990 Swim Pool #2 – Nonmajor Governmental	\$ 1,288
Budgeted	Comprehensive Liability – Nonmajor Governmental	General – Major Governmental	18,752
Budgeted	Library – Nonmajor Governmental	General – Major Governmental	118,882
Budgeted	PERS – Nonmajor Governmental	General – Major Governmental	820
Budgeted	Employer Contribution to Group Health – Nonmajor Governmental	General – Major Governmental	70,627
Budgeted	Employer Contribution to Group Health – Nonmajor Governmental	General – Major Governmental	10,226
Residual equity	SID #102 – Major Governmental	SID 102 Construction – Nonmajor Governmental	168,353
Residual equity	SID #103 – Nonmajor Governmental	SID 103 Construction – Nonmajor Governmental	<u>4,070</u>
			\$ <u>446,591</u>

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 June 30, 2014

NOTE 10. STATE-WIDE RETIREMENT PLANS

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

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

<u>PERS**</u>	
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 City's financial statements and were considered immaterial.

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

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

	<u>PERS</u>
2012	\$ 92,447
2013	\$ 101,331
2014	\$ 104,739

CITY OF SIDNEY
 RICHLAND COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2014

NOTE 11. FUND BALANCE CLASSIFICATION POLICIES AND PROCEDURES

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

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

Restricted Fund Balance

<u>Major Fund</u>	<u>Amount</u>	<u>Purpose of Restriction</u>
SID #102	\$ 57,738	
All other aggregate:		
	864,373	Public works
	81,491	General Government
	237,616	Culture & recreation
	14,256	Public safety
	12,132	Public health
	<u>384,985</u>	Debt service
	<u>\$ 1,652,591</u>	

Committed Fund Balance

<u>Major Fund</u>	<u>Amount</u>	<u>Purpose of Commitment</u>
All other aggregate:		
	\$ 105,276	Public safety
	<u>334,310</u>	Public works
	<u>\$ 439,586</u>	

NOTE 12. DEFICIT FUND BALANCES/NET POSITION

<u>Fund Name</u>	<u>Amount</u>	<u>Reason for Deficit</u>	<u>How Deficit will be Eliminated</u>
SID #103	\$ 2,945	Debt payments in excess of assessments collected	Future assessments
SID #104	\$ 9,925	Debt payments in excess of assessments collected	Future assessments
SID Construction	\$ 357	When closing out the fund, they transferred by PY equity balance but did not account for the small expenditures incurred in FY14	Transfer from General fund
Local Govt Study Crime Victims Assistance	\$ 1,784	Interfund operating transfer did not occur in FY14 as planned	Transfer from General fund
	\$ 22,183	Overpayment to the State of Montana for City Court fee	Future City Court fees

CITY OF SIDNEY
 RICHLAND COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2014

NOTE 13. RESTATEMENTS

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

<u>Fund</u>	<u>Amount</u>	<u>Reason for Adjustment</u>
Emergency Disaster	\$ 4	Cash adjustment
Playgrounds and Parks	(46,910)	Reclassification from Private Purpose trust to Special Revenue Fund
Ballparks & Ballfields	(42,907)	Reclassification from Private Purpose trust to Special Revenue Fund
Tennis Courts	(53,953)	Reclassification from Private Purpose trust to Special Revenue Fund
Bike Path	<u>(57,531)</u>	Reclassification from Private Purpose trust to Special Revenue Fund
	<u>\$ (201,297)</u>	

NOTE 25. SERVICES PROVIDED TO OTHER GOVERNMENTS

County Provided Services

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

NOTE 26. RISK MANAGEMENT

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

Insurance Policies:

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

CITY OF SIDNEY
RICHLAND COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

Insurance Pools:

The City 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.

**REQUIRED SUPPLEMENTAL
INFORMATION**

City of Sidney, Richland County, Montana
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2014

	General			
	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>AMOUNTS</u> <u>(BUDGETARY</u> <u>BASIS) See Note A</u>	<u>WITH FINAL</u> <u>BUDGET</u>
RESOURCES (INFLOWS):				
Taxes and assessments	\$ 883,407	\$ 883,407	\$ 884,670	\$ 1,263
Licenses and permits	30,902	30,902	271,569	240,667
Intergovernmental	823,280	823,280	830,105	6,825
Charges for services	51,150	51,150	63,280	12,130
Fines and forfeitures	120,000	120,000	200,598	80,598
Miscellaneous	11,150	11,150	351,052	339,902
Investment earnings	500	500	14,141	13,641
Amounts available for appropriation	\$ <u>1,920,389</u>	\$ <u>1,920,389</u>	\$ <u>2,615,415</u>	\$ <u>695,026</u>
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
General government	\$ 351,258	\$ 351,258	\$ 450,438	\$ (99,180)
Public safety	1,340,930	1,335,930	1,267,695	68,235
Public works	446,482	446,482	475,449	(28,967)
Public health	2,500	2,500	3,657	(1,157)
Culture and recreation	336,440	336,440	185,410	151,030
Debt service - principal	-	-	-	-
Debt service - interest	-	-	-	-
Capital outlay	-	-	171,398	(171,398)
Total charges to appropriations	\$ <u>2,477,610</u>	\$ <u>2,472,610</u>	\$ <u>2,554,047</u>	\$ <u>(81,437)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ -	\$ 902,289	\$ 1,288	\$ (901,001)
Transfers out	(518,883)	(518,883)	513,339	1,032,222
Total other financing sources (uses)	\$ <u>(518,883)</u>	\$ <u>383,406</u>	\$ <u>514,627</u>	\$ <u>131,221</u>
Net change in fund balance			\$ <u>575,995</u>	
Fund balance - beginning of the year			\$ <u>500,428</u>	
Fund balance - end of the year			\$ <u><u>1,076,423</u></u>	

City of Sidney, Richland County, Montana
Budgetary Comparison Schedule
Budget-to-GAAP Reconciliation

Note A - Explanation of differences between budgetary inflows and outflows and GAAP Revenues and Expenditures

	<u>General</u>
Sources/Inflows of resources	
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 2,615,415
Combined funds (GASBS 54) revenues	1,468,584
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances- governmental funds.	<u>\$ 4,083,999</u>
Uses/Outflows of resources	
schedule	\$ 2,554,047
Combined funds (GASBS 54) expenditures	217,800
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>\$ 2,771,847</u>

City of Sidney
REQUIRED SUPPLEMENTAL INFORMATION
Schedule of Funding Progress
For the Fiscal Year Ended June 30, 2014

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Unit Credit Cost Method (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/(c))
July 1, 2012	\$ -	\$ 849,573	\$ 849,573	0%	\$ 1,172,333	72.5%

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

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

Mayor and City Council
City of Sidney
Richland County
Sidney, Montana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of City of Sidney, Richland County, Montana, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City of Sidney's basic financial statements and have issued our report thereon dated August 25, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Sidney, Richland County, Montana's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Sidney, Richland County, Montana's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Sidney'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 items 2014-001 through 2014-006.

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 item 2014-007.

2014-001 Potential Theft Due to Ineffective Internal Controls

Condition:

Internal controls for segregation of duties over disbursements did not function effectively which has potentially allowed theft by a past employee. The internal control process over disbursements when this potential theft occurred was (1) the Treasurer prepared claims, (2) the claims were then reviewed by the Mayor and the City Council, (3) and the claims/checks were then signed by the Clerk and the Mayor for approval. It appears that the review of claims was potentially not sufficient enough to catch claims made to improper vendors which appear to possibly be personal credit cards.

Context:

Upon inquiry with City employees, there was indication that they have found a potential instance of fraud from a past employee during the fiscal year being audited. We obtained detailed information from the City and used this information to find claims/checks to test that were potentially made out to the previous employee's personal credit cards which were coded in the accounting system under the miscellaneous vendor code 99999 along with several pages of other miscellaneous vendors.

Criteria:

Sufficiently functioning internal controls over disbursements do not allow checks for inappropriate expenditures to be approved. The review process over claims should require sufficient supporting documentation so that reviewers are able to determine whether the expenditure is allowed and that there are no discrepancies before the check is approved and signed.

Effect:

A past employee has potentially committed theft using City checks to make payments on personal credit cards.

Cause:

Although this potential instance of fraud has not officially been investigated, it appears that internal controls over disbursements are weak and have not functioned properly. In appearance, the City has proper segregation of duties for internal controls over disbursements. However the key function of segregation of duties, which is sufficient review over claims for an appropriate vendor, amount and purpose for each claim appears to have not functioned correctly and has potentially allowed an employee to commit theft.

Recommendation:

We recommend that the City turn this potential theft over to the City Attorney for further investigation. We also recommend that the City strengthen its internal controls over disbursements and segregation of duties to ensure that any future attempts at theft will be prevented.

Auditee Response:

The Clerk, Mayor and 2 Councilmembers now review all disbursements prior to payment.

2014-002 Balancing Cash

Condition:

The City did not perform bank reconciliations and financial recording consistently throughout FY14. - Repeated from Fiscal Year 2013

Context:

During the FY13 audit subsequent event review, it was discovered that deposits and checks had not been recorded and redeemed in the accounting system since December 2013. Consequently the cash balances were not being reconciled consistently to the bank statements during FY14.

Criteria:

The primary function of the City Clerk/Treasurer's position is to ensure that all financial transactions are reported and verified and that monthly bank reconciliations are performed in order to ensure that cash balances and is accounted for.

Effect:

Transactions were not recorded in the accounting system during FY14 in a timely manner and cash balances were not being reconciled to the bank statements during FY14.

Cause:

Turnover in the City Clerk and Treasurer's position.

Recommendation:

We recommend that the City Clerk and Treasurer make it their highest priority to ensure that all deposits are recorded and all checks are redeemed in a timely manner and that cash balances are reconciled at least monthly to the bank statements.

Auditee Response:

The City has made this there highest priority.

2014-003 Internal Controls Over Disbursements

Condition:

Internal controls for segregation of duties over disbursements are not functioning effectively. The internal control process over disbursements is documented as follows: (1) the Treasurer prepares claims, (2) the claims are then reviewed by the Mayor and the City Council, (3) and the claims/checks are then signed by the Clerk and the Mayor for approval. The review of claims documentation for propriety and the requirement for supporting documentation to be kept for all disbursements has not been functioning sufficiently.

Context:

Upon inquiry with City employees, there has been indication that internal controls over disbursements have not functioned correctly. While looking at the long list of miscellaneous vendors in the accounting system, it appears that vendors and descriptions on claims were not being monitored closely enough. It also appears that segregation of duties procedures over claims were potentially not being followed properly which could allow an employee access to the means necessary to write fraudulent checks without oversight. In addition, we know from claims testing that supporting documentation has not been consistently kept on file for all claims.

Criteria:

Sufficiently functioning internal controls over disbursements do not allow checks for inappropriate expenditures to be approved. The review process over claims should require sufficient supporting documentation so that reviewers are able to determine whether the expenditure is allowed and that there are no discrepancies before the check is approved and signed.

Effect:

Internal controls that do not function correctly increase the risk of theft from the City by employees.

Cause:

Internal controls over disbursements do not appear to be functioning properly. In appearance, the City has proper segregation of duties procedures for internal controls over disbursements. However the key function of segregation of duties, which would indicate sufficient review over claims for an appropriate vendor, amount and purpose for each claim may not function correctly and can potentially allow City employees to commit fraud.

Recommendation:

We recommend that the City review all vendors with special attention to miscellaneous vendors to ensure propriety. Going forward, the City should review all new vendors on at least a monthly basis for propriety and approval. The review process over claims should ensure that those in charge of reviewing claims are familiar with current vendors to prevent improper and fraudulent claims from being approved. Those in charge of reviewing claims should also be critical of the description of each claim and supporting documentation.

Auditee Response:

Disbursements are now reviewed by the Clerk, Mayor and two (2) Council Members.

2014-004 Credit Card Internal Control**Condition:**

The City does not have copies of claims and supporting documentation for all credit card transactions.

Context:

During our testing of selected credit card payment claims, we found that the City does not have copies of all claims and supporting documentation. We found that two credit card claims totaling \$10,352.95 out of our total selection of four credit card claims totaling \$22,777.06 in expenditures do not have supporting documentation. This indicates that internal controls are not functioning correctly.

Criteria:

The City should have sufficient internal controls in place so that all supporting documentation for credit cards is kept on file and available to support and verify expenditures paid with credit cards. Internal controls over credit card expenditures are necessary for the City to ensure that the expenditures are appropriate and approved properly in order to prevent theft.

Effect:

Missing claims and supporting documentation makes it impossible to verify that internal controls put in place are functioning correctly.

Cause:

Insufficient monitoring of internal controls over credit card transactions and documentation.

Recommendation:

We recommend that the City ensure that every credit card transaction is approved and that every credit card payment is matched to claims and supporting documentation such as receipts and invoices to ensure all expenditures made via credit cards are appropriate and approved.

Auditee Response:

The City now requires receipts for all credit card transactions.

2014-005 Cash Receipting

Condition:

The following control weaknesses were noted during a review of the Utility Billing receipting process.

- When a customer comes in to pay their utility bill the transaction is not immediately entered into the computer receipting system
- Deposits are prepared by the utility clerk and not reviewed by the Treasurer
- Adjustments to utility customers are not reviewed.

Criteria:

Developing a control system in a small office can be difficult. However, a good control system should include timely reporting (posting transactions immediately) and adequate review (deposits and adjustments).

Effect:

The Control system over cash receipting could be improved to provide a better system of checks and balances over cash handling.

Cause:

The City clerks office has three employees. It is sometimes difficult to create a system of checks and balances in a small office.

Recommendation:

We recommend the City make the following changes.

- All collection transactions should be recorded in the accounting system at the time of receipt.
- Deposits should be reviewed by the Treasurer to ensure both checks and cash balance to the amounts reported in the receipting system.
- All Utility billing adjustments should be reviewed by the City clerk, mayor and council.

Auditee Response:

(1) Transactions are now immediately entered into the billing system. (2) A spreadsheet is prepared which is reviewed by either the clerk or the treasurer. (3) All adjustments must now be approved.

2014-006 Misstated Revenues**Condition:**

The building permit revenues recorded in the General fund incorrectly included other revenues that should have been categorized elsewhere. Revenues incorrectly included as building permit revenues were water hookup, sewer hookup, water impact, sewer impact, water operating, park impact, and street impact fee revenues. Building permit revenues were overstated and the other revenues were understated. This error has been corrected as an audit adjustment for financial reporting purposes.

Context:

During our testing of City revenues, it was discovered that building permit revenues had increased substantially over the prior years. After inquiry and research of the details noted in the accounting records, it was apparent that the increase in building permit revenue was not reasonable. Upon inquiry with the City, we noted 6 different journal entries that included fees other than building permit revenues.

Criteria:

Revenues should be properly recorded and classified in the correct fund and under the correct account number.

Effect:

Building permit revenues in the General fund were overstated by \$449,826 and revenues were understated in the Water, Sewer, and Impact Fee funds by \$144,675, \$250,850 and \$54,301 respectively.

Cause:

When building permits are issued, other fees such as water and sewer hookup fees and impact fees are also charged. These other charges were not separated out from the building permit fees because the City does not keep a subsidiary ledger to reconcile the various charges.

Recommendation:

The City should keep a subsidiary ledger to track the building permit fee, water/sewer hookup fee and impact fee revenues that are charged at the time the building permits are issued. The City will then have the ability to balance them to the General Ledger to ensure that all fees are properly recorded in the correct fund under the correct account number.

Auditee Response:

A new receipt for building permits was created to aid in the distribution of these revenues.

2014-006 Tracking Special Assessments

Condition:

The City was not effectively tracking special assessment balances in Special Improvement District (SID) funds and other special assessment funds during FY14.

Context:

We evaluated the prior year audit findings which indicated problems with special assessment documentation in prior years. During our comparison of current year special assessment balances in the accounting system to subsidiary balances we noted that special assessments had not been tracked and recorded properly throughout FY14.

Criteria:

The purpose of special assessments for Special Improvement Districts is to collect revenue from the taxpayers in order to make the related bond payments or to pay for other improvements. The assessments should be adequately reviewed in order to ensure the balances are accurate and that taxpayers are not being over or under charged. Adjustments should be made to accommodate any excess or deficiency in special assessment charges so that there is just enough charged in order to pay for the SID bond debt or other special improvements/maintenance.

Effect:

Special assessment balances were only corrected after FY14 year-end, which means that they were not being tracked sufficiently throughout the year.

Cause:

The City has had documentation and recording issues for their special assessments. The City has since corrected their SID documentation.

Recommendation:

We recommend that the City continue to maintain and track subsidiary ledgers for special assessment balances in order to ensure charges and balances are accurate. The City should ensure that assets in SID funds are compared to outstanding debt in order to adjust charges to pay the future bond payments due without overcharging taxpayers.

Auditee Response:

The City has updated their supporting ledgers.

2014-007 Misstated Revenues**Condition:**

The building permit revenues recorded in the General fund incorrectly included other revenues that should have been categorized elsewhere. Revenues incorrectly included as building permit revenues were water hookup, sewer hookup, water impact, sewer impact, water operating, park impact, and street impact fee revenues. Building permit revenues were overstated and the other revenues were understated. This error has been corrected as an audit adjustment for financial reporting purposes.

Context:

During our testing of City revenues, it was discovered that building permit revenues had increased substantially over the prior years. After inquiry and research of the details noted in the accounting records, it was apparent that the increase in building permit revenue was not reasonable. Upon inquiry with the City, we noted 6 different journal entries that included fees other than building permit revenues.

Criteria:

Revenues should be properly recorded and classified in the correct fund and under the correct account number.

Effect:

Building permit revenues in the General fund were overstated by \$449,826 and revenues were understated in the Water, Sewer, and Impact Fee funds by \$144,675, \$250,850 and \$54,301 respectively.

Cause:

When building permits are issued, other fees such as water and sewer hookup fees and impact fees are also charged. These other charges were not separated out from the building permit fees because the City does not keep a subsidiary ledger to reconcile the various charges.

Recommendation:

The City should keep a subsidiary ledger to track the building permit fee, water/sewer hookup fee and impact fee revenues that are charged at the time the building permits are issued. The City will then have the ability to balance them to the General Ledger to ensure that all fees are properly recorded in the correct fund under the correct account number.

Auditee Response:

A new receipt for building permits was created to aid in the distribution of these revenues.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Sidney'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 items 2014-008.

2014-008 Assets in Special Improvement District (SID) Funds Are Larger Than Related SID Debt

Condition:

The City's assets in Special Improvement District #'s 100, 101A, 102 & 103 exceed the related debt. SID #100, 101A, 102 and 103 exceed the related debt by an amount over 5% of the original related debt.

Context:

During our comparison of net assets in each SID fund to related outstanding debt, we found that our comparison shows that the excess assets over debt are above 5% of the related original debt in four of the SID funds.

Criteria:

The purpose of special assessments is to collect revenue from the taxpayers in order to be able to make the related bond payments. The assessments should be adequate and should not exceed 5% of the original bond amount without adjustments being made subsequently to lower the excess amount. The total assessments revenue received and the bond payments should be equal at the bonds' maturity date.

Effect:

The City has a net excess of \$190,553 in net assets over related debt in these SID funds for FY14.

Cause:

From the inception of the SID debt, it appears that the City has not adjusted their deferred assessments receivable by reasonable amounts in order to ensure that the ending balance of bond payments and assessment revenues received are equal in total by the time the bonds mature.

Recommendation:

We recommend that the City ensure that the assessments being charged are adequate but not in excess of the amount needed to pay off the remaining related debt. When there is an excess in assets over related debt, assessments should be decreased for each taxpayer so that when the bonds mature there will be no excess assessments left.

Auditee Response:

The Mayor and Council will review these and make adjustments as they feel appropriate.

City of Sidney's Response to Findings

City of Sidney's response to the findings identified in our audit is described above. City of Sidney'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.

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

August 25, 2015

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CERTIFIED PUBLIC ACCOUNTANTS

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REPORT ON PRIOR AUDIT REPORT RECOMMENDATIONS

Mayor and City Council
City of Sidney
Richland County
Sidney, Montana

The prior audit report contained (# of Prior Recommendations) recommendations. The action taken on each recommendation is as follows:

<u>Recommendation</u>	<u>Action Taken</u>
Long-Term Debt	Implemented
Cash Flows Statement	Implemented
Unallowable Transfers from the Revolving Fund to the SID Fund	Implemented
Bank Reconciling and Financial Recording	Repeated
Cash Receipting	Repeated
Accounting Errors	Implemented
Deferred Assessments Receivable Larger than Related Debt	Repeated
Management's Discussion and Analysis (MD&A)	Implemented

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

August 25, 2015