

TOWN OF ST. IGNATIUS
Lake County, Montana

AUDITED FINANCIAL STATEMENTS AND REPORTS
REQUIRED BY
GOVERNMENT AUDITING STANDARDS

JUNE 30, 2014

Cote & Associates, CPA, PLLC
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Town of St. Ignatius
June 30, 2014

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Missoula, MT 59806

INDEPENDENT AUDITOR'S REPORT

Town Council, Town of St. Ignatius
Lake County, Montana

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the Town of St. Ignatius (Town), Lake County, Montana, as of and for the year ended June 30, 2014, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion; accordingly, I express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

I believe that my audit provides a reasonable basis for my opinions.

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America,

which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated December 1, 2014 on my consideration of the Town's internal control over financial reporting and on my tests of its compliance with certain provisions of law, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

Cote & Associates, CPA, PLLC

December 31, 2014
Missoula, Montana

Town of St. Ignatius
June 30, 2014

ORGANIZATION

For the Fiscal Year Ended June 30, 2014

Charles Gariepy	Mayor
Rod Arlint	Council President (July-Dec)
Ray Frey	Council President (Jan-Jun)
Marine Johnson	Council Member (July-Aug)
Annie Morigeau	Council Member (Sept-Jun)
Ray Frey	Council Member
Clarence "Mack" McConnell	Council Member (July-Dec)
Daren Incashola	Council Member (Jan-Jun)
Roger Lemon	Council Member (Jan-Jun)
Lee Ann Gottfried	Town Clerk/Treasurer
James Lapotka	Town Attorney
Sharon Richardson	Town Judge

MANAGEMENT'S DISCUSSION AND ANALYSIS

Town of St. Ignatius
Management's Discussion and Analysis
June 30, 2014

OVERVIEW

This discussion and analysis of the Town of St. Ignatius' financial performance provides an overview of the Town's financial activities for the year ending June 30, 2014. It should be read in conjunction with the financial statements and notes.

This annual report consists of a series of financial statements. The government-wide statement of net position and statement of activities provide information about the Town as a whole. The fund financial statements report the Town's operations in more detail than the government-wide statements providing information about the Town's most significant funds. The remaining statement provides financial information about the fiduciary activity for which the Town acts as an agent for the St. Ignatius Fire Relief Association.

REPORTING THE TOWN AS A WHOLE-Government-Wide Statements

The Statement of Net Position and the Statement of Activities

The statement of net position and the statement of activities report information about the Town as a whole and about its activities in a way that shows if the Town is in a better financial position as a result of each year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

These two sets of statements also report the Town's net position and the changes in them. This is one way to measure the Town's financial position. Over time, increases or decreases in the Town's net position can be an indicator of whether its financial health is improving or deteriorating. Other factors, such as changes to the Town's property tax base, capital improvements or improvements to the infrastructure should be considered in assessing the overall health of the Town.

In the statement of net position and statement of activities, the Town is divided into either governmental or business-type activities. Most of the Town's services are reported as governmental activities. This includes public works, public safety, court and general administration. The Town's water and sewer departments are reported as business-type activities.

TRANSITION FROM FUND FINANCIAL STATEMENTS TO GOVERNMENT-WIDE FINANCIAL STATEMENTS

Following the governmental fund financial statements (described below) is a reconciliation from the fund financial statements to the government-wide statements. Longer term assets and liabilities such as general capital assets and long term debt are added to the balance sheet to arrive at the governmental funds statement of net position; tax revenue from amounts receivable that is normally deferred in the funds is not deferred at the government-wide level. Increases or decreases in assets and liabilities create increases or decreases in revenue and expenses when activities are reconciled from the governmental fund statements to the government-wide. Capitalization of capital assets will remove some of the capital outlay expenditures (increasing assets) and depreciation will increase expense at the government-wide level.

REPORTING THE TOWN'S MOST SIGNIFICANT FUNDS- Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds. Some funds are required to be established by state law. The Town council has established other funds to help control and manage money for particular purposes. The Town's governmental and proprietary (business-type) funds use different accounting approaches.

Governmental Funds—Most of the Town's basic services are reported in governmental funds, which focus on how money flows into and out of those funds. The balances left at year-end are available for spending. These funds are reported using the modified accrual method, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short term view of the Town's general government operations and the basic services it provides. Governmental fund information helps in determining whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs.

Town of St. Ignatius
Management's Discussion and Analysis
June 30, 2014

Proprietary/Business-type Funds—These funds are used when the Town intends to operate a service where charges cover costs. These funds are reported in the same way that all activities are reported in the government-wide statement of net position and statement of activities, so there is no reconciliation. The Town provides water and sewer services which are reported as proprietary funds. Fund statements provide greater detail than the government-wide statements and include a statement of cash flows.

THE TOWN AS A WHOLE

Comparative governmental assets, liabilities and net position are as follows:

Table 1

	<u>2014</u>	<u>2013</u>
Current assets	\$ 180,992	\$ 175,277
Capital assets-net	198,362	222,299
Total assets	<u>\$ 379,354</u>	<u>\$ 397,576</u>
Current liabilities	\$ 2,563	\$ 7,134
Long-term liabilities	4,644	1,908
Total liabilities	<u>\$ 7,207</u>	<u>\$ 9,042</u>
Net position:		
Net investment in capital assets	\$ 198,362	\$ 222,299
Restricted net position	30,007	24,631
Unrestricted net position	143,778	141,604
Total net position	<u>\$ 372,147</u>	<u>\$ 388,534</u>

Table 1 shows a \$16,387 decrease in governmental net position for the year ended June 30, 2014.

Comparative business-type assets, liabilities and net position as shown in the statement of net position and statement of fund net position proprietary funds are as follows:

Table 2

	<u>2014</u>	<u>2013</u>
Current assets	\$ 489,072	\$ 285,988
Capital assets-net	5,120,962	4,887,300
Total assets	<u>\$ 5,610,034</u>	<u>\$ 5,173,288</u>
Current liabilities	\$ 258,422	\$ 48,259
Long-term liabilities	1,717,284	1,730,829
Total liabilities	<u>\$ 1,975,706</u>	<u>\$ 1,779,088</u>
Net position:		
Net investment in capital assets	\$ 3,369,486	\$ 3,122,937
Restricted net position	151,535	74,256
Unrestricted net position	113,307	168,208
Total net position	<u>\$ 3,634,328</u>	<u>\$ 3,365,401</u>

Town of St. Ignatius
Management's Discussion and Analysis
June 30, 2014

Table 2 shows a increase of \$268,927 in net position of the business-type funds. The primary cause was for the change in the water project construction in progress.

Governmental Activities:

Changes in net position for governmental activities as shown in the statement of activities were as follows:

Table 3

	<u>2014</u>	<u>2013</u>
Revenues		
Program revenues:		
Changes for services and assessments	\$ 8,001	\$ 9,316
Operating grants and contributions	20,337	8,612
General revenues:		
Taxes/assessments	89,834	90,281
Licenses & permits	2,325	2,145
Federal/state/county shared revenue	53,054	66,569
Interest	1,560	1,267
Miscellaneous	7,894	-
Total revenues	<u>\$ 183,005</u>	<u>\$ 178,190</u>
Expenses		
General government	\$ 30,078	\$ 27,266
Public safety	109,162	111,245
Public works	31,036	50,269
Public health	4,238	13,296
Social & economic	-	999
Culture and recreation	2,099	1,821
Total expenses	<u>\$ 176,613</u>	<u>\$ 204,896</u>
Changes in net position	\$ 6,392	\$ (26,706)
Special item-fire truck accident damage	(22,779)	-
Net position, July 1	<u>388,534</u>	<u>415,240</u>
Net position, June 30	<u><u>\$ 372,147</u></u>	<u><u>\$ 388,534</u></u>

Table 3 shows a decrease of \$16,387 in net position in the governmental activities. The primary reason for the decrease is the special item for the fire truck accident. Revenues for the period increased while expenses decreased.

Town of St. Ignatius
Management's Discussion and Analysis
June 30, 2014

Business-Type Activities:

Changes in net position for business-type activities as shown in the statement of net position and statement of revenue, expenditures and changes in fund net position proprietary funds were as follows:

Table 4

	<u>2014</u>	<u>2013</u>
Operating revenues		
Charges for services	\$ 139,333	\$ 155,027
Charges pledged as security for bonds	107,196	94,764
Total operating revenues	<u>\$ 246,529</u>	<u>\$ 249,791</u>
Operating expenses		
Personal services	\$ 73,457	\$ 67,972
Supplies	37,012	35,954
Purchased services	20,966	31,164
Miscellaneous	-	1,990
Depreciation	236,097	236,845
Total expenses	<u>\$ 367,532</u>	<u>\$ 373,925</u>
Operating income(loss)	<u>\$ (121,003)</u>	<u>\$ (124,134)</u>
Non-operating revenues/(expenses)		
Intergovernmental (grant) revenue	\$ 426,947	\$ 123,353
Miscellaneous revenue	-	3,080
Interest expense	(65,816)	(64,567)
Total non-operating revenues/(expenses)	<u>\$ 361,131</u>	<u>\$ 61,866</u>
Changes in net position	<u>\$ 240,128</u>	<u>\$ (62,268)</u>
Net position, July 1	<u>3,394,200</u>	<u>3,456,468</u>
Net position, June 30	<u><u>\$ 3,634,328</u></u>	<u><u>\$ 3,394,200</u></u>

Table 4 shows the changes in net position for business-type funds (water and sewer) increased by less than 1.1% from fiscal 2013 to 2014.

THE TOWN'S FUNDS

Governmental activities as shown on the statement of revenue, expenditures, and changes in fund balances governmental funds:

Table 5

Major and aggregated funds-->	Other		
	<u>General</u>	<u>Governmental</u>	<u>Total</u>
Fund balance July 1, 2012	\$ 94,942	\$ 71,954	\$ 166,896
Increases FY 13	163,396	27,279	190,675
Decreases FY 13	(152,829)	(35,323)	(188,152)
Fund balance June 30, 2013	<u>\$ 105,509</u>	<u>\$ 63,910</u>	<u>\$ 169,419</u>
Increases FY 14	163,425	27,180	190,605
Decreases FY 14	(144,870)	(15,004)	(159,874)
Special item-fire truck accident damage	(22,779)	-	(22,779)
Fund balance June 30, 2014	<u><u>\$ 101,285</u></u>	<u><u>\$ 76,086</u></u>	<u><u>\$ 177,371</u></u>

Town of St. Ignatius
Management's Discussion and Analysis
June 30, 2014

Table 5 shows that the general fund balance has increased over the past 2 years while the total of all governmental fund balances have increase from fiscal 2013 by about 1.1%.

Business-type activities as shown on the statement of revenue, expense and changes in fund net position:

Table 6

Major and aggregated funds-->	Water	Sewer	Total
Net position July 1, 2012	\$ 232,885	\$ 3,223,583	\$ 3,456,468
Increases FY 13	230,436	145,788	376,224
Decreases FY 13	(107,976)	(330,516)	(438,492)
Net position June 30, 2013	\$ 355,345	\$ 3,038,855	\$ 3,394,200
Increases FY 14	533,294	140,182	673,476
Decreases FY 14	(100,145)	(333,203)	(433,348)
Net position June 30, 2014	\$ 788,494	\$ 2,845,834	\$ 3,634,328

Table 6 shows an increase in the water fund net positon and decrease in the sewer fund net position.

GENERAL FUND BUDGETARY HIGHLIGHTS

	Original Budget	Final Budget	Actual Budget Basis	Adjustments to GAAP	GAAP Fund Basis Reported
Revenues	\$ 156,350	\$ 156,350	\$ 161,515	\$ 1,819	\$ 163,334
Expenditures	\$ 156,350	\$ 156,350	\$ 138,070	-	\$ 138,070
Special item	-	\$ 22,779	\$ 22,779	-	22,779

CAPITAL AND DEBT ADMINISTRATION

Capital Assets – see Note 5 for details

Governmental activities:

	2014	2013
Land	\$ 24,050	\$ 24,050
Buildings	162,888	162,888
Improvements	27,478	27,478
Machinery and equipment	307,192	307,192
Infrastructure	9,688	9,688
Total capital assets	\$ 531,296	\$ 531,296
Accumulated depreciation	(332,934)	(308,997)
Capital assets net of depreciation	\$ 198,362	\$ 222,299

Town of St. Ignatius
Management's Discussion and Analysis
June 30, 2014

Business-type activities:

	2014	2013
Land	\$ 263,953	\$ 263,953
Constuction in progress	781,462	311,703
Buildings	422,766	422,766
Improvements	26,472	26,472
Machinery and equipment	12,035	12,035
Infrastructure	5,473,581	5,473,581
Total capital assets	\$ 6,980,269	\$ 6,510,510
Accumulated depreciation	(1,859,307)	(1,623,210)
Capital assets net of depreciation	\$ 5,120,962	\$ 4,887,300

All construction in progress is for water improvements.

Debt Administration — see Note 6 for details.

Governmental activities:

There was no governmental debt in fiscal 2014, or fiscal 2013.

Business-type activities:

	2014	2013
State Revolving Fund Loans-water	\$ 346,172	\$ 339,213
Rural Development loan-sewer	1,405,304	1,425,150
Total	\$ 1,751,476	\$ 1,764,363

Additional funds were drawn on the bonds for the water fund from SRF Bonds B and C and have been fully drawn as of June 30, 2014; payments were made on these obligations in fiscal 2014. As long as the balance of bonds financed through Rural Development is greater than \$1,000,000 the Town will have annual audits instead of bi-annual audits.

ECONOMIC FACTORS, NEXT YEAR'S BUDGET AND RATES

The construction of the water system improvements was not completed by June 30, 2014. After the first well did not produce water, the contractor drilled a second well that did produce water. The latest estimate from the engineer is that the project will be completed in January 2015. As of June 30, 2014 the Town has borrowed \$25,000 from the general fund to cover the Town's share of additional project costs. The Town will raise the water and sewer rates on January 1, 2015. It is not likely that the Town's backhoe (already well used when purchased in 1999) will have to be replaced in 2014-2015.

Copies of this MD&A and the full audit report with financial statements, as well as financial statements for the library component unit, can be obtained by contacting the Town Clerk.

Lee Ann Gottfried
Clerk/Treasurer
Town of St. Ignatius
PO Box 103
St. Ignatius, MT 59865
406-745-3791

Town of St. Ignatius
Lake County, Montana

Government-Wide Statement of Net Position
As of June 30, 2014

	Primary Government			Component
	Governmental Activities	Business-type Activities	Total	Unit Library
ASSETS				
Cash and cash equivalents	\$ 91,460	\$ 9,306	\$ 100,766	\$ 59,911
Restricted assets: cash or investments	9,472	99,524	108,996	
Taxes/assessments receivable	3,621	-	3,621	-
Accounts receivable	-	24,006	24,006	-
Estimate for uncollectible accounts	-	(3,881)	(3,881)	-
Due from county	8,393	-	8,393	-
Due from (to) other funds (internal balances)	68,046	(68,046)	-	-
Due from other governments	-	280,117	280,117	-
Total current assets	<u>\$ 180,992</u>	<u>\$ 341,026</u>	<u>\$ 522,018</u>	<u>\$ 59,911</u>
Capital assets not being depreciated				
Land	24,050	263,953	288,003	-
Construction in progress	-	781,462	781,462	-
Capital assets being depreciated (net of accumulated depreciation)	174,312	4,075,547	4,249,859	10,349
Total assets	<u><u>\$ 379,354</u></u>	<u><u>\$ 5,461,988</u></u>	<u><u>\$ 5,841,342</u></u>	<u><u>\$ 70,260</u></u>
LIABILITIES				
Accounts payable	\$ -	\$ 60,400	\$ 60,400	\$ -
Unearned revenue	-	5,691	5,691	-
Due within one year-compensated absences	2,563	3,032	5,595	-
Due within one year-bonds	-	41,253	41,253	-
Total current liabilities	<u>\$ 2,563</u>	<u>\$ 110,376</u>	<u>\$ 112,939</u>	<u>\$ -</u>
Due in more than one year-compensated absences	4,644	7,061	11,705	-
Due in more than one year-bonds	-	1,710,223	1,710,223	-
Total long term liabilities	<u>\$ 4,644</u>	<u>\$ 1,717,284</u>	<u>\$ 1,721,928</u>	<u>\$ -</u>
Total liabilities	<u><u>\$ 7,207</u></u>	<u><u>\$ 1,827,660</u></u>	<u><u>\$ 1,834,867</u></u>	<u><u>\$ -</u></u>
NET POSITION				
Net investment in capital assets	\$ 198,362	\$ 3,369,486	\$ 3,567,848	\$ -
Restricted				
For bond indenture requirements	-	151,535	151,535	-
By law or donor	30,007	-	30,007	-
Unrestricted	143,778	113,307	257,085	70,260
Total net position	<u><u>\$ 372,147</u></u>	<u><u>\$ 3,634,328</u></u>	<u><u>\$ 4,006,475</u></u>	<u><u>\$ 70,260</u></u>

Town of St. Ignatius
Lake County, Montana

Government-Wide Statement of Activities
for the Fiscal Year Ended June 30, 2014

Functions/programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Unit Library
		Charges for Services, Fines, Forfeitures, etc.	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total	
					Governmental Activities	Business-type Activities		
Primary government:								
Governmental activities:								
General government	\$ 30,078	\$ 7,996	\$ -	\$ -	\$ (22,082)	\$ -	\$ (22,082)	\$ -
Public safety	109,162	-	1,618	-	(107,544)	-	(107,544)	-
Public works	31,036	5	18,719	-	(12,312)	-	(12,312)	-
Public health	4,238	-	-	-	(4,238)	-	(4,238)	-
Culture and recreation	2,099	-	-	-	(2,099)	-	(2,099)	-
Total governmental activities	\$ 176,613	\$ 8,001	\$ 20,337	\$ -	\$ (148,275)	\$ -	\$ (148,275)	\$ -
Business-type activities:								
Water	\$ 100,145	\$ 106,347	\$ -	\$ 426,947	\$ -	\$ 433,149	\$ 433,149	\$ -
Sewer	333,203	140,182	-	-	-	(193,021)	(193,021)	-
Total business-type activities	\$ 433,348	\$ 246,529	\$ -	\$ 426,947	\$ -	\$ 240,128	\$ 240,128	\$ -
Total primary government	\$ 609,961	\$ 254,530	\$ 20,337	\$ 426,947	\$ (148,275)	\$ 240,128	\$ 91,853	\$ -
Component units:								
Library	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,437
Total component units	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,437
General revenues:								
Property taxes/assessments					\$ 89,834	\$ -	\$ 89,834	\$ 7,490
Licenses and permits					2,325	-	2,325	-
Unrestricted federal/state/county shared revenues					53,054	-	53,054	-
Unrestricted investment earnings					1,560	-	1,560	314
Miscellaneous					7,894	-	7,894	-
Total general revenues					\$ 154,667	\$ -	\$ 154,667	\$ 7,804
Change in net position before special item					6,392	240,128	246,520	367
Special item-fire truck accident damage					(22,779)	-	(22,779)	-
Total change in net position					\$ (16,387)	\$ 240,128	\$ 223,741	\$ 367
Total net position reported June 30, 2013					388,534	3,394,200	3,782,734	69,893
Total net position June 30, 2014					\$ 372,147	\$ 3,634,328	\$ 4,006,475	\$ 70,260

Town of St. Ignatius
Lake County, Montana

Balance Sheet-Governmental Funds
As of June 30, 2014

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 24,846	\$ 66,614	\$ 91,460
Restricted assets: cash	-	9,472	9,472
Taxes/assessments receivable	3,621	-	3,621
Due from county	8,393	-	8,393
Due from other funds	68,046	-	68,046
Total assets	\$ 104,906	\$ 76,086	\$ 180,992
LIABILITIES			
	\$ -	\$ -	\$ -
DEFERRED INFLOWS OF RESOURCES			
Taxes billed but not paid by year end	\$ 3,621	\$ -	\$ 3,621
Total deferred inflows of resources	\$ 3,621	\$ -	\$ 3,621
FUND BALANCES:			
Nonspendable	\$ -	\$ -	\$ -
Restricted	-	30,007	30,007
Committed	-	46,079	46,079
Assigned	-	-	-
Unassigned	101,285	-	101,285
Total fund balance	\$ 101,285	\$ 76,086	\$ 177,371
Total liabilities and fund balances	\$ 104,906	\$ 76,086	

Reconciliation of Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position:

AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET POSITION ARE DIFFERENT BECAUSE:

Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.

Total capital assets	\$	531,296
Total accumulated depreciation		(332,934)

Other assets are not available to pay current period expenditures and therefore, are deferred in the fund.

3,621

Long-term liabilities, including bonds payable, and compensated absences are not due and payable in the current period and therefore, are not reported in the funds.

(7,207)

Net positions of governmental activities

\$ 372,147

Town of St. Ignatius
Lake County, Montana

Statement of Revenues, Expenditures, and Changes in Fund Balance-Governmental Funds
for the Fiscal Year Ended June 30, 2014

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
Taxes	\$ 89,733	\$ -	\$ 89,733
Licenses and permits	2,325	-	2,325
Intergovernmental revenues	53,863	19,528	73,391
Charges for services	5	-	5
Fines and forfeitures	7,996	-	7,996
Miscellaneous	7,894	-	7,894
Investment and royalty earnings	1,517	43	1,560
Total revenue	\$ 163,333	\$ 19,571	\$ 182,904
EXPENDITURES			
General government	\$ 28,937	\$ -	\$ 28,937
Public safety	89,286	541	89,827
Public works	14,609	13,462	28,071
Public health	3,239	-	3,239
Culture and recreation	1,999	100	2,099
Total expenditures	\$ 138,070	\$ 14,103	\$ 152,173
Excess of revenues over (under) expenditures	\$ 25,263	\$ 5,468	\$ 30,731
OTHER FINANCING SOURCES (USES):			
Transfers in	\$ 92	\$ 6,800	\$ 6,892
Transfers out	(6,800)	(92)	(6,892)
Total other financial sources (uses)	\$ (6,708)	\$ 6,708	\$ -
SPECIAL ITEM			
Fire truck accident repair	\$ (22,779)	\$ -	\$ (22,779)
Net change in fund balances	\$ (4,224)	\$ 12,176	\$ 7,952
Fund balances-July 1, 2013			
Restricted	\$ -	\$ 24,631	\$ 24,631
Committed	-	39,279	39,279
Assigned	-	-	-
Unassigned	105,509	-	105,509
Total fund balances	\$ 105,509	\$ 63,910	\$ 169,419
Fund balances-June 30, 2014			
Restricted	\$ -	\$ 30,007	\$ 30,007
Committed	-	46,079	46,079
Assigned	-	-	-
Unassigned	101,285	-	101,285
Total fund balances	\$ 101,285	\$ 76,086	\$ 177,371

Town of St. Ignatius
Lake County, Montana

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds to the Government-Wide Statement of Activities
for the Fiscal Year Ended June 30, 2014

Net change in fund balance-total governmental funds (page 13)	\$ 7,952
Amounts reported for governmental activities in the government-wide statement of activities (page 11) are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:	
Depreciation expense	(23,937)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:	
Change in deferred revenue	101
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds:	
Change in accrued compensated absences	<u>(503)</u>
Change in net position in governmental activities (page 10)	<u>\$ (16,387)</u>

Town of St. Ignatius
Lake County, Montana

Statement of Fund Net Position-Proprietary Funds
As of June 30, 2014

	<u>Water</u> <u>Operating</u>	<u>Sewer</u> <u>Operating</u>	<u>Totals</u>
ASSETS			
Current assets			
Cash and cash equivalents	\$ -	\$ 9,306	\$ 9,306
Accounts receivable	9,971	14,035	24,006
Estimate for uncollectible accounts	(2,069)	(1,812)	(3,881)
Due from (to) other funds	(148,046)	80,000	(68,046)
Due from other governments	280,117	-	280,117
Total current assets	<u>\$ 139,973</u>	<u>\$ 101,529</u>	<u>\$ 241,502</u>
Noncurrent assets			
Restricted assets:			
Investments	\$ 30,000	\$ 60,000	\$ 90,000
Cash and cash equivalents	1,975	7,549	9,524
Capital assets:			
Land	1,158	262,795	263,953
Construction in progress	781,462	-	781,462
Buildings	422,766	-	422,766
Improvements other than buildings	26,472	-	26,472
Machinery and equipment	3,867	8,168	12,035
Infrastructure (utility system)	658,854	4,814,727	5,473,581
Less: accumulated depreciation	<u>(863,567)</u>	<u>(995,740)</u>	<u>(1,859,307)</u>
Total noncurrent assets	<u>\$ 1,062,987</u>	<u>\$ 4,157,499</u>	<u>\$ 5,220,486</u>
Total assets	<u>\$ 1,202,960</u>	<u>\$ 4,259,028</u>	<u>\$ 5,461,988</u>
LIABILITIES			
Current liabilities			
Accounts payable	\$ 60,400	\$ -	\$ 60,400
Unearned revenue	2,848	2,843	5,691
Due within one year-compensated absences	1,516	1,516	3,032
Due within one year-bonds	22,139	19,114	41,253
Total current liabilities	<u>\$ 86,903</u>	<u>\$ 23,473</u>	<u>\$ 110,376</u>
Noncurrent liabilities			
Due in more than one year-compensated absences	\$ 3,530	\$ 3,531	\$ 7,061
Due in more than one year-bonds	324,033	1,386,190	1,710,223
Total noncurrent liabilities	<u>\$ 327,563</u>	<u>\$ 1,389,721</u>	<u>\$ 1,717,284</u>
Total liabilities	<u>\$ 414,466</u>	<u>\$ 1,413,194</u>	<u>\$ 1,827,660</u>
NET POSITION			
Net investment in capital assets	\$ 684,840	\$ 2,684,646	\$ 3,369,486
Restricted for:			
Bond indenture requirements	83,986	67,549	151,535
Unrestricted	19,668	93,639	113,307
Total net position	<u>\$ 788,494</u>	<u>\$ 2,845,834</u>	<u>\$ 3,634,328</u>

Town of St. Ignatius
Lake County, Montana

Statement of Revenues, Expenses and Changes in Fund Net Position-Proprietary Funds
for the Fiscal Year Ended June 30, 2014

	<u>Water Operating</u>	<u>Sewer Operating</u>	<u>Totals</u>
OPERATING REVENUES			
Charges for services (net)	\$ 77,415	\$ 61,918	\$ 139,333
Charges pledged as security for bonds	<u>28,932</u>	<u>78,264</u>	<u>107,196</u>
Total operating revenues	<u>\$ 106,347</u>	<u>\$ 140,182</u>	<u>\$ 246,529</u>
OPERATING EXPENSES			
Personal services	\$ 33,991	\$ 39,466	\$ 73,457
Supplies	19,860	17,152	37,012
Purchased services	10,846	10,120	20,966
Depreciation	<u>28,050</u>	<u>208,047</u>	<u>236,097</u>
Total operating expenses	<u>\$ 92,747</u>	<u>\$ 274,785</u>	<u>\$ 367,532</u>
Net operating income (expenses)	\$ 13,600	\$ (134,603)	\$ (121,003)
NONOPERATING REVENUES (EXPENSES)			
Interest expense	\$ (7,398)	\$ (58,418)	\$ (65,816)
Total nonoperating revenues (expenses)	<u>\$ (7,398)</u>	<u>\$ (58,418)</u>	<u>\$ (65,816)</u>
Capital contributions	\$ 426,947	\$ -	\$ 426,947
Income (loss)	\$ 433,149	\$ (193,021)	\$ 240,128
Changes in net position	\$ 433,149	\$ (193,021)	\$ 240,128
Total net position-July 1, 2013	<u>\$ 355,345</u>	<u>\$ 3,038,855</u>	<u>\$ 3,394,200</u>
Total net position-June 30, 2014	<u>\$ 788,494</u>	<u>\$ 2,845,834</u>	<u>\$ 3,634,328</u>

Town of St. Ignatius
Lake County, Montana

Statement of Cash Flows-Proprietary Funds
for the Fiscal Year Ended June 30, 2014

	Water Operating	Sewer Operating	Totals
Cash flows from operating activities:			
Cash received from customers	\$ 107,976	\$ 139,123	\$ 247,099
Cash paid to suppliers and purchased services	(30,706)	(27,272)	(57,978)
Cash paid to/for employees	(33,752)	(39,226)	(72,978)
Net cash provided/(used) by operating activities	\$ 43,518	\$ 72,625	\$ 116,143
Cash flows from investing activities:			
Loan to water fund	\$ -	\$ (80,000)	\$ (80,000)
Net cash provided/(used) by investing activities	\$ -	\$ (80,000)	\$ (80,000)
Cash flows from capital and related financing activities:			
Capital contributions	\$ 154,067	\$ -	\$ 154,067
Loan proceeds	28,492	-	28,492
Construction of capital assets	(409,359)	-	(409,359)
Principal paid on debt	(21,533)	(19,846)	(41,379)
Interest paid on debt	(7,398)	(58,418)	(65,816)
Borrowing from other funds	148,046	-	148,046
Net cash provided/(used) by capital and financing activities	\$ (107,685)	\$ (78,264)	\$ (185,949)
Net increase/(decrease) in cash, cash equivalents and investments	\$ (64,167)	\$ (85,639)	\$ (149,806)
Cash and investments July 1, 2013	\$ 96,142	\$ 162,494	\$ 258,636
Cash and investments June 30, 2014	\$ 31,975	\$ 76,855	\$ 108,830
Cash and investments in June 30, 2014 statement of net position:			
Cash and cash equivalents	\$ -	\$ 9,306	\$ 9,306
Restricted investments and cash and cash equivalents	31,975	67,549	99,524
Total cash and investments	\$ 31,975	\$ 76,855	\$ 108,830
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED/(USED) BY OPERATING ACTIVITIES:			
Net operating income	\$ 13,600	\$ (134,603)	\$ (121,003)
Adjustments to reconcile operating income to net cash			
Provided/(used) by operating activities:			
Depreciation expense	28,050	208,047	236,097
(Increase)/decrease in accounts receivable, net of uncollectible	955	(965)	(10)
Increase/(decrease) in deferred inflows	674	(94)	580
Increase/(decrease) in compensated absences	239	240	479
Net cash provided/(used) by operating activities	\$ 43,518	\$ 72,625	\$ 116,143

Town of St. Ignatius
Lake County, Montana

Statement of Fiduciary Net Position
As of June 30, 2014

	Agency Fund
ASSETS	
Cash and cash equivalents	\$ <u> -</u>
Total assets	\$ <u><u> -</u></u>
LIABILITIES	
Due to other governments	\$ <u> -</u>
Total liabilities	\$ <u><u> -</u></u>

Town of St. Ignatius
Lake County, Montana

Notes to the Financial Statements
June 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. ORGANIZATION

The Town of St. Ignatius ("Town") was incorporated in 1938 in accordance with the provisions of the State of Montana. It delivers general purpose local government services to the residents of the Town including administration, parks, public safety, water and sewer utilities. The operations of the Town are governed by a Mayor and a four member council elected in a Town-wide election.

B. FINANCIAL REPORTING ENTITY

The Town's financial reporting entity includes the primary government and one discretely presented component unit, the Library. Component units are legally separate entities for which the Town has significant influence or accountability based primarily on operational or financial relationships as described in Governmental Accounting Standard Board Statement No.14, *The Financial Reporting Entity* and No. 39, *Determining Whether Certain Organizations Are Component Units*, as amended by GASB 61 *The Financing Reporting Entity: Omnibus*. Circumstances which determined component unit status for the Town/School Library include: it is a legally separate entity, the Town Council approves a voting majority of the organization's board, and the Town provides workers' compensation insurance and certain related benefits.

C. FINANCIAL STATEMENT PRESENTATION

Government-wide Financial Statements

The government-wide financial statements (the statement of net position and the statement of activities) report information on all the non-fiduciary activities of the Town. The effect of inter-fund balances, within the governmental and business-type activities columns has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on charges for services.

The government-wide statement of activities presents information to show the extent to which direct expenses of a given function or program, are offset by program revenues. Program revenues include: 1) charges to those who directly benefit from goods, services, or privileges provided by a given function or program and 2) operating and capital grants or contributions that are specific to a particular program. All other sources of revenue, such as taxes, intergovernmental revenues and interest earned are considered general revenues.

Neither fiduciary funds (the Town has one agency fund) nor component units that are fiduciary in nature (the Town has none) are included in government-wide financial statements.

Fund Financial Statements

The Town segregates transactions related to certain functions or activities in separate "funds" to aid financial management and to demonstrate compliance and budgeting and other requirements as established by law, grantors and financing. Separate columns are presented for the activities of governmental funds and proprietary funds. The basic financial statements focus on major funds and aggregate non-major funds.

Governmental funds are used for most governmental functions. The focus of the financial statements for governmental funds (the balance sheet and the statement of revenues, expenditures and changes in fund balances) in fund financial statements is on *current financial sources*, which looks at sources, uses and balances of the current period.

Town of St. Ignatius
Lake County, Montana

Notes to the Financial Statements
June 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

C. FINANCIAL STATEMENT PRESENTATION, continued

The Town's major governmental fund:

General Fund—The general fund is the main operating fund of the Town. It is used to account for sources and uses related to administration of general government: public safety, public works, culture and recreation and miscellaneous activities not included in other funds.

Non-major governmental funds include the special revenue funds: gas tax, park maintenance, police training; fire department capital project fund and police department capital project fund.

Proprietary Funds may include enterprise funds such as water and sewer utility operations or certain governmental internal service activities. The Town uses proprietary funds to report its water and sewer "enterprise" operations; the Town does not have internal service funds. Accounting is similar to private business with a focus on results of operations. The Town uses several non-major proprietary funds to assist in tracking debt requirements and internal reservations, but consolidates for reporting purposes. The two major proprietary funds for the year ended June 30, 2014 were:

Water Operations—The water operating fund reflects charges to residents who purchase water from the Town and related activities to operate the system. Included is income from renting the water tower for communications, installations and payments on debt to construct the wells and delivery system.

Sewer Operations—The sewer operating fund reflects charges to residents who use the sewer system and the related activities to operate the system, including debt payments for the new lagoon and infrastructure.

Fiduciary Fund—The fire relief fund receives money from the state for firefighter's benefits and distributes the money to the firefighters association. Generally, this agency type fiduciary fund pays out all receipts by the end of the fiscal year, resulting in zero balances in the fiduciary statement of net position.

D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus refers to what is being measured, basis of accounting refers to when revenues and expenditures/expenses are recognized in the accounts and reported in the financial statements. Basis of accounting is related to the timing of the measurement.

All government-wide statements and the fund financial statements for the proprietary funds are reported using the economic resources focus and accounted for using the accrual basis of accounting. All assets and liabilities (whether current or non-current) are included on the statement of net position, and the operating statements present increases (revenues) and decreases (expenses) in net position. Under the accrual basis of accounting revenues are recognized when earned and expenses are recognized when the liability is incurred.

Government fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. The current financial resources focus places an emphasis on current in-flows, out-flows and results. Modified accrual accounting limits accruals of certain receivables to those items which are called "susceptible to accrual" or measurable and known to be available soon enough after the end of the current period to pay liabilities of the current period. The Town generally considers amounts susceptible to accrual for 30 days.

Town of St. Ignatius
Lake County, Montana

Notes to the Financial Statements
June 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

E. ASSETS, LIABILITIES AND NET POSITION OR EQUITY

1. Cash and Cash Equivalents

The Town's cash and cash equivalents in all fund types are considered to be cash on hand, demand deposits, and some certificates of deposits (time deposits).

For governmental funds the Town considers all nonnegotiable, highly liquid investments with an initial maturity of more than three months to be cash equivalents. For business-type funds the Town considers all nonnegotiable, highly liquid investments with an initial maturity of more than three months to be investments. Allowable investments may include direct obligations of the United States Government; repurchase agreements; savings or time deposits in a state or national bank, building and loan association, savings and loan association, or credit union insured by the FDIC, FSLIC, or NCUA, located in the state. It is also allowable to invest monies under the State Unified Investment Program (STIP) established in Title 17, Chapter 6, of Montana Code Annotated.

Investments are reported at fair value which is determined using selected bases. Short-term investments are reported at cost, which approximates fair value. Cash deposits are reported at carrying amount which reasonably estimates fair value. For the year ended June 30, 2014 the Town held certificates of deposit with maturity periods from six months to two years. Interest payments are deposited, as matured, to the Town's checking account except for one certificate of deposit in the park maintenance fund which accrues interest to the certificates.

2. Deposits

Montana law allows the Town to require security for the portion of deposits not guaranteed or insured by the FDIC. Collateral may be taken up to 50 percent of deposits, if the institution in which the deposits are made has a net worth to total assets ratio of 6 percent or more, and 100 percent if the total ratio is less than 6 percent.

The Town held collateralized securities by the pledging financial institution's trust department or agent in the Town's name in the amount of \$250,000 for the year ended June 30, 2014.

All cash and investments of the Town are held by one FDIC insured financial institution which creates a concentration of risk for the Town. As noted above the Town has addressed this risk through collateralized securities of the institution.

3. Receivables

Governmental funds receivables for June 30, 2014 consist of property taxes. Property is assessed by the County Assessor of Lake County, an agent of the State of Montana. Valuations are determined under State Law and submitted to the County Treasurer for the preparation of tax bills.

Lake County serves as cashier and treasurer for the Town's tax and assessment collections. The collections made on behalf of the Town are accounted for in an agency fund of the County in the Town's name and are remitted to the Town by the County Treasurer.

Property taxes and special assessments are assessed against the property owner of record as of January 1st. The taxes are generally levied on or before the second Monday in August, in connection with the budget process, and billed by the County Treasurer as of November 1st. Property taxes are due in two payments, generally November 30th and May 31st. After those dates, property taxes not paid become delinquent; a lien upon property may be placed. After three years of delinquency, the Town may proceed to exercise the lien and take title of the property.

Town of St. Ignatius
Lake County, Montana

Notes to the Financial Statements
June 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

E. ASSETS, LIABILITIES AND NET POSITION OR EQUITY, continued

3. Receivables, continued

Special assessments are either billed in one installment due November 30th or two equal installments due November 30th and May 31st.

Personal property taxes are generally billed no later than the second Monday in July, based on the prior November's levies. Personal property taxes are due September 30th. The tax billings are considered past due after the respective due dates and are subject to penalty and interest charges.

Taxes paid under protest are not recognized until the protest is settled and taxes are distributed to the Town by the Lake County Treasurer. All other taxes assessed are recorded by the Town when distributed by the County Treasurer. Tax payments to the County by June 30, expected to be received by the Town within 30 days are accrued at June 30.

Water and sewer fund receivables consist of amounts due from consumers. Beginning with the year ended June 30, 2008 an estimate for uncollectible water and sewer receivables was recorded and adjusted annually for a few accounts whose collection is uncertain due to foreclosure or demolished buildings.

4. Interfund Activity

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/due from other funds" (i.e. current portion of interfund loans) or "advances to/advances from other funds" (i.e. the noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances". At June 30, 2014 the water fund borrowed temporarily to cover construction costs.

5. Inventories

Supplies obtained by the Town are recorded as expenditures at the time of purchase. Inventories were immaterial and, therefore, not recorded as of June 30, 2014.

6. Capital Assets

Capital assets, which include land, buildings, improvements other than buildings, equipment, infrastructure and construction in progress, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses.

Improvements which substantially improve or extend the life of an asset are capitalized.

In February of 2006, the Town established a formal capitalization policy providing that any single item costing \$1,000 or more with a life expectancy of five years or more is to be capitalized and depreciated.

The Town has chosen to record depreciation rather than use alternative methods of accounting for capital assets, which are available in Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

Town of St. Ignatius
Lake County, Montana

Notes to the Financial Statements
June 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

E. ASSETS, LIABILITIES AND NET POSITION OR EQUITY, continued

6. Capital Assets, continued

Depreciation for all depreciable assets (land is not depreciated) is calculated using the straight line method over the estimated useful life. Estimated useful lives are as follows:

Buildings	40 Years
Improvements Other Than Buildings	25-40 Years
Infrastructure	5-40 Years
Machinery and Equipment	3-10 Years

Construction in progress is capitalized in the appropriate category when the construction is finished. No depreciation is calculated until the asset is capitalized.

7. Compensated Absences

It is the Town's Policy and state law to permit employees to earn vacation leave from 15 to 24 days per year depending on the individual's years of service. Vacation leave may be accumulated to a total not to exceed two times the maximum number of days earned annually. Excess vacation leave is not forfeited if taken within the first 90 days of the new calendar year. Upon separation, employees are paid 100% of accumulated vacation leave.

It is the Town's policy and state law to permit employees to earn sick leave at a rate of one day per month for fulltime employees. There is no restriction on the amount of sick leave that may be accumulated. Upon separation, employees are paid 25% of accumulated sick leave.

8. Deferred Outflows and Inflows

For the year ended June 30, 2013 the Town implemented Governmental Accounting Standard Board (GASB) Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*; and GASB Statement No. 65 *Items Previously Reported as Assets and Liabilities*. GASB No. 63 amends the format of balance sheets and statements of net position to show deferred outflows as a separate section after assets and deferred inflows as a separate section after liabilities. GASB No. 65 gives guidance on certain elements that have been previously reported as assets and liabilities that should now be reported as deferred outflows, inflows or expensed. The element affecting the Town is deferred tax revenues reported on the balance sheet-governmental funds. Deferred tax revenue in the governmental balance sheet is eliminated in the conversion to the government wide statement of net position.

9. Fund Equity

In government-wide statements, fund equity is represented by restricted or unrestricted net position. In the business-type activities, equity is restricted to meet debt contract requirements for water and sewer fund bonding.

Town of St. Ignatius
Lake County, Montana

Notes to the Financial Statements
June 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

E. ASSETS, LIABILITIES AND NET POSITION OR EQUITY, continued

9. Fund Equity, continued

The Town follows GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. Governmental fund balances are classified as one of the following: non-spendable, restricted, committed, assigned, and unassigned. **Non-spendable** fund balance is either not in a form to spend (i.e. inventory) or precluded from being spent (i.e. endowments); the Town did not have any non-spendable funds. Fund balance that is **restricted** by law or outside sources such as creditors includes receipt and usage of revenues such as gas tax money. **Committed** fund balance must be approved and voted on by the Town's highest authority and can only be un-committed by the same act; for the Town, the capital projects funds are committed. **Assigned** fund balance reflects intentions specified by the council or a person authorized; portions of special revenue funds that do not meet more restrictive classification become assigned; currently only the Town council has authority to "assign" balances. **Unassigned** fund balance is the default category for general fund balances that are not already in other classifications and any negative fund balances in other governmental funds. A single fund may have portions of fund balance in more than one classification; the Town had no negative fund balances at June 30, 2014.

10. Use of Restricted Resources

When amounts can be paid from restricted, committed, assigned or unassigned/unrestricted resources, the Town's policy is to use restricted, committed or assigned resources in the governmental funds first before using unassigned resources; in the business-type funds restricted resources will be used whenever available and appropriate before unrestricted resources.

Revenues listed in the proprietary funds statement of revenues, expenses and changes in net position as "charges pledged as security for bonds" include amounts required to pay bond principal and interest and amounts required to be deposited in restricted accounts for reserves. Water reserve accounts will be fully funded by 2013, sewer reserve accounts from recent bond issues will be fully funded by 2020; the schedule of debt payments to maturity is shown in note 6, part D. Pledged revenues represent approximately 27.2% of water charges and 55.8% of sewer charges.

11. Revenues and Expenses/Expenditures

In addition to revenue classifications listed in note 1, part D. the Town classifies revenue of the proprietary funds as operating revenue unless the revenue results from grants or contributions for capital purposes. The Town's policy is to directly identify expenses; however, some payroll expenses are allocated based on the budget.

NOTE 2: STEWARSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDETARY INFORMATION

The Town's fiscal year begins July 1 and ends the following June 30. An annual appropriated operating budget is adopted each fiscal year for the general, special revenue, debt service, capital projects, and enterprise funds on the budgetary basis of accounting which approximates cash basis. The appropriated budget is prepared by fund, function, and for the general fund by department.

A preliminary budget must be approved and adopted, by resolution, by the later of the second Monday in August or within 45 calendar days of receiving certified taxable values from the Department of Revenue. State code requires that the Town give notice of a public hearing on the preliminary budget.

Town of St. Ignatius
Lake County, Montana

Notes to the Financial Statements
June 30, 2014

NOTE 2: STEWARSHIP, COMPLIANCE AND ACCOUNTABILITY, continued

A. BUDETARY INFORMATION, continued

Generally, the Town receives notice of taxable values by early August, holds the public hearing, approves and adopts a preliminary budget and gives public notice of the final budget by the end of August or early September.

The Town may amend the preliminary budget after a public hearing and consider any public comment. The amended budget constitutes the final budget. The final budget must be balanced so that appropriations do not exceed projected beginning balances plus revenues of each fund for the fiscal year. The final budget resolution has an effective date of July 1 of the fiscal year.

The Town has the right to transfer budgetary authority among the various line items within a fund, but not between funds. The Town may amend a final budget when necessary. The procedure to amend the budget can be made only after the Town prepares a resolution, notice is published of a public hearing, and a public hearing is held in accordance with state law.

All appropriations except for construction in progress, lapse at the end of the fiscal year. Encumbrance accounting is not used by the Town.

NOTE 3: CASH, CASH EQUIVALENTS AND INVESTMENTS

All of the Town's cash and investments are with one local bank. The Town maintained one interest bearing general checking account which earned interest at a rate of 0.15% for the year ending June 30, 2014 and one non-interest bearing account for grant and bond receipts. All accounts were insured by the Federal Deposit Insurance Corporation (FDIC) or have pledged collateral for deposits greater than FDIC limits. Investments consist of several nonnegotiable time deposits with a weighted average maturity of 1.35 years.

The composition of the Town's cash, cash equivalents, and investments on June 30, 2014, was as follows:

	2014	Cash in the Statement of Net Position	
Cash on hand	\$ 50		
Cash and cash equivalents:			
Demand deposits	100,240	Cash and cash equivalents	\$ 100,766
Time deposits	19,472	Restricted cash and investments	<u>108,996</u>
Investments:		Total	<u>\$ 209,762</u>
Time deposits	<u>90,000</u>		
Total cash, cash equivalents and investments	<u>\$ 209,762</u>		

At June 30, 103 the Town held \$109,472 in certificates of deposit of which investments reported by the Town of \$90,000 as of June 30, 2014 represent certificates of deposit with an initial maturity of greater than 3 months assigned to proprietary funds.

As described in note 6, the water and sewer funds are required to accumulate cash in various reserve or redemption accounts. This cash is reported as "restricted" in the financial statements.

Town of St. Ignatius
Lake County, Montana

Notes to the Financial Statements
June 30, 2014

NOTE 3: CASH, CASH EQUIVALENTS AND INVESTMENTS, continued

Credit Risk—State law authorizes the Town to invest in the State Short-Term Investment Pool (STIP); repurchase agreements; registered warrants of the County or of municipalities or school districts located in the County; US government treasury bills, notes, bonds, and other treasury obligations and US government security money market funds if the fund meets certain conditions. Credit risk is minimized by compliance with State law.

Custodial Credit Risk-Deposits—This is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town follows Montana Code concerning collateral or insurance for deposits.

NOTE 4: INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund transfers and loans were as follows for the year ended June 30, 2014:

<u>Transfers Out</u>	<u>Total Out</u>	<u>Transfer In</u>			<u>Total In</u>	<u>Purpose</u>
		<u>General Fund</u>	<u>Fire Capital</u>	<u>Police Capital</u>		
General Fund	\$ (6,800)	\$ -	\$ 3,400	\$ 3,400	\$ 6,800	Annual Contribution
Local Government Review	\$ (92)	\$ 92	\$ -	\$ -	\$ 92	Close Fund
<u>Loans In</u>						
<u>Loans Out</u>		<u>Water</u>			<u>Total In</u>	<u>Purpose</u>
General Fund	\$ (68,046)	\$ 68,046			\$ 68,046	Temporary Cash Loan
Sewer	\$ (80,000)	\$ 80,000			\$ 80,000	Temporary Cash Loan

NOTE 5: CHANGES IN CAPITAL ASSETS

Capital assets activity for the **governmental funds** for the year ended June 30, 2014 was as follows:

	<u>Balance</u>			<u>Balance</u>
	<u>July 1, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2014</u>
Capital assets not being depreciated:				
Land	\$ 24,050	\$ -	\$ -	\$ 24,050
Total capital assets not being depreciated:	\$ 24,050	\$ -	\$ -	\$ 24,050
Other capital assets				
Buildings and Structures	\$ 162,888	\$ -	\$ -	\$ 162,888
Improvements Other Than Buildings	27,478	-	-	27,478
Machinery and Equipment	307,192	-	-	307,192
Infrastructure	9,688	-	-	9,688
Total other capital assets at historical cost	\$ 507,246	\$ -	\$ -	\$ 507,246
Less: accumulated depreciation	(308,997)	(23,937)	-	(332,934)
Total other capital assets at historical cost, net	\$ 198,249	\$ (23,937)	\$ -	\$ 174,312
Net book value	\$ 222,299	\$ (23,937)	\$ -	\$ 198,362

Town of St. Ignatius
Lake County, Montana

Notes to the Financial Statements
June 30, 2014

NOTE 5: CHANGES IN CAPITAL ASSETS, continued

Governmental depreciation expense was charged to functions as follows:

General Government	\$ 191
Public Safety	20,559
Public Works	2,188
Culture & Recreation	999
Total	<u>\$ 23,937</u>

Capital assets activity for the **water fund** for the year ended June 30, 2014 was as follows:

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Capital assets not being depreciated:				
Land	\$ 1,158	\$ -	\$ -	\$ 1,158
Construction In Progress	311,703	477,258	(7,499)	781,462
Total capital assets not being depreciated:	<u>\$ 312,861</u>	<u>\$ 477,258</u>	<u>\$ (7,499)</u>	<u>\$ 782,620</u>
Other capital assets				
Buildings and Structures	\$ 422,766	\$ -	\$ -	\$ 422,766
Improvements Other Than Buildings	26,472	-	-	26,472
Machinery and Equipment	3,867	-	-	3,867
Infrastructure	658,854	-	-	658,854
Total other capital assets at historical cost	\$ 1,111,959	\$ -	\$ -	\$ 1,111,959
Less: accumulated depreciation	(835,517)	(28,050)	-	(863,567)
Total other capital assets at historical cost, net	<u>\$ 276,442</u>	<u>\$ (28,050)</u>	<u>\$ -</u>	<u>\$ 248,392</u>
Net book value	<u>\$ 589,303</u>	<u>\$ 449,208</u>	<u>\$ (7,499)</u>	<u>\$ 1,031,012</u>

Capital assets activity for the **sewer fund** for the year ended June 30, 2014 was as follows:

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Capital assets not being depreciated:				
Land	\$ 262,795	\$ -	\$ -	\$ 262,795
Total capital assets not being depreciated:	<u>\$ 262,795</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 262,795</u>
Other capital assets				
Machinery and Equipment	\$ 8,168	\$ -	\$ -	\$ 8,168
Infrastructure	4,814,727	-	-	4,814,727
Total other capital assets at historical cost	\$ 4,822,895	\$ -	\$ -	\$ 4,822,895
Less: accumulated depreciation	(787,693)	(208,047)	-	(995,740)
Total other capital assets at historical cost, net	<u>\$ 4,035,202</u>	<u>\$ (208,047)</u>	<u>\$ -</u>	<u>\$ 3,827,155</u>
Net book value	<u>\$ 4,297,997</u>	<u>\$ (208,047)</u>	<u>\$ -</u>	<u>\$ 4,089,950</u>

Town of St. Ignatius
Lake County, Montana

Notes to the Financial Statements
June 30, 2014

NOTE 6: LIABILITIES

A. REVENUE BOND-Water Fund

Revenue bonds pledge income derived from acquired or constructed assets to pay debt service on the bonds. All water revenue bonds are from the State Revolving Fund for construction of system infrastructure. The Town's revenue bonds outstanding for the year ending June 30, 2014 were as follows:

Bond	Origination Date	Interest Rate	Bond Term	Due Date	Bond Amounts	Annual Payment	Balance June 30, 2014
Series A	2013	3%	10 Yrs	2023	\$ 226,500	\$ 26,385	\$ 196,672
Series B	2012	NA	NA	NA	76,000	*	76,000
Series C	2013	3%	20 Yrs	2033	76,000	* 2,995	73,500
Total					\$ 378,500	\$ 29,380	\$ 346,172

*The series B bond is to be forgiven when the current project is complete.

The Town is required to create and maintain a "Revenue Bond Redemption Account" with monthly deposits equal to one-sixth of the next semi-annual installment payment due on the bond. Semi-annual payments are made from this account. Beginning with the first monthly apportionment made in the month following the date of closing that bond sale, the amount of \$238 was required to be transferred to a "Revenue Bond Reserve Account" until the balance in the reserve account was \$13,193. As of June 30, 2014 the Town is in compliance with both revenue bond requirements.

B. REVENUE BOND-Sewer Fund

The Town committed to revenue bond issues in April 2007 through USDA Rural Development to help finance a new sewer lagoon; pledging income from sewer charges. For the sewer bonds the Town is required to create and maintain a "Short Lived Asset Replacement Reserve" by depositing \$300 a month, starting in the month following the date of closing on the bond sale until a \$32,740 reserve is accumulated. The Town must establish and fund monthly a debt service reserve account equal to 10% of the monthly payment, each month, over the life of the loan until one annual installment is accumulated. These reserves are required to cover emergency maintenance and repairs and debt repayment, should the need arise. The Town is also required to maintain a "Revenue Bond Redemption" account to accumulate annual payments of the sewer revenue bonds.

Bond	Origination Date	Interest Rate	Bond Term	Due Date	Bond Amounts	Annual Payment	Balance June 30, 2014
03	2007	4.125%	40 Yrs	2048	\$ 1,465,000	\$ 75,780	\$ 1,360,727
05	2007	4.125%	40 Yrs	2048	48,000	2,484	44,577
Total					\$ 1,513,000	\$ 78,264	\$ 1,405,304

Town of St. Ignatius
Lake County, Montana

Notes to the Financial Statements
June 30, 2014

NOTE 6: LIABILITIES, continued

C. CHANGES IN BOND DEBT

Bond	Principal Balance			Principal Due Within 1 Year
	June 30, 2013	Additions	Reductions	
Series A	\$ 216,705	\$ -	\$ (20,033)	\$ 20,639
Series B	69,328	6,672	-	-
Series C	53,180	21,820	(1,500)	1,500
Total Water	\$ 339,213	\$ 28,492	\$ (21,533)	\$ 22,139
Sewer 03	\$ 1,379,943	\$ -	\$ (19,216)	\$ 18,508
Sewer 05	45,207	-	(630)	606
Total Sewer	\$ 1,425,150	\$ -	\$ (19,846)	\$ 19,114
Water & Sewer Total	\$ 1,764,363	\$ 28,492	\$ (41,379)	\$ 41,253

D. REQUIREMENTS TO AMORTIZE BOND DEBT

The annual requirement to amortize all long term debt outstanding as of June 30, 2014 was as follows:

FY	Water Bond A		Water Bond C		Sewer Bond 03		Sewer Bond 05		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 20,639	\$ 5,746	\$ 1,500	\$ 1,367	\$ 18,508	\$ 57,282	\$ 606	\$ 1,878	\$ 41,253	\$ 66,273
2016	21,263	5,123	1,500	1,435	19,302	56,477	632	1,852	42,697	64,887
2017	21,905	4,480	1,500	1,405	20,131	55,649	659	1,825	44,195	63,359
2018	22,567	3,818	1,500	1,375	20,995	54,785	687	1,797	45,749	61,775
2019	23,249	3,136	1,500	1,345	21,896	53,884	717	1,767	47,362	60,132
2020-2024	87,049	5,301	15,000	6,150	124,413	254,486	3,999	8,215	230,461	274,152
2025-2029			30,000	3,750	153,508	225,392	5,104	7,525	188,612	236,667
2030-2034			21,000	840	189,406	189,494	6,205	6,216	216,611	196,550
2035-2039					233,699	145,201	7,658	4,763	241,357	149,964
2040-2044					288,350	90,550	9,451	2,971	297,801	93,521
2045-2048					270,519	24,598	8,859	807	279,378	25,405
Total	\$ 196,672	\$ 27,604	\$ 73,500	\$ 17,667	\$ 1,360,727	\$ 1,207,798	\$ 44,577	\$ 39,616	\$ 1,675,476	\$ 1,292,685
					Plus Bond B amount expected to be forgiven				76,000	
					Long term debt balance at 6/30/14				\$ 1,751,476	

E. COMPENSATED ABSENCES

Compensated absences balances reported as a component of short and long term debt included in the governmental activities and the business-type activities and balance at June 30, 2014 were:

	Balance June 30, 2013	Increase/ (Decrease)	Balance June 30, 2014	Due in 1 Year
Governmental	\$ 6,704	\$ 503	\$ 7,207	\$ 2,563
Business-type	\$ 9,614	\$ 479	\$ 10,093	\$ 3,032

Town of St. Ignatius
Lake County, Montana

Notes to the Financial Statements
June 30, 2014

NOTE 7: STATE-WIDE RETIREMENT PLANS

The Town participates in a statewide, cost-sharing, multiple employer, defined benefit retirement plan which covers all employees except those who work less than 960 hours per year and elect not to participate. The Public Employees Retirement System (PERS) provides retirement, disability, and death benefits to plan members and beneficiaries with amounts determined by the state. The plan is established by state law and is administered by the State of Montana.

The plan issues a publicly available financial report that includes financial statements and required supplementary information for the plans. The reports may be obtained from the following: Public Employees Retirement System, PO Box 200131, 1712 Ninth Avenue, Helena, Montana 59620-0131, (406) 444-3154.

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

Paid by:	<u>Employer</u>	<u>Employee</u>	<u>State of MT</u>	<u>Total</u>	
PERS	7.07%	6.9%	0.1%	14.07%	Hired before July 1, 2011
PERS	7.07%	7.9%	0.1%	15.07%	Hired after July 1, 2011

The amounts contributed to PERS during the fiscal year ended June 30, 2014 were equal to the required contribution for that year. The amounts contributed by the Town, Employees, and State of Montana for the years ended June 30 are listed below:

<u>Year</u>	<u>Town</u>	<u>Employees</u>	(On Behalf) <u>State of MT</u>	<u>Total</u>
2014	\$ 8,282	\$ 7,820	\$ 99	\$ 16,251
2013	\$ 7,314	\$ 7,332	\$ 117	\$ 14,763
2012	\$ 8,215	\$ 8,282	\$ 115	\$ 16,612

The "on-behalf" payments by the State of Montana are not recorded in the financial statements because they are considered immaterial.

NOTE 8: RISK MANAGEMENT

The Town faces a considerable number of risks of loss and damages to property and contents, employee torts, professional errors and omissions, environment damage, employee injuries, etc. A variety of methods are used to provide insurance for these risks. The Town joined together with other Montana governments to establish the Montana Municipal Insurance Authority (MMIA) which provides workers' compensation and tort liability plans. Both public entity risk pools currently operate a common risk management and insurance program for the member governments. The Town also purchased its workers' compensation through MMIA. MMIA changed its name in 2009 to Montana Municipal Interlocal Authority.

The liability limits for damages in tort action are \$750,000 per claim and \$1.5 million per occurrence with a \$750 deductible per occurrence. State tort law limits the Town's liability to \$1.5 million. The Town pays an annual premium for its employee injury insurance coverage, which is allocated to the general and enterprise fund types, based on total salaries and wages. The agreements for the formation of the pool provide that they will be self-sustaining through member premiums.

Audited financial statements for the plan are available from Montana Municipal Interlocal Authority, PO Box 6669, Helena, Montana, 59604-6669, (406) 443-0907 or (800) 635-3089. See note 1.E.2 for a discussion of cash risk management.

Town of St. Ignatius
Lake County, Montana

Notes to the Financial Statements
June 30, 2014

NOTE 9: LITIGATION

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. No litigation liability was recorded at June 30, 2014.

NOTE 10: COMPONENT UNIT

The Town's financial statements include the activities of one component unit, the St. Ignatius Town Library. The Library is a legally separate entity; however its board appointments are subject to Town council approval. It is physically located in the high school building but is available for community use. Sources of funds for library operations include levied mills which are received by the Library and used to pay the librarian's salary and related expenses. Grants and donations are generally directly received by the Library Board and other expenses are handled by the board. The Town Clerk is also the Library Board treasurer and provides financial services for the Library.

Condensed Financial Information for St. Ignatius Public Library:

Balance sheet:

Cash in checking and savings	\$ 24,911
Certificates of deposit	35,000
Total assets	<u>\$ 59,911</u>
Liabilities	\$ -
Fund balance	59,911
Total liabilities and fund balance	<u>\$ 59,911</u>

Reconciliation to government-wide statement of net position:

Add capital assets net of depreciation	\$ 10,349
Total net position on statement of net position	<u>\$ 70,260</u>

Statement of revenues, expenses and changes in fund balances:

Shared tax revenue	\$ 7,490
Investment earnings	314
Total revenue	<u>\$ 7,804</u>
Personal services (Librarian)	\$ 6,937
Total expenses	<u>\$ 6,937</u>
Excess of revenue over expenses	\$ 867
Fund balance July 1, 2013	\$ 69,893
Fund balance June 30, 2014	<u>\$ 70,760</u>

Reconciliation to government-wide statement of activities:

Subtract depreciation expense	\$ (500)
Change in net position on statement of activities	<u>\$ 367</u>

Town of St. Ignatius
Lake County, Montana

Notes to the Financial Statements
June 30, 2014

NOTE 11: JOINT VENTURE

The Town participates in a joint venture with Lake County, the City of Polson and the City of Ronan to operate airports in the county. The Town owns land used by a Town airport; all other airport operations are handled by the Lake County Joint Airport Board; the Town appoints one representative to the joint board. Financial information is available from Lake County.

NOTE 12: SUBSEQUENT EVENT

In the spring of 2013 the Town received notice of a \$430,700 CDBG grant which would allow the Town to complete the ongoing water project. The engineering through Great West had completed the design in June 2013 and the construction for the project was contracted in the fall of 2013. The construction was supposed to begin October 28, 2013, but the contractor requested the construction of the project be delayed until March of 2014. At June 30, 2014 construction was ongoing with expected completion in fiscal 2015.

In November 2014, the Town council approved water and sewer rate increases effective January 1, 2015 to accommodate inflation increases in expenses and to maintain bond compliance agreements.

REQUIRED SUPPLEMENTARY INFORMATION

Town of St. Ignatius
Lake County, Montana

General Fund-Schedule of Revenues, Expenditures and Changes in Fund Balances-
Budget to Actual
for the Fiscal Year Ended June 30, 2014

	Original Budget	Final Budget	Actual Budget Basis	Actual to Budget Variance	Adjustments to GAAP	GAAP Basis Reported
REVENUES						
Taxes	\$ 89,147	\$ 89,147	\$ 87,915	\$ (1,232)	\$ 1,819	\$ 89,734
Licenses and permits	2,670	2,670	2,325	(345)		2,325
Intergovernmental revenue	48,442	48,442	53,863	5,421		53,863
Charges for services	-	-	5	5		5
Fines and forfeitures	5,467	5,467	7,996	2,529		7,996
Miscellaneous	9,424	9,424	7,894	(1,530)		7,894
Investment earnings	1,200	1,200	1,517	317		1,517
Total revenues	\$ 156,350	\$ 156,350	\$ 161,515	\$ 5,165	\$ 1,819	\$ 163,334
EXPENDITURES						
Legislative services	\$ 7,100	\$ 7,100	\$ 7,210	\$ 110		\$ 7,210
Judicial services	11,000	11,000	11,812	812		11,812
Financial services	4,625	4,625	4,267	(358)		4,267
Elections	-	-	788	788		788
Legal services	2,250	2,250	2,700	450		2,700
Facilities administration	1,400	1,400	2,160	760		2,160
Law enforcement services	91,800	67,468	67,468	-		67,468
Detention and correction	60	60	3	(57)		3
Fire protection	12,100	12,100	18,150	6,050		18,150
Emergency services	3,400	3,400	3,665	265		3,665
Road and street services	13,400	13,400	13,325	(75)		13,325
Airport services	70	70	69	(1)		69
Garbage/solid waste	1,150	1,150	1,215	65		1,215
Animal control services	5,095	5,095	3,239	(1,856)		3,239
Parks	2,900	2,900	1,999	(901)		1,999
Total expenditures	\$ 156,350	\$ 132,018	\$ 138,070	\$ 6,052	\$ -	\$ 138,070
Excess of revenues over (under) expenditures	\$ -	\$ 24,332	\$ 23,445	\$ (887)		\$ 23,445
OTHER FINANCING USES						
Transfers in	\$ -	\$ -	\$ 92	\$ 92		\$ 92
Transfers out	\$ -	\$ -	\$ (6,800)	\$ (6,800)		\$ (6,800)
Special item-fire truck accident damage	\$ -	\$ (22,779)	\$ (22,779)	\$ -		\$ (22,779)
Net change in fund balance	\$ -	\$ 1,553	\$ (6,042)	\$ (7,595)		\$ (6,042)
Fund balance, beginning of year	\$ 66,080	\$ 66,080	\$ 105,509	\$ 21,952	\$ -	\$ 105,509
Fund balance, end of year	\$ 66,080	\$ 67,633	\$ 99,467	\$ 14,357	\$ -	\$ 99,467

Town of St. Ignatius
Lake County, Montana

Notes to Required Supplementary Information

NOTE A: BUDGETARY BASIS

The Town's budgetary basis approximates modified accrual GAAP basis, except for revenues susceptible to accrual.

NOTE B: FINAL BUDGET

The Town set its original budget in accordance with state requirements explained in note 2.A, with budget approval on September 3, 2013.

NOTE C: ADJUSTMENT TO GAAP

Tax revenue – For budgeting purposes the Town generally looks at actual cash collections and payments for the past year between July 1 and the following June 30. However, for GAAP purposes tax collections performed by the county during June but not sent to the Town until July are accrued; each year the increase or decrease in the accrual is an adjustment to GAAP fund financial statements for tax collections.

NOTE D: SPECIAL ITEM

The Town paid for repairs to a fire truck in late fiscal 2014 which was scheduled to be reimbursed by insurance in early fiscal 2015. The emergency expenditure was appropriately approved by the Town Council.

COTE & ASSOCIATES, CPA, PLLC

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1225 Cleveland, Suite 1
P.O. Box 430
Missoula, MT 59806

INDEPENDENT AUDITOR'S REPORT

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*

Honorable Mayor and Council
Town of St. Ignatius
Lake County
St. Ignatius, Montana

I have audited, 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, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of St. Ignatius (Town), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued my report thereon dated December 1, 2014.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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 basic financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My 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. Given these limitations, during my audit I did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. See findings 2014-1 and 2014-2 for significant deficiencies identified.

COMPLIANCE AND OTHER MATTERS

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

PURPOSE OF THIS REPORT

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

Cote & Associates, CPA, PLLC

Missoula, Montana
December 31, 2014

Town of St. Ignatius
Lake County, Montana

Schedule of Findings and Prior Audit Findings
for the Year Ended June 30, 2014

2014-1 Segregation of Duties (Repeat of 2013-1)

Statement of Condition: The Town employs one clerk/treasurer with no other staff for accounting and general office duties.

Criteria: A good system of internal control would segregate to the greatest extent possible the functions of cash handling, cash reconciliation and posting original entries into the accounting system. Internal control over all financial recordkeeping and reporting would also implement a system of segregation and/or compensating controls to avert or correct inherent errors which are likely to occur in normal everyday activity. The Town has only one clerk/treasurer but has chosen not to design significant compensating controls other than hiring an engineer/grants manager for major projects.

Effect of Condition: Occasional small errors, primarily in entries in the accounting software system which would most likely be caught if more than one person were cross-reviewing work. The same person opens mail and receives payments made in person, creates receipts and deposits money with no oversight so the system is heavily dependent on that single person. The public works director does receive payments in the clerk's absence, but does not perform accounting duties.

Recommendation: Because of its size the Town is likely to continue to have only one clerk. The council could design compensating controls such as a council member reviewing bank reconciliations, a more in depth month by month budget review against actual, using the police department to physically make bank deposits, a council member scanning the general ledger print out each month, etc to address identified inherent risks.

2014-2 The Town does not have the ability to prepare financial statements according to generally accepted accounting principles. (Repeat of 2013-2)

Statement of Condition: No person in the Town's management system has the training or the time to prepare the Town's basic financial statements.

Criteria: As part of adequate internal control an entity needs to be able to prepare acceptable financial statements or be able to review financial statements prepared by outside contractors and determine if the financial statements 1) accurately represent the position and activities of the entity, and 2) are prepared according to acceptable accounting principles, which for a governmental entity, is the guidance provided by the Governmental Accounting Standards Board.

Effect of Condition: The entity relies on the auditor to prepare proposed adjustments for annual capitalization, depreciation and other items, and to prepare draft financial statements. The clerk reviews the proposed adjustments and financial statements and council approves major adjustments. The clerk can review and determine the adequacy of criteria number 1 but only partially criteria number 2.

Recommendation: The council needs to continue to be involved in reviewing draft financial statements and consulting with the clerk on adjustments. The council may need from time to time to employ accounting consultants, other than the auditor, to review financial statements if they are unable to determine the validity of proposed changes or method of presentation. As an alternative the Town could implement a system to review the draft financial statements and notes before the council accepts the audit report; this would remove finding 2014-2 from future reports.

SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS

See 2014-1 and 2014-2 for repeat findings.

**TOWN OF ST. IGNATIUS
P O BOX 103
ST. IGNATIUS MT 59865
December 10, 2014
406-745-3791
fax 406-745-2800**

Cote and Associates, CPAs, PLLC
P O BOX 430
Missoula MT 59806

Montana Department of Administration
Local Government Services
POB 200547
Helena MT 59620-0547

We are providing this letter in connection with the audit performed by Cote and Associates of the financial statements of the Town of St. Ignatius (the "Town") as of June 30, 2014 as a response to the audit findings.

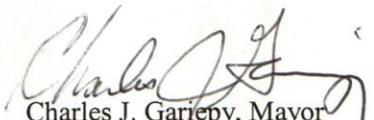
Regarding finding 2014-1 Segregation of Duties:

There continues to be generally only one town employee, the part time clerk-treasurer, handling the receipting, reconciling and depositing of town funds. In her absence the public works director picks up the mail and receipts funds. In addition the Mayor and Town Council will continue to review the monthly receipts and reconciliations and approve all expenditures. Because of the small size of the Town and of its limited budget that situation is likely to continue. From July through December 2013 year council member Clarence "Mack" McConnell used a check list to review bank reconciliations, treasurer's reports and software balance sheets. The council feels that, at this time, a quarterly budget-to-actual review is adequate.

Regarding finding 2014-2 Inability to Prepare GAPP Financial Statements

The Town Council (management) would be very interested in having the time to review the draft financial statements and notes before accepting the completed audit report. If the council receives the 2013-14 draft before December 20, 2014 they would have time to review it before the January 6, 2015 meeting. Because of the small size of the Town and of its limited budget the Town would prefer not to employ accounting consultants other than the auditor unless absolutely necessary. At this point the council and I do not feel that the cost of remedying this deficiency would justify the benefits to be obtained.

Sincerely,


Charles J. Gariepy, Mayor
Town of St. Ignatius, Montana