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SERVICES BUREAU

TOWN OF STEVENSVILLE  
RAVALLI COUNTY, MONTANA  
Fiscal Year Ended June 30, 2009

**AUDIT REPORT**

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



TOWN OF STEVENSVILLE  
RAVALLI COUNTY, MONTANA  
Fiscal Year Ended June 30, 2009

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TOWN OF STEVENSVILLE  
RAVALLI COUNTY, MONTANA

**ORGANIZATION**

Fiscal Year Ended June 30, 2009

Susan Evans

Mayor

**TOWN COUNCIL**

Tom Brown  
Clayton Floyd, Jr.  
Paul Ludington  
Robin Holcomb

Council Member  
Council Member  
Council Member  
Council Member

**TOWN OFFICIALS**

Keithi Worthington  
Barbara Kohn  
Roni Kimp  
James Marble  
Denise Philley  
Jeff Motley

Attorney  
City Judge  
Clerk / Treasurer  
Chief of Police  
Deputy/Utility Clerk Collection  
Fire Chief

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

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

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**INDEPENDENT AUDITOR'S REPORT**

Mayor and Town Council  
Town of Stevensville  
Ravalli County  
Stevensville, Montana

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Stevensville, Ravalli County, Montana, as of and for the year ended June 30, 2009, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Stevensville management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, 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 of material misstatement. 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. We believe that our audit provides a reasonable basis for our opinions.

For the year ended June 30, 2009 the Town's water fund accounts receivable were understated by \$16,175 and the sewer fund accounts receivable were overstated by \$16,555.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary to adjust the receivables in the water and sewer funds as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Stevensville, Ravalli County, Montana, as of June 30, 2009, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 3, 2010, on our consideration of the Town of Stevensville's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The budgetary comparison information on page 29, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Town of Stevensville, Ravalli County, Montana has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

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

February 3, 2010

**Town of Stevensville, Ravalli County, Montana**  
**Statement of Net Assets**  
**June 30, 2009**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Current assets:			
Cash and investments	\$ 440,372	\$ 671,446	\$ 1,111,818
Taxes and assessments receivable, net	27,908	-	27,908
Accounts receivable - net	-	137,550	137,550
Notes and loans receivable	6,336	-	6,336
Due from other governments	2,105	-	2,105
Total current assets	<u>\$ 476,721</u>	<u>\$ 808,996</u>	<u>\$ 1,285,717</u>
Noncurrent assets			
Restricted cash and investments	\$ -	\$ 171,829	\$ 171,829
Capital assets - land	2,706	663,198	665,904
Capital assets - construction in progress	-	81,513	81,513
Capital assets - depreciable, net	253,758	4,674,817	4,928,575
Total noncurrent assets	<u>\$ 256,464</u>	<u>\$ 5,591,357</u>	<u>\$ 5,847,821</u>
Total assets	<u>\$ 733,185</u>	<u>\$ 6,400,353</u>	<u>\$ 7,133,538</u>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable	\$ 11,205	\$ 5,469	\$ 16,674
Current portion of long-term capital liabilities	-	36,266	36,266
Current portion of compensated absences payable	32,723	41,280	74,003
Total current liabilities	<u>\$ 43,928</u>	<u>\$ 83,015</u>	<u>\$ 126,943</u>
Noncurrent liabilities			
Deposits payable	\$ -	\$ 276	\$ 276
Noncurrent portion of long-term capital liabilities	-	1,884,887	1,884,887
Noncurrent portion of compensated absences	11,073	19,447	30,520
Total noncurrent liabilities	<u>\$ 11,073</u>	<u>\$ 1,904,610</u>	<u>\$ 1,915,683</u>
Total liabilities	<u>\$ 55,001</u>	<u>\$ 1,987,625</u>	<u>\$ 2,042,626</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	\$ 256,464	\$ 3,498,375	\$ 3,754,839
Restricted for capital projects	51,173	-	51,173
Restricted for debt service	-	171,828	171,828
Restricted for special projects	287,469	-	287,469
Unrestricted	83,078	742,525	825,603
Total net assets	<u>\$ 678,184</u>	<u>\$ 4,412,728</u>	<u>\$ 5,090,912</u>
Total liabilities and net assets	<u>\$ 733,185</u>	<u>\$ 6,400,353</u>	<u>\$ 7,133,538</u>

See accompanying Notes to the Financial Statements

Town of Stevensville, Ravalli County, Montana  
Statement of Activities  
For the Fiscal Year Ended June 30, 2009

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		Total
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Primary Government		
					Business- type Activities		
<b>Primary government:</b>							
Governmental activities:							
General government	\$ 174,794	\$ 19,875	\$ -	\$ (154,919)	\$ -	\$ (154,919)	
Public safety	245,962	57,824	11,496	(176,642)	-	(176,642)	
Public works	103,410	-	36,063	(67,347)	-	(67,347)	
Public health	62	-	-	(62)	-	(62)	
Culture and recreation	40,203	-	-	(40,203)	-	(40,203)	
Housing and community development	8,580	-	-	(8,580)	-	(8,580)	
Total governmental activities	\$ 573,011	\$ 77,699	\$ 47,559	\$ (447,753)	\$ -	\$ (447,753)	
Business-type activities:							
Water	\$ 283,731	\$ 233,040	\$ -	\$ -	\$ (50,691)	\$ (50,691)	
Sewer	332,485	358,657	-	-	26,172	26,172	
Airport	225,913	19,521	55,650	-	(150,742)	(150,742)	
Total business-type activities	\$ 842,129	\$ 611,218	\$ 55,650	\$ -	\$ (175,261)	\$ (175,261)	
Total primary government	\$ 1,415,140	\$ 688,917	\$ 103,209	\$ (447,753)	\$ (175,261)	\$ (623,014)	
General Revenues:							
Property taxes for general purposes				\$ 224,550	\$ -	\$ 224,550	
Miscellaneous				31,483	2,017	33,500	
State entitlement				139,766	-	139,766	
Local Option Tax				34,272	-	34,272	
Licenses and permits				9,004	-	9,004	
Total general revenues, special items and transfers				\$ 439,075	\$ 2,017	\$ 441,092	
Change in net assets				\$ (8,678)	\$ (173,244)	\$ (181,922)	
Net assets - beginning				\$ 686,862	\$ 4,659,117	\$ 5,345,979	
Restatements				-	(73,145)	(73,145)	
Net assets - beginning - restated				686,862	4,585,972	5,272,834	
Net assets - end				\$ 678,184	\$ 4,412,728	\$ 5,090,912	

See accompanying Notes to the Financial Statements



Town of Stevensville, Ravalli County, Montana  
 Balance Sheet  
 Governmental Funds  
 June 30, 2009

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
Current assets:			
Cash and investments	\$ 90,830	\$ 349,542	\$ 440,372
Taxes and assessments receivable, net	27,145	763	27,908
Notes and loans receivable	-	6,336	6,336
Due from other funds	10,300	-	10,300
Due from other governments	-	2,105	2,105
Total current assets	\$ 128,275	\$ 358,746	\$ 487,021
 Total assets	\$ 128,275	\$ 358,746	\$ 487,021
 <b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	\$ 2,164	\$ 9,041	\$ 11,205
Due to other funds	-	10,300	10,300
Deferred revenue	27,145	763	27,908
Total current liabilities	\$ 29,309	\$ 20,104	\$ 49,413
Total liabilities	\$ 29,309	\$ 20,104	\$ 49,413
 <b>FUND BALANCES</b>			
Reserved for capital projects	\$ -	\$ 51,173	\$ 51,173
Unreserved reported in general fund	98,966	-	98,966
Unreserved reported in special revenue funds	-	287,469	287,469
Total fund balance	\$ 98,966	\$ 338,642	\$ 437,608
Total liabilities and fund balance	\$ 128,275	\$ 358,746	\$ 487,021

See accompanying Notes to the Financial Statements

**Town of Stevensville, Ravalli County, Montana**  
**Reconciliation of the Governmental Funds Balance Sheet to the**  
**Statement of Net Assets**  
**June 30, 2009**

<b>Total fund balances - governmental funds</b>	\$	437,608
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		256,464
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.		27,908
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.		(43,796)
<b>Total net assets - governmental activities</b>	<b>\$</b>	<u><u>678,184</u></u>

See accompanying Notes to the Financial Statements

**Town of Stevensville, Ravalli County, Montana**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Fiscal Year Ended June 30, 2009**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>			
Taxes and assessments	\$ 245,447	\$ 21,528	\$ 266,975
Licenses and permits	9,004	16,104	25,108
Intergovernmental	141,127	51,882	193,009
Charges for services	19,819	56	19,875
Fines and forfeitures	41,720	-	41,720
Miscellaneous	25,351	450	25,801
Total revenues	<u>\$ 482,468</u>	<u>\$ 90,020</u>	<u>\$ 572,488</u>
<b>EXPENDITURES</b>			
General government	\$ 157,811	\$ 482	\$ 158,293
Public safety	201,353	25,243	226,596
Public works	81,126	12,268	93,394
Public health	62	-	62
Culture and recreation	37,133	-	37,133
Housing and community development	-	8,580	8,580
Capital outlay	30,281	-	30,281
Total expenditures	<u>\$ 507,766</u>	<u>\$ 46,573</u>	<u>\$ 554,339</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (25,298)</u>	<u>\$ 43,447</u>	<u>\$ 18,149</u>
Net Change in Fund Balance	<u>\$ (25,298)</u>	<u>\$ 43,447</u>	<u>\$ 18,149</u>
Fund balances - beginning	\$ 124,264	\$ 295,195	\$ 419,459
Fund balance - ending	<u>\$ 98,966</u>	<u>\$ 338,642</u>	<u>\$ 437,608</u>

See accompanying Notes to the Financial Statements

**Town of Stevensville, Ravalli 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, 2009**

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

<b>Net change in fund balances - total governmental funds</b>	\$	18,149
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		30,281
- Depreciation expense		(32,452)
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)		(8,155)
The change in compensated absences is shown as an expense in the Statement of Activities		(16,501)
<b>Change in net assets - Statement of Activities</b>	\$	<u><u>(8,678)</u></u>

See accompanying Notes to the Financial Statements

Town of Stevensville, Ravalli County, Montana  
Balance Sheet  
Proprietary Funds  
June 30, 2009

	Business-Type Activities - Enterprise Funds			
	Water	Sewer	Airport	Totals
<b>ASSETS</b>				
Current assets:				
Cash and investments	\$ 279,004	\$ 383,803	\$ 8,639	\$ 671,446
Accounts receivable - net	17,796	119,754	-	137,550
Total current assets	<u>\$ 296,800</u>	<u>\$ 503,557</u>	<u>\$ 8,639</u>	<u>\$ 808,996</u>
Noncurrent assets:				
Restricted cash and investments	-	171,829	-	171,829
Capital assets - land	49,008	16,627	597,563	663,198
Capital assets - construction in progress	59,994	21,519	-	81,513
Capital assets - depreciable, net	275,099	2,541,138	1,858,580	4,674,817
Total noncurrent assets	<u>\$ 384,101</u>	<u>\$ 2,751,113</u>	<u>\$ 2,456,143</u>	<u>\$ 5,591,357</u>
Total assets	<u>\$ 680,901</u>	<u>\$ 3,254,670</u>	<u>\$ 2,464,782</u>	<u>\$ 6,400,353</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	\$ 5,061	\$ 408	\$ -	\$ 5,469
Current portion of long-term capital liabilities	-	27,781	8,485	36,266
Current portion of compensated absences payable	17,955	23,325	-	41,280
Total current liabilities	<u>\$ 23,016</u>	<u>\$ 51,514</u>	<u>\$ 8,485</u>	<u>\$ 83,015</u>
Noncurrent liabilities:				
Deposits payable	\$ 276	\$ -	\$ -	\$ 276
Noncurrent portion of long-term capital liabilities	-	1,844,172	40,715	1,884,887
Noncurrent portion of compensated absences	8,375	11,072	-	19,447
Total noncurrent liabilities	<u>\$ 8,651</u>	<u>\$ 1,855,244</u>	<u>\$ 40,715</u>	<u>\$ 1,904,610</u>
Total liabilities	<u>\$ 31,667</u>	<u>\$ 1,906,758</u>	<u>\$ 49,200</u>	<u>\$ 1,987,625</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	\$ 384,101	\$ 707,331	\$ 2,406,943	\$ 3,498,375
Restricted for debt service	-	171,828	-	171,828
Unrestricted	265,133	468,753	8,639	742,525
Total net assets	<u>\$ 649,234</u>	<u>\$ 1,347,912</u>	<u>\$ 2,415,582</u>	<u>\$ 4,412,728</u>
Total liabilities and net assets	<u>\$ 680,901</u>	<u>\$ 3,254,670</u>	<u>\$ 2,464,782</u>	<u>\$ 6,400,353</u>

See accompanying Notes to the Financial Statements

Town of Stevensville, Ravalli County, Montana  
Statement of Revenues, Expenses, and Changes in Net Assets  
Proprietary Funds  
For the Fiscal Year Ended June 30, 2009

	Business-Type Activities - Enterprise Funds			
	Water	Sewer	Airport	Totals
<b>OPERATING REVENUES</b>				
Charges for services	\$ 233,040	\$ 190,588	\$ 19,521	\$ 443,149
Miscellaneous revenues	2,017	-	-	2,017
Total operating revenues	<u>\$ 235,057</u>	<u>\$ 190,588</u>	<u>\$ 19,521</u>	<u>\$ 445,166</u>
<b>OPERATING EXPENSES</b>				
Personal services	\$ 119,356	\$ 77,858	\$ 774	\$ 197,988
Supplies	47,445	46,346	4,997	98,788
Purchased services	80,836	25,035	58,879	164,750
Building materials	-	-	1,250	1,250
Fixed charges	10,149	11,649	-	21,798
Grants, Contributions, Indemnities & Other	10,000	10,000	-	20,000
Depreciation	15,945	76,698	157,561	250,204
Total operating expenses	<u>\$ 283,731</u>	<u>\$ 247,586</u>	<u>\$ 223,461</u>	<u>\$ 754,778</u>
Operating income (loss)	<u>\$ (48,674)</u>	<u>\$ (56,998)</u>	<u>\$ (203,940)</u>	<u>\$ (309,612)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Taxes/assessments revenue	\$ -	\$ 168,069	\$ -	\$ 168,069
Intergovernmental revenue	-	-	55,650	55,650
Debt service interest expense	-	(84,899)	(2,452)	(87,351)
Total non-operating revenues (expenses)	<u>\$ -</u>	<u>\$ 83,170</u>	<u>\$ 53,198</u>	<u>\$ 136,368</u>
Change in net assets	<u>\$ (48,674)</u>	<u>\$ 26,172</u>	<u>\$ (150,742)</u>	<u>\$ (173,244)</u>
Net Assets - Beginning of the year	\$ 725,008	\$ 1,321,740	\$ 2,612,369	\$ 4,659,117
Restatements	(27,100)	-	(46,045)	(73,145)
Net Assets - Beginning of the year - Restated	<u>\$ 697,908</u>	<u>\$ 1,321,740</u>	<u>\$ 2,566,324</u>	<u>\$ 4,585,972</u>
Net Assets - End of the year	<u>\$ 649,234</u>	<u>\$ 1,347,912</u>	<u>\$ 2,415,582</u>	<u>\$ 4,412,728</u>

See accompanying Notes to the Financial Statements

Town of Stevensville, Ravalli County, Montana  
Statement of Cash Flows  
Proprietary Funds  
Fiscal Year Ended June 30, 2009

	Business - Type Activities - Enterprise Funds			
	Water	Sewer	Airport	Totals
<b>Cash flows from operating activities:</b>				
Cash received from providing services	\$ 233,879	\$ 188,304	\$ 19,521	\$ 441,704
Cash received from miscellaneous sources	2,017	-	-	2,017
Cash payments to suppliers	(62,627)	(68,011)	(6,247)	(136,885)
Cash payments for professional services	(80,836)	(25,035)	(58,879)	(164,750)
Cash payments to employees	(116,029)	(66,464)	(774)	(183,267)
Net cash provided (used) by operating activities	\$ (23,596)	\$ 28,794	\$ (46,379)	\$ (41,181)
<b>Cash flows from capital and related financing activities:</b>				
Acquisition and construction of capital assets	\$ (59,995)	\$ (21,517)	\$ -	\$ (81,512)
Principal paid on debt	-	(26,557)	(8,485)	(35,042)
Interest paid on debt	-	(84,899)	(2,452)	(87,351)
Net cash provided (used) by capital and related financing activities	\$ (59,995)	\$ (132,973)	\$ (10,937)	\$ (203,905)
<b>Cash flows from non-capital financing activities:</b>				
Tax levies and contributions from the County	\$ -	\$ 168,069	\$ -	\$ 168,069
Cash received from grants	-	-	55,650	55,650
Net cash provided (used) from non-capital financing activities	\$ -	\$ 168,069	\$ 55,650	\$ 223,719
<b>Net increase (decrease) in cash and cash equivalents</b>	\$ (83,591)	\$ 63,890	\$ (1,666)	\$ (21,367)
<b>Cash and cash equivalents at beginning</b>	362,595	491,742	10,305	864,642
<b>Cash and cash equivalents at end</b>	\$ 279,004	\$ 555,632	\$ 8,639	\$ 843,275
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>				
Operating income (loss)	\$ (48,674)	\$ (56,998)	\$ (203,940)	\$ (309,612)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation	15,945	76,698	157,561	250,204
Changes in assets and liabilities:				
Change in accounts receivable	839	(2,284)	-	(1,445)
Change in accounts payable	4,967	(16)	-	4,951
Change in compensated absenses	3,327	11,394	-	14,721
Net cash provided (used) by operating activities	\$ (23,596)	\$ 28,794	\$ (46,379)	\$ (41,181)

See accompanying Notes to the Financial Statements

**Town of Stevensville, Ravalli County, Montana**  
**Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
**June 30, 2009**

		<u>Agency Funds</u>
<b>ASSETS</b>		
Cash and short-term investments	\$	71,273
Taxes receivable		2,160
Total assets	\$	<u>73,433</u>
<b>LIABILITIES</b>		
Warrants payable	\$	69,737
Due to others		3,696
Total liabilities	\$	<u>73,433</u>

See accompanying Notes to the Financial Statements



TOWN OF STEVENSVILLE  
RAVALLI COUNTY, MONTANA  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2009

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Town complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. For enterprise funds GASB statement Nos. 20 and 34 provide the Town the option of electing to apply FASB pronouncements issued after November 30, 1989. The Town has elected not to apply those pronouncements.

**Financial Reporting Town**

In determining the financial reporting entity, the Town complies with the provisions of GASB statement No. 14, *The Financial Reporting Entity*, and includes all component units of which the Town appointed a voting majority of the units' board; the Town is either able to impose its will on the unit or a financial benefit or burden relationship exists.

*Primary Government*

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

**Basis of Presentation, Measurement Focus and Basis of Accounting.**

***Government-wide Financial Statements:***

*Basis of Presentation*

The Government-wide Financial Statements (the Statement of Net Assets 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 Town 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 to minimize the double-counting of business-type activities.

TOWN OF STEVENSVILLE  
RAVALLI COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2009

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

Certain eliminations have been made as prescribed by GASB 34 in regards to inter-fund activities, payables and receivables. All internal balances in the Statement of Net Assets 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*

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

**Fund Financial Statements:**

*Basis of Presentation*

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

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

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

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

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

*Major Funds:*

The Town reports the following major governmental fund:

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

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***Proprietary Funds:***

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

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

**Major Funds:**

The Town reports the following major proprietary funds:

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

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

*Airport Fund* – An enterprise fund that reflects charges to residents and those who use the airport as well as related activities to operate and maintain facilities.

***Fiduciary Funds***

Agency fiduciary funds are used to account for outstanding claims and payroll warrants. Also one fiduciary fund receives money from the state for fireman benefits and holds the money until distributed.

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**NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS**

**Cash Composition**

Composition of cash, deposits and investments at fair value on June 30, 2009, are as follows:

<u>Cash on hand and Deposits:</u>	
Petty Cash	\$ 150
Cash in Banks:	
Demand Deposits	109,364
Savings Deposits	193,692
Time Deposits	<u>1,051,714</u>
Total	<u>\$ 1,354,920</u>

**Credit Risk**

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

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

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

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

- (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 place 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.

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

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

The government has no investments that require credit risk disclosure.

**Custodial Credit Risk**

Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. All deposits are carried at cost plus accrued interest. As of June 30, 2009 the government's bank balance of \$1,354,770 was exposed to custodial credit risk as follows:

<u>Depository Account</u>	<u>Balance</u>
Insured	\$ 913,430
Collateralized	
- Collateral held by the pledging bank's trust department in the Town's name.	252,690
Uninsured and uncollateralized	<u>188,650</u>
Total Deposits and Investments	<u>\$ 1,354,770</u>

Deposit Security

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

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

The amount of collateral held for Town deposits at June 30, 2009, did not meet the amount required by State statutes.

**Cash equivalents**

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

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**NOTE 3. RECEIVABLES**

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

Property tax levies are set on or before the second Monday in August, in connection with the budget process. 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.

**NOTE 4. INVENTORIES**

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

**NOTE 5. CAPITAL ASSETS**

The Town's assets are capitalized at historical cost or estimated historical cost. Town policy has set the capitalization threshold for reporting capital assets at \$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 & Structures.....	39 years
Improvements other than Buildings	10-39 years
Machinery & Equipment.....	7 years
Infrastructure.....	15-50 years

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 which requires the inclusion of infrastructure capital assets in local governments' basic financial statements. In accordance with Statement No. 34, the Town has included the value of all infrastructure into the 2009 Basic Financial Statements. The government has elected not to retroactively report general infrastructure assets.

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

	Balance July 1, 2008	Additions	Balance June 30, 2009
Capital assets not being depreciated:			
Land	\$ 2,707	\$ -	\$ 2,707
Other Capital Assets:			
Buildings	\$ 427,934	\$ -	\$ 427,934
Improvements Other than Buildings	66,962	-	66,962
Machinery and Equipment	400,125	30,281	430,406
Total other Capital Assets at historical cost	\$ 895,021	\$ 30,281	\$ 925,302
Less Accumulated Depreciation	\$ (639,093)	\$ (32,452)	\$ (671,545)
Total	\$ 258,635	\$ (2,171)	\$ 256,464

The following is a summary of business type capital assets were as follows:

	Balance July 1, 2008	Additions	Balance June 30, 2009
Capital assets not being depreciated:			
Land	\$ 663,198	\$ -	\$ 663,198
Construction Work in Progress	-	81,513	81,513
Total capital assets not being depreciated	\$ 663,198	\$ 81,513	\$ 744,711
Other Capital Assets:			
Buildings	\$ 155,977	\$ -	\$ 155,977
Improvements Other than Buildings	2,316,290	-	2,316,290
Machinery and Equipment	354,532	-	354,532
Source of Supply	84,754	-	84,754
Pumping Plant	18,900	-	18,900
Treatment Plant	4,350,129	-	4,350,129
Total other Capital Assets at historical cost	\$ 7,280,582	\$ -	\$ 7,280,582
Less Accumulated Depreciation	\$ (2,355,561)	\$ (250,204)	\$ (2,605,765)
Total	\$ 5,588,219	\$ (168,691)	\$ 5,419,528

Governmental activities depreciation expense was charged to functions as follows:

Governmental Activities:	
Public Safety	\$ 19,366
Public Works	10,016
Culture and Recreation	3,070
Total governmental activities depreciation expense	\$ 32,452



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**NOTE 6. 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, 2009, the following changes occurred in liabilities reported in long-term debt:

Governmental Activities:

	<u>Balance</u> <u>July 1, 2008</u>	<u>Additions</u>	<u>Balance</u> <u>June 30, 2009</u>	<u>Due within</u> <u>one year</u>
Compensated Absences	\$ <u>27,295</u>	\$ <u>16,501</u>	\$ <u>43,796</u>	\$ <u>32,723</u>

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

Business-type Activities:

	<u>Balance</u> <u>July 1, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Restatement</u>	<u>Balance</u> <u>June 30, 2009</u>	<u>Due within</u> <u>one year</u>
Revenue Bonds	\$ 1,898,509	\$ -	\$(26,557)	\$ -	\$ 1,871,952	\$ 27,781
Contracted Debt	11,640	-	(8,484)	46,045	49,201	8,484
Compensated Absences	<u>46,006</u>	<u>14,721</u>	-	-	<u>60,727</u>	<u>41,280</u>
Total	\$ <u>1,956,155</u>	\$ <u>14,721</u>	\$ <u>(35,041)</u>	\$ <u>46,045</u>	\$ <u>1,981,880</u>	\$ <u>77,545</u>

*Revenue Bonds* - The Town also issues bonds where the Town pledges income derived from the acquired or constructed assets to pay debt service. Revenue bonds outstanding at year-end were as follows:

<u>Purpose</u>	<u>Origination</u> <u>Date</u>	<u>Interest</u> <u>Rate</u>	<u>Bond</u> <u>Term</u>	<u>Maturity</u> <u>Date</u>	<u>Bonds</u> <u>Amount</u>	<u>Annual</u> <u>Payment</u>	<u>Balance</u> <u>June 30, 2009</u>
Sewer RUS #1	12/19/00	4.5%	40 yrs	05/19/40	\$1,250,000	\$ 67,500	\$ 1,133,635
Sewer RUS #2	12/19/00	4.5%	40 yrs	05/19/40	<u>814,000</u>	<u>43,956</u>	<u>738,317</u>
Total					<u>\$2,064,000</u>	<u>\$111,456</u>	<u>\$ 1,871,952</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

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the registrar. The Town was in compliance with applicable covenants as of June 30, 2009.

Annual requirement to amortize debt:

<u>For Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 27,781	\$ 83,676
2011	29,060	82,398
2012	30,392	81,064
2013	31,783	79,673
2014	33,247	78,209
2015	34,777	76,679
2016	36,375	75,081
2017	38,044	73,412
2018	39,793	71,663
2019	41,619	69,837
2020	43,530	67,926
2021	45,530	65,926
2022	47,625	63,831
2023	49,812	61,644
2024	52,102	59,354
2025	54,492	56,964
2026	56,999	54,457
2027	59,613	51,843
2028	62,353	49,103
2029	65,215	46,241
2030	68,214	43,242
2031	71,347	40,109
2032	74,625	36,831
2033	78,055	33,401
2034	81,640	29,816
2035	85,388	26,068
2036	89,314	22,142
2037	93,415	18,041
2038	97,704	13,752
2039	102,195	9,261
2040	106,889	4,567
2041	<u>43,024</u>	<u>457</u>
Total	\$ <u>1,871,952</u>	\$ <u>1,626,668</u>

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**Loans/Contracted Debt**

Loans/contracted debts outstanding as of June 30, 2009 were as follows:

<u>Purpose</u>	<u>Origination Date</u>	<u>Interest Rate</u>	<u>Term</u>	<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Balance June 30, 2009</u>
Montana Aeronautics #1	08/28/01	4.750%	10 yrs	02/28/11	\$ 38,800	\$ 7,760
Montana Aeronautics #2	01/17/08	4.125%	10 yrs	02/28/18	46,045	41,441
Total					<u>\$ 84,845</u>	<u>\$ 49,201</u>

Reported in business-type activities

Annual requirement to amortize debt:

<u>For Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 8,485	\$ 2,078
2011	8,485	1,703
2012	4,605	1,330
2013	4,605	1,140
2014	4,605	950
2015	4,604	760
2016	4,604	570
2017	4,604	380
2018	4,604	190
Total	<u>\$ 49,201</u>	<u>\$ 9,101</u>

**Compensated Absences**

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

**NOTE 7. DEFICIT FUND BALANCES/NET ASSETS**

<u>Fund Name</u>	<u>Amount</u>	<u>Reason for Deficit</u>	<u>How Deficit will be eliminated</u>
Building Code Enforcement	<u>\$(10,300)</u>	Decline in revenues without an adjustment to planned expenditures	Hiring or training of a certified inspector to increase revenues and also reduce expenditures

TOWN OF STEVENSVILLE  
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**NOTE 8. INTERFUND RECEIVABLES AND PAYABLES**

The composition of interfund balances as of June 30, 2009, was as follows:

<u>Purpose</u>	<u>Due to/from other funds:</u>		<u>Amount</u>
	<u>Receivable Fund</u>	<u>Payable Fund</u>	
Operating loan to the building code enforcement fund	Building Code Enforcement – Nonmajor Governmental	General – Major Governmental	<u>\$10,300</u>

**NOTE 9. STATE-WIDE RETIREMENT PLANS**

All full-time Town employees are covered under the following retirement plan: Montana Public Employees Retirement System (PERS). The plan is established by State law and administered by the State of Montana. The plan is a cost-sharing multiple-employer defined benefit plan that provides retirement, disability and death benefits to plan members and beneficiaries, with amounts determined by the State.

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, 2009, were:

	<u>PERS</u>
Employer	6.935%
Employee	6.90%
State	0.10%

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

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

The Town's contributions for the years ended June 30, 2007, 2008, and 2009, as listed below, were equal to the required contributions for each year.

	<u>PERS</u>
2007	\$ 19,974
2008	\$ 22,532
2009	\$ 24,277

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**NOTE 10. POST EMPLOYMENT BENEFITS**

Terminated employees may remain on the Town's health insurance plan for up to 18 months if they pay the monthly premiums. This benefit is required under the federal COBRA law. Retirees may remain on the Town's health plan to age 65, provided they pay the monthly premiums. State law requires the Town to provide this benefit. No cost can be estimated for the above benefits, although there is the probability that there are higher medical costs for retirees which would result in additional costs to the insurance program.

The Town had no retired employees and no terminated employees participating in the plan as of June 30, 2009.

**NOTE 11. RESTRICTED CASH/INVESTMENTS**

The following restricted cash/investments were held by the Town as of June 30, 2009. These amounts are reported within the cash/investment account on the Statement of Net Assets.

<u>Description</u>	<u>Amount</u>
Sewer Fund	
Revenue Bond Reserve	\$ <u>171,829</u>

**NOTE 12. FUND EQUITY**

Reservations of equity show amounts that are not appropriate for expenditure or are legally restricted for specific uses. The purpose for each is indicated below:

<u>Fund Name</u>	<u>Amount</u>	<u>Description</u>
Capital Improvements	\$ 40,168	Reserved for capital projects
Sidewalk Improvements	<u>11,005</u>	Reserved for capital projects
	<u>\$ 51,173</u>	

**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>
Airport Fund	\$ (46,045)	Loan payable acquired in fiscal year 2008
Water Fund	<u>(27,100)</u>	Allowance for bad debt from prior year recorded
Total	<u>\$ (73,145)</u>	

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**NOTE 14. JOINT VENTURES**

Joint ventures are independently constituted entities generally created by two or more governments for a specific purpose which are subject to joint control, in which the participating governments retain 1) an ongoing financial interest or 2) an ongoing financial responsibility.

The Town participates in an agreement with the Stevensville Rural Fire District to share space and equipment in which the rural district gave the Town certain property and the Town expanded its fire hall to accommodate the rural fire district. The Rural Fire District pays the Town \$3,000 each year under the agreement.

**NOTE 15. RISK MANAGEMENT**

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

Insurance Policies:

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

The Town joined together with other Montana towns 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 \$7,500 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 employer funds based on total salaries and wages. The agreements for formation of the pools provide that they will be self-sustaining through member premiums. The tort liability plan and worker's compensation program issued bonds in the amount of \$4.41 million and \$7.610 million, respectively, to immediately finance the necessary insurance reserves. All members signed a contingent note for a pro rata share of this liability in case operating revenues were insufficient to cover the debt service.

Audited financial statements are available from Montana Municipal Insurance Authority.

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**NOTE 16. PENDING LITIGATION**

There was no pending or threatened litigation or unasserted claims or assessments against the Town at June 30, 2009.

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**REQUIRED SUPPLEMENTAL  
INFORMATION**

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Town of Stevensville, Ravalli County, Montana  
 Budgetary Comparison Schedule  
 For the Fiscal Year Ended June 30, 2009

General Fund					
	BUDGETED AMOUNTS		ACTUAL	VARIANCE WITH FINAL BUDGET	
	ORIGINAL	FINAL	AMOUNTS (BUDGETARY BASIS) See Note A		
<b>RESOURCES (INFLOWS):</b>					
Taxes and assessments	\$ 218,536	\$ 218,536	\$ 245,447	\$ 26,911	
Licenses and permits	6,300	6,300	9,004	2,704	
Intergovernmental	152,593	152,593	141,127	(11,466)	
Charges for services	43,700	43,700	19,819	(23,881)	
Fines and forfeitures	35,000	35,000	41,720	6,720	
Miscellaneous	4,600	4,600	25,351	20,751	
Investment earnings	4,500	4,500	-	(4,500)	
Amounts available for appropriation	<u>\$ 465,229</u>	<u>\$ 465,229</u>	<u>\$ 482,468</u>	<u>\$ 17,239</u>	
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>					
General government	\$ 158,929	\$ 158,929	\$ 157,811	\$ 1,118	
Public safety	237,795	237,795	201,353	36,442	
Public works	97,057	97,057	81,126	15,931	
Public health	124	124	62	62	
Culture and recreation	57,000	57,000	37,133	19,867	
Housing and community development	36,078	36,078	-	36,078	
Capital outlay	-	-	30,281	(30,281)	
Total charges to appropriations	<u>\$ 586,983</u>	<u>\$ 586,983</u>	<u>\$ 507,766</u>	<u>\$ 79,217</u>	
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	\$ -	\$ 10,000	\$ -	\$ (10,000)	
Total other financing sources (uses)	<u>\$ -</u>	<u>\$ 10,000</u>	<u>\$ -</u>	<u>\$ (10,000)</u>	
Net change in fund balance			<u>\$ (25,298)</u>		
Fund balance - beginning of the year			<u>\$ 124,264</u>		
Fund balance - end of the year			<u>\$ 98,966</u>		

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

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

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

Mayor and Town Council  
Town of Stevensville  
Ravalli County  
Stevensville, Montana

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Stevensville, Ravalli County, Montana, as of and for the year ended June 30, 2009, which collectively comprise the Town of Stevensville's basic financial statements and have issued our report thereon dated February 3, 2010, which was qualified because for the year ended June 30, 2009 the Town's water fund accounts receivable were understated by \$16,175 and the sewer funds accounts receivable were overstated by \$16,555. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of Stevensville internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Stevensville's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Stevensville's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Town of Stevensville's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected

by the entity's internal control. We consider the deficiencies described below to be significant deficiencies in the internal control over financial reporting.

**09-1 Management's Discussion and Analysis**

**Condition:**

The Town did not prepare a Management's Discussion and Analysis (MD&A).

**Criteria:**

The Town has not presented the MD&A that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of the basic financial statements.

**Effect:**

Noncompliance with Generally Accepted Accounting Principles.

**Cause:**

The Town has new staff and they were unaware of how to prepare an MD&A.

**Recommendation:**

We recommend that the Town prepare an MD&A as part of the annual reporting process.

**Auditee Response:**

We will work on completing an MD&A for fiscal year 2010.

**09-2 Payroll Fringe Benefits Paid Through Claims**

**Condition:**

The Town paid its' Fire Chief and Assistant Fire Chief a monthly rate for using their own vehicles to respond to fires and accidents. No mileage logs were required to be submitted to support the mileage payment. The payments were charged to a payroll account in the general ledger, but were paid through the claims process rather than payroll.

**Criteria:**

Unaccounted for fringe benefits must be paid through the payroll system so all proper taxes are paid.

**Effect:**

The actual payroll costs are being understated since no employer contributions are being made on this benefit. In addition, federal and state taxes are not being paid by the employee, nor is the value of the fringe benefit included in their wages.

**Cause:**

The Clerk noted that the Town has always done it this way.

**Recommendation:**

The Town should start paying this payroll benefit through the payroll system so all taxes are paid and costs are properly reported. The exception would be if the Town required the Fire Chief and Assistant Fire Chief to start turning in a log of miles traveled in response to calls each month, and the Chief/Assistant Chief refunded any funds to the Town for mileage (at the current IRS rate) that was less than the allowance. In addition, the Town would have to pay the Chief/Assistant Chief the current mileage reimbursement rate for any excess traveled in a month not covered by the allowance.

**Auditee Response:**

We have corrected the payroll fringe benefits for fiscal year 2010.

**09-3 Understated Interest Revenue**

**Condition:**

The Town did not post interest revenue for fiscal year 2009.

**Criteria:**

A good internal control system would post the interest received on investments on a monthly basis when reconciling the bank statements.

**Effect:**

Interest revenue was understated for fiscal year 2009 approximately \$36,000.

**Cause:**

The Town was not aware of the procedure to post interest.

**Recommendation:**

The Town should post interest revenue on a monthly basis.

**Auditee Response:**

We will post interest revenue monthly.

**09-4 Claims**

**Condition:**

Claims were not consistently approved by the Town Council or verified that the correct amount was paid or the items purchased.

**Criteria:**

A good internal control system would have claims approved by the Town Council and the Council should sign the documentation indicating review of the claims. All paid claims should have supporting documentation that foots to the payment made.

**Effect:**

The Council was not signing claims and documentation was missing.

**Cause:**

The Town is approving the claims in the meeting but is not fiscally signing off for claim approval.

**Recommendation:**

The Council should review all claims for supporting documentation. Council should verify documentation is the same amount as the amount paid to the vendor and verify expenses are proper for the Town. The Council should then sign indicating approval of the claim.

**Auditee Response:**

We will have the Mayor and Council sign and approve all claims.

**09-5 Credit Cards**

**Condition:**

Credit card claims were missing supporting documentation for what was purchased with the credit card. Of the claims reviewed seven receipts were missing.

**Criteria:**

A good internal control system would require receipts for all purchases with the credit card.

**Effect:**

Lack of a good internal control system was noted and resulted in claims paid without adequate supporting documentation.

**Cause:**

The internal control system is weak.

**Recommendation:**

The Town should maintain accurate records and implement procedures in which receipts are verified prior to payment.

**Auditee Response:**

We will work with the employees to collect all receipts for credit card transactions.

**09-6 Travel Reimbursements**

**Condition:**

The Town did not have adequate documentation for reimbursements for travel and the employee applying for the reimbursement was not signing for the reimbursement.

**Criteria:**

Internal control procedures should include a travel reimbursement form indicating purpose of the travel, mileage, and per-diem information.

**Effect:**

The Town has an internal control weakness pertaining to travel reimbursements.

**Cause:**

The Town was unaware of the need for a reimbursement form.



**Recommendation:**

The Town should develop a travel reimbursement form to document the travel purpose, who is traveling, dates of travel and the requested reimbursements.

**Auditee Response:**

We will follow up and create a travel reimbursement form.

**09-7 City Court Internal Controls**

**Condition:**

The City Court had the following internal control weaknesses:

1. The City Court did not have a policy for processing time pays. Review of the time pay files indicated several defendants had not paid past fines and follow-up court action had not been taken.
2. The City Court judge handled money and recorded all transactions.
3. The City Court only had one signer on the checks.

**Criteria:**

A proper system of internal control would ensure that all time pays are reviewed monthly, adequate system of checks and balances is maintained, and two signers on the checks issued from the Court.

**Effect:**

The City Court receipting system is weakened as a result of not having a system of checks and balances over cash handling. The disbursement system is weakened by only having one signer on the checks.

**Cause:**

This Court, like many other small courts in Montana, does not have adequate resources to provide an adequate system of checks and balances.

**Recommendation:**

We recommend that the City Court begin reviewing time pays monthly and taking action as the court feels appropriate. We also recommend that the Town review the system of checks and balances in the City Court in order to separate the functions of cash handling, accounting to the greatest extent possible and dual signers on the checks.

**Auditee Response:**

We have a procedure in place for time pays however there is not enough time to process them. Would like to see the checking account have two signers on all checks.

**09-8 Negative Cash and Fund Balance**

**Condition:**

The Town had a negative cash and fund balance in the Building Codes Enforcement Fund. A loan from the General Fund to the Building Code Enforcement Fund should have been recorded.

**Criteria:**

In accordance with Generally Accepted Accounting Principles (GAAP), negative cash balances in a fund require a due to/from fund to be recorded to reflect the lending arrangement.

**Effect:**

There was an unreported decrease in cash and increase to due from other funds in the General Fund of \$10,300 and an unreported increase in cash and increase in due to other funds in the Building Codes Enforcement fund of \$10,300. This has been corrected for the audit report. The Building Code Enforcement Fund has a negative fund balance of \$10,300.

**Cause:**

A decrease in revenue and the Town did make the necessary changes to expenditures as the revenues decreased.

**Recommendation:**

All funds with a negative cash balance should have a due to/from other funds recorded to properly reflect a lending transaction.

**Auditee Response:**

In the future we will do a short term loan between funds.

**09-9 Water and Sewer Accounts Receivable**

**Condition:**

We noted the following conditions in relation to the Water and Sewer fund accounts receivable:

1. The Utility Billing (UB) Clerk handled money and corrected customer accounts.
2. The Town did not have a formal collection procedure for UB.
3. The Town did not have a consistently applied shut-off policy.
4. The UB system was not balanced with the general ledger (this is a repeat comment from 2005)

**Criteria:**

The above conditions all relate to control procedures to ensure that all money is properly reported in the Town's accounting records.

**Effect:**

1. The Town's controls over cash reporting are weak.
2. The Town does not have a shut-off policy that effectively limits receivables.

**Recommendation:**

We have the following recommendations:

1. The Town should segregate the duties of cash handling and correction of customer accounts to the greatest extent possible.
2. The Town should consider using the County tax billing system for delinquent accounts and possibly the use of outside collection agencies.
3. The Town should establish a shut-off policy.
4. The UB system should be balanced with the general ledger monthly.

**Auditee Response:**

We will work with the Council to enforce the collection and shut-off policy. We will work to segregate duties as much as possible with our small office.

**09-10 Cash Reconciliation**

**Condition:**

The Town had not completed monthly cash reconciliations. The only reconciliation was done at the time of the preparation of the annual financial report to the State for the end of the previous fiscal year.

**Criteria:**

Good internal controls should include the Treasurer reconciling cash to all bank accounts on a monthly basis.

**Effect:**

Cash did not reconcile to the financial statements by \$24,739 in fiscal year 2009.

**Recommendation:**

The Town should reconcile all bank accounts to the Town's general ledger on a monthly basis.

**Auditee Response:**

We will work on posting interest revenue, bank charges, redeem checks timely and work to balance cash on a month basis.

**09-11 Journal Voucher Approval**

**Condition:**

Adjustments made to the accounting system and utility billing via journal vouchers were not reviewed and approved by the governing body.

**Criteria:**

Internal controls indicate that adjustments to the accounting system should be reviewed by an appropriate official.

**Effect:**

Failure to review adjusting journal entries increases the possibility of the financial statements being adjusted without the knowledge of the governing body.

**Cause:**

The Town was unaware of the risks and the need for the procedures.

**Recommendation:**

All adjustments to the accounting system and utility billing should be review by the governing body.

**Auditee Response:**

We will have the Mayor sign all journal vouchers.

## 09-12 Segregation of Duties

### **Condition:**

The Town Utility Billing Clerk collected cash and posted to the customers account. The Town did not use pre-numbered receipts or use a cash register to track the money received.

### **Criteria:**

Controls over cash handling should include procedures that limit access to customer accounts. The Town should also use pre-numbered receipts to track the money that is received from other revenue sources.

### **Effect:**

Controls over cash receipting for Utility Billing are weakened.

### **Cause:**

This is a small Montana Town, and like many small Towns, it has difficulty in separating the functions of cash handling and recording adjustments.

### **Recommendation:**

We recommend that the Town limit the Utility Billing Clerk's access and not allow adjustments to customer accounts. In addition, pre-numbered receipts should be used for money received.

### **Auditee Response:**

As a small office we will do our best to segregate duties as much as possible.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 09-8 through 09-12 to be material weaknesses.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Stevensville'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 the following instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described below.

**09-13 Exceeding Budget Authority and Increasing Budget without a Formal Resolution**

**Condition:**

1. The Town increased Water fund budget by \$2,802, Sewer fund budget by \$73,651, and Airport Fund budget by \$1,201 without a conducting a public hearing.
2. The Town did not adopt a budget for the Dayton Lighting #1, but did have expenditures for the district of \$224 charged to the fund.
3. The town exceeds budget authority with out making budget amendments.

**Criteria:**

1. Montana Codes Annotated (MCA), Section 7-6-4005(1) states "Local government officials may not make a disbursement or expenditure or incur an obligation in excess of the total appropriations for a fund."
2. MCA, Section 7-6-4006(4) states "The governing body may amend the budget during the fiscal year by conducting public hearings at regularly scheduled meetings. Budget amendments providing for additional appropriations must identify the fund reserves, unanticipated revenue, or previously unbudgeted revenue that will fund the appropriations."

**Effect:**

The Town exceeded budget authority for the following funds:

Dayton Lighting #1	\$ 224
Petterson Addn Lighting #2	\$ 367
Geo Smith Lighting #3	\$ 52
Creekside Lighting #4	\$ 1,599
Police Training & Pension	\$ 2,845
DOT Grant for DUI Task Force	\$ 1,611
Water	\$ 24,267
Airport	\$130,962

**Cause:**

A lack of internal control procedures.

**Recommendation:**

We recommend that the Town increase its budget authority as provided by MCA. Also, the Town should limit making of expenditures or incurring of expenditures to the amount appropriated. The Town may also make any necessary budget amendments to their original budget through the proper procedure.

**Auditee Response:**

We will work with the Mayor and Town Council to follow up on the budget versus actual report monthly to prepare solutions for exceeding budget.

09-14 Pledged Securities

**Condition:**

The Town had cash balances that were not backed by pledged securities.

**Criteria:**

Montana Codes Annotated (MCA), Section 7-6-207(1) states in part "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 to total assets ratio of 6% or more; or (b) 100% if the institution in which the deposit is made has a net worth to total assets ratio of less than 6%."

**Effect:**

On June 30, 2009, 50% of the Town's uninsured deposits totaled \$94,325 in their Missoula Federal Credit Union account.

**Recommendation:**

The Town should require additional pledged securities.

**Auditee Response:**

We will be pulling our money from the Credit Union down to what is covered by NCUA insurance.

Town of Stevensville's response to the findings identified in our audit is described above. We did not audit Town of Stevensville's response, and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Mayor and Town Council, management, the Montana Department of Administration, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Denning, Downey and Associates, CPAs, P.C.*

February 3, 2010

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

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

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**REPORT ON OTHER COMPLIANCE, FINANCIAL, AND INTERNAL ACCOUNTING  
CONTROL MATTERS**

Mayor and Town Council  
Town of Stevensville  
Ravalli County  
Stevensville, Montana

There were no other compliance, financial, or internal accounting matters.

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

February 3, 2010

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

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**REPORT ON PRIOR AUDIT REPORT RECOMMENDATIONS**

Mayor and Town Council  
Town of Stevensville  
Ravalli County  
Stevensville, Montana

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

<u>Recommendation</u>	<u>Action Taken</u>
Management's Discussion and Analysis	Repeated
Payroll Clearing Fund	Implemented
Cash and Investments	Implemented
Town Court Internal Controls	Repeated
Reconciling Taxes Receivable to County Treasurer	Implemented
Payroll Fringe Benefits Paid Through Claims	Repeated
Fiscal Year 2008 Taxes Receivable	Implemented
Capital Assets	Implemented
Capital Outlay Expenditures	Implemented
Negative Cash Balance	Repeated
Cash Reconciliation	Repeated
Transfers	Implemented
Claims	Repeated
Payroll Distribution	Implemented
Accounts Payable	Implemented
Water and Sewer Accounts Receivable	Repeated
Credit Cards	Repeated
Exceeding Budget Authority	Repeated
Pledged Securities	Repeated

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

February 3, 2010