

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

Town of Stevensville

June 30, 2012

Town of Stevensville

June 30, 2012

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INDEPENDENT AUDITOR'S REPORT

To the Town Council
Town of Stevensville, Montana

Report on the Financial Statements

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, as of and for the year ended June 30, 2012, and the related notes to the financial statements, which collectively comprise Town of Stevensville's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Stevensville, as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

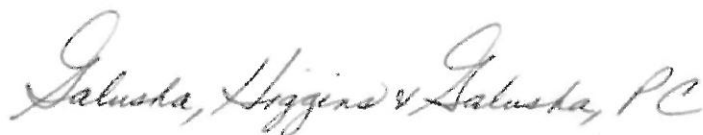
Management has omitted the management's discussion and analysis and budgetary comparison information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Town of Stevensville's basic financial statements. The schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and the other information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 21, 2014 on our consideration of the Town of Stevensville's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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* in considering the Town's internal control over financial reporting and compliance.



GALUSHA, HIGGINS & GALUSHA, PC
Certified Public Accountants and Advisors

Helena, Montana
February 21, 2014

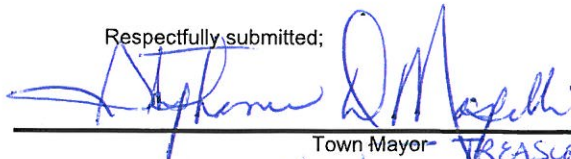
**Town of Stevensville
ELECTED OFFICIALS/OFFICERS**

OFFICE	NAME OF COUNTY OFFICIALS/OFFICERS	DATE TERM EXPIRES
Commissioner (Chairperson)		
Commissioner		
Commissioner		
Assessor		
Attorney		
Auditor		
Treasurer		
Clerk and recorder		
Clerk of district court		
Coroner		
Justice of the peace		
Justice of the peace		
Public administrator		
School superintendent		
Sheriff		
Budget Director		
Election Administrator		

OFFICE	NAME OF CITY/TOWN OFFICIALS/OFFICERS	DATE TERM EXPIRES
Mayor	Gene Mim Mack	12/31/2013
Councilperson/Commissioner	Bill Perrin	12/31/2015
Councilperson/Commissioner	Ron Kiaphake	12/31/2015
Councilperson/Commissioner	Desera Towle	12/31/2013
Councilperson/Commissioner	Robin Holcomb	12/31/2013
Councilperson/Commissioner		
Councilperson/Commissioner		
Councilperson/Commissioner		
City manager		
Attorney	Brian West	6/30/2014
Chief of police	James Marble	n/a
Clerk	Stacy Bartlett	n/a
Clerk/Treasurer	Stephanie D. Mapelli	n/a
Deputy Clerk/Treasurer	Denise Philley	n/a
City Judge	Martha Birkeneder	6/30/2014
City Services Supervisor	Ed Sutherlin	n/a
Utility billing/collection clerk	Denise Philley	n/a
Water/Sewer Supervisor	George Thomas	n/a

In accordance with State law, I hereby transmit the
Town of Stevensville
Annual Financial Report for the fiscal year ended
June 30, 2012

Respectfully submitted;


Town Mayor

4/12/13

Date

Town of Stevensville
STATEMENT OF NET ASSETS
June 30, 2012

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and investments	\$ 1,142,959	\$ 982,399	\$ 2,125,358
Taxes and assessments receivable, net	22,086	-	22,086
Accounts receivable - net	-	83,002	83,002
Current portion of notes and loans receivable	1,880	-	1,880
Due from other governments	-	27,813	27,813
Total current assets	<u>\$ 1,166,925</u>	<u>\$ 1,093,214</u>	<u>\$ 2,260,139</u>
Noncurrent assets:			
Restricted cash and investments	\$ -	\$ 173,976	\$ 173,976
Capital assets - land	2,707	663,198	665,905
Capital assets - construction in progress	-	237,415	237,415
Capital assets - net of depreciation	196,845	7,185,177	7,382,022
Total noncurrent assets	<u>\$ 199,552</u>	<u>\$ 8,259,766</u>	<u>\$ 8,459,318</u>
Total assets	<u>\$ 1,366,477</u>	<u>\$ 9,352,980</u>	<u>\$ 10,719,457</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 9,829	\$ 49,613	\$ 59,442
Accrued payables	2,298	-	2,298
Current portion of compensated absences payable	29,375	38,748	68,123
Total current liabilities	<u>\$ 41,502</u>	<u>\$ 88,361</u>	<u>\$ 129,863</u>
Noncurrent liabilities:			
Deposits payable	\$ -	\$ 591	\$ 591
Noncurrent portion of long-term capital liabilities	-	3,293,079	3,293,079
Noncurrent portion of compensated absences	29,375	38,748	68,123
Total noncurrent liabilities	<u>\$ 29,375</u>	<u>\$ 3,332,418</u>	<u>\$ 3,361,793</u>
Total Liabilities	<u>\$ 70,877</u>	<u>\$ 3,420,779</u>	<u>\$ 3,491,656</u>
NET ASSETS			
Invested in capital assets, net of related debt	\$ 199,552	\$ 4,792,711	\$ 4,992,263
Restricted for:			
Replacement and depreciation	-	60,840	60,840
Debt service	-	113,136	113,136
Public safety	48,391	-	48,391
Public works	268,265	-	268,265
Housing & community development	74,625	-	74,625
Unrestricted	704,767	965,514	1,670,281
Total net assets	<u>\$ 1,295,600</u>	<u>\$ 5,932,201</u>	<u>\$ 7,227,801</u>
Total liabilities and net assets	<u>\$ 1,366,477</u>	<u>\$ 9,352,980</u>	<u>\$ 10,719,457</u>

The accompanying notes are an integral part of these financial statements.

Town of Stevensville
STATEMENT OF ACTIVITIES
June 30, 2012

<u>Functions/Programs</u>	<u>Program Revenues</u>				<u>Net (Expenses) Revenues and Changes in Net Assets Primary Government</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Primary government:							
Governmental activities:							
General government	\$ 195,919	\$ 21,568	\$ -	\$ -	\$ (174,351)		\$ (174,351)
Public safety	331,377	12,887	4,262	105,165	(209,063)		(209,063)
Public works	122,185	23,954	33,323	-	(64,908)		(64,908)
Culture and recreation	34,633	15,168	-	-	(19,465)		(19,465)
Housing and community development	1,407	-	-	-	(1,407)		(1,407)
Miscellaneous	20,700	-	-	-	(20,700)		(20,700)
Total Governmental Activities	<u>\$ 706,221</u>	<u>\$ 73,577</u>	<u>\$ 37,585</u>	<u>\$ 105,165</u>	<u>\$ (489,894)</u>		<u>\$ (489,894)</u>
Business-type activities:							
Water	\$ 226,624	\$ 436,429	\$ -	\$ 462,495		\$ 672,300	\$ 672,300
Sewer	391,483	460,408	-	365,602		434,527	434,527
Airport	192,969	17,791	-	126,963		(48,215)	(48,215)
Total business-type activities	<u>\$ 811,076</u>	<u>\$ 914,628</u>	<u>\$ -</u>	<u>\$ 955,060</u>		<u>\$ 1,058,612</u>	<u>\$ 1,058,612</u>
Total primary government	<u>\$ 1,517,297</u>	<u>\$ 988,205</u>	<u>\$ 37,585</u>	<u>\$ 1,060,225</u>	<u>\$ (489,894)</u>	<u>\$ 1,058,612</u>	<u>\$ 568,718</u>
General Revenues:							
Property taxes for general purposes					\$ 263,677	\$ -	\$ 263,677
Local option tax					44,425	-	44,425
Permits & Licenses					6,791	-	6,791
Unrestricted Federal/State shared revenues					165,428	-	165,428
Unrestricted investment earnings					14,839	4,720	19,559
Contributions & Donations					-	-	-
Miscellaneous					9,198	300	9,498
Total general revenues, special items and transf					<u>\$ 504,358</u>	<u>\$ 5,020</u>	<u>\$ 509,378</u>
Change in net assets					<u>\$ 14,464</u>	<u>\$ 1,063,632</u>	<u>\$ 1,078,096</u>
Net assets - beginning					1,289,690	4,865,629	6,155,319
Restatements					(8,554)	2,940	(5,614)
Net assets - beginning - restated					<u>\$ 1,281,136</u>	<u>\$ 4,868,569</u>	<u>\$ 6,149,705</u>
Net assets - ending					<u>\$ 1,295,600</u>	<u>\$ 5,932,201</u>	<u>\$ 7,227,801</u>

The accompanying notes are an integral part of these financial statements

Town of Stevensville
BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2012

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Current Assets:			
Cash and investments	\$ 267,706	\$ 875,251	\$ 1,142,957
Taxes and assessments receivable, net	21,244	842	22,086
Current portion of notes and loans receivable	-	1,880	1,880
Total Current Assets	<u>\$ 288,950</u>	<u>\$ 877,973</u>	<u>\$ 1,166,923</u>
Noncurrent Assets:			
Total Noncurrent Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Assets	<u>\$ 288,950</u>	<u>\$ 877,973</u>	<u>\$ 1,166,923</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	\$ 9,657	\$ 171	\$ 9,828
Accrued payables	2,298	-	2,298
Deferred revenue	21,244	842	22,086
Total Current Liabilities	<u>\$ 33,199.00</u>	<u>\$ 1,013.00</u>	<u>\$ 34,212.00</u>
Noncurrent Liabilities:			
Total Noncurrent Liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Liabilities	<u>\$ 33,199</u>	<u>\$ 1,013</u>	<u>\$ 34,212</u>
Fund Balances			
Nonspendable	\$ -	\$ -	\$ -
Restricted for:	-	-	-
General government	-	-	-
Public safety	-	48,391	48,391
Public works	-	268,265	268,265
Housing & community development	-	74,625	74,625
General government	-	40,254	40,254
Capital projects	-	445,426	445,426
Unassigned	255,751	-	255,751
Total Fund Balance	<u>\$ 255,751</u>	<u>\$ 876,961</u>	<u>\$ 1,132,712</u>
Total liabilities and fund balance	<u>\$ 288,950</u>	<u>\$ 877,974</u>	<u>\$ 1,166,924</u>

The accompanying notes are an integral part of these financial statements

Town of Stevensville
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Fiscal Year End
June 30, 2012

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES			
Taxes and assessments	\$ 280,666	\$ 39,517	\$ 320,183
Licenses and permits	6,747	8,931	15,678
Intergovernmental	270,593	38,192	308,785
Charges for services	30,568	524	31,092
Fines and forfeitures	19,638	-	19,638
Miscellaneous	8,998	1,000	9,998
Investment earnings	12,894	1,945	14,839
Total revenues	<u>\$ 630,104</u>	<u>\$ 90,109</u>	<u>\$ 720,213</u>
EXPENDITURES			
General government	\$ 175,143	\$ 4,817	\$ 179,960
Public safety	182,702	23,660	206,362
Public works	94,604	23,676	118,280
Culture and recreation	31,754	-	31,754
Housing and community development	-	1,407	1,407
Miscellaneous	20,700	-	20,700
Capital outlay	107,069	-	107,069
Total expenditures	<u>\$ 611,972</u>	<u>\$ 53,560</u>	<u>\$ 665,532</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 18,132</u>	<u>\$ 36,549</u>	<u>\$ 54,681</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	\$ -	\$ 10,000	\$ 10,000
Transfers (out)	(10,000)	-	(10,000)
Total other financing sources and uses	<u>\$ (10,000)</u>	<u>\$ 10,000</u>	<u>\$ -</u>
Fund balances - beginning	\$ 249,085	\$ 837,502	\$ 1,086,587
Restatements	(1,466)	(7,090)	(8,556)
Fund balances - beginning restated	<u>\$ 247,619</u>	<u>\$ 830,412</u>	<u>\$ 1,078,031</u>
Fund balances - ending	<u>\$ 255,751</u>	<u>\$ 876,961</u>	<u>\$ 1,132,712</u>

The accompanying notes are an integral part of these financial statements.

Town of Stevensville
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS
June 30, 2012

Total fund balances - governmental funds	\$	1,132,712
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		199,552
Other assets are not available for current-period expenditures and, therefore, are deferred in the funds		22,086
Internal service funds are used by management to account for any activity that provides goods or services to other funds, departments, or agencies of the primary government and its component units, or to other governments, on a cost-reimbursement basis. The percentage of assets and liabilities of the internal service funds attributable to governmental activities are reported on the government-wide statement of net asset.		-
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.		(58,750)
Other post employment benefits (OPEB) liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.		-
Total net assets - governmental activities	\$	<u>1,295,600</u>

The accompanying notes are an integral part of these financial statements

Town of Stevensville
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNEMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended
June 30, 2012

Net change in fund balances - total governmental funds \$ 54,681

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	107,069
- Depreciation expense	(134,185)

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

- Tax and assessment receivables (change in deferred revenues)	474
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Governmental funds that book notes and loans receivable may report loan disbursements as expenditures and/or principal loan re-payments as revenues, but these are not reported as revenues or expenses on the Statement of Activities.

- Notes and loans receivables -(change in deferred revenues)	-
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The change in compensated absences is shown as an expense on the Statement of Activities, but are not reported as an expenditure on the Statement of Revenues, Expenditures and Changes in Fund Balance:

-Change in compensated absence liability	(13,572)
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Change in net assets - Statement of Activities	\$ 14,467
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The accompanying notes are an integral part of these financial statements

Town of Stevensville
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2012

Business-Type Activities				
Enterprise Funds				
	5210	5310	5610	Totals
	Water	Sewer	Airport	
ASSETS				
Current Assets				
Cash and investments	601,050	313,827	67,520	982,397
Accounts receivable - net	12,847	70,155	-	83,002
Due from other governments	-	-	27,813	27,813
Total Current Assets	\$ 613,897	\$ 383,982	\$ 95,333	\$ 1,093,212
Noncurrent Assets				
Restricted cash and investments	-	173,976	-	173,976
Capital assets - land	49,008	16,627	597,563	663,198
Capital assets - construction in progress	208,302	-	29,113	237,415
Capital assets - net of depreciator	1,568,486	3,734,851	1,881,840	7,185,177
Total Noncurrent Assets	\$ 1,825,796	\$ 3,925,454	\$ 2,508,516	\$ 8,259,766
Total Assets	\$ 2,439,693	\$ 4,309,436	\$ 2,603,849	\$ 9,352,978
LIABILITIES				
Current Liabilities				
Warrants payable	\$ -	\$ -	\$ -	\$ -
Accounts payable	5,928	14,262	29,422	49,612
Current portion of compensated absences payable	20,161	18,588	-	38,749
Total Current Liabilities	\$ 26,089	\$ 32,850	\$ 29,422	\$ 88,361
Noncurrent Liabilities				
Deposits payable	\$ 614	\$ (23)	\$ -	\$ 591
Noncurrent portion of long-term capital liabilities	693,655	2,560,417	39,008	3,293,080
Noncurrent portion of compensated absences	20,161	18,588	-	38,749
Total Noncurrent Liabilities	\$ 714,430	\$ 2,578,982	\$ 39,008	\$ 3,332,420
Total Liabilities	\$ 740,519	\$ 2,611,832	\$ 68,430	\$ 3,420,781
NET ASSETS				
Government Wide Format:				
Invested in capital assets, net of related deb	\$ 1,132,141	\$ 1,191,061	\$ 2,469,508	\$ 4,792,710
Restricted for replacement and depreciator	-	60,840	-	60,840
Restricted for debt service	-	113,136	-	113,136
Unrestricted	567,033	332,567	65,911	965,511
Total Net Assets	\$ 1,699,174	\$ 1,697,604	\$ 2,535,419	\$ 5,932,197
Total liabilities and net assets	\$ 2,439,693	\$ 4,309,436	\$ 2,603,849	\$ 9,352,978

The accompanying notes are an integral part of these financial statements.

Town of Stevensville
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
For the Fiscal Year Ended
June 30, 2012

	Business-Type Activities			Totals
	Enterprise Funds			
	5210	5310	5610	
	Water	Sewer	Airport	
OPERATING REVENUES				
Charges for services	\$ 436,729	\$ 248,870	\$ 17,791	\$ 703,390
Special assessments	-	211,537	-	211,537
Total Operating Revenues	<u>\$ 436,729</u>	<u>\$ 460,407</u>	<u>\$ 17,791</u>	<u>\$ 914,927</u>
OPERATING EXPENSES				
Personal services	\$ 97,238	\$ 97,705	\$ 30	\$ 194,973
Supplies	33,658	3,206	449	37,313
Purchased services	46,377	70,079	11,881	128,337
Fixed charges	7,044	7,104	1,250	15,398
Loss/bad debt expense	250	6,433	-	6,683
Depreciation	42,058	109,055	177,817	328,930
Total Operating Expenses	<u>\$ 226,625</u>	<u>\$ 293,582</u>	<u>\$ 191,427</u>	<u>\$ 711,634</u>
Operating Income (Loss)	<u>\$ 210,104</u>	<u>\$ 166,825</u>	<u>\$ (173,636)</u>	<u>\$ 203,293</u>
NON-OPERATING REVENUES (EXPENSES)				
Interest revenue	\$ 361	\$ 2,684	\$ 1,676	\$ 4,721
Debt service interest expense	-	(97,900)	(1,541)	(99,441)
Total Non-Operating Revenues (Expenses)	<u>\$ 361</u>	<u>\$ (95,216)</u>	<u>\$ 135</u>	<u>\$ (94,720)</u>
Income (loss) before contributions, transfers, special & extraordinary items	<u>\$ 210,465</u>	<u>\$ 71,609</u>	<u>\$ (173,501)</u>	<u>\$ 108,573</u>
Capital contributions	\$ 462,495	\$ 365,602	\$ 126,963	\$ 955,060
Transfers in	-	34,944	-	34,944
Transfers (out)	(34,944)	-	-	(34,944)
Change in net assets	<u>\$ 638,016</u>	<u>\$ 472,155</u>	<u>\$ (46,538)</u>	<u>\$ 1,063,633</u>
Net Assets - Beginning of the year	1,061,099	1,228,486	2,576,044	4,865,629
Restatements	59	(3,037)	5,913	2,935
Net Assets - Beginning of the year - Restated	<u>\$ 1,061,158</u>	<u>\$ 1,225,449</u>	<u>\$ 2,581,957</u>	<u>\$ 4,868,564</u>
Net Assets - End of the year	<u>\$ 1,699,174</u>	<u>\$ 1,697,604</u>	<u>\$ 2,535,419</u>	<u>\$ 5,932,197</u>

The accompanying notes are an integral part of these financial statements.

Town of Stevensville
STATEMENT OF CASH FLOWS
MAJOR PROPRIETARY FUNDS

Fiscal Year Ended
June 30, 2012

Business-type Activities

Description	5210 Water	5310 Sewer	5610 Airport	Total Major Business-Type Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 425,504	\$ 454,753	\$ 23,705	\$ 903,962
Cash paid to suppliers	(119,526)	(44,015)	15,842	(147,699)
Cash paid to employees	(90,608)	(91,312)	(30)	(181,950)
Net cash provided (used) by operating activities	<u>\$ 215,370</u>	<u>\$ 319,426</u>	<u>\$ 39,517</u>	<u>\$ 574,313</u>
ACTIVITIES				
Transfers from (to) other funds activities	\$ (34,944)	\$ 34,944	\$ -	\$ -
	<u>(34,944)</u>	<u>34,944</u>	<u>-</u>	<u>-</u>
FINANCING ACTIVITIES				
Proceeds from debt	\$ 577,793	\$ 1,293,269	\$ -	\$ 1,871,062
Purchases/acquisition/construction of capital assets	(830,604)	(892,331)	(133,491)	(1,856,426)
Principal on debt	-	(814,684)	(6,230)	(820,914)
Interest paid on debt	-	(97,900)	(1,541)	(99,441)
Proceeds from intergovernmental capital grants activities	462,495	365,602	99,150	927,247
	<u>\$ 209,684</u>	<u>\$ (146,044)</u>	<u>\$ (42,112)</u>	<u>\$ 21,528</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sales of investments	\$ -	\$ -	\$ -	\$ -
Interest earnings	361	2,684	1,676	4,721
Net cash provided (used) by investing activities	<u>361</u>	<u>2,684</u>	<u>1,676</u>	<u>4,721</u>
Net increase (decrease) in cash and cash equivalents	<u>390,471</u>	<u>211,010</u>	<u>(919)</u>	<u>600,562</u>
Cash and cash equivalents as of:				
June 30, 2011	<u>210,579</u>	<u>308,323</u>	<u>68,439</u>	<u>587,341</u>
June 30, 2012	<u>\$ 601,050</u>	<u>\$ 519,333</u>	<u>\$ 67,520</u>	<u>\$ 1,187,903</u>
Reconciliation of operating income to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 210,104	\$ 166,825	\$ (173,638)	\$ 203,291
Adjustments to reconcile operating income to net cash provided (used) by operating activities				
Depreciation expense	42,058	109,055	177,817	328,930
(Increase) Decrease in accounts receivable	(10,974)	(5,062)	5,915	(10,121)
Increase (decrease) in warrants/accounts payable	(32,448)	42,215	29,423	39,190
Increase (decrease) in accrued payables	-	-	-	-
Increase (decrease) in compensated absences pay.	6,630	6,393	-	13,023
Total adjustments	<u>5,266</u>	<u>152,601</u>	<u>213,155</u>	<u>371,022</u>
Net cash provided (used) by operating activities	<u><u>215,370</u></u>	<u><u>319,426</u></u>	<u><u>39,517</u></u>	<u><u>574,313</u></u>

The accompanying notes are an integral part of these financial statements.

Town of Stevensville
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2012

	Agency Funds
ASSETS	
Cash and short-term investments	\$ 178,692
Internal balances	-
Receivables:	-
Taxes and assessments receivable, net	761
Total receivables	\$ 761
Total Assets	\$ 179,453
LIABILITIES	
Warrants payable	\$ 53,296
Due to other governments	125,396
Deferred revenue	761
Total Liabilities	\$ 179,453
Net Assets	
Held in trust for pension benefits and other purposes	\$ -

The accompanying notes are an integral part of these financial statements.

TOWN OF STEVENSVILLE
NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

1. Reporting Entity - The Town is a political subdivision of the State of Montana governed by a Mayor and Council duly elected by the registered voters of the City/Town. The Town utilizes the manger form of government. The accompanying financial statements present the primary government and its component units, entities for which the government is considered to be financially accountable. Blended component units are part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government, but is financially accountable to or fiscally dependent upon the primary government or their omission from the financial statements would be misleading or incomplete.

Blended Component Unit: None

Discretely Presented Component Unit: None

2. Government-wide and fund financial statements - The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity 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 fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary governments is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide statements. Major individual governmental funds and major individual enterprise funds are reported in separate columns in the fund financial statements.

Continued

TOWN OF STEVENSVILLE
NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

3. Measurement focus, basis of accounting, and financial statement presentation - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related 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. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Property taxes, 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 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. All other revenue items are considered to be measurable and available only when cash is received by the government. Taxes and assessments receivable remaining uncollected at year end are offset by a deferred revenue since they are not available to pay liabilities of the current period.

The government reports the following major governmental funds:

General Fund - This is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The government reports the following major proprietary funds:

Water Enterprise Fund - This fund is used to account for the operating and nonoperating revenues and expenses of the public water utility system. The fund is maintained on the full accrual basis of accounting.

Sewer Enterprise Fund - This fund is used to account for the operating and nonoperating revenues and expenses of the public sewer utility system. The fund is maintained on the full accrual basis of accounting.

Airport Enterprise Fund - This fund accounts for charge for service and grant revenues as well as other miscellaneous revenues and the related expenses for the operation and maintenance of airport facilities. The fund is maintained on the full accrual basis of accounting.

Continued

TOWN OF STEVENSVILLE
NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Additionally, the government reports the following fund types:

Fiduciary Funds

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the governments' enterprise functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions.

Amounts reported as program revenues include: 1) charges to customers for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds and the government's internal service funds are charges to customers for services provided. Operating expenses for enterprise funds and internal service funds include the cost of providing such services and the depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

4. Assets, liabilities, and net assets or equity

a) **Deposits and investments**

The Town cash and cash equivalents are considered to be cash on hand, demand and savings deposits and short-term investments.

State statutes authorize the County/City/Town to invest in direct obligations of the U.S. Government, such as U.S. Treasury bills and notes and U.S. Government securities as defined by law, repurchase agreements and the State Short-Term Investment Pool (STIP).

Continued

TOWN OF STEVENSVILLE
NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Assets, liabilities, and net assets or equity, continued

Investments are reported at fair value. The State Short-Term Investment Pool operates in accordance with State laws and regulations and is administered by the State Department of Administration.

b) Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at fiscal year end are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). Advances between funds are not available for appropriation and are not expendable available financial resources.

Accounts receivables are shown net of allowance for uncollectibles. Property tax receivables are offset by deferred revenue accounts since they are not available to pay liabilities of the current period. All property tax levies are set at the time of the adoption of the annual budget. The real estate taxes are payable in two installments, the first due by November 30 and the second by May 31. Personal property taxes are assessed in April or May and are payable within 30 days of the issuance of the notice.

c) Inventories and prepaid items

The Town had no amounts recorded for inventories or prepaid items as of June 30, 2012

d) Restricted assets

Certain assets of the enterprise funds are restricted for specific use as required by the bond indenture agreement covenants established with the issuance and sale of the revenue bonds representing a liability to the enterprise funds. These restricted assets represent cash and cash equivalents restricted for use to repay current debt, establish a reserve for future debt and to establish a replacement and depreciation reserve for the purpose of replacing the system in the future.

e) Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, curbs, etc), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets, other than infrastructure assets, are defined by the Town as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Continued

TOWN OF STEVENSVILLE
NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Capital assets, continued

Property, plant, and equipment of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	<u>39</u>
Building improvements	<u>10-39</u>
Machinery & equipment	<u>7</u>
Infrastructure	<u>15-50</u>

f) Compensated absences

As required by State law, the Town allows for employees to accumulate earned but unused vacation and sick leave benefits. Unused vacation leave benefits are 100 percent payable upon termination and 1/4 of unused sick leave benefits are payable upon termination. Such amounts are reported as liabilities in the appropriate governmental or business-type activity in the government wide statements. Expenditures for unpaid vacation and sick leave benefits are recorded when paid in the governmental funds on the modified accrual basis of accounting and expenses for vacation and sick leave benefits are recorded when accrued in the proprietary funds on the full accrual basis of accounting.

g) Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bond issue using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

h) Fund equity

See Note D below for an explanation of the various classifications of fund balance on the governmental fund financial statements. Restricted fund balances/net assets are balances that are legally restricted by outside parties for use for a specific purpose.

Continued

TOWN OF STEVENSVILLE
NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2013

NOTE B – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

1. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets – The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds and net assets – governmental activities as reported in the government-wide statement of net assets.
2. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities - The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances - total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities.

NOTE C – COMPLIANCE AND ACCOUNTABILITY

1. Budgetary Information - The Town adopts an annual budget for all of its funds in accordance with Title 7, Chapter 6, Part 40 of the Montana Code Annotated. Statute requires the adoption of a preliminary budget, public hearings on the preliminary budget and the final adoption of the budget by the later of the second Monday in August or within 45 calendar days of the receipt of the certified taxable valuations from the Department of Revenue (county assessor).

The Town must also submit a copy of the final budget to the Department of Administration by the later of October 1 or 60 days after the receipt of taxable values from the Department of Revenue.

State statute limits the making of expenditures or incurring of obligations to the amount of the final budget as adopted or as amended. Budget transfers and amendments are authorized by law, and in some instances, may require further public hearings.

Any budget amendments providing for additional appropriations must identify the fund reserves, unanticipated revenue, or previously unbudgeted revenue that will fund the appropriations.

Appropriations are created by fund, function, and activity and may further be detailed by department. Expenditure limitations imposed by law extend to the department level which is identified as the legal level of budgetary control.

Encumbrance accounting is not employed for the governmental funds.

2. Excess of expenditures over appropriations - The following funds had expenditures that exceeded appropriations;

General Fund in the amount of \$87,232
Peterson Lighting-a special revenue fund in the amount of \$284
Creekside Lighting-a special revenue fund in the amount of \$186

Continued

TOWN OF STEVENSVILLE
NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2013

NOTE C – COMPLIANCE AND ACCOUNTABILITY, continued

3. Deficit fund equity- The Town had no funds with deficit fund equity as of June 30, 2012.

NOTE D – DETAILED NOTES ON ALL FUNDS

1. Deposits and Investments – As of June 30, 2013, the government had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>
Certificates of Deposits	\$ 427,322
Certificates of Deposits held for others	142,400
Total fair value	<u>\$ 569,722</u>

Interest rate risk. The Town has no investment policy that would limit interest rate risk, however Management limits interest rate risk by varying the maturity dates for certificates of deposit.

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; U.S. government treasury bills, notes, bonds and other treasury obligations such as state and local government series; general obligations of certain agencies of the United States such as Federal Home Loan Bank; and U.S. government security money market funds if the fund meets certain conditions. Credit risk is minimized by compliance with State law.

Concentration of credit risk. The Town's investments contain an element of concentration of credit risk since all of the investments represent over 23% of the Town's total cash. The Town does not further diversify investments because the investments are conservative and further diversification does not significantly reduce credit risk for the Town.

Custodial credit risk. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. For an investment, this is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law governs the amount and types of security required to cover that portion of the deposits which is not guaranteed or insured according to law. Per state law, when negotiable securities are furnished, such securities may be placed in trust and the trustee's receipt may be accepted in lieu of actual securities when such receipt is in favor of the treasurer or town clerk and his successors. Sections 7-6-202 and 7-6-206, MCA severely limit the types of investments and time deposits which are permitted by the Town. Compliance with these statutes minimizes the Town's custodial credit risk.

2. Amounts due to/advanced from and due from/advanced to other funds – The town had no due from/advance to other funds and due to/advance from other funds as of June 30, 2012.

Continued

TOWN OF STEVENSVILLE
NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2013

NOTE D – DETAILED NOTES ON ALL FUNDS, continued

3. Capital assets – Capital asset activity for the fiscal year ended June 30, 2012 was as follows:

	Beginning Balance	Increases	Decreases	Reclassifications	Adjustments	Ending Balance
Governmental activities:						
Capital assets not being depreciated						
Land	\$ 2,707	\$ -	\$ -	\$ -	\$ -	\$ 2,707
Total capital assets not being depreciated	<u>2,707</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,707</u>
Capital assets being depreciated						
Buildings	427,934	-	-	-	-	427,934
Improvements other than buildings	102,763	-	-	-	-	102,763
Machinery and equipment	430,406	107,069	-	-	-	537,475
Total capital assets being depreciated	<u>961,103</u>	<u>107,069</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,068,172</u>
Less accumulated depreciation for:						
Buildings	(293,546)	(10,111)	-	-	-	(303,657)
Improvements other than buildings	(47,606)	(4,338)	-	-	-	(51,944)
Machinery and equipment	(395,990)	(119,737)	-	-	-	(515,726)
Total accumulated depreciation	<u>(737,141)</u>	<u>(134,185)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(871,327)</u>
Total capital assets being depreciated	<u>223,962</u>	<u>(27,117)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>196,845</u>
Governmental activities capital assets net	<u>\$ 226,669</u>	<u>\$ (27,117)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 199,552</u>
Business-type activities:						
Capital assets not being depreciated						
Land	\$ 663,198	\$ -	\$ -	\$ -	\$ -	\$ 663,198
Construction in progress	1,264,159	1,761,222	-	(2,817,079)	-	208,302
Total capital assets not being depreciated	<u>1,927,357</u>	<u>1,761,222</u>	<u>-</u>	<u>(2,817,079)</u>	<u>-</u>	<u>871,500</u>
Capital assets being depreciated						
Buildings	155,977	-	-	-	-	155,977
Improvements other than buildings	2,749,601	104,378	-	-	-	2,853,979
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	-	-	1,456,163	-	5,806,292
Transmission and distribution	-	-	-	1,360,916	-	1,360,916
Total capital assets being depreciated	<u>7,713,893</u>	<u>104,378</u>	<u>-</u>	<u>2,817,079</u>	<u>-</u>	<u>10,635,350</u>
Less accumulated depreciation for:						
Buildings	(84,909)	(3,998)	-	-	-	(88,908)
Improvements other than buildings	(941,729)	(164,516)	-	-	-	(1,106,245)
Machinery and equipment	(201,712)	(14,257)	-	-	-	(215,969)
Source of supply	(84,754)	-	-	-	-	(84,754)
Pumping plant	(18,900)	-	-	-	-	(18,900)
Treatment plant	(1,789,238)	(118,941)	-	-	-	(1,908,179)
Transmission and distribution	-	(27,218)	-	-	-	(27,218)
Total accumulated depreciation	<u>(3,121,242)</u>	<u>(328,930)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,450,173)</u>
Total capital assets being depreciated	<u>4,592,651</u>	<u>(224,553)</u>	<u>-</u>	<u>2,817,079</u>	<u>-</u>	<u>7,185,177</u>
Business-Type activities capital assets net	<u>\$6,520,008</u>	<u>\$1,536,669</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$8,056,677</u>

Continued

TOWN OF STEVENSVILLE
NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2013

NOTE D – DETAILED NOTES ON ALL FUNDS, continued

Capital assets, continued

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 2,387
Public safety	125,014
Public works	3,905
Culture and recreation	2,879
Total depreciation expense - governmental activities	\$ 134,185
Business-type activities:	
Water utilities	\$ 42,058
Sewer utilities	109,055
Airport	177,817
Total depreciation expense - business-type activities	\$ 328,930

4. Operating Leases – The town has no operating leases as of June 30, 2012.

5. Long-term debt – The County/City/Town has assumed the following long-term debt:

a) **General Obligation Bonds**

The Town had no General Obligation Bonds payable at June 30, 2012.

b) **Revenue Bonds**

Revenue Bonds payable at June 30, 2012 are comprised of the following issues:

<u>Purpose</u>	<u>Issue Date</u>	<u>Interest Rate</u>	<u>Term of Years</u>	<u>Final Maturity</u>	<u>Bonds Issued</u>	<u>Outstanding June 30, 2012</u>	<u>Annual Serial Payment</u>
Sewer RUS #1	12/19/00	4.500%	40	5/19/40	\$ 1,250,000	1,080,850	67,500
Sewer RUS #3	12/19/00	4.500%	40	5/19/40	\$ 814,000	703,850	43,956
Sewer RUS #2	12/14/11	3.000%	40	5/19/51	\$ 780,000	775,710	varies
Total Revenue Bonds					\$ 2,844,000	\$ 2,560,410	\$ 111,456

c) **Special Assessment Bonds** The Town had no Special Assessment Bonds payable at June 30, 2012.

Continued

TOWN OF STEVENSVILLE
NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2013

NOTE D – DETAILED NOTES ON ALL FUNDS, continued

d) **Contracts, Notes, or Loans**

<u>Purpose</u>	<u>Original Amount</u>	<u>Date of Issue</u>	<u>Interest Rate</u>	<u>Outstanding 6/30/2012</u>	<u>Date of Last Payment</u>
Water project-draws 1, 2, 3	\$ 115,862	4/8/2011	1.950%	\$ 115,862	N/A
Water project-draws	577,793	7/4/2005	1.950%	577,793	N/A
Montana Aeronautics #2	46,045	1/17/2008	4.130%	27,627	2/28/18
Montana Aeronautics #3	16,250	9/3/2009	1.625%	11,375	2/28/19
Total Contracts, Notes, or Loans	\$ 755,950			\$ 732,656	

6. Restatements/prior period adjustments - During the current fiscal year, adjustments relating to prior year's transactions were made to the fund balance and retained earnings accounts. The following is a schedule of these adjustments:

<u>Fund</u>	<u>Amount</u>	<u>Reason for adjustment</u>
General	\$ (5,915)	restate prior year expenditures
General	4,449	restate cash balance in fund to agree with reconciled bank statements
Fire Engine Capital Improvement	(7,090)	restate prior year expenditures
Water	38,347	restate prior year expenses
Sewer Project	(3,035)	restate prior year expenses
Airport	5,915	restate prior year revenues
Total	\$ 32,671	

7. Pension and retirement plans

The entity participates in the Montana Public Employees Retirement System, the Sheriff's Retirement System, and the Teacher's Retirement System. The contributions to the plans for the fiscal year are as follows:

	<u>Employer share of retirement contribution expenses</u>	<u>Employee share of retirement contribution</u>	<u>Total</u>
Public Employee's Retirement System (City)	18,501.00	18,342.00	\$ 36,843

Continued

TOWN OF STEVENSVILLE
NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2013

NOTE D – DETAILED NOTES ON ALL FUNDS, continued

8. Fund Balance/Net Assets

a) **Fund Balance**

Statement No. 54 - "Fund Balance Reporting and The Governmental Fund Type Definitions". Statement No. 54, requires presentation of governmental fund balances by specific purpose. In the basic financial statements, the fund balance classifications are presented in the aggregate for the following fund balance classifications: non-spendable, restricted, committed, assigned and unassigned.

The non-spendable fund balance classification represents the portion of fund balances that cannot be spent either because it is not in spendable form such as inventories, the long-term portion of notes & loans receivable, land held for resale of which the future proceeds are not committed, and pre-paid expenses, or because of legal or contractual constraints such as the corpus of a permanent fund.

The restricted fund balance classification includes amounts that can be spent only for specific purposes which are externally imposed either by:

- 1) providers such as creditors (such as through debt covenants), grantors, contributors, and laws and regulations of other governments; or
- 2) imposed by law through constitutional provisions or enabling legislation.

The committed fund balance classification includes amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision-making authority, Town Council through Resolution and does not lapse at year-end.

The assigned fund balance classification includes amounts that are intended to be used by the government for a specific purpose that do not meet the criteria to be classified as restricted or committed.

Assignments of fund balance may be created for certain designated individuals, positions or bodies and none were noted during the fiscal year.

Unassigned fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in other classifications. In governmental funds other than the general fund, the unassigned classification is only used to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

Continued

TOWN OF STEVENSVILLE
NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2013

NOTE D – DETAILED NOTES ON ALL FUNDS, continued

Fund Balance/Net Assets, continued

b) **Net Assets**

In funds other than governmental funds, net assets represent the difference between assets and liabilities. Net assets invested in capital assets net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are external limitations imposed on their use either through constitutional provisions or enabling legislation, or, through externally imposed restrictions imposed by creditors, grantors, or laws or regulations of other governments.

9. Fund Balance Classifications - GASB Statement No 54 requires presentation of specific purpose details by fund balance classification either on the face of the balance sheet-governmental funds, in the notes to the financial statements, or a combination of both.

Specific purposes details by fund balance classification are presented on the Balance Sheet-Governmental Funds.

10. Spending Policy - The Town receives inflows from revenue and other financial sources from numerous sources for use in the General fund. The Fund will expend those resources on multiple purposes of the local government. The intention of this spending policy is to identify the expenditure order of resource categories for the General Fund. Resources will be categorized according to Generally Accepted Accounting Principles (GAAP) for state and local governments. When both restricted and unrestricted resources are available in the General Fund, the following spending policy will apply or the default will apply if a policy has not been adopted:

- 1st restricted
- 2nd committed
- 3rd assigned
- 4th unassigned

The Town receives inflows from revenue and other financial sources from numerous sources for use in the Special Revenue, Debt Service and Capital Projects funds. These funds will expend those resources on the specific purpose of the fund. The intention of this spending policy is to identify the expenditure order of resource categories for these Funds.

Resources will be categorized according to Generally Accepted Accounting Principles (GAAP) for state and local governments. When both restricted and unrestricted resources are available in these funds, the following spending policy will apply or the default will apply if a policy has not been adopted:

- 1st restricted
- 2nd committed
- 3rd assigned

Continued

TOWN OF STEVENSVILLE
NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2013

NOTE D – DETAILED NOTES ON ALL FUNDS, continued

11. Minimum Fund Balance Policy – The Town County does not have a minimum fund balance policy in place.

NOTE E – BOC SUPPLEMENT SCHEDULE

- a) **Salaries and Wages** - Total salaries and wages paid to all employees of the government before deductions for social security, retirement, etc. including salaries and wages paid to employees of any utility owned and operated by the government during fiscal year 2012 totaled \$360,592
- b) **Debt Outstanding**
- 1) Long-term debt outstanding, issued and retired:

Purpose	Amount			
	<u>Bonds Outstanding</u>	<u>Bonds during the fiscal year</u>		<u>Outstanding as of June 30, 2012</u>
	<u>July 1, 2011</u>	<u>Issued</u>	<u>Retired</u>	<u>General Obligation</u> <u>Revenue bonds</u>
Sewer utility	1,815,101	780,000	34,684	- 2,560,417

a) **Cash balances by fund type** – Cash may consist of cash on hand, checking, savings, repurchase agreements, certificates of deposit, securities, or any other cash related item.

Type of Fund	Amount
General Fund	\$ 283,470
Special Revenue Funds	429,826
Capital Projects Funds	445,426
Enterprise Funds	1,187,904
Trust and Agency Funds	178,692
Total cash all funds	\$ 2,525,318



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& GALUSHA, PC
EST. 1919

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

To the Town Council
Town of Stevensville, Montana

We 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, each major fund, and the aggregate remaining fund information of Town of Stevensville, Montana (Town) as of and for the year ended June 30, 2012, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated February 21, 2014.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

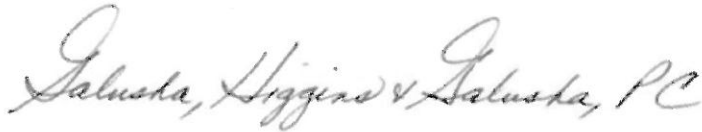
A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether '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 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 our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or 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.

A handwritten signature in cursive script that reads "Galusha, Higgins & Galusha, PC".

GALUSHA, HIGGINS & GALUSHA, PC
Certified Public Accountants and Advisors

Helena, Montana
February 21, 2014



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD
HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL
CONTROLOVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133

To the Town Council
Town of Stevensville, Montana

Compliance

We have audited the compliance of the Town of Stevensville with the types of compliance requirements described in the U.S. Office of Management and Budget Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The Town of Stevensville's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the entity's management.

Auditor's Responsibility

Our responsibility is to express an opinion on the Town of Stevensville's compliance with the applicable compliance requirements based on our compliance audit.

Except as discussed in the following paragraph, we conducted our compliance audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and Circular A-133 require that we plan and perform the compliance audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. A compliance audit includes examining, on a test basis, evidence about the Town of Stevensville's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our compliance audit provides a reasonable basis for our opinion. Our compliance audit does not provide a legal determination on the Town of Stevensville's compliance with those requirements.

Basis for Qualified Opinion

We were unable to obtain sufficient documentation supporting the compliance of the Town of Stevensville with the Montana, Nevada, New Mexico, Utah, Idaho & Wyoming Environmental Infrastructure (Section 595) - ARRA program regarding the Davis-Bacon Act compliance requirement, nor were we able to satisfy ourselves as to Town of Stevensville's compliance with those requirements by other auditing procedures.

Qualified Opinion

In our opinion, except for the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding the Town of Stevensville's compliance with the requirements of the Montana, Nevada, New Mexico, Utah, Idaho & Wyoming Environmental Infrastructure (Section 595) - ARRA program regarding the Davis-Bacon Act compliance requirement. The Town of Stevensville complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2012.

Other Matter

The results of our auditing procedures disclosed instances of noncompliance with the compliance requirements referred to above that are required to be reported in accordance with Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2012-2 and 2012-3.

Internal Control over Compliance

The management of the Town of Stevensville is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our compliance audit, we considered Town of Stevensville's internal control over compliance with requirements that could have a direct and material effect on a major federal program as a basis for designing our compliance auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Town of Stevensville's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses as described in the accompanying schedule of findings and questioned costs as items 2012-1, 2012-2 and 2012-3.

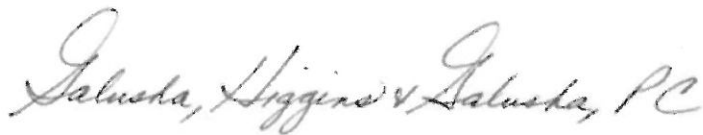
A significant deficiency in internal control over compliance is a deficiency or a combination of deficiencies in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Due to the broad scope of the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs considered to be material weaknesses, we did not consider any other deficiencies to be significant deficiencies.

The Town of Stevensville's responses to the findings identified in our compliance audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Town of Stevensville's responses and, accordingly, we express no opinion on the responses.

Restricted Use

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance, and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control over financial reporting 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 over financial reporting and compliance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Galusha, Higgins & Galusha, PC".

GALUSHA, HIGGINS & GALUSHA, PC
Certified Public Accountants and Advisors

Helena, Montana
February 21, 2014

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I: Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: disclaimer

Internal control over financial reporting:

Are any material weaknesses identified?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Are any significant deficiencies identified not considered to be material weaknesses?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None Reported
Is any noncompliance material to financial statements noted?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

Federal Awards

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

Internal control over major program compliance:

Are any material weaknesses identified?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Are any significant deficiencies identified not considered to be material weaknesses?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None Reported
Are any audit findings disclosed that are required to be reported in accordance with U.S. Office of Management and Budget Circular A-133, <i>Audits of State, Local Governments, and Non-Profit Organizations</i> , Section .510(a)?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

Identification of major programs:

CFDA Number(s)	and Name of Federal Program or Cluster
10.760 –	Water and Waste Disposal Systems for Rural Communities
12.121 -	Montana, Nevada, New Mexico, Utah, Idaho & Wyoming Environmental Infrastructure (Section 595) - ARRA

Enter the dollar threshold used to distinguish between Type A and Type B programs:	\$ <u>300,000</u>
Is the auditee qualified as a low-risk auditee?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

Section II: Financial Statement Findings

Finding 2012-1:

Criteria: Generally Accepted Accounting Principles (GAAP) require supporting documentation such as invoices, schedules and other records to support the transactions and balances recorded in the financial statements.

Condition: For the year ended June 30, 2012 the Town of Stevensville did not maintain their records to support and match the accounting records.

Cause: The Town of Stevensville experienced turnover in accounting personnel during the year prior to the audit period. During the transition period, accounting records were not maintained according to established procedures.

Effect or Potential Effect: The accounting records during the period were not sufficient to support the amounts recorded on the financial statements and required material audit adjustments to be in compliance with GAAP.

Recommendation: The Town of Stevensville has previously identified the issue noted above and has implemented changes in personnel for the accounting functions to address the issue.

Responsible Official's Response: Mayor Gene Mim Mack was appointed Mayor and assumed office on September 23, 2011. Early in his tenure he identified the existing accounting deficiencies and took the following corrective actions:

- Instituted measurable internal controls
- Made personnel changes resulting in more qualified staff at the Treasurer level
- Enlisted the help of Magda Nelson, Lead Accountant for the State of MT Department of Administration Local Government Services Bureau to
 - Provided ongoing GAAP training
 - Supervised review of Town accounting procedures

Section III: Federal Awards Findings

Finding 2012-2:

Federal Program: CFDA 12.121—Montana, Nevada, New Mexico, Utah, Idaho & Wyoming Environmental Infrastructure (Section 595) – ARRA

Compliance Requirements: Davis-Bacon Act.

Type of Finding: Material Noncompliance and Material Weakness.

Criteria: Program requirements state that projects funded under both federal programs are required to pay prevailing wages to various types of skilled laborers.

Condition: For the year ended June 30, 2012, we reviewed a sample of transactions charged to the programs and were not able to verify the wages paid for the project were in accordance with Davis-Bacon Act requirements.

Questioned Costs: No known questioned costs noted because supporting documentation was able to be found. Likely questioned costs may exceed \$10,000. Likely questioned costs are based on the invoices that were not reviewed as part of the audit process. Audits do not include a review of all transactions, therefore, the invoices which were not reviewed may have similar conditions to those mentioned above.

Cause: Accounting records kept by the Town for the period under audit were not complete and did not contain enough information to verify requirements were met.

Effect or Potential Effect: As a result, the Town may be subject to liability for any difference between actual wages paid and the wages that should have been paid under the Act.

Recommendation: The Town of Stevensville has previously identified the lack of appropriate accounting records as an issue which needed correction and has implemented steps to ensure proper documentation is kept for future periods. In addition, the Town should review the specific requirements of each federal or state award it receives and ensure that sufficient documentation is retained to verify compliance with those requirements.

Responsible Official's Response and Corrective Action Planned: In order for the Town to be compliant, for each project Mayor Gene Mim Mack has instructed the Town's supervising project engineers to do the following:

- A statement on your company letterhead which lays out the process you use to verify all contractor's and/or subcontractor's payrolls and the schedule of when and how you do your review
- A list of all wage rates paid by the contractor's and/or subcontractor's to Davis Bacon-eligible employees
- Included with each pay request is a statement by the supervising engineer certifying that they have verified all wages paid to contractors and/or subcontractors meet the Davis Bacon requirements

Planned Implementation Date of Corrective Action: Immediately.

Person Responsible for Corrective Action: Mayor.

Finding 2012-3:

Federal Program: CFDA 10.760—Water and Waste Disposal Systems for Rural Communities.
CFDA 12.121—Montana, Nevada, New Mexico, Utah, Idaho & Wyoming
Environmental Infrastructure (Section 595) – ARRA

Compliance Requirements: Allowable Costs.

Type of Finding: Material Weakness.

Criteria: Office of Management and Budget (OMB) Circular A-87 requires that costs charged to federal programs are supported by appropriate documentation.

Condition: For the year ended June 30, 2012, we reviewed a sample of transactions charged to the program and noted that several of the invoices included in the sample did not contain documentation to support the Town's compliance with requirements for the programs. Specifically, there were multiple

cash disbursements noted that did not indicate who the amounts were paid to and several that were not supported by invoices. Town staff was able to provide documentation after the initial requests with the help of the parties involved in the transactions including the financial institution and vendor.

Questioned Costs: No known questioned costs noted because supporting documentation was able to be found. Likely questioned costs may exceed \$10,000. Likely questioned costs are based on the invoices that were not reviewed as part of the audit process. Audits do not include a review of all transactions, therefore, the invoices which were not reviewed may have similar conditions to those mentioned above.

Cause: Accounting records kept by the Town for the period under audit were not complete and did not contain enough information to verify requirements were met.

Effect or Potential Effect: As a result, the Town may be subject to liability for any questioned costs that federal granting agencies determine were not sufficiently supported.

Recommendation: The Town of Stevensville has previously identified the lack of appropriate accounting records as an issue which needed correction and has implemented steps to ensure proper documentation is kept for future periods. In addition, the Town should review the specific requirements of each federal or state award it receives and ensure that sufficient documentation is retained to verify compliance with those requirements.

Responsible Official's Response and Corrective Action Planned: Mayor Gene Mim Mack was appointed Mayor and assumed office on September 23, 2011. Early in his tenure he identified the existing accounting deficiencies and took the following corrective actions:

- Instituted measurable internal controls resulting in supporting documentation accompanying all claims paid by the Town
- Mayor agrees that audit A/P testing resulted in supporting documentation deficiencies and that when identified by the audit team. The Mayor is confident that the policies and procedures he put in place have corrected the previous deficiencies
- The Mayor has reviewed with Staff the specific requirements of federal and state award to ensure that sufficient documentation is retained to verify compliance with all award requirements going forward

Planned Implementation Date of Corrective Action: Immediately.

Person Responsible for Corrective Action: Mayor.

TOWN OF STEVENSVILLE, MONTANA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the fiscal year ended June 30, 2012

Federal CFDA Number	Grantor Program Title	Grant/Contract Number	2012 Federal Expenditures
<u>U.S. Department of Agriculture</u>			
Passed through Montana DNRC			
10.760	Water and Waste Disposal Systems for Rural Communities - Water Project		\$ 539,506
10.760	Water and Waste Disposal Systems for Rural Communities - Sewer Project		1,607,425
	Total U.S. Department of Agriculture		<u>2,146,931</u>
<u>U.S. Department of Transportation</u>			
Passed through Montana Department of Transportation			
20.106	Airport Improvement Program	AIP-3-30-0044-009-2011	99,150
	Total U.S. Department of Transportation		<u>99,150</u>
<u>Department of Defense, Department of the Army, Office of the Chief of Engineers</u>			
12.121	Montana, Nevada, New Mexico, Utah, Idaho, & Wyoming Environmental Infrastructure (Section 595) - ARRA		462,495
	Total Department of Defense		<u>462,495</u>
<u>Department of Homeland Security, Federal Emergency Management Agency</u>			
97.044	Assistance to Firefighters Grant		105,165
	Total Department of Homeland Security		<u>105,165</u>
		Total Expenditures of Federal Awards	<u>\$ 2,813,741</u>

Notes to Schedule of Expenditures of Federal Awards:

1) This schedule was prepared using the accrual basis of accounting.

See accompanying notes to the schedule.