

TOWN OF STEVENSVILLE
RAVALLI COUNTY
STEVENSVILLE, MONTANA 59870

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TOWN OF STEVENSVILLE
RAVALLI COUNTY
STEVENSVILLE, MONTANA 59870

ORGANIZATION

Mayor and City Council

James Crews	Mayor
Robin Holcomb	Councilperson
Stacie Barker	Councilperson
Robert Michalson	Councilperson
Clayton Freeman	Councilperson

OFFICIALS

Stacy Bartlett	Clerk
April VanTassel	Finance Officer
James Marble	Chief of Police
Brian West	Town Attorney
Denise Philly	Utility Clerk
George Thomas	Public Works Supervisor
Maureen O'Connor	Judge



STROM & ASSOCIATES, P.C.

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Mayor and City Council
Town of Stevensville
Ravalli County
Stevensville, Montana 59870

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 the Town of Stevensville (Town) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP); 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 the Town of Stevensville as of June 30, 2016, 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 (RSI)

Accounting principles generally accepted in the United States of America requires that the schedule of proportionate share of net pension liability (page 32), and Schedule of Contributions to Montana Retirement Systems (page 33), and budgetary comparison information (pages 34 - 35) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that GAAP requires 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 the Town of Stevensville's basic financial statements. The accompanying schedule of expenditures of federal awards (pages 36 - 37) is presented for purposes of additional analysis as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The accompanying schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAP. In our opinion, the accompanying schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2017 on our consideration of the Town of Stevensville internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Stevensville internal control over financial reporting and compliance.



STROM & ASSOCIATES, PC
Billings, Montana
November 20, 2017

STATEMENT OF NET POSITION
June 30, 2016

	Governmental Activities	Business-type Activities	Total
ASSETS:			
Current assets:			
Cash and cash equivalents	\$ 1,066,261	\$ 1,492,671	\$ 2,558,932
Taxes receivable	15,535	-	15,535
Accounts receivable - net	-	118,539	118,539
Other current assets	-	26,966	26,966
Total current assets	<u>1,081,796</u>	<u>1,638,176</u>	<u>2,719,972</u>
Noncurrent assets:			
Restricted cash and investments	-	438,854	438,854
Capital assets:			
Land	2,707	663,198	665,905
Construction in progress	9,904	285,539	295,443
Net depreciable assets	<u>468,918</u>	<u>14,616,887</u>	<u>15,085,805</u>
Total noncurrent assets	<u>481,529</u>	<u>16,004,478</u>	<u>16,486,007</u>
Total assets	<u>1,563,325</u>	<u>17,642,654</u>	<u>19,205,979</u>
DEFERRED OUTFLOWS OF RESOURCES:			
Employer pension plan activities	<u>39,470</u>	<u>23,521</u>	<u>62,991</u>
Total deferred outflows of resources	<u>39,470</u>	<u>23,521</u>	<u>62,991</u>
Total assets and deferred outflows of resources	<u>\$ 1,602,795</u>	<u>\$ 17,666,175</u>	<u>\$ 19,268,970</u>
LIABILITIES:			
Current liabilities:			
Accounts payable	31,831	212,990	244,821
Deposits payable	-	591	591
Current portions compensated absences	23,350	25,543	48,893
Current portion long-term capital obligations	-	112,382	112,382
Total current liabilities	<u>55,181</u>	<u>351,506</u>	<u>406,687</u>
Noncurrent liabilities:			
Long-term obligations	227,759	196,675	424,434
Compensated absences	23,350	25,541	48,891
Long-term capital obligations	-	5,651,560	5,651,560
Total noncurrent liabilities	<u>251,109</u>	<u>5,873,776</u>	<u>6,124,885</u>
Total liabilities	<u>306,290</u>	<u>6,225,282</u>	<u>6,531,572</u>
DEFERRED INFLOWS OF RESOURCES:			
Employer pension plan	-	18,535	18,535
Total deferred inflows of resources	-	<u>18,535</u>	<u>18,535</u>
NET POSITION:			
Net investment in capital assets	481,529	9,801,682	10,283,211
Restricted	337,376	303,914	641,290
Unrestricted (Deficit)	<u>477,600</u>	<u>1,316,762</u>	<u>1,794,362</u>
Total net position	<u>1,296,505</u>	<u>11,422,358</u>	<u>12,718,863</u>
Total liabilities, deferred inflows and net position	<u>\$ 1,602,795</u>	<u>\$ 17,666,175</u>	<u>\$ 19,268,970</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

STATEMENT OF ACTIVITIES
For the year ended June 30, 2016

	Program Revenues						Total
	Expenses	Charge for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
GOVERNMENT OPERATIONS:							
General government	\$ 560,463	\$ 18,904	\$ -	\$ 383,832	\$ (157,727)		\$ (157,727)
Public safety	348,509	8,053	35,621	-	(304,835)		(304,835)
Public works	162,922	55,034	-	-	(107,888)		(107,888)
Culture and recreation	57,783	24,405	300	-	(33,078)		(33,078)
Miscellaneous	14,618	-	-	-	(14,618)		(14,618)
Total Governmental Activities	1,144,295	106,396	35,921	383,832	(618,146)		(618,146)
BUSINESS-TYPE ACTIVITIES:							
Water	460,686	556,911	2,432	72,136		170,793	170,793
Sewer	637,540	511,339	2,271	2,311,091		2,187,161	2,187,161
Airport	221,517	19,712	79	241,050		39,324	39,324
Total Business-type activities	1,319,743	1,087,962	4,782	2,624,277		2,397,278	2,397,278
Total Primary Government	\$ 2,464,038	\$ 1,194,358	\$ 40,703	\$ 3,008,109	\$ (618,146)	\$ 2,397,278	\$ 1,779,132
GENERAL REVENUES:							
Taxes/Assessments					317,923		317,923
Local Option Taxes					49,772		49,772
Licenses and Permits					50,815		50,815
Federal/State Shared Revenues					198,048		198,048
Miscellaneous					23,079		23,079
Investment and Royalty Earnings					5,700	222	5,922
Internal Balances					(57,446)	57,446	-
Total General Revenues					587,891	57,668	645,559
Change in Net Position					(30,255)	2,454,946	2,424,691
NET POSITION:							
Beginning of the Year					1,325,702	8,965,857	10,291,559
Prior Period Adjustments					1,058	1,555	2,613
End of the Year					\$ 1,296,505	\$ 11,422,358	\$ 12,718,863

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2016

	MAJOR			Total Governmental Funds
	General	Economic Development	Other Governmental Funds	
ASSETS:				
Current assets:				
Cash and cash equivalents	\$ 285,400	\$ 54,532	\$ 726,329	\$ 1,066,261
Taxes receivable	12,705	-	2,830	15,535
Total assets	<u>298,105</u>	<u>54,532</u>	<u>729,159</u>	<u>1,081,796</u>
DEFERRED OUTFLOWS OF RESOURCES:				
Total deferred outflows of resources	-	-	-	-
Total assets and deferred outflows of resources	<u>\$ 298,105</u>	<u>\$ 54,532</u>	<u>\$ 729,159</u>	<u>\$ 1,081,796</u>
LIABILITIES:				
Current liabilities:				
Accounts payable	24,954	-	6,877	31,831
Total liabilities	<u>24,954</u>	<u>-</u>	<u>6,877</u>	<u>31,831</u>
DEFERRED INFLOWS OF RESOURCES:				
Unavailable property taxes receivable	12,705	-	2,830	15,535
Total deferred inflows of resources	<u>12,705</u>	<u>-</u>	<u>2,830</u>	<u>15,535</u>
FUND BALANCE (DEFICITS):				
Restricted	-	54,532	280,014	334,546
Committed	-	-	315,398	315,398
Assigned	-	-	124,040	124,040
Unassigned	260,446	-	-	260,446
Total fund balance	<u>260,446</u>	<u>54,532</u>	<u>719,452</u>	<u>1,034,430</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 298,105</u>	<u>\$ 54,532</u>	<u>\$ 729,159</u>	<u>\$ 1,081,796</u>
RECONCILIATION TO THE STATEMENT OF NET POSITION				
Total fund balance reported above				\$ 1,034,430
Governmental Capital Assets				481,529
Employer pension plan activities				39,470
Long-term Liabilities				
Long-Term Obligations				(227,759)
Compensated Absences				(46,700)
Employer pension plan				-
Unavailable property taxes receivable				<u>15,535</u>
Net Position of Governmental Activities				<u>\$ 1,296,505</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the year ended June 30, 2016

	MAJOR		Other Governmental Funds	Total Governmental Funds
	General	Economic Development		
REVENUES:				
Taxes/assessments	\$ 316,458	\$ -	\$ 46,281	\$ 362,739
Licenses and permits	9,874	-	40,941	50,815
Intergovernmental revenues	192,597	383,832	73,553	649,982
Charges for services	36,654	-	4	36,658
Fines and forfeitures	18,901	-	-	18,901
Miscellaneous	25,987	-	9,994	35,981
Investment and royalty earnings	93	-	5,607	5,700
Total revenues	<u>600,564</u>	<u>383,832</u>	<u>176,380</u>	<u>1,160,776</u>
EXPENDITURES:				
Current:				
General government	143,306	395,831	12,639	551,776
Public safety	240,437	-	87,733	328,170
Public works	106,188	-	39,931	146,119
Culture and recreation	52,281	-	3,633	55,914
Miscellaneous	14,618	-	-	14,618
Capital outlay	-	-	50,918	50,918
Total expenditures	<u>556,830</u>	<u>395,831</u>	<u>194,854</u>	<u>1,147,515</u>
Excess (deficiency) of revenues over expenditures	<u>43,734</u>	<u>(11,999)</u>	<u>(18,474)</u>	<u>13,261</u>
OTHER FINANCING SOURCES/USES:				
Fund transfers in	6,138	22,999	171,506	200,643
Fund transfers (out)	(234,001)	-	(24,088)	(258,089)
Total other financial sources/uses	<u>(227,863)</u>	<u>22,999</u>	<u>147,418</u>	<u>(57,446)</u>
Net changes in fund balances	(184,129)	11,000	128,944	(44,185)
FUND BALANCE:				
Beginning of the year	441,637	45,412	590,508	1,077,557
Prior period adjustments	2,938	(1,880)	-	1,058
End of the year	<u>\$ 260,446</u>	<u>\$ 54,532</u>	<u>\$ 719,452</u>	<u>\$ 1,034,430</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

Town of Stevensville
Ravalli County
Stevensville, MT 59870-0030

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the year ended June 30, 2016

Net Changes in Fund Balance		\$	(44,185)
Revenues on the Statement of Activities not included in governmental funds statement:			
Increase (decrease) in taxes receivable			4,958
State Pension Aid			5,752
Expenses on the Statement of Activities not included in the governmental funds statement:			
Depreciation Expense	(44,556)		
Actuarial Pension Expense	1,220		
(Increase) decrease in compensated absence liability	<u>(4,362)</u>		(47,698)
Expenditures reported in the governmental funds statement not included in the Statement of Activities			
Capital outlays			<u>50,918</u>
Change in net position reported on the Statement of Activities		\$	<u>(30,255)</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2016

	MAJOR			Total Enterprise Funds
	Water	Sewer	Airport	
ASSETS:				
Current assets:				
Cash and cash equivalents	\$ 1,020,057	\$ 360,320	\$ 112,294	\$ 1,492,671
Accounts receivable - net	59,744	58,795	-	118,539
Other current assets	551	1,194	25,221	26,966
Total current assets	<u>1,080,352</u>	<u>420,309</u>	<u>137,515</u>	<u>1,638,176</u>
Noncurrent assets:				
Restricted cash and investments	182,292	256,562	-	438,854
Capital assets:				
Land	49,008	16,627	597,563	663,198
Construction in progress	-	-	285,539	285,539
Net depreciable assets	4,843,754	8,249,251	1,523,882	14,616,887
Total noncurrent assets	<u>5,075,054</u>	<u>8,522,440</u>	<u>2,406,984</u>	<u>16,004,478</u>
Total assets	<u>6,155,406</u>	<u>8,942,749</u>	<u>2,544,499</u>	<u>17,642,654</u>
DEFERRED OUTFLOWS OF RESOURCES:				
Employer pension plan activities	11,913	11,215	393	23,521
Total deferred outflows of resources	<u>11,913</u>	<u>11,215</u>	<u>393</u>	<u>23,521</u>
Total assets and deferred outflows of resources	<u>\$ 6,167,319</u>	<u>\$ 8,953,964</u>	<u>\$ 2,544,892</u>	<u>\$ 17,666,175</u>
LIABILITIES:				
Current liabilities:				
Accounts payable	21,936	163,734	27,320	212,990
Deposits payable	591	-	-	591
Current portions compensated absences	13,371	12,115	57	25,543
Current portion long-term capital obligations	33,282	71,215	7,885	112,382
Total current liabilities	<u>69,180</u>	<u>247,064</u>	<u>35,262</u>	<u>351,506</u>
Noncurrent liabilities:				
Long-term obligations	99,514	93,849	3,312	196,675
Compensated absences	13,371	12,114	56	25,541
Long-term capital obligations	2,080,688	3,551,427	19,445	5,651,560
Total noncurrent liabilities	<u>2,193,573</u>	<u>3,657,390</u>	<u>22,813</u>	<u>5,873,776</u>
Total liabilities	<u>2,262,753</u>	<u>3,904,454</u>	<u>58,075</u>	<u>6,225,282</u>
DEFERRED INFLOWS OF RESOURCES:				
Employer pension plan	9,302	8,902	331	18,535
Total deferred inflows of resources	<u>9,302</u>	<u>8,902</u>	<u>331</u>	<u>18,535</u>
NET POSITION:				
Net investment in capital assets	2,778,792	4,643,236	2,379,654	9,801,682
Restricted for debt service	98,592	205,322	-	303,914
Unrestricted (Deficit)	1,017,880	192,050	106,832	1,316,762
Total net position	<u>3,895,264</u>	<u>5,040,608</u>	<u>2,486,486</u>	<u>11,422,358</u>
Total liabilities, deferred inflows and net position	<u>\$ 6,167,319</u>	<u>\$ 8,953,964</u>	<u>\$ 2,544,892</u>	<u>\$ 17,666,175</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
For the year ended June 30, 2016

	MAJOR			Total Enterprise Funds
	Water	Sewer	Airport	
OPERATING REVENUES:				
Charges for services	\$ 376,417	\$ 295,146	\$ 19,490	\$ 691,053
Miscellaneous	-	50	-	50
Special assessments	180,494	216,143	-	396,637
Total operating revenues	<u>556,911</u>	<u>511,339</u>	<u>19,490</u>	<u>1,087,740</u>
OPERATING EXPENSES:				
Personal services	151,253	144,626	7,549	303,428
Supplies	31,642	35,247	425	67,314
Purchased services	97,274	124,276	3,281	224,831
Fixed charges	8,446	14,356	2,623	25,425
Depreciation	113,450	211,028	206,721	531,199
Total operating expense	<u>402,065</u>	<u>529,533</u>	<u>220,599</u>	<u>1,152,197</u>
Operating income (loss)	<u>154,846</u>	<u>(18,194)</u>	<u>(201,109)</u>	<u>(64,457)</u>
NONOPERATING REVENUES (EXPENSES)				
Taxes/assessment revenue	-	-	222	222
Intergovernmental revenue	2,432	2,271	79	4,782
Interest revenue	-	-	222	222
Debt service interest expense	(58,621)	(108,007)	(918)	(167,546)
Total nonoperating revenue (expenses)	<u>(56,189)</u>	<u>(105,736)</u>	<u>(395)</u>	<u>(162,320)</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS				
Capital contributions	72,136	2,311,091	241,050	2,624,277
Transfers in	10	-	57,496	57,506
Transfers (out)	-	(60)	-	(60)
Change in net position	170,803	2,187,101	97,042	2,454,946
NET POSITION:				
Beginning of the Year	<u>3,723,968</u>	<u>2,852,445</u>	<u>2,389,444</u>	<u>8,965,857</u>
Prior period adjustments	493	1,062	-	1,555
End of the Year	<u>\$ 3,895,264</u>	<u>\$ 5,040,608</u>	<u>\$ 2,486,486</u>	<u>\$ 11,422,358</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2016

	Business-type Activities - Enterprise Funds			
	MAJOR			Total
	Water	Sewer	Airport	Enterprise
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 510,449	\$ 522,351	\$ 19,490	\$ 1,052,290
Payments to employees	(153,598)	(145,746)	(7,499)	(306,843)
Payments to suppliers	(136,397)	(393,361)	20,876	(508,882)
Net cash provided (used) by operating activities	<u>220,454</u>	<u>(16,756)</u>	<u>32,867</u>	<u>236,565</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Operating subsidies and transfers between funds	10	(60)	57,496	57,446
Subsidies from taxes assessments	-	-	222	222
Net cash provided (used) by noncapital financing activities	<u>10</u>	<u>(60)</u>	<u>57,718</u>	<u>57,668</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Proceeds from capital debt	-	1,250,000	-	1,250,000
Capital contributions	72,136	2,311,091	241,050	2,624,277
Purchases of capital assets	(92,345)	(3,354,290)	(283,352)	(3,729,987)
Principal paid on capital debt	(32,387)	(54,930)	(7,885)	(95,202)
Interest paid on capital debt	(58,621)	(108,007)	(918)	(167,546)
Net cash provided (used) by capital and related financing activities	<u>(111,217)</u>	<u>43,864</u>	<u>(51,105)</u>	<u>(118,458)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest and dividends	-	-	222	222
Net cash provided (used) by investing activities	<u>-</u>	<u>-</u>	<u>222</u>	<u>222</u>
Net increase (decrease) in cash and cash equivalents	<u>109,247</u>	<u>27,048</u>	<u>39,702</u>	<u>175,997</u>
BALANCE:				
Beginning of the year	<u>1,093,102</u>	<u>589,834</u>	<u>72,592</u>	<u>1,755,528</u>
End of the year	<u>\$ 1,202,349</u>	<u>\$ 616,882</u>	<u>\$ 112,294</u>	<u>\$ 1,931,525</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ 154,846	\$ (18,194)	\$ (201,109)	\$ (64,457)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation expense	113,450	211,028	206,721	531,199
GASB 68 pension expense	(517)	(487)	(15)	(1,019)
Changes in assets and liabilities:				
Accounts receivable	(45,417)	12,607	-	(32,810)
Special assessments receivable	(1,045)	(1,925)	-	(2,970)
Accounts payable	1,435	(218,726)	27,205	(190,086)
Customer deposits	-	330	-	330
Compensated absences	(2,298)	(1,389)	65	(3,622)
Net cash provided (used) by operating activities	<u>\$ 220,454</u>	<u>\$ (16,756)</u>	<u>\$ 32,867</u>	<u>\$ 236,565</u>
Supplemental schedule of noncash activities				
GASB 68 state contribution	<u>\$ 2,432</u>	<u>\$ 2,271</u>	<u>\$ 79</u>	<u>\$ 4,782</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

Town of Stevensville
Ravalli County
Stevensville, MT 59870-0030

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2016

	<u>Agency Funds</u>
ASSETS:	
Current assets:	
Cash and cash equivalents	\$ 30,675
Total Assets	<u>\$ 30,675</u>
LIABILITIES:	
Current liabilities:	
Warrants payable	30,655
Due to others	<u>20</u>
Total Liabilities	<u>\$ 30,675</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

TOWN OF STEVENSVILLE

NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. a. REPORTING ENTITY

The basic financial statements of the Town of Stevensville (Town) have been prepared on a prescribed basis of accounting that demonstrates compliance with the accounting and budget laws of the State of Montana, which conforms to generally accepted accounting principles (GAAP). The Town applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

During fiscal year 2016 the Town adopted the following:

- GASB Statement No. 72 – Fair Value Measurement and Application. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Town has implemented this statement in fiscal year 2016.
- GASB Statement No. 73 – Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. This statement provides guidance on non-employer entity pension plans. This statement appears to be applicable to the the Town and the financial reporting of the Fire Department Relief Associations.
- GASB Statement No. 77 – Tax Abatement Disclosures. This Statement requires governments that enter into tax abatement agreements to disclose the agreements. This statement is applicable for periods beginning after December 15, 2015. The Town has implemented this statement in fiscal year 2016, and had no tax abatements during this timeframe.
- GASB Statement No. 78 – Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This statement is applicable for periods beginning after December 15, 2015. The Town has implemented this statement in fiscal year 2016 and determined it has no effect on its financial reporting.
- GASB Statement No. 79 – Certain External Investment Pools and Pool Participants. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This statement is applicable for periods beginning after December 15, 2015. This change is required of the State of Montana. Beginning in FY 2016, the State will report STIP investments on a Net Asset Value (NAV) basis in its financial statements. The Town has determined this to be a note disclosure change and trivial net asset value adjustment at year-end for any STIP investments held at year-end by the Town.
- GASB Statement No. 80 – Blending Requirements for Certain Component Units, an amendment of GASB Statement No. 14. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. The Town has reviewed this Statement and they have no not-for profit corporations and determined it does not apply.
- GASB Statement No. 81 – Irrevocable Split-Interest Agreements. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. In FY 2016, the Town reviewed this Statement and determined they have no irrevocable split-interest agreements.

The following are a listing of GASB statements which have been issued and the Town assessment of effects to the financial statements.

- GASB Statement No. 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This Statement replaces the requirements of Statements No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB. The Town plans to implement in FY 2018.

TOWN OF STEVENSVILLE

NOTES TO THE FINANCIAL STATEMENTS (continued) For the year ended June 30, 2016

- GASB Statement No. 82 – Pension Issues an amendment of GASB Statements No. 67, No. 68, and No. 73. This Statement clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be as plan member contributions for purposes of Statement 67 and as employee contributions for purposes of Statement 68. The Town will implement this statement upon the State of Montana implementing.

Federal Grants

- The Uniform Guidance (2 CFR § 200) streamlines and consolidates government requirements for receiving and using federal awards so as to reduce administrative burden and improve outcomes. It was published in the Federal Register (79 Fed. Reg. 75871) on December 19, 2014, and became effective for new and continuation awards issued on or after December 26, 2014. In FY 2016, the Town began to follow the guidance as provided under Uniform Guidance.

The Town provides a full range of governmental services to the citizens of the Town. These services include but are not limited to construction, reconstruction, maintenance and repair of roads, streets and alleys, parks and recreation, public safety and other municipal services. Water, sewer and airport services are provided and accounted for in Enterprise Funds. The mayor and Town council are elected by the public and have the authority to make decisions, appoint administrators and managers, and significantly influence operations.

The Town of Stevensville was incorporated under the laws of the State of Montana and as required by GAAP, the financial statements of the reporting entity include those of the Town of Stevensville (the primary government) and any component units. The criteria for including organizations as component units within the Town's reporting entity is set forth in Section 2100 of the Governmental Accounting Standards Board's (GASB) "Codification of Government Accounting and Financial Reporting Standards." The basic criteria include appointing a voting majority of an organization's governing body, as well as the Town's ability to impose its will on that organization, or the potential for the organization to provide specific financial benefit to, or impose specific financial burdens on, the Town. Based on those criteria the Town has no component units.

Related Organizations

Some activities controlled by governing boards of other organizations and which may be appointed by the Mayor and Council or otherwise considered dependent on the Town are as follows:

The fire department relief association, a legally separate organization, is reflected as an Agency Fund, since the Town holds assets for pension purposes in accordance with GASB 73, paragraph 116.

1. b. BASIS OF PRESENTATION AND ACCOUNTING

1. b. 1. GOVERNMENT-WIDE STATEMENTS

The government-wide financial statements include the statement of net position and the statement of activities. The governmental activities column incorporates data from governmental funds while business-type activities incorporate data from the government's enterprise funds (primary government). Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

The government-wide financial statements report using the economic resource measurement focus and the accrual basis of accounting generally including the elimination of internal activity between or within funds. 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 in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

The statement of activities reports the direct expenses or segments of a given function offset by program revenues directly connected with the functional program. Direct expenses are those that are specifically associated with a function or segment. Program revenues include:

- Charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment.
- Operating and Capital grants that are restricted to a particular function or segment.

TOWN OF STEVENSVILLE

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2016

Property taxes, investment earnings, state entitlement payments, and other revenue sources not properly included with program revenue are reported as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each governmental function or business-type segment is self-supporting or drawing from general revenues.

1. b. 2. FUND ACCOUNTING

The fund financial statements provide information about the government's funds, including its fiduciary funds. Separate statements for each fund category – governmental, proprietary, and fiduciary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements. The fire department relief association is displayed as a fiduciary fund. Since the resources in the fiduciary funds cannot be used for Town operations, they are not included in the government-wide statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities, and fund balance are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets. Revenues are recorded when they are both measurable and available. Available means collectible within the current period, anything collected after June 30 is generally not material. Unavailable income is recorded in governmental funds for delinquent taxes. Expenditures are recorded when the related fund liability is incurred, except compensated absence payments which are recognized when due. Capital assets are functional expenditures in governmental funds.

Revenues from local sources consist primarily of property taxes. Property tax revenue and revenues received from the State of Montana are recognized when susceptible to accrual. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are measurable and available. Cost reimbursement grant funds are considered to be both measurable and available to the extent of expenditures made under the provisions of the grant and, accordingly, when such funds are received, and the expenditure has not been incurred they are recorded as unearned grant revenues because the revenues are available. All other revenue items are considered to be measurable and available only when cash is received by the Town.

Proprietary, trust, and agency fund financial statements use the economic resources measurement focus and are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. On an accrual basis, revenue from property assessments are recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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 water, sewer and airport funds, are charges to customers for sales and services. The water fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. 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. Resources received for capital acquisition or construction are reported as separate items.

GASB Statement No. 34 requires the general fund be reported as a major fund. Other individual governmental and enterprise funds should be reported in separate columns as major funds based on these criteria:

- Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total (assets, liabilities, and so forth) for all funds of that category or type (that is, total governmental or total enterprise funds), and
- Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

In addition to funds that meet the major fund criteria, any other governmental or enterprise fund that government officials believe is particularly important to financial statement users may be reported as a major fund.

TOWN OF STEVENSVILLE

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2016

The Town reports the following major governmental funds:

- General Fund – The General Fund is the general operating fund of the Town and accounts for all revenues and expenditures of the Town not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund.
- Economic Development - This is a fund that is used to pass through Big Sky Economic Development grant funds to other entities.

The Town reports the following major enterprise funds:

- Water Fund – This fund is used to account for financing the activities of the Town’s water distribution operations and to collect and administer water impact fees.
- Sewer Fund – This fund is used to account for financing the activities of the Town’s sewer collection and treatment operations and includes the storm sewer system.
- Airport Fund - This fund accounts for charge for services and grant revenues as well as other miscellaneous revenues and the related expenses for the operating and maintenance of the airport facilities.

1. b. 3. OTHER FUND TYPES

Agency Funds – Account for assets that the Town holds on behalf of others as their agent and for warrants written but not deemed that are reported in the Town’s payroll and claims clearing funds and employee payroll tax withholdings. Cash is held for warrants which were written but have not been paid by the Town Treasurer. A warrant is an order by which the drawer (the person with authority to make the order) commands the Town trustee to pay a particular sum of money to a payee (person or entity) from funds in the Town treasury which are or may become available. The Town also receives funds for the Fire Department Relief Association Pension Plan through a state insurance pass through funds. The Town collects these funds and passes them through to the Fire Department Relief Association Pension Plan.

1. c. ASSETS, LIABILITIES AND NET POSITION (FUND BALANCE)

1. c. 1 CASH AND INVESTMENTS

Cash includes amounts in demand deposits, as well as short-term investments as authorized by State statutes. Montana Code Annotated (MCA) allows Montana local governments to invest public money not necessary for immediate use in United States government treasury bills, notes, bonds; certain United States treasury obligations; United States government security money market fund if investments consist of those listed above; time or savings deposits with a bank or credit union which is FDIC or NCUA insured; or in repurchase agreements as authorized by MCA, or Montana Board of Investments Short Term Investment Pool (STIP). Interest earned on the pooled investments is distributed to each contributing entity and fund on a pro rata basis. Investments are recorded at fair market value.

For purposes of the Statement of Cash flows, the Town considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Restricted cash accounts of the Enterprise Fund 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 cash accounts are used 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.

1. c. 2. TAXES AND SPECIAL ASSESSMENTS

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

TOWN OF STEVENSVILLE

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2016

Property taxes and special assessments are collected by the County Treasurer who credits to the Town funds their respective share of the collections. The tax levies are collectible in two installments, which become delinquent after November 30 and May 31. Property taxes are liens upon the property being taxed. After a period of three years, the County may begin foreclosure proceedings and sell the property at auction. The Town receives its share of the sale proceeds of any such auction.

Taxes and special assessments that become delinquent are charged interest at the rate of 5/6 of 1% per month plus a penalty of 2%. After a period of three years, the County may begin foreclosure proceedings and sell real property at auction. In the case of personal property, the property may be seized and sold after the taxes become delinquent.

1. c. 3. INVENTORIES

Materials and supplies at year end was not material. The cost of such inventories is recorded as expenditures/expenses when purchased rather than when consumed.

1. c. 4. CAPITAL ASSETS

The Town's property, plant, equipment, and infrastructure (e.g. roads, bridges, sidewalks, lighting, and similar items) with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. Historical cost was established at the initial booking of the capital assets by determining actual costs or estimating using standard costing procedures. The Town considers capital assets to be items in excess of \$5,000 with a useful life in excess of one year. The costs of normal maintenance and repair are not capitalized. Land and construction in progress are not depreciated. Depreciation on the other capital assets is provided over their estimated useful lives on the straight-line method. The useful lives of these assets have been estimated as follows:

<u>Capital Asset Classes</u>	<u>Lives</u>
Buildings	39 years
Improvements other than buildings	10 - 39 years
Machinery and Equipment	7 - 50 years
Infrastructure	15 - 70 years

1. c. 5. DEFERRED OUTFLOWS/ INFLOWS OF RESOURCES

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Pension Liability—Deferred outflow/inflow

The Town recognizes a net pension liability for each qualified pension plan in which it participates. Changes in the net pension liability during the fiscal year are recorded as pension expense, or as deferred inflows of resources, or deferred outflows of resources depending on the nature of the change, in the period incurred. Those changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience, are amortized over the weighted average remaining service life of all participants in the respective qualified pension plan and recorded as a component of pension expense beginning with the period in which they are incurred. Projected earnings on qualified pension plan investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense.

Property Taxes/Special Assessments – Deferred inflows

The Town reports deferred inflows under the modified accrual basis of accounting in the governmental funds for property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. In the governmental fund balance sheet, they are reported as unavailable from property taxes and special assessments receivable.

TOWN OF STEVENSVILLE

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2016

1. c. 6. VACATION AND SICK LEAVE

Town employees accumulate vacation and sick leave for later use or for payment upon termination, death, or retirement. Town employees earn vacation leave at the rate of 15 days per year during the first 10 years of employment, and at increasing rates thereafter to a maximum of 24 days per year after 20 years of employment. There is no requirement that vacation leave be taken, but the maximum permissible accumulation is the amount earned in the most recent two-year period. At termination, employees are paid for any accumulated vacation leave at the current rate of pay. Town employees earn sick leave at the rate of one day per month. There is no limit on the accumulation of unused sick leave. However, upon termination, only 25% of accumulated sick leave is paid at the current rate of pay.

Liabilities incurred because of unused vacation and sick leave accumulated by employees are reflected in the financial statements. Expenditures for unused leave are recorded when paid in governmental funds and when accrued on the statement of activities. The amount expected to be paid within one year is \$23,350 and it is generally paid out of the general fund. The amount expected to be paid within one year in enterprise funds is \$25,543 and is paid out of the fund which has incurred the liability.

1. c. 7. NET POSITION AND FUND BALANCE

Statement of Net Position include the following:

- Net Investment in Capital Assets – The component of net position that reports the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt that is directly attributable to the acquisition, construction, or improvement of these capital assets.
- Restricted – The component of net position that is either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.
- Unrestricted – The difference between the assets and liabilities that is not reported in the other element of net position.

Governmental fund financial statements include the following fund balances:

- Restricted – Includes amounts that can be spent only for the specific purposes stipulated by the constitution, external resource providers, or through enabling legislation.
- Committed – Amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint. The government’s highest level of decision-making authority, the Mayor and City Council, must approve all committed expenditures.
- Assigned – Includes amounts management has set aside for a specific purpose.
- Unassigned – Amounts that are available for any purpose; these amounts are reported only in the general.

As of June 30, 2016, fund balance components other than unassigned fund balance consist of the following:

<u>Purpose</u>	<u>Assigned</u>	<u>Committed</u>	<u>Restricted</u>
General government	\$ 114,238	\$ 0	\$ 0
Public safety	2,987	0	19,606
Public works	6,815	0	260,408
Social and economic services	0	0	54,532
Future Capital Costs	0	315,398	0
Total	<u>\$ 124,040</u>	<u>\$ 315,398</u>	<u>\$ 334,546</u>

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance are available, the Town considers restricted funds to have been spent first. When an expenditure is incurred and committed, assigned or unassigned fund balances are available, the Town considers amounts to have been spent first out of committed, then assigned and then unassigned funds as needed, unless the Mayor and City has provided otherwise.

1. d. OTHER

1. d. 1. USE OF ESTIMATES

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

TOWN OF STEVENSVILLE

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2016

1. d. 2. COUNTY PROVIDED SERVICES

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

NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

At June 30, 2016, the summary of cash, cash equivalents for governmental and business-type activities, and fiduciary funds is as follows:

<u>Account Type</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash and Cash Equivalents	\$ 1,066,261	\$ 1,492,671	\$ 30,675	\$ 2,589,607
Restricted Assets	0	438,854	0	438,854
Total	<u>\$ 1,066,261</u>	<u>\$ 1,931,525</u>	<u>\$ 30,675</u>	<u>\$ 3,028,461</u>

The carrying amount of cash on hand, deposits and investments at June 30, 2016, is as follows:

	<u>Amount</u>
Cash on Hand	\$ 150
Demand Accounts	1,606,941
Time/savings Deposits	<u>1,421,370</u>
Total	<u>\$ 3,028,461</u>

Custodial Credit Risk – Deposits: Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk. As of June 30, 2016, the Town's bank balance was exposed to custodial credit risk as follows:

<u>Deposits</u>	<u>Fair Value June 30, 2016</u>
Covered depository insurance	579,687
Collateral held by the pledging bank's trust department but not in the Entity's name.	2,368,001
Uninsured and uncollateralized	<u>0</u>
Total bank balance	<u>\$ 2,947,688</u>

Interest Rate Risk: The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from rising interest rates. The Town's investment policy is to hold investments to maturity with the contractual understanding that these investments are low risk, locked in to a guaranteed rate of return, are therefore not impacted significantly by changes in short term interest rates. As a means of limiting its exposure to fair value losses arising from rising interest rates all of the Town's investment portfolio is made up of securities whose maturities are less than 5 years.

2. a. RESTRICTED ASSETS

The following restricted cash was held by the Town Treasurer as of June 30, 2016:

<u>Fund Name</u>	<u>Water</u>	<u>Sewer</u>	<u>Storm Drain</u>	<u>Total</u>
Restricted for Debt Service	<u>\$ 182,292</u>	<u>\$ 256,562</u>	<u>\$ 0</u>	<u>\$ 438,854</u>

The ordinances authorizing the water and sewer, and storm drain system revenue bonds requires that the Town establish sinking funds or cash restricted for payment of principal and interest on all revenue bonds. At June 30, 2016, the sinking fund balance is sufficient to satisfy such bond ordinance requirements.

TOWN OF STEVENSVILLE

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2016

NOTE 3. TAXES/ASSESSMENTS RECEIVABLE

The Town is permitted by State statutes to levy taxes up to certain fixed limits for various purposes. The assessed value of the roll as of January 1, 2015, upon which the levy for the 2016 fiscal year was based, was \$2,355,998. The tax rates assessed for the year ended June 30, 2016 to finance Town operations follows:

<u>Fund</u>	<u>Mill Levies</u>	<u>Taxes Receivable</u>	<u>Assessments Receivable</u>	<u>Total</u>
General*	112.07	\$ 12,705	\$ 0	\$ 12,705
Planning	0.00	27	0	27
Tax Increment Finance District	0.00	917	0	917
Targeted Economic Dev. District	0.00	1,840	0	1,840
Geo Smith Lighting	0.00	0	46	46
Total	<u>112.07</u>	<u>\$ 15,489</u>	<u>\$ 46</u>	<u>\$ 15,535</u>

* Denotes Major Funds

NOTE 4. ACCOUNTS RECEIVABLE

Accounts receivable represent the outstanding balances of amounts billed for services the Town has provided for water, sewer and airport. An allowance for doubtful accounts has not been established since the billing is done at the end of the month so most receivables at June 30 are current and the amount that is not is immaterial. In addition, State law allow the Town to place delinquent utility balances on the tax rolls for collection.

<u>Fund</u>	<u>Accounts Receivable</u>
Water*	\$ 60,295
Sewer*	59,989
Airport	<u>25,221</u>
Total	<u>\$ 145,505</u>

* Denotes Major Funds

NOTE 5. CAPITAL ASSETS, DEPRECIATION AND NET CAPITAL ASSETS

5. a. At June 30, 2016, the schedule of changes in general capital assets follows:

<u>Governmental Activities:</u>	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Balance June 30, 2016</u>
<u>Non-depreciable:</u>			
Land	\$ 2,707	\$ 0	\$ 2,707
Construction in progress	<u>0</u>	<u>9,904</u>	<u>9,904</u>
Total Non-depreciable	<u>\$ 2,707</u>	<u>\$ 9,904</u>	<u>\$ 12,611</u>
<u>Depreciable:</u>			
Buildings	\$ 427,934	\$ 0	\$ 427,934
Improvements other than buildings	263,295	14,159	277,454
Machinery and equipment	608,260	26,855	635,115
Infrastructure	<u>21,365</u>	<u>0</u>	<u>21,365</u>
Total Depreciable	<u>\$ 1,320,854</u>	<u>\$ 41,014</u>	<u>\$ 1,361,868</u>
<u>Accumulated Depreciation:</u>			
Buildings	\$ (333,989)	\$ (10,111)	\$ (344,100)
Improvements other than buildings	(73,985)	(13,620)	(87,605)
Machinery and equipment	(437,571)	(19,401)	(456,972)
Infrastructure	<u>(2,849)</u>	<u>(1,424)</u>	<u>(4,273)</u>
Total Depreciation	<u>\$ (848,394)</u>	<u>\$ (44,556)</u>	<u>\$ (892,950)</u>
Net Depreciable Assets	<u>472,460</u>	<u>(3,542)</u>	<u>468,918</u>
Net General Capital Assets	<u>\$ 475,167</u>	<u>\$ 6,362</u>	<u>\$ 481,529</u>

TOWN OF STEVENSVILLE

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2016

5. b. General capital asset depreciation expense was charged to governmental functions as follows:

<u>Function</u>	<u>Amount</u>
General government	\$ 4,578
Public safety	21,131
Public works	16,979
Culture and recreation	1,868
Total Depreciation Expense	<u>\$ 44,556</u>

5. c. At June 30, 2016, the schedule of changes in business-type activities capital assets follows:

<u>Business-type Activities:</u>	<u>Balance</u> <u>July 1, 2015</u>	<u>Additions</u>	<u>Adjustments/</u> <u>Transfers</u>	<u>Balance</u> <u>June 30, 2016</u>
<u>Non-depreciable:</u>				
Land	\$ 663,198	\$ 0	\$ 0	\$ 663,198
Construction in progress	4,283,381	258,190	(4,256,032)	285,539
Total Non-depreciable	<u>\$ 4,946,579</u>	<u>\$ 258,190</u>	<u>\$ (4,256,032)</u>	<u>\$ 948,737</u>
<u>Depreciable:</u>				
Buildings	\$ 155,977	\$ 0	\$ 0	\$ 155,977
Improvements other than buildings	2,853,979	0	48,394	2,902,373
Machinery and equipment	429,721	0	0	429,721
Source of supply	84,754	92,344	3,407,584	3,584,682
Pumping plant	18,900	0	0	18,900
Treatment plant	5,823,259	3,354,291	799,995	9,977,545
Transmission and distribution	2,214,425	0	0	2,214,425
Infrastructure	385,174	0	0	385,174
Total Depreciable	<u>\$ 11,966,189</u>	<u>\$ 3,446,635</u>	<u>\$ 4,255,973</u>	<u>\$ 19,668,797</u>
<u>Accumulated Depreciation:</u>				
Buildings	\$ (100,906)	\$ (4,000)	\$ 0	\$ (104,906)
Improvements other than buildings	(1,599,790)	(167,742)	0	(1,767,532)
Machinery and equipment	(271,748)	(20,511)	0	(292,259)
Source of supply	(84,754)	(69,999)	0	(154,753)
Pumping plant	(18,900)	0	0	(18,900)
Treatment plant	(2,259,997)	(204,259)	0	(2,464,256)
Transmission and distribution	(133,259)	(39,010)	0	(172,269)
Infrastructure	(51,357)	(25,678)	0	(77,035)
Total Depreciation	<u>\$ (4,520,711)</u>	<u>\$ (531,199)</u>	<u>\$ 0</u>	<u>\$ (5,051,910)</u>
Net Depreciable Assets	<u>7,445,478</u>	<u>2,915,436</u>	<u>4,255,973</u>	<u>14,616,887</u>
Net Business-type Capital Assets	<u>\$ 12,392,057</u>	<u>\$ 3,173,626</u>	<u>\$ (59)</u>	<u>\$ 15,565,624</u>

NOTE 6. CHANGES IN LONG-TERM DEBT

6. a. At June 30, 2016, the schedule of changes in general long-term debt follows:

<u>Governmental Activities</u>	<u>Balance</u> <u>July 1, 2015</u>	<u>New Debt</u> <u>and Other</u> <u>Additions</u>	<u>Principal</u> <u>Payments</u> <u>and Other</u> <u>Reductions</u>	<u>Balance</u> <u>June 30, 2016</u>	<u>Due within</u> <u>One Year</u>
<u>Other Liabilities:</u>					
Compensated Absences	\$ 42,338	\$ 4,362	\$ 0	\$ 46,700	\$ 23,350
Accrued Pension	196,260	31,499	0	227,759	0
Total Governmental Activities - Long-Term Debt:	<u>\$ 238,598</u>	<u>\$ 35,861</u>	<u>\$ 0</u>	<u>\$ 274,459</u>	<u>\$ 23,350</u>

TOWN OF STEVENSVILLE

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2016

6. b. At June 30, 2016, the schedule of changes in Business-Type long-term debt follows:

<u>Business-Type Activities</u>	<u>Balance</u> <u>July 1, 2015</u>	<u>New Debt</u> <u>and Other</u> <u>Additions</u>	<u>Principal</u> <u>Payments</u> <u>and Other</u> <u>Reductions</u>	<u>Balance</u> <u>June 30, 2016</u>	<u>Due within</u> <u>One Year</u>
<u>Bonds and Notes Payable:</u>					
Revenue Bonds	\$ 4,573,929	\$ 1,250,000	\$ (87,317)	\$ 5,736,612	\$ 104,497
Notes Payable	<u>35,215</u>	<u>0</u>	<u>(7,885)</u>	<u>27,330</u>	<u>7,885</u>
Total Bonds and Notes Payable	<u>\$ 4,609,144</u>	<u>\$ 1,250,000</u>	<u>\$ (95,202)</u>	<u>\$ 5,763,942</u>	<u>\$ 112,382</u>
<u>Other Liabilities:</u>					
Compensated Absences	\$ 54,706	\$ 65	\$ (3,687)	\$ 51,084	\$ 25,543
Accrued Pension	<u>169,631</u>	<u>27,044</u>	<u>0</u>	<u>196,675</u>	<u>0</u>
Total Other Liabilities	<u>\$ 224,337</u>	<u>\$ 27,109</u>	<u>\$ (3,687)</u>	<u>\$ 247,759</u>	<u>\$ 25,543</u>
Total Business-Type Activities - Long-Term Debt:	<u>\$ 4,833,481</u>	<u>\$ 1,277,109</u>	<u>\$ (98,889)</u>	<u>\$ 6,011,701</u>	<u>\$ 137,925</u>

6. c. REVENUE BONDS

Revenue Bonds constitute special obligations of the Town solely secured by a lien on and pledge of the net revenues of the water system and sewer system. These bonds were issued for the terms and payment schedules indicated in the following schedule:

<u>Description</u>	<u>Issue Date</u>	<u>Interest</u> <u>Rate</u>	<u>Length of</u> <u>Loan</u>	<u>Maturity</u> <u>Date</u>	<u>Amount</u> <u>Issued</u>	<u>Outstanding</u> <u>June 30,</u> <u>2016</u>
Water Bond #1	8/15/2013	2.75%	40 years	8/15/2054	\$ 2,173,000	\$ 2,113,970
Sewer Rus #1 (5350)(2000A)	12/19/2000	4.50%	40 years	5/19/2040	1,250,000	998,372
Sewer Rus #3 (5350)(2000B)	12/19/2000	4.50%	40 years	5/19/2040	814,000	650,140
Sewer Bond #2 (5350)(2011)	12/14/2011	3.00%	40 years	6/19/2051	780,000	731,294
Sewer Bond (2016 B)	2/10/2016	1.875%	40 years	2/10/2056	450,000	447,420
Sewer Bond (2016 A)	2/10/2016	1.875%	40 years	2/10/2056	<u>800,000</u>	<u>795,416</u>
					<u>\$ 6,267,000</u>	<u>\$ 5,736,612</u>

Debt service requirements to maturity for principal and interest for all bonded long-term obligations are as follows:

For the year ended 6/30:	<u>Water</u>		<u>Sewer</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 31,412	\$ 59,596	\$ 71,215	\$ 118,313
2018	32,315	58,693	73,725	115,803
2019	33,245	57,763	76,334	113,194
2020	34,202	56,806	79,046	110,482
2021	35,186	55,822	81,865	107,663
2022-2026	191,710	263,330	455,697	491,943
2027-2031	220,924	234,116	545,133	402,507
2032-2036	254,218	200,822	654,189	293,451
2037-2041	292,691	162,349	718,657	160,966
2042-2046	337,292	117,748	309,697	80,663
2047-2051	388,690	66,350	348,474	41,886
2052-2056	<u>262,085</u>	<u>11,938</u>	<u>208,610</u>	<u>8,761</u>
Totals	<u>\$ 2,113,970</u>	<u>\$ 1,345,333</u>	<u>\$ 3,622,642</u>	<u>\$ 2,045,632</u>

The revenue bonds are collateralized by the revenues of the water and sewer systems and the various special funds established by the bond ordinances. The ordinances provide that the revenues of the systems are to be used first to pay operating and maintenance expenses of the systems and second to establish and maintain the revenue bond funds. Any remaining revenues may then be used for any lawful purpose.

TOWN OF STEVENSVILLE

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2016

The bond ordinances also require that rates be sufficient to provide for operations, maintenance and 125% and/or 110% of the maximum amount of principal and interest requirements in any future fiscal year of the Town. 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) provide specific and timely reporting of financial information to bond holders and the registrar. The Town was in compliance with the applicable covenants.

6. d. NOTES PAYABLE

The Town entered into notes payable in prior years with the Aeronautics Division of the Montana Department of Transportation. The loan was issued for the terms and payment schedule indicated below.

Description	Issue Date	Interest Rate*	Length of Loan	Maturity Date	Amount Issued	Outstanding June 30, 2016
Montana Aeronautics 2009	1/17/2008	4.125%	10 years	2/28/2018	\$ 46,045	\$ 9,209
Montana Aeronautics 2010	9/3/2009	1.625%	10 years	2/28/2019	16,250	4,875
Montana Aeronautics 2014	12/19/2013	1.625%	10 years	2/28/2013	16,557	13,246
					<u>\$ 78,852</u>	<u>\$ 27,330</u>

Debt service requirements to maturity for principal and interest for all InterCap long term obligations are as follows:

For the year ended 6/30:	Airport	
	Principal	Interest
2017	\$ 7,886	\$ 674
2018	7,885	431
2019	3,281	188
2020	1,656	135
2021	1,656	108
2022-2026	4,966	161
Totals	<u>\$ 27,330</u>	<u>\$ 1,697</u>

NOTE 7. PRIOR PERIOD ADJUSTMENTS

Fund	Governmental Funds	Propriety Funds	Total Primary Government	Reason
General*	\$ 2,938	\$ 0	\$ 2,938	Remove prior year accounts payable that is not supported.
Economic Development*	(1,880)	0	(1,880)	Write off loan receivable
Water*	0	23	23	Remove prior year unsupported deposit payable
Water*	0	470	470	Remove prior year accounts payable that is not supported.
Sewer*	0	307	307	Remove prior year unsupported deposit payable
Sewer*	0	756	756	Remove prior year accounts payable that is not supported.
Total	<u>\$ 1,058</u>	<u>\$ 1,555</u>	<u>\$ 2,613</u>	
* Denotes Major Funds				
Statement of Activities	0	0	0	
Total	<u>\$ 1,058</u>	<u>\$ 1,555</u>	<u>\$ 2,613</u>	

TOWN OF STEVENSVILLE

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2016

NOTE 8. DEFERRED INFLOWS OF RESOURCES

7. a. PROPERTY TAXES

<u>Fund</u>	<u>Amount</u>	<u>Reason</u>
General*	\$ 12,705	Taxes Receivable
Planning	27	Taxes Receivable
Tax Increment Finance District	917	Taxes Receivable
Targeted Economic Dev. District	1,840	Taxes Receivable
Geo Smith Lighting	46	Special Assessments Receivable
Total	<u>\$ 15,535</u>	

* Denotes Major Funds

NOTE 9. INTERFUND OPERATING TRANSFERS IN/OUT

<u>Fund - In</u>	<u>Amount</u>	<u>Fund - Out</u>	<u>Purpose of Transfer</u>
DOT Grant	\$ 10	General*	Operating transfer
Economic Development*	22,999	General*	Operating transfer
Sidewalk Improvement	20,503	General*	Operating transfer
Capital Improvement	132,993	General*	Future capital projects
Sidewalk Improvement	18,000	Fire Engine Capital Improvement	Operating transfer
Airport*	57,496	General*	Operating transfer
General*	9	DOT Grant	Operating transfer
General*	6,079	Capital Improvement	Future capital projects
General*	50	Sewer*	Operating transfer
Water*	10	Sewer*	Operating transfer
Total	<u>\$ 258,149</u>		

* Denotes Major Funds

NOTE 10. RISK MANAGEMENT

The Town faces a considerable number of risks of loss, including damage to and loss of property and contents, employee torts, professional liability, (i.e. errors and omission), environmental damage, workers' compensation, and medical insurance costs of employees. A variety of methods are used to provide insurance for these risks. Commercial policies, transferring all risk of loss except for relatively small deductible amounts, are purchased for property and content damage and professional liabilities. Given the lack of coverage available, the Town has no coverage for potential losses from environmental damages. The Town participates in three statewide public risk pools operated by the Montana Municipal Interlocal Authority, for workers' compensation, tort liability and property coverage.

Coverage limits and the deductibles in the commercial policies have stayed relatively constant for the last several years. The premiums for the policies are allocated between the Town's general fund and other funds based upon the insurance needs of the funds. Settled claims resulting from these risks did not exceed commercial insurance coverage for each of the past three years.

In 1986, the Town joined other Montana cities in the Montana Municipal Interlocal Authority which established a workers' compensation plan and a tort liability plan. In 1996, the Montana Municipal Interlocal Authority created a property insurance plan. The 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 \$750 deductible per government. 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.

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

TOWN OF STEVENSVILLE

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2016

NOTE 11. OTHER POST EMPLOYMENT BENEFITS

The Town allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the local government is subsidizing the retirees because each participant is charged a level of premium regardless of age. The Town uses a single premium for both active and retired employees resulting in an implicit rate subsidy (the older retiree benefits from the Town's blended premium). The Town has not recorded a liability for the implicit rate subsidy as based on an analysis of the cost it is not material to the Town's financial statements.

NOTE 12. EMPLOYEE RETIREMENT SYSTEM

The Town participates in a cost-sharing multiple employer defined benefit retirement plan which covers all Town employees. The Public Employee Retirement System (PERS) covers all employees. The plan is established under State law and administered by the State of Montana.

The plan issues publicly available annual reports, stand-alone financial statements, actuarial valuations, experience studies and plan audited financial statements. Those reports may be obtained from the following:

Public Employees Retirement System
P.O. Box 200131
100 N. Park Avenue Suite 200
Helena, MT 59620-0131
Phone: 406-444-3154
www.mpera.mt.gov

12. a. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES OF RETIREMENT SYSTEMS

The Montana Public Employee Retirement Administration (MPERA) prepares its financial statements using the accrual basis of accounting. For the purposes of measuring the Net Pension Liability, deferred inflows of resources and deferred outflows of resources related to pensions, Pension Expense, information about the fiduciary net position and additions to/deductions from fiduciary net position have been determined on the same accrual basis as they are reported by MPERA. For this purpose, member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Revenues are recognized in the accounting period they are earned and become measurable. Benefit payments and refunds are recognized in the accounting period when due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred.

Investments are reported at fair value. MPERA adhere to all applicable Governmental Accounting Standards Board (GASB) statements.

12. b. PUBLIC EMPLOYEE RETIREMENT SYSTEM (PERS)

The PERS-Defined Benefit Retirement Plan (DBRP), administered by the Montana Public Employee Retirement Administration (MPERA), is a multiple-employer, cost-sharing plan established July 1, 1945, and governed by Title 19, chapters 2 & 3, Montana Code Annotated (MCA). This plan covers the State, local governments, certain employees of the Montana University System, and school districts.

All new members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-DCRP by filing an irrevocable election. Members may not be members of both the *defined contribution* and *defined benefit* retirement plans.

The PERS-DBRP provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are established by state law and can only be amended by the Legislature.

12. b. 1. SUMMARY OF BENEFITS

Eligibility for benefit (Service retirement):

Hired prior to July 1, 2011: Age 60, 5 years of membership service; Age 65, regardless of membership service; or any age, 30 years of membership service.

TOWN OF STEVENSVILLE

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2016

Hired on or after July 1, 2011: Age 65, 5 years of membership service; Age 70, regardless of membership service.
Early retirement, actuarially reduced:

Hired prior to July 1, 2011: Age 50, 5 years of membership service; or any age, 25 years of membership service.

Hired on or after July 1, 2011: Age 55, 5 years of membership service.

Vesting: 5 years of membership service

Member's highest average compensation (HAC):

Hired prior to July 1, 2011: highest average compensation during any consecutive 36 months;

Hired on or after July 1, 2011: highest average compensation during any consecutive 60 months;

Compensation Cap:

Hired on or after July 1, 2013: – 110% annual cap on compensation considered as part of a member's highest average compensation.

Monthly benefit formula:

Members hired prior to July 1, 2011: Less than 25 years of membership service 1.785% of HAC per year of service credit; 25 years of membership service or more 2% of HAC per year of service credit.

Members hired on or after July 1, 2011: Less than 10 years of membership service 1.5% of HAC per year of service credit; 10 years or more, but less than 30 years of membership service 1.785% of HAC per year of service credit; 30 years or more of membership service 2% of HAC per year of service credit.

Guaranteed Annual Benefit Adjustment (GABA):

After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of other adjustments to the member's benefit.

- 3% for members hired prior to July 1, 2007
- 1.5% for members hired between July 1, 2007 and June 30, 2013
- Members hired on or after July 1, 2013:
 - (a) 1.5% for each year PERS is funded at or above 90%;
 - (b) 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and
 - (c) 0% whenever the amortization period for PERS is 40 years or more.

12. b. 2. OVERVIEW OF CONTRIBUTIONS

Rates are specified by state law for periodic member and employer contributions and are a percentage of the member's compensation. Contributions are deducted from each member's salary and remitted by participating employers. The State legislature has the authority to establish and amend contribution rates to the plan. Member and employer contribution rates are shown in the table below.

1. Member contributions to the system of 7.9% are temporary and will be decreased to 6.9% on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and additional member contribution rates.
2. Employer contributions to the system:
 - a. Effective July 1, 2014, following the 2013 Legislative Session, PERS-employer contributions increase an additional 0.1% a year and will continue over 10 years through 2024. The additional employer contributions including the 0.27% added in 2007 and 2009, will terminate on January 1 following an actuary valuation that shows the amortization period of the PERSDBRP has dropped below 25 years and remains below the 25 years following the reduction of both the additional employer and member contributions rates.
 - b. Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.
 - c. The portion of employer contributions allocated to the PCR are included in the employers reporting. The PCR was paid off effective March 2016 and the contributions previously directed to the PCR are now directed to member accounts.
3. Non Employer Contributions:
 - a. Special Funding
 - i. The State contributes 0.1% of members' compensation on behalf of local government entities.
 - ii. The State contributes 0.37% of members' compensation on behalf of school district entities.
 - b. Not Special Funding
 - i. The State contributes a portion of Coal Severance Tax income and earnings from the Coal Trust Permanent Trust fund.

TOWN OF STEVENSVILLE

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2016

Fiscal Year	Member		State &	Local Government		School Districts	
	Hired <07/01/11	Hired >07/01/11	Universities Employer	Employer	State	Employer	State
2016	7.900%	7.900%	8.370%	8.270%	0.100%	8.000%	0.370%
2015	7.900%	7.900%	8.270%	8.170%	0.100%	7.900%	0.370%
2014	7.900%	7.900%	8.170%	8.070%	0.100%	7.800%	0.370%
2012-2013	6.900%	7.900%	7.170%	7.070%	0.100%	6.800%	0.370%
2010-2011	6.900%		7.170%	7.070%	0.100%	6.800%	0.370%
2008-2009	6.900%		7.035%	6.935%	0.100%	6.800%	0.235%
2000-2007	6.900%		6.900%	6.800%	0.100%	6.800%	0.100%

12. b. 3. ACTUARIAL ASSUMPTIONS

The Total Pension Liability as of June 30, 2014, is based on the results of an actuarial valuation date of June 30, 2014, with update procedures to roll forward the Total Pension Liability to June 30, 2015. There were several significant assumptions and other inputs used to measure the Total Pension Liability. The actuarial assumptions used in the June 30, 2015 valuation were based on the results of the last actuarial experience study, dated June 2010 for the six-year period July 1, 2003 to June 30, 2009. Among those assumptions were the following:

General Wage Growth*	4.00%
*includes Inflation at	3.00%
Merit Increases	0% to 6%
Investment Return (net of admin expenses)	7.75%
Admin Expense as % of Payroll	0.27%

Postretirement Benefit Increases

3% for members hired prior to July 1, 2007

1.5% for members hired between July 1, 2007 and June 30, 2013

Members hired on or after July 1, 2013:

- 1.5% for each year PERS is funded at or above 90%
 - 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%;
and
 - 0% whenever the amortization period for PERS is 40 years or more
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.
 - Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

12. b. 4. DISCOUNT RATE

The discount rate used to measure the Total Pension Liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non- employer contributing entities will be made based on the Board's funding policy, which establishes the contractually required rates under Montana Code Annotated. The State contributes 0.1% of salaries for local governments and 0.37% for school districts. In addition, the State contributes coal severance tax and interest money from the general fund. The interest is contributed monthly and the severance tax is contributed quarterly. Based on those assumptions, the System's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2123. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability. No municipal bond rate was incorporated in the discount rate.

12. b. 5. TARGET ALLOCATIONS

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash Equivalents	2.00%	-0.25%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.10%
Fixed Income	24.00%	1.25%
Private Equity	12.00%	8.00%
Real Estate	8.00%	4.25%

TOWN OF STEVENSVILLE

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2016

The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the System. The most recent analysis, performed for the period covering fiscal years 2003 through 2009, is outlined in a report dated June 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption including rates of return adopted by similar public-sector systems, and by using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates are presented as the arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2015, is summarized in the above table.

12. c. SENSITIVITY ANALYSIS

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the above table presents the net pension liability calculated using the discount rate of 7.75%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.75%) or 1.00% higher (8.75%) than the current rate.

	1.0% Decrease (6.75%)	Current Discount Rate	1.0% Increase (8.75%)
PERS			
Net Pension Liability	\$ 2,155,216,222	\$ 1,397,872,046	\$ 758,312,456
Employer's proportion of Net Pension Liability	\$ 655,928	\$ 425,435	\$ 230,788

12. d. NET PENSION LIABILITY

In accordance with GASB Statement 68, Accounting and Financial Reporting for Pensions, employers are required to recognize and report certain amounts associated with their participation in the PERS. Statement 68 became effective June 30, 2015 and includes requirements to record and report their proportionate share of the collective Net Pension Liability, Pension Expense, Deferred Inflows and Deferred Outflows of resources associated with pensions.

In accordance with Statement 68, PERS have special funding situations in which the State of Montana is legally responsible for making contributions directly to PERS on behalf of the employers. Due to the existence of this special funding situation, local governments and school districts are required to report the portion of the State of Montana's proportionate share of the collective Net Pension Liability that is associated with the employer.

The State of Montana also has a funding situation that is not Special Funding whereby the State General Fund provides contributions from the Coal Tax Severance fund and interest to the PERS. All employers are required to report the portion of Coal Tax Severance Tax and interest attributable to the employer.

PERS	Net Pension Liability		Percent of	Percent of	Change in
	as of 6/30/16	as of 6/30/15	Collective NPL as of 6/30/16	Collective NPL as of 6/30/15	Percent of Collective NPL
Employer Proportionate Share	\$ 425,435	\$ 364,891	0.030434%	0.029285%	0.001149%
State of Montana Proportionate Share associated with Employer	5,226	4,456	0.000374%	0.000358%	0.000016%
Total	\$ 430,661	\$ 369,347	0.030808%	0.029643%	0.001165%

At June 30, 2016, the employer recorded a liability of \$425,435 for PERS, for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2015, and the Total Pension Liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of July 1, 2015. Therefore, no update procedures were used to roll forward the total pension liability to the measurement date. The employer's proportion of the Net Pension Liability was based on the employer's contributions received by PERS during the measurement period July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERS participating employers. At June 30, 2016, the employer's proportion was 0.030434 percent for PERS.

TOWN OF STEVENSVILLE

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2016

Changes in actuarial assumptions and methods: Any changes can be obtained from PERS as in the first part of this note.

Changes in benefit terms: There have been no changes in benefit terms since the previous measurement date.

Changes in proportionate share: There were no changes between the measurement date of the collective Net Pension Liability and the employer's reporting date that are expected to have a significant effect on the employer's proportionate share of the collective NPL.

12. e. PENSION EXPENSE

PERS	Pension Expense
	as of 6/30/16
Employer's Proportionate Share	\$ 33,321
State of Montana Proportionate Share associated with the Employer	<u>325</u>
Total	<u>\$ 33,646</u>

At June 30, 2016, the employer recognized a Pension Expense of \$33,646 for its proportionate share of the PERS Pension Expense, respectively. The employer also recognized grant revenue of \$10,535 for the support provided by the State of Montana for its proportionate share of the Pension Expense that is associated with the employer for PERS.

12. f. DEFERRED INFLOWS AND OUTFLOWS

At June 30, 2016, the employer reported its proportionate share of PERS deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	PERS Deferred Outflows of Resources	PERS Deferred Inflows of Resources
Differences between actual and expected experience	\$ 0	\$ 2,574
Changes in assumptions	0	0
Difference between projected and actual earnings on pension plan investments	0	36,017
Changes in proportion differences between employer contributions and proportionate share of contributions	16,071	0
Difference between actual and expected contributions	0	0
#Contributions paid subsequent to the measurement date - FY 2016 Contributions	<u>\$ 34,872</u>	<u>\$ 0</u>
Total	<u>\$ 50,943</u>	<u>\$ 38,591</u>

#Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in Pension Expense as follows:

Year ended June 30:	PERS Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2017	\$ (10,469)0
2018	\$ 10,469
2019	\$ (10,951)
2020	\$ 9,367
2021	\$ 0
Thereafter	\$ 0

TOWN OF STEVENSVILLE

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2016

NOTE 13 LOCAL RETIREMENT PLAN

Fire Department Relief Association Disability and Pension Fund

Town volunteer firefighters are covered by the Fire Department Relief Association Disability and Pension Fund, which is established by State Law. The Association is managed by a Board of Trustees made up of members of the fire department, and is accounted for as a pension trust fund of the Town. A member of a volunteer fire department who has served 20 years or more is entitled to benefits after attaining age 50. Volunteers serving less than 20 years, but more than 10 years may receive reduced benefits. The amount of the pension benefits is set by the Association's Board of Trustees.

Montana law requires that the disability and pension fund contain at least 0.21 % of the total assessed value of taxable property within the Town limits but not more than 0.52% of the assessed taxable value. Once the fund contains less than 0.21 % of the assessed value the Town council shall levy a tax to be deposited in the fund.

No actuarial valuation or report of unfunded past service costs had been prepared for the Town of Stevensville Fire Department Relief Association Disability and Pension Fund.

TOWN OF STEVENSVILLE

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY

For the year ended June 30, 2016

PUBLIC EMPLOYEES RETIREMENT SYSTEM

Year ended June 30:	Employer's proportion of the net pension liability	Employer's proportionate share of the net pension liability associated with the Employer (a)	State of Montana's proportionate share of the net pension liability associated with the Employer (b)	Total (a)+(b)=(c)	Employer's covered- employee payroll (d)	Employer's proportionate share of the net pension liability as a percentage of its covered- employee payroll (a)/(d)	Plan fiduciary net position as a percentage of the total pension liability
2015	0.029285%	\$ 364,891	\$ 4,456	\$ 369,347	\$ 331,502	110.072%	79.9%
2016	0.030434%	\$ 425,435	\$ 5,226	\$ 430,661	\$ 355,176	119.781%	78.4%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

TOWN OF STEVENSVILLE

SCHEDULE OF CONTRIBUTIONS TO MONTANA RETIREMENT SYSTEMS
For the year ended June 30, 2016

PUBLIC EMPLOYEES RETIREMENT SYSTEM

Year ended June 30:	Contractually required contributions (a)	Contributions in relation to the contractually required contributions (b)	Contribution deficiency (excess) (a)-(b)=(c)	Employer's covered- employee payroll (d)	Contributions as a percentage of covered- employee payroll (a)/(d)
2015	\$ 32,882	\$ 32,882	\$ 0	\$ 355,176	9.258%
2016	\$ 34,872	\$ 34,872	\$ 0	\$ 393,572	8.860

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
(Budget and Actual)
ALL BUDGETED MAJOR GOVERNMENTAL FUNDS
For the year ended June 30, 2016

	General			Economic Development		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
REVENUES:						
Taxes/assessments	\$ 342,651	\$ 342,651	\$ 316,458	\$ -	\$ -	\$ -
Licenses and permits	8,725	8,725	9,874	-	-	-
Intergovernmental revenues	192,382	192,382	192,597	575,775	575,775	383,832
Charges for services	40,875	40,875	36,654	-	-	-
Fines and forfeitures	17,000	17,000	18,901	-	-	-
Miscellaneous	20,100	20,100	25,987	-	-	-
Investment and royalty earnings	225	225	93	-	-	-
Total revenues	621,958	621,958	600,564	575,775	575,775	383,832
EXPENDITURES:						
Current:						
General government			143,306			395,831
Public safety			240,437			-
Public works			106,188			-
Culture and recreation			52,281			-
Miscellaneous			14,618			-
Total expenditures	578,936	578,936	556,830	604,775	604,775	395,831
Excess (deficiency) of revenues over expenditures	43,022	43,022	43,734	(29,000)	(29,000)	(11,999)
OTHER FINANCING SOURCES/USES:						
Fund transfers in	2,000	2,000	6,138	-	-	22,999
Fund transfers (out)	(10,500)	(10,500)	(234,001)	-	-	-
Total other financial sources/uses	(8,500)	(8,500)	(227,863)	-	-	22,999
Net changes in fund balances	34,522	34,522	(184,129)	(29,000)	(29,000)	11,000
FUND BALANCE:						
Beginning of the year			441,637			45,412
Prior period adjustments			2,938			(1,880)
End of the year			\$ 260,446			\$ 54,532

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

TOWN OF STEVENSVILLE

NOTES TO THE BUDGET VS ACTUAL SCHEDULE
For the year ended June 30, 2016

NOTE 1. BUDGETS

1. a. BUDGETS

Budgets are adopted on a basis consistent with the State of Montana budget laws (Title 7, Chapter 6, Part 40, MCA) which are consistent GAAP. Annual appropriated budgets are adopted for all funds of the Town. All annual appropriations lapse at fiscal year-end, unless the Town elects to encumber supplies and personal property ordered but not received at year end. The Town does not use a formal encumbrance system.

1. a. 1 GENERAL BUDGET POLICIES:

Budgeted funds are those of which a legal budget must be adopted to have expenditures from such funds and are noted above. The Schedule of Revenues, Expenditures, and Changes in Fund Balances, Budget vs. Actual, has been prepared on the modified accrual basis of accounting and contains financial information for only the major budgeted funds. The major funds Water, Sewer, and Airport are not included in the schedule because they are enterprise funds.

1. a. 2 BUDGET OPERATION:

The Town operates within the budget requirements for incorporated city or town's as specified by State law. The financial report reflects the following budgetary standards:

- (1) A local government shall submit a complete copy of the final budget together with a statement of tax levies to the Department of Administration by the later of October 1 or 60 days after receipt of taxable values from the Department of Revenue.
- (2) Local government officials may not make a disbursement or an expenditure or incur an obligation in excess of the total appropriations for a fund.
- (3) 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.
- (4) The governing body and each municipal official are limited to the amount of appropriations and by the classifications in the annual appropriation resolution when making disbursements or expenditures or incurring liabilities. Exceptions to this limitation - Appropriations may be adjusted according to procedures authorized by the governing body for:
 - a. debt service funds for obligations related to debt approved by the governing body;
 - b. trust funds for obligations authorized by trust covenants;
 - c. any fund for federal, state, local, or private grants and shared revenue accepted and approved by the governing body;
 - d. any fund for special assessments approved by the governing body;
 - e. the proceeds from the sale of land;
 - f. any fund for gifts or donations; and
 - g. money borrowed during the fiscal year.
- (5) If an expenditure is to be financed from a tax levy required to be authorized and approved at an election, the expenditure may not be made or an obligation may not be incurred against the expenditure until the tax levy is authorized and approved.
- (6) At the end of a fiscal year, unencumbered appropriations lapse unless specifically obligated by the Town.

NOTE 2. EXCESS EXPENDITURES OVER APPROPRIATIONS

<u>Fund</u>	<u>Amount</u>	<u>REASON</u>
General*	\$ 214,354	Year-end transfers to other funds
Police training	<u>1,523</u>	Not comparing budget to actual numbers
Total	<u>\$ 215,877</u>	

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Fiscal Year Ended June 30, 2016

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	Amount Passed to Subrecipients	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH MONTANA DEPARTMENT OF NATURAL RESOURCES				
Water & waste disposal systems for rural communities	10.760	N/A	\$	72,136
Water & waste disposal systems for rural communities	10.760	RD Loan 92-10		800,000
Water & waste disposal systems for rural communities	10.760	RD Loan 92-12		450,000
Water & waste disposal systems for rural communities	10.760	RD Grant 00-11		1,828,123
Total water & waste disposal systems for rural communities				<u>3,150,259</u>
Total U.S. Department of Agriculture			\$	<u>3,150,259</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASSED THROUGH MONTANA DEPARTMENT OF COMMERCE				
Community Development Block Grant	14.228	MT-CDBG-ED14-04	\$	383,832
Total U.S. Housing and Urban Development			\$	<u>383,832</u>
U.S. DEPARTMENT OF JUSTICE PASSED THROUGH MONTANA BOARD OF CRIME CONTROL				
Juvenile Justice and Delinquency Prevention	16.540	13-J27-91916	\$	516
PASSED THROUGH MONTANA DEPARTMENT OF JUSTICE				
Public Safety Partnership and Community Policing Grants (COPS grant)	16.710	2013UMWX0201		<u>35,621</u>
Total U.S. Department of Justice			\$	<u>36,137</u>
U.S. DEPARTMENT OF TRANSPORTATION DIRECT:				
Airport Improvement Program	20.106	AIP 3-30-0044-012-2015		199,800
Airport Improvement Program	20.106	AIP 3-30-0044-011-2013		8,037
PASSED THROUGH MONTANA DEPARTMENT OF TRANSPORTATION				
Airport Improvement Program	20.106	Stevensville1 7992 FG		<u>7,992</u>
Total airport improvement program				<u>215,829</u>
Total U.S. Department of Transportation			\$	<u>215,829</u>
Total Federal Financial Assistance			\$	<u>3,786,057</u>

The accompanying notes to the SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS are an integral part of this schedule.

TOWN OF STEVENSVILLE

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2016

NOTE 1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Town of Stevensville under programs of the federal government for the fiscal year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of the Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Town of Stevensville, it is not intended to and does not present the financial position, changes in net position or cash flows of Town of Stevensville.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting as used in the governmental financial statements. Such expenditures are recognized following, as applicable, either the cost principles in Office of Management and Budget Circular A-122, *Cost Principles for Non-Profit Organizations*, or the cost principles contained in Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Award*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available

NOTE 3. INDIRECT COST RATE

Town of Stevensville is not utilizing an indirect cost rate as allowed under Uniform Guidance.

NOTE 4. FEDERAL LOANS OUTSTANDING

The Town of Stevensville federal loan balances and transactions relating to federal money are included in the basic financial statements. Loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the Schedule. The balance of loans outstanding at June 30, 2016 consists of:

CFDA Number	Program Name	Outstanding Balance at June 30, 2016
10.760	Water and waste disposal systems for rural communities	\$ 1,242,836



STROM & ASSOCIATES, P.C.

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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

INDEPENDENT AUDITOR'S REPORT

Mayor and City Council
Town of Stevensville
Ravalli County
Stevensville, Montana 59870

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental 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 as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town of Stevensville's basic financial statements and have issued our report thereon dated November 20, 2017.

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 the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Town'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 as items 2016-004 and 2016-005.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies as items 2016-001, 2016-002, 2016-003 and 2016-006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Town of Stevensville's Response to Findings

The Town's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or 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.



STROM & ASSOCIATES, PC
Billings, Montana
November 20, 2017



STROM & ASSOCIATES, P.C.

Certified Public Accountants

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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND
REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
Uniform Guidance

INDEPENDENT AUDITOR'S REPORT

Mayor and City Council
Town of Stevensville
Ravalli County
Stevensville, Montana 59870

Report on Compliance for Each Major Federal Program

We have audited Town of Stevensville's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Town of Stevensville's major federal programs for the year ended June 30, 2016. 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

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Town of Stevensville's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the 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. An audit includes examining, on a test basis, evidence about Town of Stevensville's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Town of Stevensville's compliance.

Opinion on Each Major Federal Program

In our opinion, Town of Stevensville's, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of Town of Stevensville, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Town of Stevensville's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, 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, non-compliance 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 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. 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.

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 over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2007-006 that we consider to be a significant deficiency.

Town of Stevensville's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Town of Stevensville's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



STROM & ASSOCIATES, PC
Billings, Montana
November 20, 2017

TOWN OF STEVENSVILLE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2016

A. SUMMARY OF AUDITOR’S RESULTS

Financial Statements:

- 1. The auditor, Strom & Associates, PC, has issued an unmodified opinion on Town of Stevensville’s financial statements as of and for the year ended June 30, 2016.
- 2. Our audit identified material weaknesses relating to internal controls over financial reporting and its operation.
- 3. Our audit identified significant deficiencies in internal controls over financial reporting and its operation.
- 3. Our audit did not identify any noncompliance which was material to the financial statements.

Federal Awards:

- 4. Our audit did not identify any material weaknesses relating to internal controls over federal programs.
- 5. Our audit identified significant deficiencies in internal controls over federal programs.
- 5. The auditor, Strom & Associates, PC, has issued an unmodified opinion on Town of Stevensville’s compliance with major federal awards programs as of and for the year ended June 30, 2016.
- 6. The audit disclosed audit findings which are required to be reported under section 200.516 of Uniform Guidance.
- 7. The major program for Town of Stevensville for the year ended June 30, 2016 was

CFDA Number	Name of Federal Program or Cluster
10.760	Water and Waste Disposal Systems for Rural Communities
- 8. The threshold used to distinguish between Type A and Type B programs was \$750,000. Town of Stevensville has Water and Waste Disposal Systems for Rural Communities as a Type A program.
- 9. This Town does not qualify as a low risk audit client.

B. Findings relating to the financial statements which are required to be reported in accordance with “Governmental Auditing Standards.”

Prior year findings/status:

The following is the status of prior year findings and updated for the fiscal year ended June 30, 2016.

2015-001 – Late Submission of Single Audit	Repeated as finding 2016-06 below
--	-----------------------------------

Current year findings:

2016-001 Budget

- Criteria: Montana code annotated 7-6-4005, 4006, 4032, 4012 require each fund to not over spend its approved budget appropriation.
- Condition: The general fund and the police training & pension fund exceeded their approved budget.
- Effect: The effect is noncompliance with state code.
- Context: The general and police training & pension funds exceeded their approved budgets by \$214,354 and \$1,523 respectively
- Cause: The general fund excess was caused by year end transfers to other funds. The police training & pension fund excess was caused by not comparing budget to actual figures.
- Recommendation: We recommend the Town not over expend approved fund budgets.

TOWN OF STEVENSVILLE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

For the year ended June 30, 2016

2016-002 CASH RESERVES

Criteria: Montana budget laws allow Town cash reserves of 50% of appropriation per fund.
Condition: The general fund 1000, TIFD 2310, and TEDD 2311 budgeted cash reserves all exceeded 50% of appropriations.
Effect: The effect is noncompliance with state budget codes.
Context: The general fund TIFD, and TEDD had budgeted cash reserves of 64%, 84%, and 100% of appropriations respectively.
Cause: The interim clerk was not sure how to fill out the state budget form.
Recommendation: We recommend the Town limit its budgeted cash reserves to 50% of appropriations for each fund.

2016-003 ANNUAL REPORT NOT DERIVED FROM THE ACCOUNTING RECORDS

Criteria: Internal controls indicate the annual financial report should be derived from the accounting records and that subsidiary ledgers reconcile to the amounts reported in the financial statements.
Condition: During our review of the accounting system as compared to elements reported on the annual report we noted account balances reported in the annual report did not agree to the accounting records.
Effect: Annual report presentation may not reconcile to the accounting records in all cases.
Context: Information reported in the annual report did not in all cases represent information presented in the accounting records as noted below:

- General fund cash and beginning and ending fund balance differ to the accounting records by \$26,388;
- Sewer fund accumulated depreciation and fund balance differ to the accounting records by \$15,477

Cause: Not ensuring information presented in the annual report agree to the accounting records.
Recommendation: We recommend the Town ensure the information presented in the accounting records reconciled to the annual financial report.

2016-004 BACK DATING OF RECEIPTS

Criteria: Deposits in transit are deposits which have been received by the entity but due to timing of the deposits being posted by the bank did not make the bank statement cut-off time period. Deposits in transit display on bank statement activity within a few days of the closing of the subsequent bank cut-off period.
Condition: Cash receipts that were not received by June 30, 2016 were included as cash available to spend at June 30, 2016.
Effect: Cash is overstated and due from other governments are understated by \$81,801
Context: During our reconciliation of cash balances, we noted the \$32,930 June 30, 2016 cash collections by the County which were not remitted to the City until July 20, 2017 were included as a deposit in transit. In addition, we noted RD grant draw 11 for 43,396 which the electronic transaction did not occur until 7/29/16 was include as a deposit in transit.
Cause: Avoiding GAAP required accrual.
Recommendation: We recommend cash receipt be in sequential order and the cash collections be accounting for at the point in time the cash becomes physical cash to the Town.

TOWN OF STEVENSVILLE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

For the year ended June 30, 2016

2016-005 ANNUAL FINANCIAL REPORT

Criteria: GASB 34 converting fund statements into the required format
GASB 68 information as displayed by the State of Montana for reporting purposes

Condition: The annual report does not appear to properly display program revenues and pension accrual information as directed by the GASB.

Effect: The annual report does not completely comply with financial reporting required by GASB 34 and GASB 68.

Context: During our review of the June 30, 2016 annual report we noted the following:

- Gas appropriation tax money (\$34,379) and police training money (\$3,553) received from the State is not displayed on the Statement of Activities as operating grants. These moneys can only be spent for a specific purpose and meet the definition of operating/capital grants and contribution revenues rather than charge for service revenues.
- Special assessment revenues are included as general revenues rather than charges for services.
- The June 30, 2016 reporting date data form indicates net pension liability, deferred outflows of resources and deferred inflows of resources are \$425,435, \$50,943 and 38,591, respectively. The annual report reports \$424,434, \$62,991 and \$18,535, respectively.

Cause: Not double-checking report prior to submission

Recommendation: We recommend the Town review all revenue sources and clarify with local government services which ones are included in program revenue types and the pension accrual for GASB 68 reconcile to the State report.

2016-006 LATE SUBMISSION OF SINGLE AUDIT

Criteria: The audit must be completed and the data collection form (Form SF-SAC) and reporting package submitted to the Federal Audit Clearinghouse within the earlier of 30 days after receipt of the auditor's report(s) or nine months after the end of the audit period. (2 CFR 200.512)

Condition: The Town's June 30, 2016 audit was not remitted to the Federal Audit Clearinghouse as required by the CFR.

Effect: None compliance with the federal regulations

Context: The Town did not complete the June 30, 2016 annual financial report or have the audit contracted for and completed by the required March 30, 2017 federal due date. The June 30, 2015 federal audit report was not available for review until August 2017.

Cause: Staff turnover

Recommendation: We recommend the Town implement procedures to ensure required due dates are met.

C. Findings and questioned costs for Federal awards, as defined in section 200.516 of Uniform Guidance.

The audit disclosed a finding or questioned cost relating to federal awards as defined in section 200.516 of Uniform Guidance in the prior audit report which is repeated at finding 2016-006 below.

2016-006 LATE SUBMISSION OF SINGLE AUDIT

Criteria: The audit must be completed and the data collection form (Form SF-SAC) and reporting package submitted to the Federal Audit Clearinghouse within the earlier of 30 days after receipt of the auditor's report(s) or nine months after the end of the audit period. (2 CFR 200.512)

Condition: The Town's June 30, 2016 audit was not remitted to the Federal Audit Clearinghouse as required by the CFR.

Effect: None compliance with the federal regulations

Context: The Town did not complete the June 30, 2016 annual financial report or have the audit contracted for and completed by the required March 30, 2017 federal due date. The June 30, 2015 federal audit report was not available for review until August 2017.

Cause: Staff turnover

Recommendation: We recommend the Town implement procedures to ensure required due dates are met.

TOWN OF STEVENSVILLE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

For the year ended June 30, 2016

**Town of Stevensville
CORRECTIVE ACTION PLAN
June 30, 2016**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2016-001	The transfers from the General Fund to other funds were planned for but not included in the budget. Planned transfers are now included in the annual budget and the budget vs actual reports are reviewed twice per month.	June 30, 2017	April VanTassel
2016-002	The General Fund reserves were budgeted to cover the transfers referred to in the previous finding. FY17-18 includes spending down reserves in the TIFD, TEDD and lighting district funds.	June 30, 2017	April VanTassel
2016-003	FY16-17 and subsequent accounting records will be reconciled to the annual financial report.	June 30, 2017	April VanTassel
2016-004	Deposits are recorded when received. County taxes and grant reimbursements are recorded as Due from Other Governments.	June 30, 2017	April VanTassel
2016-005	All reports will be reconciled and reviewed prior to submission	June 30, 2017	April VanTassel
2016-006	June 30, 2017 annual financial report will be completed and submitted by the December 31, 2017 due date or shortly thereafter. The FY17-18 audit is already contracted and should be completed timely.	December 31, 2017	April VanTassel