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
Paulette Floyd	Councilperson
Robert Michalson	Councilperson

OFFICIALS

Stacy Bartlett	Clerk
Roxanne Wagner	Finance Officer
James Marble	Chief of Police
Brian West	Town Attorney
Denise Philley	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, 2017, 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, 2017, 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 funding for other post-employment benefits other than pensions (page 34), and schedule of proportionate share of net pension liability and schedule of contributions to Montana retirement systems (pages 35 - 38), and budgetary comparison information (pages 39 - 40) 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 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 schedule of expenditures of federal awards (pages 41 - 42) 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 is 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 auditing standards generally accepted in the United States of America. In our opinion, the accompanying schedule of expenditures of federal awards is 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 June 27, 2018 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, P.C.

STROM & ASSOCIATES, PC
Billings, Montana
June 27, 2018

Town of Stevensville
Ravalli County
Stevensville, MT 59870

STATEMENT OF NET POSITION
June 30, 2017

	Governmental Activities	Business-type Activities	Total
ASSETS:			
Current assets:			
Cash and cash equivalents	$ 963,366	$ 1,446,648	$ 2,410,014
Taxes receivable	17,435	-	17,435
Accounts receivable - net	-	127,821	127,821
Internal balances	79,000	(79,000)	-
Due from other governments	3,798	-	3,798
Total current assets	1,063,599	1,495,469	2,559,068
Noncurrent assets:			
Restricted cash and investments	-	591,819	591,819
Capital assets:			
Land	2,707	663,198	665,905
Construction in progress	1,375	-	1,375
Net depreciable assets	595,098	16,767,593	17,362,691
Total noncurrent assets	599,180	18,022,610	18,621,790
Total assets	1,662,779	19,518,079	21,180,858
DEFERRED OUTFLOWS OF RESOURCES:			
Employer pension plan activities	76,543	59,412	135,955
Total deferred outflows of resources	76,543	59,412	135,955
Total assets and deferred outflows of resources	$ 1,739,322	$ 19,577,491	$ 21,316,813
LIABILITIES:			
Current liabilities:			
Accounts payable	94,448	106,939	201,387
Current portions compensated absences	22,757	27,651	50,408
Current portion long-term capital obligations	-	122,724	122,724
Total current liabilities	117,205	257,314	374,519
Noncurrent liabilities:			
Compensated absences	22,758	27,650	50,408
Net pension accrual	315,099	244,573	559,672
Other postemployment benefits	30,065	20,301	50,366
Long-term capital debt obligations	-	5,599,824	5,599,824
Total noncurrent liabilities	367,922	5,892,348	6,260,270
Total liabilities	485,127	6,149,662	6,634,789
DEFERRED INFLOWS OF RESOURCES:			
Employer pension plan	1,043	809	1,852
Total deferred inflows of resources	1,043	809	1,852
NET POSITION:			
Net investment in capital assets	599,180	11,708,243	12,307,423
Restricted	318,639	591,819	910,458
Unrestricted (Deficit)	335,333	1,126,958	1,462,291
Total net position	1,253,152	13,427,020	14,680,172
Total liabilities, deferred inflows and net position	$ 1,739,322	$ 19,577,491	$ 21,316,813

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

Town of Stevensville
Ravalli County
Stevensville, MT 59870

STATEMENT OF ACTIVITIES
For the year ended June 30, 2017

		Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
					Primary Government		
	Expenses	Charge for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
GOVERNMENT OPERATIONS:							
General government	$ 328,490	$ 16,621	$ 118,729	$ -	$ (193,140)		$ (193,140)
Public safety	373,264	66,233	10,256	-	(296,775)		(296,775)
Public works	173,422	14,597	52,155	-	(106,670)		(106,670)
Culture and recreation	57,069	21,054	75,000	-	38,985		38,985
Miscellaneous	15,733	-	-	-	(15,733)		(15,733)
Total Governmental Activities	947,978	118,505	256,140	-	(573,333)		(573,333)
BUSINESS-TYPE ACTIVITIES:							
Water	449,903	536,918	2,264	-		89,279	89,279
Sewer	645,517	550,712	2,192	301,215		208,602	208,602
Airport	175,175	19,279	80	1,856,073		1,700,257	1,700,257
Total Business-type activities	1,270,595	1,106,909	4,536	2,157,288		1,998,138	1,998,138
Total Primary Government	$ 2,218,573	$ 1,225,414	$ 260,676	$ 2,157,288	$ (573,333)	$ 1,998,138	$ 1,424,805
GENERAL REVENUES:							
Taxes/Assessments					266,012	330	266,342
Local Option Taxes					46,497		46,497
Licenses and Permits					14,364		14,364
Federal/State Shared Revenues					200,197		200,197
Miscellaneous					2,466		2,466
Investment and Royalty Earnings					503	5,544	6,047
Internal Balances					(59)	59	-
Total General Revenues					529,980	5,933	535,913
Change in Net Position					(43,353)	2,004,071	1,960,718
NET POSITION:							
Beginning of the Year					1,296,505	11,422,358	12,718,863
Prior Period Adjustments					-	591	591
End of the Year					$ 1,253,152	$ 13,427,020	$ 14,680,172

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

Town of Stevensville
Ravalli County
Stevensville, MT 59870

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2017

	MAJOR General	MAJOR Gas Apportionment Tax	Other Governmental Funds	Total Governmental Funds
ASSETS:				
Current assets:				
Cash and cash equivalents	$ 172,998	$ 84,024	$ 720,071	$ 977,093
Taxes receivable	13,710	-	3,725	17,435
Interfund receivable	79,000	-	-	79,000
Due from other governments	3,798	-	-	3,798
Total assets	269,506	84,024	723,796	1,077,326
DEFERRED OUTFLOWS OF RESOURCES:				
Total deferred outflows of resources	-	-	-	-
Total assets and deferred outflows of resources	$ 269,506	$ 84,024	$ 723,796	$ 1,077,326
LIABILITIES:				
Current liabilities:				
Accounts payable	14,949	-	79,499	94,448
Cash overdraft	-	-	13,727	13,727
Total liabilities	14,949	-	93,226	108,175
DEFERRED INFLOWS OF RESOURCES:				
Unavailable property taxes receivable	13,710	-	3,725	17,435
Total deferred inflows of resources	13,710	-	3,725	17,435
FUND BALANCE (DEFICITS):				
Restricted	-	84,024	230,890	314,914
Committed	-	-	157,377	157,377
Assigned	-	-	252,305	252,305
Unassigned	240,847	-	(13,727)	227,120
Total fund balance	240,847	84,024	626,845	951,716
Total liabilities, deferred inflows of resources, and fund balance	$ 269,506	$ 84,024	$ 723,796	$ 1,077,326

RECONCILIATION TO THE STATEMENT OF NET POSITION

Total fund balance reported above	$ 951,716
Governmental Capital Assets	599,180
Employer pension plan activities	76,543
Long-term Liabilities	
Compensated Absences	(45,515)
Net pension accrual	(315,099)
Other postemployment benefits	(30,065)
Employer pension plan	(1,043)
Unavailable property taxes receivable	17,435
Net Position of Governmental Activities	$ 1,253,152

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

Town of Stevensville
Ravalli County
Stevensville, MT 59870

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the year ended June 30, 2017

	MAJOR			
	General	Gas Apportionment Tax	Other Governmental Funds	Total Governmental Funds
REVENUES:				
Taxes/assessments	$ 277,529	$ -	$ 42,827	$ 320,356
Licenses and permits	14,364	-	48,715	63,079
Intergovernmental revenues	224,890	34,148	116,456	375,494
Charges for services	29,142	-	1,621	30,763
Fines and forfeitures	14,280	-	-	14,280
Miscellaneous	17,466	-	75,000	92,466
Investment and royalty earnings	14	-	489	503
Total revenues	577,685	34,148	285,108	896,941
EXPENDITURES:				
Current:				
General government	147,386	-	142,014	289,400
Public safety	280,754	-	32,819	313,573
Public works	103,444	13,907	15,266	132,617
Culture and recreation	55,204	-	-	55,204
Miscellaneous	15,733	-	-	15,733
Capital outlay	-	105,171	67,898	173,069
Total expenditures	602,521	119,078	257,997	979,596
Excess (deficiency) of revenues over expenditures	(24,836)	(84,930)	27,111	(82,655)
OTHER FINANCING SOURCES/USES:				
Fund transfers in	15,011	-	9,715	24,726
Fund transfers (out)	(9,774)	-	(15,011)	(24,785)
Total other financial sources/uses	5,237	-	(5,296)	(59)
Net changes in fund balances	(19,599)	(84,930)	21,815	(82,714)
FUND BALANCE:				
Beginning of the year	260,446	168,954	605,030	1,034,430
End of the year	$ 240,847	$ 84,024	$ 626,845	$ 951,716

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

Town of Stevensville
Ravalli County
Stevensville, MT 59870

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, 2017

Net Changes in Fund Balance		$ (82,714)
Revenues on the Statement of Activities not included in governmental funds statement:		
Increase (decrease) in taxes receivable	1,900	
State Pension Aid	5,843	7,743
Expenses on the Statement of Activities not included in the governmental funds statement:		
Depreciation Expense	(55,418)	
Actuarial Pension Expense	(57,153)	
(Increase) decrease in Other Post Employment Benefits	(30,065)	
(Increase) decrease in compensated absence liability	1,185	(141,451)
Expenditures reported in the governmental funds statement not included in the Statement of Activities		
Capital outlays		173,069
Change in net position reported on the Statement of Activities		$ (43,353)

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

Town of Stevensville
Ravalli County
Stevensville, MT 59870

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2017

	MAJOR			
	Water	Sewer	Airport	Total Enterprise Funds
ASSETS:				
Current assets:				
Cash and cash equivalents	$ 1,106,694	$ 205,990	$ 133,964	$ 1,446,648
Accounts receivable - net	60,105	67,716	-	127,821
Total current assets	1,166,799	273,706	133,964	1,574,469
Noncurrent assets:				
Restricted cash and investments	263,331	328,488	-	591,819
Capital assets:				
Land	49,008	16,627	597,563	663,198
Net depreciable assets	4,730,305	8,341,209	3,696,079	16,767,593
Total noncurrent assets	5,042,644	8,686,324	4,293,642	18,022,610
Total assets	6,209,443	8,960,030	4,427,606	19,597,079
DEFERRED OUTFLOWS OF RESOURCES:				
Employer pension plan activities	29,641	28,716	1,055	59,412
Total deferred outflows of resources	29,641	28,716	1,055	59,412
Total assets and deferred outflows of resources	$ 6,239,084	$ 8,988,746	$ 4,428,661	$ 19,656,491
LIABILITIES:				
Current liabilities:				
Accounts payable	7,756	32,139	67,044	106,939
Interfund payable	-	-	79,000	79,000
Current portions compensated absences	14,672	12,922	57	27,651
Current portion long-term capital obligations	34,218	71,465	14,986	122,724
Total current liabilities	56,646	116,526	161,087	336,314
Noncurrent liabilities:				
Compensated absences	14,671	12,922	57	27,650
Net pension accrual	122,020	118,211	4,342	244,573
Other postemployment benefits	10,228	9,686	387	20,301
Long-term capital debt obligations	2,046,463	3,479,957	75,459	5,599,824
Total noncurrent liabilities	2,193,382	3,620,776	80,245	5,892,348
Total liabilities	2,250,028	3,737,302	241,332	6,228,662
DEFERRED INFLOWS OF RESOURCES:				
Employer pension plan	404	391	14	809
Total deferred inflows of resources	404	391	14	809
NET POSITION:				
Net investment in capital assets	2,698,632	4,806,414	4,203,197	11,708,243
Restricted for debt service	92,585	85,682	-	178,267
Restricted for replacement & depreciation	170,746	242,806	-	413,552
Unrestricted (Deficit)	1,026,689	116,151	(15,882)	1,126,958
Total net position	3,988,652	5,251,053	4,187,315	13,427,020
Total liabilities, deferred inflows and net position	$ 6,239,084	$ 8,988,746	$ 4,428,661	$ 19,656,491

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

Town of Stevensville
Ravalli County
Stevensville, MT 59870

STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
For the year ended June 30, 2017

	MAJOR			
	Water	Sewer	Airport	Total Enterprise Funds
OPERATING REVENUES:				
Charges for services	$ 354,654	$ 332,866	$ 19,219	$ 706,739
Miscellaneous	-	-	60	60
Special assessments	182,264	217,846	-	400,110
Total operating revenues	536,918	550,712	19,279	1,106,909
OPERATING EXPENSES:				
Personal services	162,462	158,410	8,349	329,221
Supplies	38,682	33,324	712	72,718
Purchased services	69,143	101,893	3,969	175,005
Fixed charges	8,448	14,948	2,618	26,014
Depreciation	113,449	218,634	158,853	490,936
Total operating expense	392,184	527,209	174,501	1,093,894
Operating income (loss)	144,734	23,503	(155,222)	13,015
NONOPERATING REVENUES (EXPENSES)				
Taxes/assessment revenue	-	-	330	330
Intergovernmental revenue	2,264	2,192	80	4,536
Interest revenue	3,459	1,843	242	5,544
Debt service interest expense	(57,719)	(118,308)	(674)	(176,701)
Total nonoperating revenue (expenses)	(51,996)	(114,273)	(22)	(166,291)
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS				
Capital contributions	-	301,215	1,856,073	2,157,288
Transfers in	59	-	-	59
Change in net position	92,797	210,445	1,700,829	2,004,071
NET POSITION:				
Beginning of the Year	3,895,264	5,040,608	2,486,486	11,422,358
Prior period adjustments	591	-	-	591
End of the Year	$ 3,988,652	$ 5,251,053	$ 4,187,315	$ 13,427,020

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

Town of Stevensville
Ravalli County
Stevensville, MT 59870

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2017

	Business-type Activities - Enterprise Funds			
	MAJOR			Total Enterprise Funds
	Water	Sewer	Airport	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from customers	$ 537,108	$ 542,985	$ 44,500	$ 1,124,593
Payments to employees	(151,489)	(146,567)	(7,831)	(305,887)
Payments to suppliers	(130,453)	(281,760)	32,425	(379,788)
Net cash provided (used) by operating activities	255,166	114,658	69,094	438,918
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Operating subsidies and transfers between funds	59	-	79,000	79,059
Subsidies from other governments	-	-	330	330
Net cash provided (used) by noncapital financing activities	59	-	79,330	79,389
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Proceeds from capital debt	-	-	71,000	71,000
Capital contributions	-	301,215	1,856,073	2,157,288
Purchases of capital assets	-	(310,592)	(2,045,510)	(2,356,102)
Principal paid on capital debt	(33,289)	(71,220)	(7,885)	(112,394)
Interest paid on capital debt	(57,719)	(118,308)	(674)	(176,701)
Net cash provided (used) by capital and related financing activities	(91,008)	(198,905)	(126,996)	(416,909)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest and dividends	3,459	1,843	242	5,544
Net cash provided (used) by investing activities	3,459	1,843	242	5,544
Net increase (decrease) in cash and cash equivalents	167,676	(82,404)	21,670	106,942
BALANCE:				
Beginning of the year	1,202,349	616,882	112,294	1,931,525
End of the year	$ 1,370,025	$ 534,478	$ 133,964	$ 2,038,467
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating income (loss)	$ 144,734	$ 23,503	$ (155,222)	$ 13,015
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation expense	113,449	218,634	158,853	490,936
OPEB expense	828	1,816	1,503	4,147
GASB 68 pension expense	7,544	8,412	(985)	14,971
Changes in assets and liabilities:				
Accounts receivable	230	(8,921)	-	(8,691)
Accounts payable	(14,180)	(131,595)	39,724	(106,051)
Customer deposits	(591)	-	-	(591)
Other current assets	551	1,194	25,221	26,966
Compensated absences	2,601	1,615	-	4,216
Net cash provided (used) by operating activities	$ 255,166	$ 114,658	$ 69,094	$ 438,918
Supplemental schedule of noncash activities				
GASB 68 state contribution	$ 2,264	$ 2,192	$ 80	$ 4,536

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

Town of Stevensville
Ravalli County
Stevensville, MT 59870

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2017

	Agency Funds
ASSETS:	
Current assets:	
Cash and cash equivalents	$ 31,539
Total Assets	$ 31,539
LIABILITIES:	
Current liabilities:	
Warrants payable	11,395
Due to others	4,761
Other current liabilities	15,383
Total Liabilities	$ 31,539

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

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.

At the end of fiscal year 2017 the Town adopted the following:

- 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 Fire Department Relief Associations and a liability of the pension fund should be recorded. The Liability must be performed by an actuary.
- 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 classified as plan member contributions for purposes of Statement 67 and as employee contributions for purposes of Statement 68. The requirements of this statement are effective for reporting periods beginning after June 15, 2016. The Town implemented this statement consistent with guidance provided by the State of Montana for implementation.
- GASB Statement No. 85 – Omnibus 2017. This statement establishes accounting and financial reporting requirements for blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The requirements of this statement are effective for reporting periods beginning after December 15, 2017. The Town determined that this statement does not significantly affect it reporting.
- GASB Statement No. 86 – Certain Debt Extinguishment Issues. The primary objective of this statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt. The requirements of this statement are effective for reporting periods beginning after June 15, 2017. The Town determined this statement does not significantly affect it reporting.

The following is 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 when they update their OPEB numbers at the next evaluation date or by fiscal year end 2018, whichever comes first.
- GASB Statement No. 83 – Certain Asset Retirement Obligation. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). The requirements of this statement are effective for reporting periods beginning after June 27, 2018. The Town believes that this statement is not applicable to its financial statements, however it will make a final determination on its applicability before the effective date.
- GASB Statement No. 84 – Fiduciary Activities. This statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. The Town plans to implement this statement once the State of Montana updates the standard chart of accounts.
- GASB Statement No. 87 – Leases. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this statement are effective for reporting periods beginning after December 15, 2019. The Town plans to implement this statement once it has identified all leases and has reviewed the Q&A on this statement.

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, library, public safety and other municipal services. Water, sewer and airport 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 and generally include 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, and
- Operating and Capital grants that are restricted to a particular function or segment.

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. 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 for 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 taxes and 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 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.

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.

- Gas tax fund – This fund is used to account for gas apportionment tax received by the Town and related expenditures.

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 – These funds account for assets that the Town holds on behalf of others as their agent and for warrants written but not redeemed 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 though 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 of Montana 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 Federal Deposit Insurance Corporation (FDIC) or National Credit Union Association insured; or in repurchase agreements as authorized by MCA or 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 deprecation reserve for the purpose of replacing the system in the future.

1. c. 2. TAXES

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 State of 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.

Property taxes 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 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 inventory are expenditures when acquired in governmental funds (purchases method), since governmental funds focus on the use of current financial resources. At year-end inventories were not material.

1. c. 4. CAPITAL ASSETS

The Town's property, plant, equipment, and infrastructure (e.g., roads, bridges, sidewalks, lighting, and similar items) 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:

Capital Asset Classes	Lives
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, 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 – Deferred inflows
The Town reports deferred inflows under the modified accrual basis of accounting in the governmental funds for property taxes. 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 receivable.

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 $22,757 and it is generally paid out of the general fund. The amount expected to be paid within one year in enterprise funds is $27,651 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 elements 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 fund or funds that have negative fund balances.

As of June 30, 2017, fund balance components other than unassigned fund balance consist of the following:

Purpose	Restricted	Assigned	Committed
Public safety	$ 4,337	$ 0	$ 10,601
Public works	187,469	0	0
Culture and recreation	75,000	0	0
Housing and community development	48,108	0	146,776
Future Capital Costs	0	252,305	0
Total	$ 314,914	$ 252,305	$ 157,377

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 Council 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.

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, 2017, the summary of cash, cash equivalents for governmental and business-type activities, and fiduciary funds is as follows:

Account Type	Governmental Activities	Business-type Activities	Fiduciary Funds	Total
Cash and Cash Equivalents	$ 963,366	$ 1,446,648	$ 31,539	$ 2,441,553
Restricted Assets	0	591,819	0	591,819
Total	$ 963,366	$ 2,038,467	$ 31,539	$ 3,033,372

The carrying amount of cash on hand, deposits and investments at June 30, 2017, is as follows:

	Amount
Cash on Hand	$ 60
Demand Accounts	1,586,434
Time Deposits	1,446,878
Total	$ 3,033,372

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, 2017, the Town's bank balance was exposed to custodial credit risk as follows:

Deposits	Fair Value June 30, 2017
Covered depository insurance	569,239
Collateral held by the pledging bank's trust department but not in the Entity's name.	2,463,612
Uninsured and uncollateralized	0
Total bank balance	$ 3,032,851

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. FUND CASH OVERDRAFT

The following funds report overdrawn cash accounts.

Fund	Amount	Reason
Planning	$ 13,727	To much planning

2. b. RESTRICTED ASSETS

The following restricted cash was held by the Town Treasurer as of June 30, 2017:

Fund Name	Water	Sewer	Total
Restricted for current debt service	$ 7,584	$ 15,794	$ 23,378
Restricted for future debt service	85,001	69,888	154,889
Restricted for replacement and depreciation	170,746	242,806	413,552
Total	$ 263,331	$ 328,488	$ 591,819

The ordinances authorizing the water and sewer 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, 2017, the sinking fund balance is sufficient to satisfy such bond ordinance requirements.

The ordinance further requires that the proceeds from the sale of revenue bonds be expended for certain capital improvements to the water and sewer system. The proceeds are maintained as restricted assets - bond construction fund until such time as needed to fund the water and sewer system construction program.

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, 2016, upon which the levy for the 2017 fiscal year was based, was $2,401,982. The tax rates assessed for the year ended June 30, 2017 to finance Town operations and applicable taxes receivable for the Town follows:

Fund	Mill Levies	Taxes Receivable	Assessments Receivable	Total
General*	113.68	$ 13,710	$ 0	$ 13,710
Tax increment finance	0.00	895	0	895
Targeted economic development	0.00	2,699	0	2,699
Dayton lighting district	0.00	0	60	60
Geo Smith lighting	0.00	0	71	71
Total	113.68	$ 17,304	$ 131	$ 17,435

* Denotes Major Funds

NOTE 4. ACCOUNTS RECEIVABLE

Accounts receivable represent the outstanding balances of amounts billed for services the Town has provided for water and sewer. 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.

Fund	Accounts Receivable
Water*	$ 60,105
Sewer*	67,716
Total	$ 127,821

* Denotes Major Funds

NOTE 5. DUE FROM OTHER GOVERNMENTS

Due from other governments represent amounts due to the Town for costs incurred but not reimbursed by third party grantors. The amounts reported and the organization due from are noted below:

Fund	Amount	Due From	Reason
General*	$ 3,798	State of Montana	Crime control grant
Total	$ 3,798		

* Denotes Major Funds

NOTE 6. INTERFUND RECEIVABLE/PAYABLE

Interfund receivables and payables represent loan resources from one fund to another fund experiencing a temporary cash shortage. Each fund is a separate fiscal entity and therefore presents Interfund borrowing on fund level financial statements. Liabilities arising from Interfund borrowing do not constitute general long-term debt. The amounts reported and the purpose of the Interfund borrowing are noted below:

Interfund Receivable	Amount	Interfund Payable	Purpose of the Transfer
General*	$ 79,000	Airport*	Cover negative cash caused by additional funds needed for airport project

* Denotes Major Funds

Resolution number 394, dated October 13, 2016, provides that $79,000 was borrowed from the General fund to cover a shortage in the Airport fund. The borrowing is to be paid back when other outside financing is available. The Airport fund has made no payments on this borrowing.

NOTE 7. CAPITAL ASSETS, DEPRECIATION AND NET CAPITAL ASSETS

7. a. At June 30, 2017, the schedule of changes in general capital assets follows:

Governmental Activities:	Balance July 1, 2016	Additions	Adjustments/ Transfers	Balance June 30, 2017
Non-depreciable:				
Land	$ 2,707	$ 0	$ 0	$ 2,707
Construction in progress	9,904	1,375	(9,904)	1,375
Total Non-depreciable	$ 12,611	$ 1,375	$ (9,904)	$ 4,082
Depreciable:				
Buildings	$ 427,934	$ 0	$ 0	$ 427,934
Improvements other than buildings	277,454	8,625	0	286,079
Machinery and equipment	635,115	57,898	0	693,013
Infrastructure	21,365	105,171	9,904	136,440
Total Depreciable	$ 1,361,868	$ 171,694	$ 9,904	$ 1,543,466
Accumulated Depreciation:				
Buildings	$ (344,100)	$ (4,903)	$ 0	$ (349,003)
Improvements other than buildings	(87,605)	(13,842)	0	(101,447)
Machinery and equipment	(456,972)	(27,577)	0	(484,549)
Infrastructure	(4,273)	(9,096)	0	(13,369)
Total Depreciation	$ (892,950)	$ (55,418)	$ 0	$ (948,368)
Net Depreciable Assets	468,918	116,276	9,904	595,098
Net General Capital Assets	$ 481,529	$ 117,651	$ 0	$ 599,180

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

Function	Amount
General government	$ 4,799
Public safety	24,100
Public works	24,651
Culture and recreation	1,868
Total Depreciation Expense	$ 55,418

7. c. At June 30, 2017, the schedule of changes in business-type activities capital assets follows:

Business-type Activities:	Balance July 1, 2016	Additions	Adjustments/ Transfers	Balance June 30, 2017
Non-depreciable:				
Land	$ 663,198	$ 0	$ 0	$ 663,198
Construction in progress	285,539	2,045,510	(2,331,049)	0
Total Non-depreciable	$ 948,737	$ 2,045,510	$ (2,331,049)	$ 663,198
Depreciable:				
Buildings	$ 155,977	$ 0	$ 0	$ 155,977
Improvements other than buildings	2,902,373	0	2,282,655	5,185,028
Machinery and equipment	429,721	11,347	0	441,068
Source of supply	3,584,682	0	0	3,584,682
Pumping plant	18,900	0	0	18,900
Treatment plant	9,977,545	299,245	0	10,276,790
Transmission and distribution	2,214,425	0	0	2,214,425
Infrastructure	385,174	0	48,394	433,568
Total Depreciable	$ 19,668,797	$ 310,592	$ 2,331,049	$ 22,310,438

Business-type Activities:	Balance July 1, 2016	Additions	Adjustments/ Transfers	Balance June 30, 2017
Accumulated Depreciation:				
Buildings	$ (104,906)	$ (3,998)	$ 0	$ (108,904)
Improvements other than buildings	(1,767,532)	(113,421)	0	(1,880,953)
Machinery and equipment	(292,258)	(22,131)	0	(314,389)
Source of supply	(154,753)	(69,998)	0	(224,751)
Pumping plant	(18,900)	0	0	(18,900)
Treatment plant	(2,464,256)	(209,444)	0	(2,673,700)
Transmission and distribution	(172,269)	(39,813)	0	(212,082)
Infrastructure	(77,035)	(32,131)	0	(109,166)
Total Depreciation	$ (5,051,909)	$ (490,936)	$ 0	$ (5,542,845)
Net Depreciable Assets	14,616,888	(180,344)	2,331,049	16,767,593
Net Business-type Capital Assets	$ 15,565,625	$ 1,865,166	$ 0	$ 17,430,791

NOTE 8. CHANGES IN LONG-TERM DEBT

8. a. At June 30, 2017, the schedule of changes in general long-term debt follows:

Governmental Activities	Balance July 1, 2016	New Debt and Other Additions	Principal Payments and Other Reductions	Balance June 30, 2017	Due within One Year
Other Liabilities:					
Compensated Absences	$ 46,700	$ 0	$ (1,185)	$ 45,515	$ 22,757
Accrued Pension	227,759	87,340	0	315,099	0
Other Post-Employment Benefits (OPEB)	0	30,065	0	30,065	0
Total Other Liabilities	$ 274,459	$ 117,405	$ (1,185)	$ 390,679	$ 22,757
Total Governmental Activities - Long-Term Debt:	$ 274,459	$ 117,405	$ (1,185)	$ 390,679	$ 22,757

8. b. At June 30, 2017, the schedule of changes in Business-Type long-term debt follows:

Business-Type Activities	Balance July 1, 2016	New Debt and Other Additions	Principal Payments and Other Reductions	Balance June 30, 2017	Due within One Year
Bonds and Notes Payable:					
Revenue bonds	$ 5,736,612	$ 0	$ (104,509)	$ 5,632,103	$ 107,738
Notes payable	27,330	71,000	(7,885)	90,445	14,986
Total Bonds and Notes Payable	$ 5,763,942	$ 71,000	$ (112,394)	$ 5,722,548	$ 122,724
Other Liabilities:					
Compensated Absences	$ 51,084	$ 4,217	$ 0	$ 55,301	$ 27,651
Accrued Pension	196,675	47,898	0	244,573	0
Other Post-Employment Benefits (OPEB)	0	20,301	0	20,301	0
Total Other Liabilities	$ 247,759	$ 72,416	$ 0	$ 320,175	$ 27,651
Total Business-Type Activities - Long-Term Debt:	$ 6,011,701	$ 143,416	$ (112,394)	$ 6,042,723	$ 150,375

8. 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 systems. These bonds were issued for the terms and payment schedules indicated in the following schedule:

Description	Issue Date	Interest Rate	Length of Loan	Maturity Date	Amount Issued	Outstanding June 30, 2017
Water bond #1	8/15/2013	2.75%	40 years	8/15/2054	$ 2,173,000	$ 2,080,681
Sewer Rus #1 (2000A)	12/19/2000	4.50%	40 years	5/19/2040	1,250,000	975,329
Sewer Rus #3 (2000B)	12/19/2000	4.50%	40 years	5/19/2040	814,000	635,135
Sewer Bond #2 (2011)	12/14/2011	3.00%	40 years	6/19/2051	780,000	719,557
Sewer Bond (2016 B)	2/10/2016	1.875%	40 years	2/10/2056	450,000	439,700
Sewer Bond (2016 A)	2/10/2016	1.875%	40 years	2/10/2056	800,000	781,701
					$ 6,267,000	$ 5,632,103

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

For the year ended 6/30:	Water		Sewer	
	Principal	Interest	Principal	Interest
2018	$ 34,218	$ 56,648	$ 73,520	$ 116,025
2019	35,285	55,722	76,332	113,195
2020	36,268	54,740	79,045	110,483
2021	37,278	53,730	81,864	107,664
2022	38,317	52,691	84,795	104,733
2023-2027	208,197	246,843	472,197	475,443
2028-2032	238,848	216,192	565,229	382,411
2033-2037	274,011	181,029	678,720	268,920
2038-2042	314,351	140,689	632,262	136,445
2043-2047	360,630	94,410	317,121	73,239
2048-2052	413,723	41,317	339,128	33,595
2053-2056	89,555	1,232	151,209	5,148
Totals	$ 2,080,681	$ 1,195,243	$ 3,551,422	$ 1,927,301

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.

The bond ordinances also require that water rates be sufficient to provide for operations, maintenance and 125% 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 followed the applicable covenants, except for the water bond requirement for net revenues exceeding 125%.

8. d. NOTES PAYABLE

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

Description	Issue Date	Interest Rate	Length of Loan	Maturity Date	Amount Issued	Outstanding June 30, 2017
Montana Aeronautics 2009	1/17/2008	4.125%	10 years	2/28/2018	$ 46,045	$ 4,605
Montana Aeronautics 2010	9/3/2009	1.625%	10 years	2/28/2019	16,250	3,250
Montana Aeronautics 2014	12/19/2013	1.625%	10 years	2/28/2013	16,557	11,590
Runway Rehab. FY17-LG	3/1/2017	1.750%	10 years	3/1/2026	71,000	71,000
					$ 149,852	$ 90,445

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

For the year ended 6/30:	Airport	
	Principal	Interest
2018	$ 14,986	$ 1,674
2019	10,381	1,306
2020	8,756	1,129
2021	8,756	978
2022	8,756	827
2023-2027	38,810	1,945
Totals	$ 90,445	$ 7,859

NOTE 9. DEFERRED INFLOWS OF RESOURCES

9. a. PROPERTY TAXES

Fund	Amount	Reason
General*	$ 13,710	Taxes receivable
Tax increment finance district	895	Taxes receivable
Targeted economic development district	2,699	Taxes receivable
Dayton lighting #1 district 55	60	Assessments receivable
Geo Smith lighting #3 district 76	71	Assessments receivable
Total	$ 17,435	

* Denotes Major Funds

NOTE 10. DEFICIT FUND BALANCES

Deficit fund balance result from commitments exceeding the resources. The following is a listing of deficit fund balances.

Fund	Amount	How Town plans to correct
Planning	$ 13,727	Future revenue
Total	$ 13,727	

* Denotes Major Funds

NOTE 11. PRIOR PERIOD ADJUSTMENTS

Fund	Propriety Funds	Total Primary Government	Reason
Water*	$ 591	$ 591	Correction of prior year refund payable
Total	$ 591	$ 591	

* Denotes Major Funds

NOTE 12. INTERFUND OPERATING TRANSFERS IN/OUT

Fund - In	Amount	Fund - Out	Purpose of Transfer
Sidewalk improvement	$ 4,320	General*	Capital purchases
Water*	59	General*	Payroll cost allocation
Police training	5,395	General*	Correction of prior year cost
General*	15,011	COPS Grant	2016-2017 SRO Wages
Total	$ 24,785		

* Denotes Major Funds

NOTE 13. OTHER POST EMPLOYMENT BENEFITS

Plan Description - The Town provides the same health care plan to all of its members. The Town had fewer than 100 plan participants and thus qualified to use an Alternative Measurement Method instead of an actuarial valuation to determine the OPEB liability. Valuations involve estimates of the reported amounts and assumptions about the probability of events far into the future and estimated amounts are subject to continued revision as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for the plan are based on types of benefits provided under the current plan.

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

Funding status and progress as of June 30, 2017 was as follows:

Actuarial Accrued Liability (AAL)	$	282,358
Actuarial value of plan assets		0
Unfunded Actuarial Accrued Liability (UAAL)		282,358
Funded ratio (actuarial value of plan assets/AAL		0%
Covered payroll (active plan members)	$	724,655
UAAL as a percentage of covered payroll		39%

Annual OPEB Cost and Net OPEB Obligations - The government's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount determined in accordance with the parameter of GASB statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed (30) years. The following table shows the components of the government's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the government's net OPEB obligation for the valuation performed at June 30, 2017.

Annual Required Contribution (ARC)	$	50,366
Interest on net OPEB obligation		0
Adjustment to ARC		0
Annual OPEB cost (expense)		50,366
Contribution made		0
Increase in net OPEB obligation		50,366
Net OPEB obligation - beginning of year		0
Net OPEB obligation - end of year	$	50,366

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

Actuarial Cost Method	Unit Credit Cost Method
Average age of retirement (based on historical data)	62
Discount rate (average anticipated rate)	1.64%
Average Salary Increase	3.00%

Health care cost rate trend

Year	% Increase
2018 and after	3.90%

NOTE 14. 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.

NOTE 15. EMPLOYEE RETIREMENT SYSTEM

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

Both plans issue 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

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

The Montana Public Employee Retirement Administration (MPERA) prepares their 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 adheres to all applicable GASB statements.

15. b. PUBLIC EMPLOYEE RETIREMENT SYSTEM

The PERS-Defined Benefit Retirement Plan (DBRP), administered by the MPERA, is a multiple-employer, cost-sharing plan established July 1, 1945 and is 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.

15. 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.

- Hired on or after July 1, 2011: -Age 65, 5 years of membership service; or
  -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:

- Hired prior to July 1, 2011: -Highest average compensation (HAC) during any consecutive 36 months.
  -
- Hired on or after July 1, 2011: -HAC 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 HAC.

Monthly benefit formula:

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

- 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; or
  -30 years or more of membership service 2% of HAC per year of service credit.

Guaranteed Annual Benefit Adjustment:

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.

15. 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.

FiscalYear	Member Hired <07/01/11	Member Hired >07/01/11	State & Universities Employer	Local Government Employer	Local Government State	School Districts Employer	School Districts State
2017	7.900%	7.900%	8.470%	8.370%	0.100%	8.100%	0.370%
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%

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 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 Plan Choice Rate (PCR), that directed a portion of employer contributions for DC members to the PERS defined benefit plan, 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.

Special Funding

The state of Montana, as the non-employer contributing entity, paid to the Plan additional contributions that qualify as special funding. Those employers who received special funding are counties, cities and towns, school districts and high schools, and other governmental agencies.

Not Special Funding

Per State of Montana law, state agencies and universities paid their own additional contributions. The employer paid contributions are not accounted for as special funding for state agencies and universities but are reported as employer contributions. The State of Montana, as the non-employer contributing entity, also paid to the Plan coal tax contributions that are not accounted for as special funding for all participating employers.

15. b. 3. ACTUARIAL ASSUMPTIONS

The Total Pension Liability (TPL) used to calculate the NPL was determined by taking the results of the June 30, 2015, actuarial valuation and applying standard roll forward procedures to update the TPL to June 30, 2016. There were several significant assumptions and other inputs used to measure the TPL. The actuarial assumptions used in the June 30, 2016, 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.

15. 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 2117. 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.

15. b. 5. TARGET ALLOCATIONS

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 below table.

Asset Class	Target Asset Allocation	Real Rate of Return Arithmetic Basis	Long-Term Expected Real Rate of Return
Cash Equivalents	2.60%	4.00%	0.10%
Domestic Equity	36.00%	4.55%	1.64%
Foreign Equity	18.00%	6.35%	1.14%
Fixed Income	23.40%	1.00%	0.23%
Private Equity	12.00%	7.75%	0.93%
Real Estate	8.00%	4.00%	0.32%
Total	100.00%		4.37%
Inflation			3.00%
Portfolio Return Expectation			7.37%

15. b. 6. DEFINED CONTRIBUTION PLAN

The Town contributed to the state of Montana Public Employee Retirement System Defined Contribution Retirement Plan (PERS-DCRP) for employees that have elected the DCRP. The PERS-DCRP is administered by the PERB and is reported as a multiple-employer plan established July 1, 2002, and governed by Title 19, chapters 2 & 3, MCA.

All new PERS 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 participants of both the defined benefit and defined contribution retirement plans.

Member and employer contribution rates are specified by state law and are a percentage of the member's compensation. Contributions are deducted from each member's salary and remitted by participating employers. The Montana Legislature has the authority to establish and amend contribution rates.

Benefits are dependent upon eligibility and individual account balances. Participants are vested immediately in their own contributions and attributable income. Participants are vested after 5 years of membership service for the employer's contributions to individual accounts and the attributable income. Non-vested contributions are forfeited upon termination of employment per 19-3-2117(5), MCA. Such forfeitures are used to cover the administrative expenses of the PERS-DCRP.

At the plan level for the measurement period ended June 30, 2016, the PERS-DCRP employer did not recognize any net pension liability or pension expense for the defined contribution plan. Plan level non-vested forfeitures for the 289 employers that have participants in the PERS-DCRP totaled $382,656.

15. 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 below 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	$ 2,836,551,371	$ 1,947,626,401	$ 1,201,441,171
Town's Net Pension Liability	$ 812,125	$ 559,672	$ 342,208

15. 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.

PERS	Net Pension Liability		Percent of Collective NPL	Percent of Collective NPL	Change in Percent of Collective NPL
	as of 6/30/17	as of 6/30/16	as of 6/30/17	as of 6/30/16	
Town Proportionate Share	$ 559,672	$ 425,435	0.0329%	0.0304%	0.0024%
State of Montana Proportionate Share associated with Employer	6,839	5,226	0.0004%	0.0004%	0.0000%
Total	$ 566,511	$ 430,661	0.0333%	0.0308%	0.0024%

At June 30, 2017, the employer recorded a liability of $559,672 for PERS for its proportionate share of the Net Pension Liability. At June 30, 2017, the employer's proportion was 0.0329 percent for PERS.

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation (For TRS as of July 1, 2016. The actuarial assumptions used in the July 1, 2016 valuation were based on the results of the last actuarial experience study, dated May 1, 2014.) (For PERS as of June 2015 and applying standard roll forward procedures to update the total pension liability to June 30, 2016. The actuarial assumptions used in the June 30, 2016, valuation was 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.).

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.

15. e. PENSION EXPENSE

PERS	Pension Expense as of 6/30/17	Pension Expense as of 6/30/16
Town's Proportionate Share	$ 53,847	$ 23,112
State of Montana Proportionate Share associated with the Employer	573	325
Grant revenue from the State of Montana Coal Tax Fund	9,806	10,210
Total	$ 64,226	$ 33,646

At June 30, 2017, the employer recognized a Pension Expense of $64,226 for its proportionate share of the PERS Pension Expense. The employer also recognized grant revenue of $10,379 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.

15. f. DEFERRED INFLOWS AND OUTFLOWS

At June 30, 2017, 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	$ 3,020	$ 1,853
Changes in assumptions	0	0
Difference between projected and actual earnings on pension plan investments	52,654	0
Changes in proportion differences between employer contributions and proportionate share of contributions	39,076	0
Difference between actual and expected contributions	0	0
#Contributions paid subsequent to the measurement date – FY 2017 Contributions	41,205	0
Total	$ 135,955	$ 1,853

#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
2018	$ 2,549
2019	$ 2,549
2020	$ 29,921
2021	$ 18,802
2022	$ 0
Thereafter	$ 0

15. g. PENSION AMOUNTS TOTAL FOR EMPLOYER – EMPLOYER'S PROPORTION OF PERS PENSION AMOUNTS

	The employer's proportionate share associated with PERS
Total Pension Liability	$ 2,213,017
Fiduciary Net Position	$ 1,653,345
Net Pension Liability	$ 559,672
Deferred Outflows of Resources	$ 135,955
Deferred Inflows of Resources	$ 1,853
Pension Expense	$ 64,226

NOTE 16. 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. 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 three times but no more than five times the benefits paid by the fund in the previous or current fiscal year, whichever is greater. The State's contributes, out of moneys received for insurance premium taxes, an amount equal to 1½ mills times the total taxable value of the Town, but not less than $100. The State's contribution to the plan for the fiscal year was $3,553. The plan's benefits are established by the Association's Board of Trustees. Total benefits paid in the fiscal year ended June 30, 2017 amounted to $16,500.

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 FUNDING PROGRESS
Other Post-Employment Benefits Other Than Pensions (OPEB)
For the year ended June 30, 2017

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b)-(a))/(c)
6/30/17	$ -	$ 282,358	$ 282,358	0%	$ 724,655	39%

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

TOWN OF STEVENSVILLE

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
(Determined as of the measurement date)
For the year ended June 30, 2017

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 payroll (d)	Employer's proportionate share of the net pension liability as a percentage of its covered payroll (a)/(d)	Plan fiduciary net position as a percentage of the total pension liability
2014	0.0293%	$ 364,891	$ 4,456	$ 369,347	$ 337,990	111.22%	79.87%
2015	0.0304%	$ 425,435	$ 5,226	$ 430,661	$ 355,176	119.78%	78.40%
2016	0.0329%	$ 559,672	$ 6,839	$ 566,511	$ 393,572	142.20%	74.71%

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
(Determined as of the reporting date)
For the year ended June 30, 2017

PUBLIC EMPLOYEES RETIREMENT SYSTEM

Year ended June 30:	Contractually required contributions (a)	Plan Choice Rate Required Contribution (b)	Contributions in relation to the contractually required contributions (c)	Contribution deficiency (excess) (a)+(b)-(c)=(d)	Employer's covered payroll (e)	Contributions as a percentage of Covered payroll ((a)+(b))/(d)
2015	$ 29,268	$ 3,614	$ 32,882	$ 0	$ 355,176	9.26%
2016	$ 32,897	$ 2,133	$ 35,030	$ 0	$ 393,572	8.90%
2017	$ 35,161	$ 4,514	$ 39,674	$ 0	$ 467,631	8.48%

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

NOTES TO THE SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY AND SCHEDULE OF CONTRIBUTIONS TO MONTANA RETIREMENT SYSTEMS
(June 30, 2016 Measurement Date)
For the year ended June 30, 2017

NOTE 1. PUBLIC EMPLOYEE RETIREMENT SYSTEM (PERS)

1. a. CHANGES OF BENEFIT TERMS

The following changes to the plan provision were made as identified:

2013 Legislative Changes:
House Bill 454 - Permanent Injunction Limits Application of the GABA Reduction passed under HB 454
Guaranteed Annual Benefit Adjustment (GABA) - for PERS

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 all other adjustments to the member's benefit.

- 3.0% for members hired prior to July 1, 2007
- 1.5% for members hired on or after July 1, 2007 and before July 1, 2013
- Members hired on or after July 1, 2013
  a. 1.5% each year PERS is funded at or above 90%;
  b. 1.5% reduced by 0.1% for each 2.0% PERS is funded below 90%; and,
  c. 0% whenever the amortization period for PERS is 40 years or more.

2015 Legislative Changes:
General Revisions - House Bill 101, effective January 1, 2016
Second Retirement Benefit - for PERS

1) Applies to PERS members who return to active service on or after January 1, 2016. Members who retire before January 1, 2016, return to PERS-covered employment, and accumulate less than 2 years of service credit before retiring again:
   - refund of member's contributions from second employment plus regular interest (currently 0.25%);
   - no service credit for second employment;
   - start same benefit amount the month following termination; and
   - GABA starts again the January immediately following second retirement.
2) For members who retire before January 1, 2016, return to PERS-covered employment and accumulate two or more years of service credit before retiring again:
   - member receives a recalculated retirement benefit based on laws in effect at second retirement; and,
   - GABA starts the January after receiving recalculated benefit for 12 months.
3) For members who retire on or after January 1, 2016, return to PERS-covered employment and accumulate less than 5 years of service credit before retiring again:
   - refund of member's contributions from second employment plus regular interest (currently 0.25%);
   - no service credit for second employment;
   - start same benefit amount the month following termination; and,
   - GABA starts again the January immediately following second retirement.
4) For members who retire on or after January 1, 2016, return to PERS-covered employment and accumulate five or more years of service credit before retiring again:
   - member receives same retirement benefit as prior to return to service;
   - member receives second retirement benefit for second period of service based on laws in effect at second retirement; and
   - GABA starts on both benefits in January after member receives original and new benefit for 12 months.

Revise DC Funding Laws - House Bill 107, effective July 1, 2015
Employer Contributions and the Defined Contribution Plan – for PERS and MUS-RP

The PCR was paid off effective March 2016 and the contributions of 2.37%, .47%, and the 1.0% increase previously directed to the PCR are now directed to the Defined Contribution or MUS-RP member's account.

1. b CHANGES IN ACTUARIAL ASSUMPTIONS AND METHODS

Method and assumptions used in calculations of actuarially determined contributions
The following addition was adopted in 2014 based on implementation of GASB Statement 68:

Admin Expense as % of Payroll 0.27%

NOTES TO THE SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY AND SCHEDULE OF CONTRIBUTIONS TO MONTANA RETIREMENT SYSTEMS (continued)
(June 30, 2016 Measurement Date)
For the year ended June 30, 2017

There were no changes following the 2013 Economic Experience study.

The following Actuarial Assumptions were adopted from the June 2010 Experience Study:

General Wage Growth*	4.00%
*Includes inflation at	3.00%
Merit increase	0% to 6.0%
Investment rate of return	7.75 percent, net of pension plan investment expense, and including inflation
Asset valuation method	4-year smoothed market
Actuarial cost method	Entry age
Amortization method	Level percentage of pay, open

Town of Stevensville
Ravalli County
Stevensville, MT 59870

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
(Budget and Actual)
ALL BUDGETED MAJOR GOVERNMENTAL FUNDS
For the year ended June 30, 2017

	General			Gas Apportionment Tax		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
REVENUES:						
Taxes/assessments	$ 312,143	$ 312,143	$ 277,529	$ -	$ -	$ -
Licenses and permits	9,600	9,600	14,364	-	-	-
Intergovernmental revenues	200,371	200,371	224,890	34,148	34,148	34,148
Charges for services	30,875	30,875	29,142	-	-	-
Fines and forfeitures	17,000	17,000	14,280	-	-	-
Miscellaneous	15,250	15,250	17,466	-	-	-
Investment and royalty earnings	100	100	14	-	-	-
Total revenues	585,339	585,339	577,685	34,148	34,148	34,148
EXPENDITURES:						
Current:						
General government	151,586	151,586	147,386	-	-	-
Public safety	273,706	273,706	280,754	-	-	-
Public works	108,060	108,060	103,444	45,000	45,000	13,907
Culture and recreation	55,841	55,841	55,204	-	-	-
Miscellaneous	94,762	94,762	15,733	-	-	-
Capital outlay	-	-	-	94,900	94,900	105,171
Total expenditures	683,955	683,955	602,521	139,900	139,900	119,078
Excess (deficiency) of revenues over expenditures	(98,616)	(98,616)	(24,836)	(105,752)	(105,752)	(84,930)
OTHER FINANCING SOURCES/USES:						
Fund transfers in	17,000	17,000	15,011	-	-	-
Fund transfers (out)	(5,395)	(5,395)	(9,774)	-		-
Total other financial sources/uses	11,605	11,605	5,237	-	-	-
Net changes in fund balances	(87,011)	(87,011)	(19,599)	(105,752)	(105,752)	(84,930)
FUND BALANCE:						
Beginning of the year			260,446			168,954
End of the year			$ 240,847			$ 84,024

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

NOTES TO THE BUDGET VS ACTUAL SCHEDULE
For the year ended June 30, 2017

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 with generally accepted accounting principles (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 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

Governmental Fund	Amount	REASON
Building Code Enforcement	$ 2,258	
Dayton Lighting District	114	
Peterson Addn. Lighting	83	
Geo Smith Lighting	118	
Creekside Lighting	102	
COPS Grant	11	
Fire Engine Capital Imp.	300	
Enterprise Fund		
Sewer*	299,547	
Total	$ 302,533	

TOWN OF STEVENSVILLE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2017

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				
DIRECT				
Water and Waste Disposal Systems for Rural Communities	10.760	RD Grant 00-11	$ -	$ 281,215
Total U.S. Department of Agriculture			$ -	$ 281,215
U.S. DEPARTMENT OF TRANSPORTATION				
DIRECT				
Airport Improvement Program	20.106	AIP 3-30-0044-013-2016	-	1,845,433
Airport Improvement Program	20.106	AIP 3-30-0044-011-2013	$ -	$ 9,181
Total U.S. Department of Transportation			$ -	$ 1,854,614
U.S. DEPARTMENT OF JUSTICE				
PASSED THROUGH MONTANA BOARD OF CRIME CONTROL				
Juvenile Justice and Delinquency Prevention	16.540	13-J17-91978	-	7,263
Juvenile Justice and Delinquency Prevention	16.540	13-J27-91916	$ -	$ 2,900
Total U.S. Department of Justice			$ -	$ 10,163
Total Federal Financial Assistance				$ 2,145,992

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2017

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, 2017. 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. FOOTNOTES

Fn1 – No separate funds or accounts maintained, the Town assumes first in first out for program money.
Fn2 – The value of commodities (revenues, expenses or inventory) are not displayed in the basic financial statements.
N/A – Not applicable/ available.

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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, 2017, 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 June 27, 2018.

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 2017-003 and 2017-009.

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 2017-001, 2017-002, 2017-004, 2017-005, 2017-006, 2017-007, and 2017-008.

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, P.C.

STROM & ASSOCIATES, PC
Billings, Montana
June 27, 2018

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, 2017. 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, 2017.

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, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or 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 2007-008 that we consider to be a significant deficiency.

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 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, P.C.

STROM & ASSOCIATES, PC
Billings, Montana
June 27, 2018

TOWN OF STEVENSVILLE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2017

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, 2017.

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.

4. Our audit did not identify any noncompliance which was material to the financial statements.

Federal Awards:

5. Our audit did not identify any material weaknesses relating to internal controls over federal programs.

6. Our audit identified significant deficiencies in internal controls over federal programs.

7. 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, 2017.

8. The audit disclosed audit findings which are required to be reported under section 200.516 of Uniform Guidance.

9. The major program for Town of Stevensville for the year ended June 30, 2017 was:

CFDA Number	Name of Federal Program or Cluster
20.106	Airport Improvement Program

10. The threshold used to distinguish between Type A and Type B programs was $750,000. Town of Stevensville has Airport Improvement Program as a Type A program.

11. 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, 2017.

2016-001 – Budget	Repeated as 2017-002
2016-002 – Cash reserves	Repeated as 2017-003
2016-003 – Annual report not derived from the accounting records	Repeated as 2017-001
2016-004 – Back dating of receipts	Not repeated
2016-005 – Annual financial report	Implemented
2016-006 – Late submission of single audit	Repeated as 2017-008

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
For the year ended June 30, 2017

Current year findings:

2017-001 – Annual Report Preparation:

Criteria: Generally Accepted Accounting Principles requires the Annual Financial Report (AFR) to be derived from the accounting records.

Condition: During our review of the AFR as reconciled to the accounting records, we note amounts reported in the accounting records did not agree to the AFR.

Effect: Annual Financial Report and accounting records do not reconcile

Context: The Annual Financial Report was not derived from the accounting records as noted below:

- The General Fund is reporting $82,798 as Due From Other Governments, however the accounting records are reporting $79,000 as an Interfund Receivable and $3,798 as due from other governments. The offset is to the Airport Fund, but no amounts were reported, but the total amount of current liabilities appears to be included in the total amount.
- Governmental expenditures were not correctly reported in the Annual Financial Report

Expenditure function	Accounting records	AFR
General Government	289,400	351,392
Public Safety	313,573	280,754
Public Works	132,617	103,444

Cause: Not reconciling the AFR to accounting records after report put together

Recommendation: We recommend information presented in the accounting records reconcile to information presented in the Annual Financial Report.

2017-002 – Budget (prior finding #2016-001):

Criteria: MCA 7-6-4005 – Expenditures limited to appropriations. (1) Local government officials may not make a disbursement or an expenditure or incur an obligation in excess of the total appropriations for a fund.

MCA 7-6-4033 – Expenditure limitation. Except as provided in 7-6-4006, 7-6-4011, 7-6-4012, 7-6-4015, and 7-6-4032, the governing body, each county or municipal official, and the district courts are limited to the amount of appropriations and by the classifications in the annual appropriation resolution provided for in 7-6-4030 when making disbursements or expenditures or incurring liabilities.

Condition: During our review of the Budget to Actual Report and our recalculation, we noted several funds in which expenditures/expenses incurred exceeded the appropriated budget and no budget amendment was adopted by the governing body.

Effect: Non-compliance with the budget laws of the State of Montana

Context: Our recalculation of budget to actual and the Statement of Expenditure – Budget vs Actual Report from the accounting records displays several funds that incurred budget overdrafts as noted below:

Fund #	**Fund Name**	**Variance to Budget**
2394	Building Code Enforcement	2,258
2410	Dayton Lighting District	114
2420	Peterson Addition Lighting	83
2430	Geo Smith Lighting	118
2440	Creekside Lighting	102
2916	COPS Grant	11
5310	Sewer	299,547

Cause: It appears that Management does not review the Budget to Actual Reports from the accounting system prior to authorizing expenditures.

Recommendation: We recommend the Town follow the budget laws of Montana, amending the Budget if expenditures exceed appropriated funds

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
For the year ended June 30, 2017

2017 – 003 Cash Reserves (prior finding #2016-002):

Criteria: MCA 7-6-4034 – Determination of fund requirements – property tax levy a city's or town's fund may not exceed one-half of the total amount appropriated and authorized to be spent from the fund during the current fiscal year.

MCA 17-2-302– Limitation on balance in…local charge for services…a local government entity that deposits money into a local charge for services fund may not maintain a cash balance in the fund greater than twice the annual appropriation

Condition: During our review of the budgeted tax levy requirement schedule we noted several funds that exceed the 50% and 200% cash reserve balances as specified in State law.

Effect: Budgeted cash reserves exceed applicable section of Montana Code Annotated (MCA)

Context: During our review of the budgeted tax levy requirement schedule we noted several funds that exceed the 50% and 200% cash reserve balances as specified in State law, as noted below:

Fund Name	**Appropriations (Adopted expenditure budget)**	**Allowable Cash Reserve**	**Budgeted Cash Reserves**	**Calculated Cash Reserve %**	**Actual Ending Cash Balance**	**Calculated Cash Reserve %**
Tax Increment Finance	16,041	50.00%	114,623	715%	131,725	821.18%
Targeted Economic Development	900	50.00%	14,174	1,575%	15,051	1672.37%
Building Code Enforcement	28,949	200.0%	53,786	186%	70,516	243.59%
Dayton Lighting District	3,077	200.0%	10,980	357%	11,079	360.05%
Peterson Addn Lighting	2,238	200.0%	4,902	219%	5,017	224.18%
Geo Smith Lighting	3,433	200.0%	11,864	346%	12,023	350.23%
Creekside Lighting	930	200.0%	5,559	598%	5,529.	594.56%
WATER	316,189	200.0%	1,057,066	334%	1,267,780	400.96%

Cause: Appears to be not following State law

Recommendation: We recommend the governing body review MCA and discuss the budget process with legal counsel to ensure budget cash reserves are within allowable provisions of MCA.

2017-004 Taxes Receivable Reporting:

Criteria: Generally Accepted Accounting Principles indicates that taxes receivable is recognized when taxes are assessed. Therefore, an asset account is created to account for the assessment by debiting taxes receivable. When cash is received for the payment of taxes, the taxes receivable account is reduced by the amount of the tax collections as a credit.

Condition: Taxes receivable reported by the Town of Stevensville were the balances related to county payments received by the Town on July 21, 2017

Effect: Taxes receivable are understated

Context: During our reconciliation of the taxes receivable reported by the Town of Stevensville, we noted the amounts reported pertained to the ending balances reported on the County's Trial Balance as of June 30,2017. However, these collections were not remitted to the Town until the end of July. The taxes receivable balances that should have been reported were those that were reported by the county on its May 2017 report, which was remitted to the Town on June 22, 2017. As such, General Fund taxes receivable are understated by $29,789, Targeted Economic Development District taxes receivable are understated by $128, and no amounts were reported for Twin Creeks Lighting Districts taxes receivable, however their balance was $1,318.

Cause: Year-end closing procedures used the County's June report, and oversight on not reporting any amounts in the Twin Creeks Lighting Districts fund.

Recommendation: We recommend the Town report taxes receivable that agree to the last County report the Town receives during a fiscal year.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
For the year ended June 30, 2017

2017-005 Fire Department Relief Association (FDRA) Accrued Liability:

Criteria:	Governmental Accounting Standards Board statement 73 (GASB-73) requires the pension trust fund report an actuarially determined pension liability.
Condition:	The Town did not report an accrued liability for the FDRA Pension Trust Fund.
Effect:	Not in compliance with Generally Accepted Accounting Principles.
Context:	During our review of the financial activity of the Town of Stevensville's FDRA we noted they had members who were either active or retired. We also noted no liability was reported on the Town's financial statements for the liability associated with future benefit payments.
Cause:	The Town complied with Montana Code Annotated (MCA) 19-18-503 "Fund to be soundly funded" and believed it also covered the requirements of GASB-73. Also, the costs of hiring an actuary was not feasible to the Town.
Recommendation:	We recommend the Town comply with the requirements of GASB-73.

2017-006 Claims Approval Process:

Criteria:	The Codification of Statements on Auditing Standards (AU-C 315.14) states that the auditor should include an evaluation of the design of controls that are relevant to the audit and a determination of whether they have been implemented.
Condition:	The Town does not currently document the mayoral and council approval of invoices to be paid.
Effect:	Internal controls relevant to the approval of invoices to be paid are not sufficient to show that Management is properly approving all invoices to be paid.
Context:	During our audit, we found that neither the Council members or the Mayor approve individual invoices to be paid. Council members currently sign off on an overall list of claims for the month, and the Mayor or Council member signs the individual checks to issue.
Cause:	The Town is relying on the Finance Director for proper account coding and approval.
Recommendation:	We recommend the Town include a print-out of the claim to be posted to accounting with all relevant invoices to be presented to the Council or Mayor and that a Council member or the Mayor sign off on each individual claim to document the approval.

2017-007 Tax Revenue Distribution:

Criteria:	Generally Accepted Accounting Principles indicates revenues should be properly reported
Condition:	During our testing of tax revenue collections, we noted that revenues per the County were not, in all cases, reported in the correct funds.
Effect:	Revenues in Targeted Economic Development District Fund, Tax Increment Finance District Fund, and the General Fund tax revenues are misreported.
Context:	Pre-review of the County tax revenue report for the Targeted Economic Development District there is $153 of taxes the County collected for this fund, but the Town included it as revenues for the Airport Fund. Pre-review of the accounting records for the Tax Increment Finance District there is $5,870 of taxes the County collected reported in this fund, but the Town should have reported the revenues in the General Fund.
Cause:	Not reconciling County report to accounting system after taxes are posted.
Recommendation:	We recommend the Town correctly report tax collections in the correct funds and the prior posting errors be corrected.

2017-008 Late Submission of Single Audit:

CFDA Number: 20.106
Program Title: Airport Improvement Program
Award Number: AIP 3-30-0044-013-2016 and AIP 3-30-0044-011-2013
Federal Award Year: 2016-2017
Name of Federal Agency: Department of Transportation
Pass-Through Entity: Direct

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, 2017 audit was not remitted to the Federal Audit Clearinghouse as required by the CFR.
Effect:	Non-compliance with the Federal regulations
Context:	The Town did not complete the June 30, 2017 Annual Financial Report, and did not have the audit contracted in time for the audit to be completed by the required March 30, 2017 Federal due date.
Cause:	Staff turnover
Recommendation:	We recommend the Town implement procedures to ensure required due dates are met.

2017-009 Payroll Tax reports:

Criteria:	IRS form 941 to report quarterly earning must be remitted to the IRS at the end of each quarter.
Condition:	The Town is not completing the IRS form 941 to insure meeting the IRS requirement.
Effect:	Non-compliance with Federal Regulations
Context:	During our review of payroll reports we noted IRS form 941 were not completed timely. We noted the 3rd and 4th quarter of 2016 941 forms were not completed until December 2017, after the IRS set the Town notice of incomplete tax forms. The 941 forms for the 1st and 2nd quarters of 2017 were not completed until 3/2018, during the audit.
Cause:	Staff turnover
Recommendation:	We recommend IRS from 941 be completed in a timely manner in order to insure complying with the IRS requirement..

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

The audit disclosed one finding or questioned cost relating to Federal Awards as defined in section 200.516 of *Uniform Guidance* for the Fiscal Year Ended June 30, 2017.

2017-008 Late Submission of Single Audit:

CFDA Number: 20.106
Program Title: Airport Improvement Program
Award Number: AIP 3-30-0044-013-2016 and AIP 3-30-0044-011-2013
Federal Award Year: 2016-2017
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Context:	The Town did not complete the June 30, 2017 Annual Financial Report, and did not have the audit contracted in time for the audit to be completed by the required March 31, 2017 Federal due date.
Cause:	Staff turnover
Recommendation:	We recommend the Town implement procedures to ensure required due dates are met.

Town of Stevensville
CORRECTIVE ACTION PLAN
June 30, 2017

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2017-001	Corrections were made to the annual report and not posted into the accounting system due to time constraints. In future years, all entries will be made in Black Mountain prior to report preparation.	June 30, 2018	April VanTassel
2017-002	Budget versus Actual reports are provided to each department head and the mayor for review monthly. Areas of concern are brought to their attention by the Finance Officer and addressed.	Already done	April VanTassel
2017-003	Please see attached.	August 2018	Brandon Dewey/April VanTassel
2017-004	Taxes receivable will be reconciled at June 30 to the reported received from Ravalli County dated May 31.	June 30, 2018	April VanTassel
2017-005	Management has determined that it is not cost effective to actuarily determine the pension liability for the Fire Department Relief Association.		Brandon Dewey
2017-006	Claims are reviewed by department heads and approved by the Mayor prior to presentation to the Council. Claim numbers and total dollars approved are noted in the minutes of the Council meetings.	Complete	Brandon Dewey/April VanTassel
2017-007	Tax revenues are reviewed and properly recorded by fund.	Complete	April VanTassel
2017-008	The Mayor and Finance Officer are aware of the Federal filing requirements and will notify the auditors if the Town reaches the spending threshold for Federal Awards.	Complete	Brandon Dewey/April VanTassel
2017-009	All quarterly payroll reports are timely filed.	Complete	April VanTassel

2017-003: Management disagrees in part with this finding. The Tax Increment Finance and Targeted Economic Development funds do not levy mills to cover appropriations, and therefore, we do not believe that they are subject to MCA 7-6-4034. Revenues reported in those funds are an allocation of tax revenues based on reports received monthly from Ravalli County.

The lighting districts did not assess property owners for FY17-18 due to the excess reserves. Management is aware of MCA 17-2-302 and will not assess Dayton and Geo Smith Lighting districts for FY18-19 in order to bring the reserves into compliance.

The ending cash balance in the Water fund includes $260,008 in cash that is restrict by bond covenants and $476,108 in CDs that were opened by resolution specifically for capital improvement projects and short-lived asset replacement. It is management's feeling that the excess falls under the exceptions in MCA 17-2-302(2)(ii).