

TOWN OF VALIER, MONTANA

**FINANCIAL & COMPLIANCE
REPORT**

**FOR THE YEAR ENDED
June 30, 2017**

DONALD NOLAN DAVIES, P.C.
Certified Public Accountant

TOWN OF VALIER, MONTANA

JUNE 30, 2017

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TOWN OF VALIER, MONTANA

ORGANIZATION

JUNE 30, 2017

MAYOR

Raymon Bukoveckas

TOWN COUNCIL

John Knipschild
Steve Nelson

Velda Loch
David Widhalm

OFFICERS/EMPLOYEES

Justin Lee	Town Attorney
Audrey Brown	Town Judge
Jacalyn G. Sheble	Town Treasurer
Leo R. Malinak	Public Works
Josh Clifford	Public Works
Deidre Woolf	Utility Billing Clerk

TOWN OF VALIER

Civic Center
514 Montana Street
PO Box 512, Valier, MT 59486

406.279.3721

Fax 406.279.3428

Council:
Dave Widhalm
Raymon Bukoveckas
Steve Nelson
Norma Bukoveckas

Mayor: Glenn Wunderlich

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

This management's discussion and analysis provides an overview of the Town's financial activities for the fiscal year ended June 30, 2017. In order to fully understand the financial statements, which begin on page 12, the reader should first review or read this management discussion and analysis.

FINANCIAL HIGHLIGHTS

The Town's governmental funds total Net Position increased by \$225,000. Revenue increased \$175,000 (53%) while expenses decreased \$7,000 (2%). Major activity includes the following:

- A \$79,000 (23%) increase in capital assets purchase of motor grader, beginning the construction of Library addition and receipt of equipment from the State of Montana;
- Donations from the Library Foundation of \$100,000 for the Library addition project.
- Depreciation on capital assets.

The Town's Net Position for the business activity decreased \$60,000 (1%). Operating revenues decreased \$13,000 (3%) and operating expenses decreased \$29,000 (7%).

Additional detail about these changes are discussed below.

USING THIS ANNUAL REPORT

This annual report consists of financial statements for the Town as a whole with more detailed information for certain Town funds. The Statement of Net Position and the Statement of Activities (pages 12 and 13) provide information about the activities of the Town as a whole and present a long-term view of the Town's finances (they include capital assets and long-term liabilities).

The governmental fund financial statements (pages 14 and 15) present a short-term view of the Town's governmental activities. They include only current assets expected to be collected in the very near future and liabilities expected to be paid in the very near future. Fund information for the Town's enterprise funds (water and sewer) are presented on page 17 through 19. Generally accepted accounting principles require that detail information about the Town's major funds be separately disclosed. The Town's general fund and library fund qualify as major governmental funds and the water and sewer funds qualify as major enterprise funds.

THE TOWN AS A WHOLE

One important question asked about the Town's finances is, "Is the Town better or worse off as a result the year's activities?" The information in the government-wide financial statements helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting (and report depreciation on capital assets), which is similar to the basis of accounting used by most private-sector companies.

The change in net position over time is one indicator of whether the Town's financial health is improving or deteriorating. However, there are other nonfinancial factors that influence the Town's fiscal health, such as changes in the economy and changes in the Town's tax base, etc.

Governmental Activities:

For fiscal years 2017 and 2016, governmental assets and liabilities (rounded to the nearest \$1,000) were as follows:

	2017	2016	Change	%
Current assets	\$395,000	\$217,000	\$178,000	82%
Capital assets - net	424,000	345,000	79,000	23%
Total assets	819,000	562,000	257,000	46%
Deferred outflows of resources	14,000	10,000	4,000	40%
Current liabilities	7,000	9,000	2,000	22%
Long-term liabilities	128,000	86,000	(42,000)	(49)%
Total liabilities	135,000	95,000	(40,000)	(42)%
Deferred inflows of resources	4,000	8,000	(4,000)	(50)%
Net position	<u>\$694,000</u>	<u>\$469,000</u>	<u>\$225,000</u>	<u>48%</u>
Net position:				
Net Investment in capital assets . . .	\$384,000	\$338,000	\$46,000	14%
Restricted	314,000	155,000	159,000	103%
Unrestricted	(4,000)	(24,000)	20,000	(83)%
Total net position	<u>\$694,000</u>	<u>\$469,000</u>	<u>\$225,000</u>	<u>48%</u>

The financial position of the Town remained increased by \$225,000 in FY 2017. As mentioned above, the Town received \$100,000 from the Library Foundation for the Library addition project. The town received \$35,000 of equipment from other governments.

Changes in governmental revenue and expenses (rounded to the nearest \$1,000) were as follows:

	2017	2016	Change	%
Program revenue:				
Operating grants and contributions	\$26,000	\$62,000	(\$36,000)	(58)%
Charges for services	64,000	52,000	\$12,000	23%
Capital grants and contributions	173,000		173,000	100%
Total program revenue	<u>\$263,000</u>	<u>\$114,000</u>	<u>\$149,000</u>	<u>131%</u>

General revenue:				
Property taxes	\$175,000	\$162,000	\$13,000	8%
Intergovernmental revenue.	55,000	51,000	4,000	8%
Other revenues	14,000	5,000	9,000	180%
Total general revenue	244,000	218,000	26,000	12%
Total revenue	\$507,000	\$332,000	\$175,000	53%
Expenses:				
General government.	\$40,000	\$50,000	(\$10,000)	(20)%
Public safety.	65,000	62,000	3,000	5%
Public works	68,000	75,000	(7,000)	(9)%
Culture and recreation	109,000	102,000	7,000	7%
Total expense	282,000	289,000	(7,000)	(2)%
Change in net position	\$225,000	\$43,000	\$182,000	
Beginning Net Position.	\$469,000	\$426,000	\$43,000	10%
Ending Net Position	\$694,000	\$469,000	\$225,000	48%

The Town's increase in capital grants and contributions included the \$35,000 of equipment received from other governments and \$100,000 contributions from the Library Foundation. The 2016 operating grants and contributions decreased due to funds from the Library Foundation being directed towards the Library addition project in 2017 rather than operating grants as was done in 2016. Charges for services increased due to a rate hike in the street lighting assessments. The overall expenses for the year remained stable in 2017.

Business Activities (Water, and Sewer):

Changes in business assets and liabilities (rounded to the nearest \$1,000) were as follows:

	2017	2016	Change	%
Current assets	\$509,000	\$469,000	\$40,000	9%
Capital assets - net	5,625,000	5,812,000	(187,000)	(3)%
Total assets	6,134,000	6,281,000	(147,000)	(2)%
Deferred outflows of resources	17,000	13,000	4,000	31%
Current liabilities	59,000	73,000	14,000	19%
Non-current liabilities	1,951,000	2,016,000	65,000	3%
Total liabilities	2,010,000	2,089,000	79,000	4%
Deferred inflows of resources	5,000	9,000	(4,000)	(44)%
Net Position	\$4,136,000	\$4,196,000	(\$60,000)	(1)%
Net Position:				
Net investment in capital assets	\$3,730,000	\$3,831,000	(\$101,000)	(3)%
Unrestricted	406,000	365,000	41,000	11%
Total net position	\$4,136,000	\$4,196,000	(\$60,000)	(1)%

The increase in current assets reflects a reduced amount of expenses in 2017. The decrease in capital assets - net reflects the increase in accumulated depreciation. The decrease in liabilities reflects the on-going debt service payments.

Changes in business revenues and expenses (rounded to the nearest \$1,000) were as follows:

	2017	2016	Change	%
Operating revenues:				
Water operations	\$177,000	\$185,000	(\$8,000)	(4)%
Sewer operations	224,000	229,000	(5,000)	(2)%
Total revenue	401,000	414,000	(13,000)	(3)%
Operating expenses:				
Water operations	174,000	211,000	37,000	18%
Sewer operations	218,000	210,000	(8,000)	(4)%
Total expenses	392,000	421,000	29,000	7%
Operating income (loss)	9,000	(7,000)	(16,000)	229%
Non-operating revenue (expense):				
Capital grants		249,000	249,000	100%
Intergovernmental revenue	2,000	2,000	0	100%
Loss on disposal of capital assets . .	(14,000)		14,000	??
Interest expense	(57,000)	(58,000)	(1,000)	2%
Total non-operating revenue	(69,000)	193,000	262,000	136%
Change in net position	(\$60,000)	\$186,000	\$246,000	
Beginning net position	\$4,196,000	\$4,010,000	(\$186,000)	(5)%
Ending net position	\$4,136,000	\$4,196,000	\$60,000	1%

Operating expense decreases were due to the reduction in supplies and purchased services including a reduction in water testing and the professional engineering services with the GPS mapping project. The significant changes in non-operating items (capital grants were also related to the completion of the sewer project completed in 2016).

CAPITAL ASSETS AND DEBT ADMINISTRATION

Governmental capital assets increased due the purchase of the road grader and the contribution of equipment from the State of Montana which exceeded the amount of depreciation expense. The enterprise funds decreased primarily because of depreciation expense exceeding the amount of capital additions. See Note 4 on page 26 for further capital asset information.

Changes in governmental long term debt includes the scheduled payments on existing debt and the addition of an Inter-cap loan for the motor grader along with minor decrease in compensated absences. The enterprise funds debt on related to capital improvements decreased due to the Town making the scheduled payments on the loans. The pension liability increased for both the governmental and enterprise funds. See Note 5 on page 28 for further information and details of the Town's long term debt.

FUND FINANCIAL STATEMENTS

The fund financial statements provide detailed information about the Town's major funds. Major funds are defined as the general fund and any other fund where the assets, liabilities, revenues, or expenditures/expenses exceed 10% of total governmental fund amounts or 10% of total enterprise fund amounts and 5% of total governmental and enterprise fund amounts combined.

In the 2017 fiscal year both of the Town's enterprise funds (water and sewer) exceeded these thresholds. The major enterprise funds account for the water and sewer operations.

The governmental funds provide a short-term view of the Town's operations. They are reported using an accounting method called modified accrual accounting which measures amounts using only cash and other short-term assets and liabilities (receivables and payables) that will soon be converted to cash or will soon be paid with cash.

Total governmental activities remained stable except for the activity related to the Library addition project.

The Library Foundation, a component unit, began providing the funds for the expansion of the Library and in anticipation of that project, it continues to fund-raise.

THE FUTURE OF THE TOWN

The Town is obtaining a preliminary engineering report for the 2018 wastewater system update. This report will include assessment of the treatment facility and the sludge removal. This report will address the need for replacing of undersized sewer lines. The Town has contracted to obtain a GIS mapping of the water and sewer facilities.

During 2018 the Town installed an emergency generator for the Town's Civic Center and Fire Hall.

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INDEPENDENT AUDITOR'S REPORT

To the Town Council
Town of Valier
Valier, Montana

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of the governmental activities, business activities, each major fund, the discretely presented component unit, and the aggregate remaining fund information of the Town of Valier, Valier, Montana, 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 U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Audit Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, the discretely presented component unit and the aggregate remaining fund information of the Town of Valier, Valier, Montana, as of June 30, 2017, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 2 through 7, the Schedule of the Town's Proportionate Share of the Net Pension Liability - Montana Public Employees' Retirement on page 42, and the Schedule of the Town's Pension Plan Contributions - Montana Public Employee's Retirement on page 42, and the schedule of revenues, expenditures, and other sources (uses) - budget and actual - general and library funds on page 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 the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplemental information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during the audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures applied do not provide me with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Valier's basic financial statements. The schedules of net sewer revenues, water and sewer reserve accounts, and water and sewer insurance policies on pages 45 through 48 as required by the water and sewer revenue bonds, are presented for the purposes of additional analysis and are not a required part of the basic financial statements.

These statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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 U.S. generally accepted auditing standards.

In my opinion, the schedules of net sewer revenues, water and sewer reserve accounts, and water and sewer insurance policies are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, I have also issued my report dated September 27, 2018 on my consideration of the Town of Valier's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and

other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Valier's internal control over financial reporting and compliance.

Donald Nolan Davis, P.C.

September 27, 2018

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TOWN OF VALIER, MONTANA
STATEMENT OF NET POSITION
JUNE 30, 2017

	Governmental Activities	Business Activities	Total Primary Government	Library Component Unit	Total Reporting Entity
ASSETS:					
Current Assets:					
Cash and Investments	\$377,614	\$469,442	\$847,056	\$66,300	\$913,356
Receivables:					
Charges for Services		39,599	39,599		39,599
Property Taxes	6,287		6,287		6,287
Special Assessment	10,447		10,447		10,447
Total Current Assets	394,348	509,041	903,389	66,300	969,689
Capital Assets	705,629	7,361,935	8,067,564		8,067,564
Less Accumulated Depreciation	(281,450)	(1,737,222)	(2,018,672)		(2,018,672)
Capital Assets - Net	424,179	5,624,713	6,048,892		6,048,892
Total Assets	818,527	6,133,754	6,952,281	66,300	7,018,581
DEFERRED OUTFLOWS OF RESOURCES:					
Deferred Outflows - Pensions	14,512	17,436	31,948		31,948
LIABILITIES:					
Current Liabilities:					
Current Portion of Long-term Liabilities	7,164	59,727	66,891		66,891
Total Current Liabilities	7,164	59,727	66,891		66,891
Long-term Liabilities	127,990	1,950,537	2,078,527		2,078,527
Total Liabilities	135,154	2,010,264	2,145,418		2,145,418
DEFERRED INFLOWS OF RESOURCES:					
Deferred Inflows - Pensions	3,963	4,762	8,725		8,725
NET POSITION:					
Net Investment in Capital Assets	384,179	3,730,377	4,114,556		4,114,556
Restricted	313,533		313,533	66,300	379,833
Unrestricted	(3,790)	405,787	401,997		401,997
Total Net Position	\$693,922	\$4,136,164	\$4,830,086	\$66,300	\$4,896,386

See Notes to Financial Statements

TOWN OF VALIER, MONTANA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

	Program Revenue		Net (Expense) Revenue				2017 Total Reporting Entity
	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Activities	Primary Government	Library Component Unit	
GOVERNMENTAL ACTIVITIES							
General Government	\$40,334		(\$40,334)		(\$40,334)		(\$40,334)
Public Safety	64,866	\$29,200	(35,466)		(35,466)		(35,466)
Public Works	67,877	\$26,547	(13,456)		(13,456)		(13,456)
Culture and Recreation	108,798	143,533	70,413		70,413	(\$100,890)	(30,477)
Total Governmental Activities	281,875	63,752	172,733	(18,843)	(18,843)	(100,890)	(119,733)
BUSINESS ACTIVITIES							
Water	201,589	1,037		(\$23,808)	(23,808)		(23,808)
Sewer	247,033	1,008		(21,654)	(21,654)		(21,654)
Total Business Activities	448,622	2,045		(45,462)	(45,462)		(45,462)
Total Activities	\$730,497	\$28,592	\$172,733	(18,843)	(64,305)	(100,890)	(165,195)
GENERAL REVENUES							
Property Taxes			175,028		175,028		175,028
Intergovernmental Revenue			54,694		54,694		54,694
Investment Earnings (Loss)			30	268	298	11,239	11,537
Other			14,002		14,002		14,002
Loss on Disposal of Capital Assets				(14,793)	(14,793)		(14,793)
Total General Revenues			243,754	(14,525)	229,229	11,239	240,468
CHANGE IN NET POSITION			224,911	(59,987)	164,924	(89,651)	75,273
NET POSITION - BEGINNING OF THE YEAR			469,011	4,196,151	4,665,162	155,951	4,821,113
NET POSITION - END OF THE YEAR			\$693,922	\$4,136,164	\$4,830,086	\$66,300	\$4,896,386

See Notes to Financial Statements

TOWN OF VALIER, MONTANA

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017**

----- Major Funds -----				
	General Fund	Library Fund	Other Governmental Funds	Total
ASSETS				
Cash and Investments	\$74,528	\$251,613	\$51,473	\$377,614
Receivables:				
Property Taxes	6,287			6,287
Special Assessments			10,447	10,447
Total Assets	<u>\$80,815</u>	<u>\$251,613</u>	<u>\$61,920</u>	<u>\$394,348</u>
DEFERRED INFLOWS				
Deferred Inflow - Property Tax	\$6,287		\$10,447	\$16,734
Total Deferred Inflows	<u>6,287</u>		<u>10,447</u>	<u>16,734</u>
FUND BALANCE				
Restricted		\$251,613	51,473	303,086
Unassigned	74,528			74,528
Total Fund Balance	<u>74,528</u>	<u>251,613</u>	<u>51,473</u>	<u>377,614</u>
Total Deferred Inflows and Fund Balance	<u>\$80,815</u>	<u>\$251,613</u>	<u>\$61,920</u>	<u>\$394,348</u>
RECONCILIATION TO THE STATEMENT OF NET POSITION				
Total fund balance reported above				\$377,614
Add capital assets not reported above			\$705,629	
Less accumulated depreciation			<u>(281,450)</u>	424,179
Less liabilities not reported above:				
Inter-cap loan				(40,000)
Pension liability				(91,739)
Compensated absences				(3,415)
Deferred inflows of revenue for property tax and other receivables recognized as revenue in the government-wide statements				16,734
Deferred inflows of resources related to pensions				(3,963)
Deferred outflows of pensions related to pensions				<u>14,512</u>
NET POSITION - GOVERNMENTAL ACTIVITIES				<u><u>\$693,922</u></u>

See Notes to Financial Statements

TOWN OF VALIER, MONTANA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017**

	----- Major Funds -----			
	General Fund	Library Fund	Other Governmental Fund	Total
REVENUES				
Property Taxes	\$85,886	\$80,074		\$165,960
Intergovernmental	82,108	834	\$25,797	108,739
Special Assessments			27,874	27,874
Charges for Services	35,065	613		35,678
Licenses and Permits	3,261			3,261
Investment Earnings			30	30
Donations and Other	2,082	52,392		54,474
Total Revenues	208,402	133,913	53,701	396,016
EXPENDITURES				
Current Operations:				
General Government	39,756			39,756
Public Safety	60,345			60,345
Public Works	25,308		34,418	59,726
Culture and Recreation	29,963	72,591		102,554
Capital Outlay	75,000	22,505		97,505
Debt Service	1,068		6,447	7,515
Total Expenditures	231,440	95,096	40,865	367,401
Excess (Deficiency) of Revenues over Expenditures . . .	(23,038)	38,817	12,836	28,615
Other Sources (Uses):				
Loan Proceeds	40,000			40,000
Donations - Library Foundation		100,000		100,000
CHANGE IN FUND BALANCE	16,962	138,817	12,836	168,615
FUND BALANCE:				
Beginning of the Year	57,566	112,796	38,637	208,999
End of the Year	<u>\$74,528</u>	<u>\$251,613</u>	<u>\$51,473</u>	<u>\$377,614</u>

See Notes to Financial Statements

TOWN OF VALIER, MONTANA

**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

Change in fund balance as reported on the governmental funds statements	\$168,615
Increase (decreases) in property taxes and special assessments receivable not reflected in revenues on the governmental funds statement	9,068
Depreciation expense reported on the government-wide statement of activity not included on the governmental funds statement	(18,916)
Capital outlay expense reported included as expenditures on the governmental funds statement but not reported on the government-wide statement of activity . . .	97,505
Amounts reported as expenditures in the governmental funds statement not included as expenses in the statement of activities:	
Principal payments on long-term debt	7,515
(Increase) decrease in pension expense	(746)
Loan proceeds reported as revenue on governmental funds statement but not on the government-wide statement	(40,000)
State payments related to pension plan reported as revenue on the government-wide statement of activity not included on the governmental funds statement	1,702
(Increase) decrease in compensated absences not included as expenditures on the governmental funds statement	168
Change in governmental net position reported on the government-wide statement of activity	<u>\$224,911</u>

See Notes to Financial Statements

TOWN OF VALIER, MONTANA
STATEMENT OF NET POSITION
ENTERPRISE FUNDS

JUNE 30, 2017

	----- Major Funds -----		
	Water Fund	Sewer Fund	Total
ASSETS:			
Current Assets:			
Cash and Investments	\$187,398	\$282,044	\$469,442
Accounts Receivable	16,563	23,036	39,599
Total Current Assets	203,961	305,080	509,041
Capital Assets	3,094,283	4,267,652	7,361,935
Less Accumulated Depreciation	(408,749)	(1,328,473)	(1,737,222)
Capital Assets - Net	2,685,534	2,939,179	5,624,713
Total Assets	2,889,495	3,244,259	6,133,754
DEFERRED OUTFLOWS OF RESOURCES:			
Deferred Outflows - Pension	8,840	8,596	17,436
LIABILITIES:			
Current Liabilities:			
Revenue Bonds Payable	13,505	43,372	56,877
Compensated Absences	1,693	1,157	2,850
Total Current Liabilities	15,198	44,529	59,727
Long-term Debt:			
Revenue Bonds Payable	811,897	1,025,562	1,837,459
Net Pension Liability	55,886	54,343	110,229
Compensated Absences	1,693	1,156	2,849
Total Long-term Debt	869,476	1,081,061	1,950,537
Total Liabilities	884,674	1,125,590	2,010,264
DEFERRED INFLOWS OF RESOURCES:			
Deferred Inflows - Pension	2,414	2,348	4,762
NET POSITION:			
Net Investment in Capital Assets	1,860,132	1,870,245	3,730,377
Unrestricted	151,115	254,672	405,787
Total Net Position	\$2,011,247	\$2,124,917	\$4,136,164

See Notes to Financial Statements

TOWN OF VALIER, MONTANA

**STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION
ENTERPRISE FUNDS**

FOR THE YEAR ENDED JUNE 30, 2017

	----- Major Funds -----		
	Water Fund	Sewer Fund	Total
OPERATING REVENUE			
Charges for Services	\$176,744	\$224,371	\$401,115
Total Operating Revenue	176,744	224,371	401,115
OPERATING EXPENSE			
Personal Services	54,974	52,288	107,262
Utilities	14,830	12,765	27,595
Purchased Services	7,436	14,290	21,726
Supplies	26,550	12,515	39,065
Insurance	3,863	3,863	7,726
Depreciation	63,599	115,162	178,761
Other	2,249	7,317	9,566
Total Operating Expense	173,501	218,200	391,701
OPERATING INCOME	3,243	6,171	9,414
NON-OPERATING REVENUE (EXPENSE)			
Investment Earnings	155	113	268
Intergovernmental Revenues	1,037	1,008	2,045
Loss on disposal of Capital Assets		(14,793)	(14,793)
Interest Expense	(28,088)	(28,833)	(56,921)
Non-operating - Net	(26,896)	(42,505)	(69,401)
CHANGE IN NET POSITION	(23,653)	(36,334)	(59,987)
NET POSITION			
Beginning of the Year	2,034,900	2,161,251	4,196,151
End of the Year	<u>\$2,011,247</u>	<u>\$2,124,917</u>	<u>\$4,136,164</u>

See Notes to Financial Statements

TOWN OF VALIER, MONTANA
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	--- Major Funds ---		
	Water Fund	Sewer Fund	Total
CASH FLOWS FROM OPERATIONS			
Receipts from Customers	\$176,031	\$221,894	\$397,925
Payments to Employees	(56,182)	(53,145)	(109,327)
Payments to Suppliers	(52,412)	(49,753)	(102,165)
Net Cash Provided by Operations	67,437	118,996	186,433
CASH FLOWS FROM (TO) CAPITAL AND RELATED FINANCING ACTIVITIES			
Cash payment for Capital Assets		(5,866)	(5,866)
Payment of Principal on Debt	(13,047)	(74,074)	(87,121)
Payment of Interest on Debt	(28,088)	(28,833)	(56,921)
Cash Flows (to) Capital Assets and Related Financing Activities	(41,135)	(108,773)	(149,908)
CASH FLOW FROM INVESTING ACTIVITIES			
Investment Earning Received	155	113	268
INCREASE IN CASH	26,457	10,336	36,793
CASH BALANCE - Beginning of the Year	160,941	271,708	432,649
CASH BALANCE - End of the Year	\$187,398	\$282,044	\$469,442
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATIONS			
Operating Income	\$3,243	\$6,171	\$9,414
Adjustments to Reconcile to Cash Flow:			
Add-back Depreciation	63,599	115,162	178,761
Net Change in Pension related costs	2,516	997	3,513
Decrease (Increase) in Receivables	(713)	(2,477)	(3,190)
Increase (Decrease) in Compensated Absences	(1,208)	(857)	(2,065)
Net Cash Provided by Operations	\$67,437	\$118,996	\$186,433

See Notes to Financial Statements

TOWN OF VALIER, MONTANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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TOWN OF VALIER, MONTANA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Town is governed by an elected Mayor and Town Council. The Town provides a wide range of municipal services that include road maintenance, police, library, and other services. Water and sewer services are provided by the Town and are accounted for as enterprise funds.

The financial statements include all operations controlled by the Town. A reporting entity consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of the relationship are such that exclusion would cause the reporting entity's financial statements to be misleading.

Based on this criteria, the Town is considered to be a primary government and has one component unit, the Library Foundation. The Library Foundation was established to support the Valier Public Library. The Foundation is a separate legal entity and is governed by an independent governing board. This non-profit organization is reported as a component unit because the sole purpose of the foundation is the support of the Valier Public Library which is a special revenue fund in the Town's governmental operations. It is reported using the economic resources measurement focus and the accrual basis of accounting.

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

The financial statements of the Town are prepared in accordance with U.S. generally accepted accounting principles (GAAP).

Government-wide Statements - The statement of net position and the statement of activities show information about the overall financial position and activities of the Town. The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting.

The governmental activities of the Town are financed primarily by property taxes and state grants. Revenues are recorded when earned and expenses are recorded at the time the liability is incurred, regardless of when the related cash flows take place. On the accrual basis, revenues from property taxes are recognized in the fiscal year for which the taxes are levied. Revenues from grants are recognized in the fiscal year in which eligibility requirements have been met. The Town's business-type activities are financed by charges for services to users. The governmental, business type, and component unit are presented separately on the government-wide financial statements. Eliminations are made to minimize the double counting of internal activities.

The statement of activities present a comparison between direct expenses and program revenues for each function of the Town's governmental and business activities. Direct expenses are those that are specifically associated with a program or function. The Town

Town of Valier 2017 - Notes to Financial Statements (continued)

does not charge indirect expenses to programs or functions. Program revenues include charges for services (primarily user fees).

Generally, restricted revenues are used first to pay expenses incurred when both restricted and unrestricted funds are available. Revenues that are not charges for services or received for a specific purpose are reported as general revenues. General revenues include all property taxes, entitlement revenue, and investment earnings.

Fund Financial Statements - These statements provide information about the Town's governmental and enterprise funds. The emphasis of fund financial statements is on major funds. Each major fund is displayed in a separate column. All of the remaining funds are aggregated and reported in a single column as other funds.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. State and other governmental revenues applicable to the current fiscal year and collected soon after year-end are recognized as revenue. Most current property taxes receivable are delinquent at June 30 and amounts collected soon after year-end are not significant. Deferred inflows are recorded for these receivables.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt and payments for compensated absences which are recognized as expenditures when paid. Capital asset acquisitions are reported as expenditures in governmental funds and proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

Enterprise funds (business activities) are reported using the economic resources measurement focus and the accrual basis of accounting similar to the basis used for the government-wide financial statements. Revenues are recorded when earned and expenses are recorded at the time the liability is incurred, regardless of when the related cash flows take place. Charges for services are reported as operating revenues; impact fees, property contributions, investment earnings, and capital grants are reported as non-operating revenues. All assets and liabilities are recorded in the enterprise fund financial statements including capital assets and long-term liabilities.

Major funds - Generally accepted accounting principles require that the general fund be reported as a major fund. In addition, major funds include all other governmental funds whose total assets and deferred outflows, liabilities and deferred inflows, revenues, or expenditures are at least 10% or more of the total for all governmental funds or, for enterprise funds, at least 10% of the total for all enterprise funds. In addition, to be reported as a major fund, the assets and deferred outflows, liabilities and deferred inflows, revenues, or expenditures of an individual governmental or enterprise fund should be at least 5% or more of the total for all governmental and enterprise funds.

The Town reports the water and sewer operations as major enterprise funds and reports the following governmental funds as major funds:

General fund - is the Town's primary operating fund which accounts for all financial resources of the Town except those required to be accounted for in other funds.

Library Fund - established to account for the operating of the City Library.

Town of Valier 2017 - Notes to Financial Statements (continued)

C. Cash and Cash Equivalents

The Town's cash is invested as permitted by law. State law restricts investments to certificates of deposit, repurchase agreements, or direct obligations of the U.S. Government. Investments are reported at fair value which is based primarily on quoted market prices. The difference between cost and fair value is immaterial.

The Town considers all investments of the enterprise funds to be highly liquid and cash equivalents for purposes of the statement of cash flows.

D. Property Taxes and Assessments

The Town is permitted by State statutes to levy taxes up to certain fixed limits for various purposes. The taxes levied by the Town for the year ended June 30, 2017, were within the legal limits. The taxable value upon which the tax levies for the fiscal year ended June 30, 2017 was based, was \$682,844.

Property taxes billed are recorded as deferred inflow of resources and property tax revenue is generally recognized as collected. Property taxes receivable at June 30 consist primarily of delinquent property taxes from prior year levies and are offset by deferred inflow of resources. No allowance is made for uncollectible taxes, which are not considered to be significant.

Property taxes are levied in August of each year, based on assessments as of the prior January 1. Real property taxes and special assessments are normally billed in October and are payable 50% on November 30 and 50% on May 30. After these dates, taxes and assessments become delinquent and become a lien on the property.

Personal property is assessed and personal property taxes are billed throughout the year, with a significant portion generally billed in May. Personal property taxes are based on levies set during the prior August. These taxes become delinquent 30 days after billing.

Special assessments are recorded when the amount of the assessment is determined and an offsetting deferred inflow of resources account is recorded. Assessments currently payable are billable along with property taxes and assessment revenue is recognized as collected.

Taxes and assessments that become delinquent are charged interest at the rate of 5/6 of 1% per month plus a penalty of 2%. Real property on which taxes and assessments remain delinquent and unpaid may be sold at tax sales. In the case of personal property, the property may be seized and sold after the taxes become delinquent.

E. Enterprise Accounts Receivable

No reserve for estimated uncollected accounts receivable is maintained because uncollectible amounts are not material. Receivables are reported net of revenues collected in advance.

F. Inventories

Inventories are expensed at the time of purchase and are not considered material.

Town of Valier 2017 - Notes to Financial Statements (continued)

G. Capital Assets

All capital assets are recorded at cost. Only assets with a cost of \$5,000 or more are capitalized, smaller purchases are expensed when purchased. Capital assets are depreciated using the straight line method over estimated useful lives as follows:

Governmental Activities:

Buildings	20 to 40 years
Land Improvements	10 to 50 years
Equipment	5 to 15 years

Business Activities:

Buildings	40 years
Water Distribution and Sewer Collection Systems	20 to 50 years
Machinery, Vehicles, and Equipment	10 to 20 years

H. Compensated Absences

All Town employees are permitted to accumulate vacation and sick leave. On termination of employment, an employee is paid for accumulated vacation and for 25% of accumulated sick pay based on the current hourly rate of pay. The Town records accrued vacation pay and 25% of accumulated sick pay. The Town records 50% of liability as due within one year, and 50% is classified as non-current.

I. Pensions

The Montana Public Employee Retirement Administration (MPERA) prepares its financial statements using the accrual basis of accounting. The same accrual basis was used by MPERA for determining the Net Pension Liability (NPL); Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions; Pension Expense; the Fiduciary Net Position; and Additions to or Deductions from Fiduciary Net Position.

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 in which they are due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred. Investments are reported at fair value. MPERA adhered to all U.S. generally accepted accounting principles. MPERA applied all applicable pronouncements of the Governmental Accounting Standards Board (GASB).

J. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Town of Valier 2017 - Notes to Financial Statements (continued)

K. Net Position

Statement of Net Position include the following: Investment of capital assets net of related debt - 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 components 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 other elements of net position. It is the Town's policy to first apply restricted resource when an expense is incurred in which both unrestricted and restricted net positions are available.

2. CASH AND INVESTMENTS

Except for \$258,976, all the Town's cash and investments are insured or collateralized in compliance with State law. Cash and investments held by the Town (which are stated at fair value) are as follows:

Cash on hand and in banks	\$717,367
Certificates of deposit	145,998
Total	<u>863,365</u>
Less outstanding check/warrants net of deposits in transit	<u>(16,309)</u>
Cash reported in the Town's financial statements	<u><u>\$847,056</u></u>

Cash and investments held by the Library component unit (which are stated at fair value) are as follows:

Cash and money market funds	\$17,598
Equity mutual funds	<u>48,702</u>
Total	<u><u>\$66,300</u></u>

In 2017, the Town received \$100,000 from the Library Foundation, a component unit, for the Library addition project.

3. SPECIAL ASSESSMENTS RECEIVABLE

The Town has special assessment lighting districts. Assessments receivable were \$10,447 at June 30, 2017.

Town of Valier 2017 - Notes to Financial Statements (continued)

4. CAPITAL ASSETS

The changes in capital assets used in governmental activities during 2017 were as follows:

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017
Governmental - Cost of Assets:				
Non-depreciable Assets:				
Land	\$112,100			\$112,100
Construction in Progress - Library Addition		\$22,505		22,505
Depreciable Assets:				
Buildings	331,002			331,002
Improvements	45,000			45,000
Machinery and Equipment	120,022	75,000		195,022
Total	\$608,124	\$97,505	\$0	\$705,629
Governmental - Accumulated Depreciation:				
Buildings	\$154,918	\$6,242		\$161,160
Other Improvements	26,700	2,250		28,950
Machinery and Equipment	80,916	10,424		91,340
Total	\$262,534	\$18,916	\$0	\$281,450
Net Book Value	\$345,590	\$78,589	\$0	\$424,179

Depreciation expense was allocated to governmental functions as follows:

Public safety	\$4,521
Public works	8,151
Culture and recreation	6,244
Total depreciation expense	\$18,916

The Town leases land used for picnic and camping facilities and water sports from the Pondera County Canal and Reservoir Company. The agreement, dated May 4, 1996, is for 25 years with an additional 25 year option. The land is to be used for picnic and camping facilities and water sports. The Town must carry liability insurance and adequately maintain the property.

Town of Valier 2017 - Notes to Financial Statements (continued)

The changes in capital assets used in business activities during 2017 were as follows:

	Balance June 30, 2016	Additions	Deletions and Other	Balance June 30, 2017
Water Fund - Cost of Assets:				
Depreciable Assets:				
Building	\$336,786			\$336,786
Machinery and Equipment	49,598			49,598
Pumping Plant	57,000			57,000
Source of Supply	988,867			988,867
Transmission and Distribution	1,662,032			1,662,032
Total	\$3,094,283	\$0		\$3,094,283
Water Fund - Accumulated Depreciation:				
Building	\$35,483	\$7,981		\$43,464
Machinery and Equipment	30,101	1,774		31,875
Pumping Plant	15,675	1,425		17,100
Source of Supply	98,886	19,776		118,662
Transmission and Distribution	165,005	32,643		197,648
Total	\$345,150	\$63,599		\$408,749
Water Fund - Net Book Value	\$2,749,133	(\$63,599)		\$2,685,534
Sewer Fund - Cost of Assets:				
Depreciable Assets:				
Buildings	\$17,500			\$17,500
Machinery and Equipment	65,360	\$5,866	(\$32,350)	38,876
Sewer Treatment Plant	2,711,676			2,711,676
Transmission and Distribution	1,499,600			1,499,600
Total	\$4,294,136	\$5,866	(\$32,350)	\$4,267,652
Sewer Fund - Accumulated Depreciation:				
Buildings	\$17,500			\$17,500
Machinery and Equipment	48,923	\$1,938	(\$17,557)	33,304
Sewer Treatment Plant	994,848	83,233		1,078,081
Transmission and Distribution	169,597	29,991		199,588
Total	\$1,230,868	\$115,162	(\$17,557)	\$1,328,473
Sewer Fund - Net Book Value	\$3,063,268	(\$109,296)	(\$14,793)	\$2,939,179

Town of Valier 2017 - Notes to Financial Statements (continued)

5. LONG-TERM DEBT

Changes in long-term debt during 2017 are as follows:

	Balance June 30, 2016	Payments	Additions and Other Changes	Balance June 30, 2017	Amount Due in One Year
Enterprise Funds:					
Sewer Revenue Bonds:					
1998	\$28,000	(\$28,000)		\$0	
1999	3,000	(3,000)		0	
2006	346,000	(32,000)		314,000	\$32,000
2016	766,008	(11,074)		754,934	11,372
Water Revenue Bonds:					
2011	838,449	(13,047)		825,402	13,505
Net Pension Liability	99,741		\$10,488	110,229	
Compensated Absences	7,764		(2,065)	5,699	2,850
Total Enterprise Funds	2,088,962	(87,121)	8,423	2,010,264	59,727
General Long-term Debt:					
Capital Lease	7,515	(7,515)		0	
Intercap Loan			40,000	40,000	5,456
Net Pension Liability	84,068		7,671	91,739	
Compensated Absences	3,583		(168)	3,415	1,708
Total General Long-term debt	\$95,166	(\$7,515)	\$47,503	\$135,154	\$7,164
Total Long-term Debt	\$2,184,128	(\$94,636)	\$55,926	\$2,145,418	\$66,891

Rural Development Revenue Bond - Sewer Fund - The Town issued \$775,000 of bonds in August 2015 from the U.S. Department of Agriculture Rural Development program to upgrade the sewer system. The interest rate on the bonds is 2.75%. The required monthly principal payments are \$2,666 with final payment due in fiscal year 2056.

Revenue Bonds - Sewer Fund - The Town issued three waste water (sewer) general obligation revenue bonds to the State of Montana's Revolving Loan Program. The bonds consist of:

The Town issued \$200,000 of bonds in September 1998 with final maturity date of July 1, 2018. The interest rate on the bonds is 2%. The bonds were paid of in fiscal year 2017.

The Town issued \$19,008 of bonds in November 1999 with a final maturity date of July 2019. The interest rate on the bonds is 2%. The bonds were paid of in fiscal year 2017.

The Town issued \$600,000 of bonds in September 2006 with a final maturity date of July 1, 2026. The interest rates on the bonds is 2.25%. The required semi-annual principal

Town of Valier 2017 - Notes to Financial Statements (continued)

payments range from \$14,000 in fiscal year 2014 to a \$19,000 final payment in fiscal year 2027.

These bonds impose certain requirements on the sewer operations including:

1. Segregated cash accounts with restrictions on their use.
2. Accounting for the sewer fund in accordance with generally accepted accounting principles.
3. Net revenues of not less than 125% of the sum of the maximum amount of principal and interest due in any future fiscal year.
4. Monthly apportionment to the revenue bond account adequate to meet annual principal and interest requirements and to establish a reserve in the amount of \$67,837.
5. A reserve account established in the amount of \$67,837.
6. Carry property and liability insurance and surety bonds.
7. Establish and fund a short term asset replacement reserve at loan closing by depositing \$1,107 each month to the account. Deposits will be made monthly until such time that all bonds held by the USDA have been paid in full.

The Town had combined cash and investments of \$282,044 in the sewer fund at June 30, 2017, which is adequate to meet the reserve bond account requirement of \$67,837. The Town was in compliance with the above requirements.

Rural Development Revenue Bonds - The Town issued bonds in the amount of \$902,000 in January 2011 from the U.S. Department of Agriculture Rural Development program to upgrade the water system. The bonds bear an interest rate of 3.375% and require monthly principal and interest payments of \$3,428 with a final maturity date of January 28, 2051.

This bond imposes certain requirements on the water operations including:

1. Establish a rate schedule that provides adequate income to meet minimum requirements for operation and maintenance, debt service, and reserves.
2. Establish and fund a debt service reserve fund equal to 10% of the monthly payment each month over the life of the loan until the Town accumulates one annual installment.
3. Establish and fund a short term asset replacement reserve at loan closing by depositing \$34,000 of non-project funds and \$366 monthly. Deposits will be made monthly until such time the projected \$82,250 reserve has been accumulated.
4. Carry property and liability insurance, workers compensation, flood insurance, and surety bonds.

Town of Valier 2017 - Notes to Financial Statements (continued)

5. Establish a late fee, a disconnect and reconnect policy and fee, and a fee for collection of delinquent accounts.

The Town had combined cash and investments of \$187,533 at June 30, 2017, which is adequate to meet the debt reserve requirement of \$26,398 and the replacement reserve requirement of \$62,182. The Town was in compliance with the above requirements.

Capital Lease - The Town obtained a capital lease for a tractor and accessories. This capital lease was paid off in 2017.

Intercap Loan - The Town obtained a \$40,000 Intercap loan from the Montana Board of Investments in 2017 for a motor grader. The loan has 14 semiannual payments and had an interest rate of 2.5% as of June 30, 2017. The loan's interest rate is variable adjusted semiannually.

Long-term debt payment requirements to maturity are as follows:

Year Ending June 30	Sewer Revenue Bonds		Water Revenue Bonds		Intercap Loan		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2018.....	\$43,372	\$24,465	\$13,505	\$27,652	\$5,456	\$809	\$62,333	\$52,926
2019.....	43,688	23,729	13,967	27,190	5,435	864	63,090	51,783
2020.....	45,959	23,052	14,373	26,784	5,572	728	65,904	50,564
2021.....	46,347	22,239	14,939	26,218	5,712	588	66,998	49,045
2022.....	47,691	21,470	15,451	25,706	5,855	446	68,997	47,622
2023.....	49,044	20,673	15,981	25,176	6,003	299	71,028	46,148
2024.....	49,356	19,911	16,461	24,696	5,967	149	71,784	44,756
2025.....	50,779	19,038	17,093	24,064			67,872	43,102
2026.....	52,163	18,185	17,678	23,479			69,841	41,664
2027.....	14,558	17,434	18,284	22,873			32,842	40,307
2028-2032...	79,005	81,455	101,141	104,644			180,146	186,099
2033-2037...	90,692	68,968	119,781	86,004			210,473	154,972
2038-2042...	104,050	55,910	141,775	64,009			245,825	119,919
2043-2047...	119,376	40,584	167,808	37,977			287,184	78,561
2048-2052...	136,949	23,011	137,165	8,575			274,114	31,586
2053-2056...	95,905	4,307					95,905	4,307
Total.....	\$1,068,934	\$484,431	\$825,402	\$555,047	\$40,000	\$3,883	\$1,934,336	\$1,043,361

6. GOVERNMENT-WIDE RESTRICTED NET POSITION

State law authorized certain funds and establishes the criteria for property tax levies for specific purposes. The Town classified the net position of these funds in the government-wide statement as components of restricted net position. These funds are resources that were received by the Town with an understanding between the Town and the provider that the funds would be used for a specific purpose. All special revenue funds are considered to be components of restricted net position.

7. GOVERNMENTAL FUND BALANCE REPORTING

Government Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, requires classifying fund balances into specifically defined classifications. Committed funds must be so designated by the Council and assigned funds are designated by the Mayor as authorized by the Council. There were no committed or assigned funds at June 30, 2017.

The Town spends restricted amounts first. When an expenditure is incurred for a purpose for which committed, assigned, or unassigned amount are available, the Town spends committed, first, then assigned, and lastly, unassigned funds.

Restricted fund balances are reported in the aggregate on the face of the balance sheet. Of the total, the amount that is restricted due to external requirements is \$163,095. The remainder of \$139,991 is restricted by State law.

Restricted fund balances consist of the following:

Restricted for expenditures related to:

Public Works	\$47,115
Culture and Recreation	255,971
Total Restricted Fund Balance	<u>303,086</u>

Unassigned fund balances consists of the following:

General Fund	<u>74,528</u>
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Total governmental fund balance as shown on the Balance Sheet - Governmental Funds	<u><u>\$377,614</u></u>
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8. RETIREMENT PLAN

In accordance with GASB Statement 68, Accounting and Financial Reporting for Pensions, employers and the non-employer contributing entity are required to recognize and report certain amounts associated with participation in the Public Employees' Retirement System Defined Benefit Retirement Plan (the Plan). Employers are required to record and report their proportionate share of the collective Net Pension Liability, Pension expense, and Deferred Outflows and Deferred Inflows of Resources associated with pensions.

The Town participates in the Montana Public Employees' Retirement Administration (MPERA) which is a multiple employer, cost-sharing, defined benefit retirement plan covering all full-time employees. The plan provides retirement, disability and death benefits to covered employees of the state, local governments, and certain employees of the Montana University System, and school districts. The plan was established July 1, 1945, and governed by Title 19, Chapters 2 & 3, Montana Code Annotated (MCA) by State law, and is administered by the State of Montana's Montana Public Employee Retirement Administration (MPERS).

Contribution rates for the MPERA plan are required and determined by State Law. Contribution rates are expressed as a percentage of covered payroll. See note 9 for detail on the plan. The

Town of Valier 2017 - Notes to Financial Statements (continued)

State's contribution to MPERA in 2017 was recorded as on-behalf-of revenue in the financial statements.

The plan issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained from the following:

Montana Public Employees Retirement Administration
100 North Park Avenue, Suite 200
Helena, Montana 59620-0131
Telephone: (406) 444-3154

9. PENSION LIABILITY - PUBLIC EMPLOYEES RETIREMENT SYSTEM

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

All new members are initially members of the PERS-DBRP, and have a 12-month window during which they may choose to remain in the PERS-DBRP, or join the PERS-DCRP by filing an irrevocable election. Members may not be members of both the *defined contribution* and *defined benefit* retirement plans. All new members from the universities also have a third option to join the university system's Montana University System Retirement Program (MUS-RP).

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.

Net Pension Liability

The Total Pension Liability (TPL) minus the Fiduciary Net Position equals the Net Pension Liability (NPL). As GASB Statement 68, *Accounting and Financial Reporting for Pensions* allows, a measurement date of up to 12 months before the employer's fiscal year-end can be utilized to determine the Plan's TPL. The basis for the TPL, as of June 30, 2016, was determined by taking the results of the June 30, 2015 actuarial valuation and applying standard roll forward procedures. The roll forward procedure uses a calculation that adds the annual normal cost (also called the service cost), subtracts the actual benefit payments and refunds for the plan year, and then applies the expected investment rate of return for the year. The update procedures are in conformity with Actuarial Standards of Practice issued by the Actuarial Standards Board.

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 other governmental agencies.

Town of Valier 2017 - Notes to Financial Statements (continued)

Not Special Funding

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

The proportionate shares of the Town’s and the state of Montana’s NPL for June 30, 2016 and 2015, are displayed below. The Town’s proportionate share equals the ratio of the Town’s contributions to the sum of all employer and non-employer contributions during the measurement period. The state’s proportionate share for a particular employer equals the ratio of the contributions for a particular employer to the total state contributions paid. The Town recorded a liability of \$201,968 and the Town proportionate share was 0.0119 percent.

As of measurement date:	Net Pension Liability as of 6/30/16	Net Pension Liability as of 6/30/15	Percent of Collective NPL as of 6/30/16	Percent of Collective NPL as of 6/30/15	Change in Percent of Collective NPL
Town’S Proportionate Share	\$201,968	\$183,808	0.0119%	0.0131%	-0.0012%
State of Montana Proportionate Share associated with Town. . .	\$2,468	\$2,258	0.0001%	0.0002%	-0.0001%
Total.	\$204,436	\$186,066	0.0120%	0.0133%	-0.0013%

Change in actuarial assumptions and methods: There were no changes in assumptions or other inputs that affected the measurement of the TPL.

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 NPL and the Town’s reporting date that would have an effect on the Town’s proportionate share of the collective NPL since the previous measurement date.

Pension Expense

At June 30, 2016, the Town recognized a Pension Expense of \$12,422 for its proportionate share of the Plan’s pension expense and recognized grant revenue of \$207 for the state of Montana’s proportionate share of the pension expense associated with the employer. Additionally, the Town recognized grant revenue of \$3,539 from the Coal Severance Tax Fund.

Town of Valier 2017 - Notes to Financial Statements (continued)

As of measurement date:	Pension Expense as of 6/30/2016	Pension Expense as of 6/30/2015
Town's Proportionate Share.....	\$12,422	\$11,033
Town's Grant Revenue - State of Montana Proportionate Share.....	207	140
Town's Grant Revenue - State of Montana Coal Tax	3,539	4,411
 Total.....	<u>\$16,168</u>	<u>\$15,584</u>

Recognition of Deferred Inflows and Outflows

At June 30, 2016, the Town reported its proportionate share of the Plan's deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Expected vs. Actual Experience.....	\$1,090	\$669
Projected Investment Earnings vs. Actual Investment Earnings.....	19,001	
Changes in proportion and differences between Town contributions and proportionate share of contributions.....		8,056
Town contributions subsequent to the measurement date.....	11,857	
 Total.....	<u>\$31,948</u>	<u>\$8,725</u>

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in Town's pension expense as follows:

For the Measurement Year ended June 30:	Amount recognized in Pension Expense as an Increase or (decrease) to Pension Expense
2017.....	\$920
2018.....	\$920
2019.....	\$10,798
2020.....	\$6,785
2021 and Thereafter	\$0

SUMMARY OF BENEFITS

Eligibility for benefit - Service retirement:

- Hired prior to July 1, 2011:
Age 60, 5 years of membership service;

Town of Valier 2017 - Notes to Financial Statements (continued)

- Age 65, regardless of membership service; or
- Any age, 30 years of membership service.
- Hired on after July 1, 2011:
 - Age 65, 5 years of membership service;
 - Age 70, regardless of membership service.

Early retirement, actuarially reduced;

- Hired prior to July 1, 2011: Age 50, 5 years of membership service; or Any age, 25 years of membership service.
- Hired on or after 1, 2011: Age 55, 5 years of membership service.

Vesting - 5 years of membership service

Member's highest average compensation (HAC)

- Hired prior to July 1, 2011 - highest average compensation during any consecutive 36 months;
- Hired on or after July 1, 2011 - highest average compensation during any consecutive 60 months;

Compensation Cap

- Hired on or after July 1, 2013 - 110% annual cap on compensation considered as part of a members highest average compensation.

Monthly benefit formula

Members hired prior to July 1, 2011:

- Less than 25 years of membership service: 1.785% of HAC per year of service credit;
- 25 years of membership service or more: 2% of HAC per year of service credit.

Members hired on or after July1, 2011:

- Less than 10 years of membership service: 1.5% of HAC per year of service credit;
- 10 years or more but less than 30 years of membership service: 1.785% of HAC per year of service credit;
- 30 years or more of membership service: 2% of HAC per year of service credit.

Guaranteed Annual Benefit Adjustment (GABA)

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

- 3% for members hired prior to July 1, 2007
- 1.5% for members hired on or after July 1, 2007
- Members hired on or after July 1, 2013
 - a. 1.5% 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.

Overview of Contributions

Member and employer contribution rates are established by state law and are a percentage of the member's compensation. Contributions are deducted from each member's salary and

Town of Valier 2017 - Notes to Financial Statements (continued)

remitted by participating employers. The Montana Legislature has the authority to establish and amend contribution rates. Member and employer contribution rates are shown in the table below.

Fiscal Year	Member		State & Universities	Local Government		School Districts	
			Employer	Employer	State	Employer	State
	Hired <07/01/11	>07/01/11					
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 increased 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 actuary valuation results that show the amortization period has dropped below 25 years and would remain below the 25 years following the reduction of both the additional employer and additional 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 Severance Tax fund.

Town of Valier 2017 - Notes to Financial Statements (continued)

Stand-Alone Statements

The financial statements of the Montana Public Employees' Retirement Board (PERB) *Comprehensive Annual Financial Report (CAFR)* and the GASB 68 Report disclose the Plan's fiduciary net position. The reports are available from the PERB at PO Box 200131, Helena, MT 59620-0131, 406-444-3154 or the MPERA website at <http://mpera.mt.gov/index.shtml>

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 May 2010 for the six-year period July 1, 2003 to June 30, 2009. Among those assumptions were the following:

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

- Post-retirement Benefit Increases
 - Guaranteed Annual Benefit Adjustment (GABA)
 - After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, inclusive of all other adjustments to the member's benefit.

- Mortality assumptions among contribution members, terminated vested members, service retired members, and beneficiaries are based on PR2000 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 projection. No future mortality improvement is assumed.

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. 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.

Town of Valier 2017 - Notes to Financial Statements (continued)

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the Plan. The experience study, performed for the period covering fiscal years 2003 through 2009, was outlined in a report dated May 2010, which can be located on the MPERA website. The long-term rate of return on pension plan investments was determined by considering information from various sources, including historical rates of return, rate of return assumptions 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 for each major asset class. These ranges were combined to produce the long-term rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation, as of June 30, 2016, are summarized below.

Asset Class	Target Assets Allocation	Real Rate of Return Arithmetic Basis	Long-Term Expected Real Rate of Return
	(a)	(b)	(a) x (b)
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 Equity	23.40%	1.00%	0.23%
Private Equity	12.00%	7.75%	0.93%
Real Estate	8.00%	4.00%	0.32%
Total	<u>100.00%</u>		4.37%
Inflation			3.00%
Portfolio Return Expectation			<u>7.37%</u>

Sensitivity Analysis

	1.0% Decrease (6.75%)	Current Discount Rate	1.0% Increase (8.75%)
Town's Net Pension Liability	\$293,070	\$201,968	\$123,492

The sensitivity of the Net Pension Liability (NPL) to the discount rate is shown in the table above. A small change in the discount rate can create a significant change in the liability. The NPL was calculated using the discount rate of 7.75% as well as what the NPL would be if it were calculated using a discount rate that is 1.00% lower or 1.00% higher than the current rate.

10. RETIREE HEALTH CARE COSTS

The Town does not offer health insurance to its employees. As such, there is no retiree health care costs liability at June 30, 2017.

11. SERVICES PROVIDED BY COUNTY

The Town is provided various financial services by Pondera County. The County also serves as cashier and treasurer for the Town for tax collections received by 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 County Treasurer. No service charges have been recorded by the Town or the County. The Town also contracts with the County to provide law enforcement services.

12. LIBRARY AGREEMENT WITH COUNTY

The Town and Pondera County have agreed that the Town is to operate a free public library which is funded by both the Town and the County. The Town is responsible for all management and operation decisions of the Library.

13. RISK MANAGEMENT

The Town faces a number of risks of loss including damage to and loss of property and contents, professional liability, and errors and omissions. Coverage for the loss or damage to property, professional liability insurance and workers compensation insurance coverage is provided by the Montana Municipal Insurance Authority (MMIA). The Town is a member of the MMIA which is an intergovernmental agency formed by Montana municipalities to provide comprehensive liability, and workers' compensation insurance coverage on a pooled basis. Liability coverage limits are \$750,000 per claim and \$1,500,000 per occurrence.

14. SUBSEQUENT EVENTS

At the May 2017 meeting, the Town Council approved the building of an addition on the library. The estimated cost is \$258,242.

TOWN OF VALIER, MONTANA

**SCHEDULE OF REVENUE, EXPENDITURES, AND OTHER SOURCES (USES)
BUDGET AND ACTUAL - GENERAL AND LIBRARY FUNDS**

FOR THE YEAR ENDED JUNE 30, 2017

	----- General Fund -----				----- Library Fund -----		
	Original Budget	Final Budget	Actual	Variance	Original and Final Budget	Actual	Variance
REVENUES:							
Property Taxes	\$87,484	\$87,484	\$85,886	(\$1,598)	\$78,731	\$80,074	\$1,343
Intergovernmental	51,916	51,916	82,108	30,192	834	834	0
Charges for Services	29,525	29,525	35,065	5,540	600	613	13
Licenses and Permits	3,250	3,250	3,261	11			
Donations:							
Library Foundation						100,000	100,000
Other						43,533	43,533
Other	200	200	2,082	1,882	3,142	8,859	5,717
Total Revenues	172,375	172,375	208,402	36,027	83,307	233,913	150,606
EXPENDITURES:							
Current Operations:							
General Government	52,210	52,210	39,756	12,454			
Public Safety	62,724	62,724	60,345	2,379			
Public Works	36,932	36,932	25,308	11,624			
Cultural and Recreation	53,767	53,767	29,963	23,804	83,307	72,591	10,716
Capital Outlay		40,000	75,000	(35,000)	71,903	22,505	49,398
Debt Service			1,068	(1,068)			
Total Expenditures	205,633	245,633	231,440	14,193	155,210	95,096	60,114
Excess (Deficiency) of Revenues Over Expenditures .	(33,258)	(73,258)	(23,038)	50,220	(71,903)	138,817	210,720
Other Sources (Uses):							
Intercap Loan Proceeds ...		40,000	40,000	0			
Change in Fund Balance	(\$33,258)	(\$33,258)	\$16,962		(\$71,903)	\$138,817	

See Notes to Budget and Actual Schedule

TOWN OF VALIER, MONTANA

NOTES TO THE BUDGET AND ACTUAL SCHEDULE

FOR THE YEAR ENDED JUNE 30, 2017

Budgets are adopted for the general, special revenue, and enterprise funds. The annual budget is a plan of financial operation with an estimate of expenditures and means of financing them. A preliminary budget is prepared in July, budget hearings are held, and the final budget is adopted by the second Monday in August or within 45 calendar days of receiving certified taxable values from the Montana Department of Revenue.

The adopted budget constitutes the appropriations for the Town and is the maximum limit of expenditures in each budgeted fund. The adopted budget may be amended for emergencies and other matters as provided by State law. There was one budget amendments to the general fund but none to the library fund in fiscal year 2017.

The budget is prepared on the basis of accounting described for its governmental funds in Note 1B to the financial statement. Tax levies are set by expenditure requirements, but are authorized and limited by State law. Transfers of budget authority within a fund are permitted. Appropriations lapse at June 30, except those expenditures made prior to July 30 for appropriations of the preceding fiscal year may be charged to that fiscal year. There were no such expenditures in fiscal year 2016 or 2017.

The Town received several pieces of equipment from other governments. The Town recorded the estimated value of the items as revenue and the related expense as capital outlay in the General Fund. However, the Town did not adjust the budget appropriations as allowed by MCA 7-6-4006(3) to ensure the individual budget line items were not exceeded. The Town's total budget for the General Fund was not exceeded.

**TOWN OF VALIER
VALIER, MONTANA
FOR THE YEAR ENDED JUNE 30, 2017**

MONTANA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

**SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY**

As of measurement date:	2016	2015	2014
Town's proportion of the net pension liability as a percentage	0.0119%	0.0131%	0.0122%
Town's net pension liability	\$201,968	\$183,808	\$151,981
State of Montana's net pension liability	2,468	2,258	1,856
Total	\$204,436	\$186,066	\$153,837
Town's covered payroll	\$142,027	\$153,453	\$138,075
Town's proportionate share as a percentage of its covered payroll	142.200%	119.780%	111.220%
Plan fiduciary net position as a percentage of the total pension liability	74.71%	78.40%	79.87%

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

SCHEDULE OF THE TOWN'S PENSION PLAN CONTRIBUTIONS

As of Fiscal Year ending June 30, 2017:	2017	2016	2015
Contractually required defined benefit contribution	\$11,857	\$11,871	\$12,645
Contributions in relation to the contractually required contributions	\$11,857	\$11,871	\$12,645
Contribution deficiency (excess)	\$0	\$0	\$0
Town's covered payroll	\$141,663	\$142,027	\$153,453
Contributions as a percentage of covered payroll	8.36%	8.36%	8.24%

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

See Notes to PERS Schedules

TOWN OF VALIER

VALIER, MONTANA

**MONTANA PUBLIC EMPLOYEES RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30, 2017**

**NOTES TO THE
SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
and
SCHEDULE OF THE TOWN'S PENSION PLAN CONTRIBUTIONS**

CHANGES IN 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% for 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 members' 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.

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%
-------------------------------	-------

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%, net of pension plan investment expense, includes inflation
Asset valuation method	4 - year smoothed market
Actuarial cost method	Entry age
Amortization method	Level percentage of pay, open

TOWN OF VALIER, MONTANA
SCHEDULE OF NET REVENUES AS REQUIRED
BY THE SEWER REVENUE BONDS
FOR THE YEAR ENDED JUNE 30, 2017

NET REVENUES REQUIRED:

Maximum Annual Principal and Interest Due in Any Subsequent Year		\$67,837
Requirement		<u>125%</u>
Net Revenue Required		<u>84,796</u>

ANNUAL NET REVENUES:

Gross Revenues:		
Operating Revenues	\$224,371	
Interest Revenues	<u>113</u>	224,484
Expenses:		
Operating Expenses	218,200	
Plus Interest Expense	28,833	
Less Depreciation	<u>(115,162)</u>	<u>131,871</u>
Actual Net Revenues		<u>92,613</u>

EXCESS (DEFICIENCY) OF ACTUAL NET REVENUES OVER REQUIRED NET REVENUES		<u><u>\$7,817</u></u>
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TOWN OF VALIER, MONTANA
SCHEDULE OF RESERVE ACCOUNTS AS REQUIRED
BY THE RURAL DEVELOPMENT WATER BONDS
FOR THE YEAR ENDED JUNE 30, 2017

DEBT RESERVE ACCOUNT:

Requirement	\$26,398
Balance at June 30, 2017	<u>26,398</u>
Excess (Deficiency).....	<u><u>\$0</u></u>

SHORT LIVED ASSET REPLACEMENT ACCOUNT:

Requirement	\$62,182
Balance at June 30, 2017	<u>62,182</u>
Excess (Deficiency).....	<u><u>\$0</u></u>

TOWN OF VALIER, MONTANA
SCHEDULE OF RESERVE ACCOUNTS AS REQUIRED
BY THE RURAL DEVELOPMENT SEWER BONDS
FOR THE YEAR ENDED JUNE 30, 2017

DEBT RESERVE ACCOUNT:

Requirement	\$35,191
Balance at June 30, 2017	35,191
	<hr/>
Excess (Deficiency).....	\$0
	<hr/>

SHORT LIVED ASSET REPLACEMENT ACCOUNT:

Requirement	\$17,712
Balance at June 30, 2017	17,712
	<hr/>
Excess (Deficiency).....	\$0
	<hr/>

TOWN OF VALIER, MONTANA
SCHEDULE OF INSURANCE POLICIES
AS REQUIRED BY THE WATER AND SEWER REVENUE BONDS
FOR THE YEAR ENDED JUNE 30, 2017

A list of the insurance coverage for the Town of Valier as of June 30, 2017, is as follows:

Company	Amount	Risks Covered *	Date of Expiration
Montana Municipal Insurance Authority Policy NO. 116-Liab-2019-1	\$1,500,000	Liability Coverage	July 1, 2019
Policy NO. 116-Liab-2019-1	\$1,500,000	Auto Liability	July 1, 2019
Montana Municipal Insurance Authority Policy No. 116-Prop-2019-2	\$100,000	All Risk Policy including Earthquake and Flood (see actual policy for specifics)	July 1, 2019
Total Insured Value	\$6,817,898		
Montana Municipal Insurance Authority Policy No. 01-423-35-73	\$5,000,000	Employee Theft	July 1, 2019
Montana Municipal Insurance Authority	\$2,500,000	Forgery or Alteration	July 1, 2019
Montana Municipal Insurance Authority	\$10,000,000	Errors and Omissions	July 1, 2019
Montana Municipal Insurance Authority	Statutory	Workers Compensation	July 1, 2019

* See policy with Montana Municipal Insurance Authority for specifics on coverages, exclusions, and limitations.

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DONALD NOLAN DAVIES, P.C.

CERTIFIED PUBLIC ACCOUNTANT

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

To the Town Council
Town of Valier
Valier, Montana

I have audited, in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major fund, the discretely presented component unit, and the aggregate remaining fund information of the Town of Valier, Valier, Montana, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town of Valier's basic financial statements, and have issued my report thereon dated September 27, 2018.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

My 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 below, I identified certain deficiencies in internal control that I consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. I consider items **2017-001** and **2017-002** described below to be material weaknesses.

A *significant deficiency* is a deficiency, or 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. I consider item **2017-003** described below to be a significant deficiency.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Town of Valier's financial statements are

free from material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion.

The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards*.

FINDING - MATERIAL WEAKNESS:

2017-001 AUDITOR PREPARED FINANCIAL STATEMENTS

As part of the Town's internal control structure, it is the Town's responsibility to prepare its financial statements and disclosures in accordance with generally accepted accounting principles (GAAP). For fiscal year 2016-17, the auditor assisted in drafting these documents from the fiscal year 2016-17 trial balances and related information. The Town reviews, approves, and accepts responsibility for financial statements and disclosures. Although management is knowledgeable in the affairs of the Town, management does not have adequate knowledge of GAAP to prepare financial statements and disclosures that meet these requirements without assistance. It is common for a small organization to rely on the audit firm to prepare the financial statements; however, an audit firm cannot be considered part of the Town's internal control by professional standards currently in effect.

It is likely not cost effective for the Town to have staff with this knowledge, however the Town may want to consider hiring an outside consultant to review the prepared financial statements and notes to correct this internal control deficiency.

2017-002 INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Town had received a payment from the Library Foundation, a component unit of the Town, prior to the end of the fiscal year but did not deposit or record the transaction in the general ledger until the subsequent year. The Library Foundation recorded disbursement in 2017 so the Town should have a matching receipt of funds. The Town was trying to keep all transactions related to the Library expansion in one reporting period. The Town's Library Fund assets and revenues were understated by \$100,000. The Town's financial statements reflect the corrected amount.

The Town should ensure all deposits received are recorded in the proper accounting period to ensure accounting control is maintained on all assets.

FINDING - SIGNIFICANT DEFICIENCY:

2017-003 SEGREGATION OF ACCOUNTING DUTIES

Segregation of accounting duties refers to assigning tasks among personnel so that no one person handles substantially all aspects of a transaction. Ideal segregation is not always possible in an organization with a small staff as is the case with the Town of Valier. The risk of errors or irregularities occurring and not being detected in a timely manner increased when a lack of segregation of duties exists.

Accordingly, I recommend the Mayor and Council continue to monitor the Town's activities and transactions and when possible assign tasks to strengthen controls.

Prior Year Audit Findings

16-001 - Financial Reporting - see comment 2017-001 above.

16-002 - Segregation of Accounting Duties - Inherent weakness - see comment 2017-003 above.

ENTITY'S RESPONSE TO FINDINGS

The Town of Valier's response to the findings, as identified previously, in my audit are described on page 54. The Town of Valier's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the result 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.

 Donald Malcolm Swier, P. C.

September 27, 2018

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TOWN OF VALIER

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Fax 406.279.3428

Council:
Dave Widhalm
Raymon Bukoveckas
Steve Nelson
Norma Bukoveckas

Mayor: Glenn Wunderlich

October 1, 2018

RE: Audit Responses for the Fiscal Year 2017

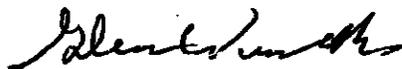
Material Weakness

2017-001 Auditor Prepared Financial Statements: The Valier Mayor will present this weakness to the Town Council at a regularly scheduled meeting. It is not in the Town of Valier's budget to hire an outside consultant but will review this during the next budget cycle.

2017-002 Internal Controls Over Financial Reporting: The Valier Mayor will oversee the monthly deposits to make sure they are recorded in the correct accounting period.

Significant Deficiency

2017-003 Segregation of Accounting Duties: The Mayor and Town Council will continue to oversee revenue and expenditures at the monthly Town Council Meeting. Daily internal controls will be reviewed by the Valier Mayor


Glenn Wunderlich, Mayor