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City Council
City of Hardin
Big Horn County
Hardin, Montana 59034

**CITY OF HARDIN
ORGANIZATION**

Fiscal Year Ended June 30, 2015

Jack Lane

Mayor

CITY COUNCIL

Kenny Kepp

Council Member

Karen Molina

Council Member

Randy Angevine

Council Member

Clayton Greer

Council Member

Jerry Wemple

Council Member

Jeremy Krebs (resigned 3/3/15)

Council Member

Harry Kautzman (appointed 3/17/15)

Council Member

CITY OFFICIALS

Michelle Dyckman

Finance Officer/City Clerk

Deb Winburn

City Judge

Robert Snively

City Attorney

Russell Dill

Superintendent of Public Works

City of Hardin
Big Horn County
Hardin, Montana 59034

**TWO RIVERS AUTHORITY
ORGANIZATION**

Fiscal Year Ended June 30, 2015

BOARD

Jon D. Matovich	Chairman
Waylon Barnes	Vice Chairman
A. J. Barnes	Member
Bruce Hammond	Member

OFFICIALS

Jeffrey S. McDowell	Executive Director
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City of Hardin
Management's Discussion and Analysis
June 30, 2015

As Management of the City of Hardin, we offer readers of the City of Hardin's financial statements this narrative overview and analysis of the financial activities of the City of Hardin for the fiscal year June 30, 2015. Readers are encouraged to consider the information presented here in conjunction with the basic financial statements contained in the main body of the report, to enhance their understanding of the City of Hardin's financial performance.

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the government as a whole and present a longer-term view of the finances. For governmental activities, fund statements tell how these services were financed in the short term, as well as what remains for future spending. Fund financial statements also report the government's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which the government acts solely as a trustee or agent for the benefit of those outside of the government.

Financial Highlights

- The assets and deferred outflows of resources of the City of Hardin exceeded its liabilities at the close of the most recent fiscal year by \$12,779,433 (*net position*). Of this amount, \$2,685,167 represents unrestricted net position, which may be used to meet the government's ongoing obligations to citizens and creditors.
- The City of Hardin's total net position decreased \$1,501,582 mainly because of a requirement that changed accounting principles regarding pensions for PERS (Public Employees Retirement System) that amounted to \$1,333,035. This was offset by a Water Bond forgiveness of \$279,500.
- At the close of the current fiscal year, the City of Hardin's governmental funds reported combined fund balances of \$3,144,302, a decrease of \$164,414 in comparison with the prior year.
- At the end of the current fiscal year, unrestricted fund balance for the General Fund was \$457,397, or approximately 28% of the General Fund's total fund balance.
- The City of Hardin's total outstanding long-term debt due to Revenue Bonds increased by \$86,039 during the current fiscal year because principal payments of \$286,911 were made on the proprietary funds' revenue bonds, there was \$279,500 forgiveness on a Water Bond, and interest of \$652,450 accreted on the Industrial Park Revenue Bond.
- This is the first year that the electrical generation plant has been eligible to pay property taxes. Previously, it had a ten-year property tax exemption. However it has not paid the taxes due as of the date of this report.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Management's Discussion and Analysis Report is intended to serve as an introduction to the City of Hardin's basic financial statements. The City of Hardin's basic financial statements consist of three components: 1) Government-Wide Financial Statements, 2) Fund Financial Statements, and 3) the Notes to the Financial Statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-wide Financial Statements:

The government-wide financial statements include the Statement of Net Position and the Statement of Activities. These statements report financial information for the City as a whole except for the fiduciary funds. The trust funds are reported as private purpose trust funds in the fiduciary fund financial statements.

City of Hardin
Management's Discussion and Analysis
June 30, 2015

The government-wide financial statements and fiduciary fund statements report using the economic resources measurement focus and the accrual basis of accounting generally including the elimination of internal service activity between or within funds. Separate columns are used to present governmental and business-type activities and the component unit. Revenues are recognized when earned and expenses are recognized when the related liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met. Net Position is used as a practical measure of economic resources and the operating statement includes all transactions and events that increased or decreased Net Position. Depreciation is charged as an expense against current operations and accumulated depreciation is reported on the Statement of Net Position.

The Statement of Activities reports the expenses of a given function offset by program revenues directly connected with the functional program. Expenses which are not directly related to a function, indirect expenses, are not charges to a function. Program revenues include (1) charges for services such as snow removal, weed spraying, water, sewer, garbage and landfill fees and (2) operating grants that are restricted to a particular functional program. Property taxes, special assessments and other revenue sources not properly included with program revenue are reported as general revenues.

Discretely Presented Component Unit –Two Rivers Authority

The criteria for including organizations as component units within the City's reporting entity is set forth in Section 2100 of the GASB "Codification of Government Accounting and Financial Reporting Standards." The basic criteria include appointing a voting majority of an organization's governing body, as well as the City's ability to impose its will on that organization, or the potential for the organization to provide specific financial benefit to, or impose specific financial burdens on, the City. Based on those criteria the City has determined that the Two Rivers Authority is a component unit of the City. Therefore, the financial statements of the reporting entity include those of the City of Hardin (the primary government) along with the Two Rivers Trade Port Authority herein referred to as Two Rivers Authority (a component unit) which is discretely presented. Questions regarding Two Rivers Authority should be directed to Jeff McDowell, Two Rivers Authority, PO Box 324, Hardin, MT 59034-0324

Fund Financial Statements

Fund financial statements provide information on the City's major governmental funds and a combined column for all other non-major funds, and major proprietary funds and all non-major proprietary funds combined in one column. Since the resources in the fiduciary funds cannot be used for City operations, they are not included in the City-wide statements.

Governmental Funds

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay current liabilities. The City considers tax revenue to be available if collected within 60 days of the end of the fiscal period. Revenues from federal, state and other grants designated for payment of specific City expenditures is recognized when the related expenditures are incurred; accordingly, when such funds are received, they are reported as deferred revenues until earned. Expenditures are recognized when the liability is incurred, except for claims, compensated absences and interest on long-term debt which are recorded when normally expected to be liquidated with expendable available financial resources. Payments of long-term debt principal are reported as

City of Hardin
Management's Discussion and Analysis
June 30, 2015

expenditures when paid. Capital asset purchases are recorded as functional expenditures and depreciation is not recognized.

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants and donations. Revenues from property taxes are recognized in the period for which the taxes are levied. Revenues from grants and donations are recognized when all eligibility requirements imposed by the provider have been satisfied. Eligibility requirements include timing requirements, which specify whether resources are required to be used for the year when use is first permitted, matching requirements and expenditure requirements in which the resources are provided to the City on a reimbursement basis. On the modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

GASB Statement No. 34 requires that the General Fund be reported as a major fund. GASB Statement No. 54 requires that funds with similar restrictions to the General fund be combined in the General fund. The funds are combined into one General fund. All other governmental funds that exceed 10% of total governmental fund assets, liabilities, revenues, or expenditures are reported as major funds. The City reports the following **major governmental** funds:

General Fund – The General Fund is the general operating fund of the City and accounts for all revenues and expenditures of the City not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund.

Street Maintenance Fund – This fund is used to account for the revenues and expenditures of the City's Street Maintenance District. Fees collected from taxpayers are used for the maintenance of the City's streets and right-of-ways within this district.

TIFD –The Tax Increment Financing District (TIFD) fund is used to account for revenues and costs to make payments on the revenue bond which was used to improve the Industrial Park and provide funds to finish the Industrial Park's infrastructure. The City uses two funds for accounting for the TIFD funds; TIFD Debt Service and TIFD CIP, which was closed to the debt service fund during the year.

SID 120 Fund – The Special Improvement District 120 fund is used to account for the costs and revenues associated with the construction of streets, curbs and gutters for the area of the City identified in the Wagner Subdivision.

SID 121 Fund – The Special Improvement District 121 fund is used to account for costs and revenues associated with the construction of streets, curbs and gutters for the area of the City identified in the Westlich-Heimat Subdivision.

Proprietary Funds

Enterprise funds – These business-type funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water, Sewer, Solid Waste/Garbage and Landfill funds are charges to customers for sales and services. Proprietary funds are reported using the full-accrual basis of accounting.

City of Hardin
Management's Discussion and Analysis
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The Proprietary funds also recognize as operating revenue, the portion of fees intended to recover cost of new construction to the system. The operating expenses for enterprise funds include cost of sales and services, administration expenses, and depreciation on capital assets. All revenue and expenditures not meeting this definition are reported as non-operating revenues and expenses. The City reports the following **major enterprise** funds:

Water Fund –An enterprise fund that accounts for the activities of the City's water treatment and distribution operations.

Sewer Fund –An enterprise fund that accounts for the activities of the City's sewer collection and treatment operations.

Solid Waste Fund –An enterprise fund that accounts for the activities of the City's solid waste/garbage services and landfill operations. The City maintains two separate funds (Solid Waste/Garbage and Landfill) to account for the activities of this fund. Detailed information regarding each of these funds is included in the Supplementary Information section of this report.

Fiduciary Funds

The fiduciary fund statements report uses the economic resources measurement focus and accrual basis of accounting. Revenues are recognized when earned and expenses and benefits are recognized when the related liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied while contributions and grants are recognized when grantor eligibility requirements are met.

Private Purpose Trust Funds – In fiscal year 2014, the City maintained one private purpose trust fund. The Fireman's Pension Trust Fund is used to account for assets held by the City in a trustee capacity for the Volunteer Fireman's Disability and Pension fund.

Agency Funds – Agency Funds generally are used to account for assets that the City holds in the payroll and claims clearing funds. In addition to clearing funds, the City maintains an agency fund for the City Court which is used to account for the collection, holding and reimbursement of court bonds. Cash is held for warrants which were written but have not been paid by the bank. Agency funds do not report a measurement focus as they do not report operations. The City's clearing funds are not reported on the fiduciary fund statements.

Notes to the financial statements: The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements.

Other Information: In addition to the basic financial statement and the accompanying notes, this report also presents certain *required supplementary information* concerning the City of Hardin's obligation to provide OPEB benefits to its employees as well as its proportionate share of Net Pension Liability in the State of Montana's Public Employee's Retirement System.

THE CITY OF HARDIN AS A WHOLE - - GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position over time may serve as a useful indicator of a government's financial position. The assets and deferred outflows of the City of Hardin exceeded its liabilities and deferred inflows at the close of the year by \$12,779,433 (net position). The total net position decreased by \$1,501,582 or 11% from last year. The decrease in Net Position was largely due to a change in accounting principles regarding recognition

City of Hardin
Management's Discussion and Analysis
June 30, 2015

of pension for PERS (Public Employees Retirement System) on the employer's financial statements. The change in principles moves from a funding based approach to an accounting based approach concerning the unfunded pension obligation of cities. The result of the change is that cities will show the unfunded pension obligation as an existing liability on the financial statements. In the case of the City of Hardin, the change in procedures significantly reduced the Net Position of the City at the end of FY 2015, but will not necessarily reflect the financial condition of the City, because a pension liability cannot be made immediately due and payable. The result of adding in the Net Pension Liability increased the Total Liabilities and Deferred Inflows of Resources by \$1,386,427. Total Liabilities and Deferred Inflows of Resources increased by \$1,380,845. Total assets of the City decreased 0.4%. Net investment in capital assets decreased \$1,189,845 or 19.4%. Of this, depreciation was \$1,090,977.

A portion of the City's Net Position (\$4,957,324 or 39%) constitutes its investment in capital assets (e.g. land, buildings, infrastructure, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. Capital assets are used to provide services to citizens; consequently, they are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt would need to be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

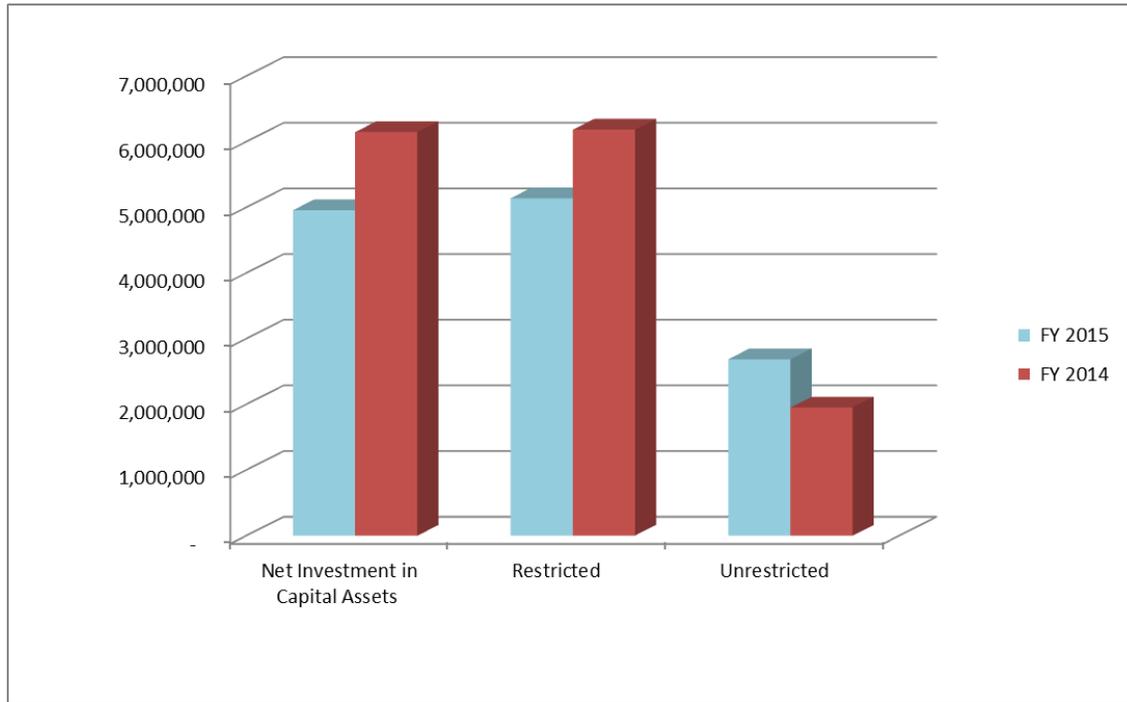
CITY of HARDIN 's Net Position						
	Governmental Activities		Business-Type Activities		Total	
	FY 2015	FY 2014	FY 2015	FY 2014	FY 2015	FY 2014
Current and other Assets	6,032,239	5,466,160	4,857,999	4,569,253	10,890,238	10,035,413
Capital assets	16,435,419	16,830,793	12,146,906	12,763,118	28,582,324	29,593,911
Total Assets	22,467,658	22,296,953	17,004,905	17,332,371	39,472,563	39,629,324
Total Deferred Outflows of Resources	29,544	-	47,102	-	76,646	-
Long-term Liabilities outstanding	20,889,819	20,457,330	4,468,145	4,229,618	25,357,964	24,686,948
Other Liabilities	765,469	125,590	360,795	535,771	1,126,264	661,361
Total Liabilities	21,655,288	20,582,920	4,828,940	4,765,389	26,484,228	25,348,309
Total Deferred Inflows of Resources	110,068	-	175,480	40,622	285,548	40,622
Net Position:						
Net Investment in Capital Assets	(4,484,581)	(3,344,537)	9,441,906	9,491,707	4,957,324	6,147,169
Restricted	2,932,308	4,065,282	2,204,633	2,117,733	5,136,941	6,183,015
Unrestricted	2,284,119	993,289	401,048	957,542	2,685,167	1,950,830
Total Net Position	731,846	1,714,033	12,047,587	12,566,982	12,779,433	14,281,015

The assets and deferred outflows of resources of the City of Hardin exceeded its liabilities at the close of the most recent fiscal year by \$12,779,433 (*net position*). Of this amount, \$2,685,167 represents unrestricted net position, which may be used to meet the government's ongoing obligations to citizens and creditors.

City of Hardin
Management's Discussion and Analysis
June 30, 2015

The Restricted portion of the City's net position (\$5,136,941 or 40%) represents resources that are subject to external restrictions on how they may be used. The balance of unrestricted net position (\$2,685,167 or 21%) may be used to meet the City's ongoing obligations to citizens and creditors.

CITY OF HARDIN's Net Position June 30, 2014 and 2015



Governmental Activities: During the current fiscal year, total Net Position for governmental activities decreased \$982,188 or 57% from the prior fiscal year for an ending balance of \$731,846. \$513,836 of the \$527,596 for prior period adjustments was due to the implementation of accounting principles in GASB 68 and 71 regarding pensions. Expenditures exceeded revenues by \$150,655. Depreciation and accreted interest exceeded Long-term receivables (deferred inflows).

City of Hardin
Management's Discussion and Analysis
June 30, 2015

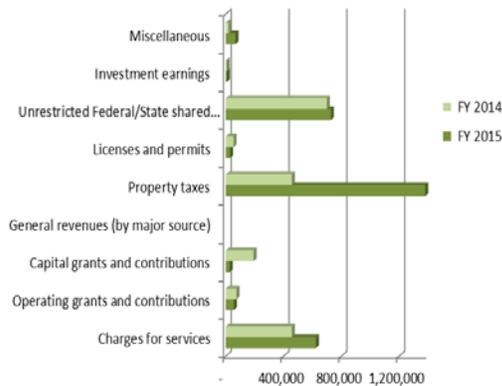
CITY of HARDIN's Changes in Net Position						
	Governmental Activities		Business-Type Activities		Total	
	FY 2015	FY 2014	FY 2015	FY 2014	FY 2015	FY 2014
Revenues						
<i>Program revenues (by major source)</i>						
	FY 2015	FY 2014				
Charges for services	623,229	456,976	2,395,664	2,337,177	3,018,893	2,794,153
Operating grants and contributions	55,732	73,689			55,732	73,689
Capital grants and contributions	27,128	192,000	294,590	100,000	321,718	292,000
<i>General revenues (by major source)</i>					-	-
Property taxes	1,379,793	456,354			1,379,793	456,354
Licenses and permits	29,662	53,702			29,662	53,702
Unrestricted Federal/State shared revenues	727,230	698,720	19,129	612	746,359	699,332
Investment earnings	7,200	6,382	25,407	41,979	32,607	48,361
Miscellaneous	67,348	19,715	(20,931)	7,714	46,418	27,429
Total revenues	2,917,322	1,957,537	2,713,859	2,487,482	5,631,182	4,445,020
Program expenses						
General government	482,318	580,589			482,318	580,589
Public safety	580,167	595,868			580,167	595,868
Public works	703,995	761,746			703,995	761,746
Public health	32,966	27,206			32,966	27,206
Culture and recreation	111,763	163,212			111,763	163,212
Housing/Community Development	118,787	116,478			118,787	116,478
Accreted Interest	652,450	1,244,439			652,450	1,244,439
Interest on Long-Term	666,224				666,224	
Miscellaneous	500				500	-
Unallocated costs/OPEB	22,744	23,136			22,744	23,136
Water			833,174	684,286	833,174	684,286
Sewer			663,295	576,683	663,295	576,683
Solid Waste			216,240	231,225	216,240	231,225
Landfill			703,929	765,260	703,929	765,260
Total expenses	3,371,914	3,512,675	2,416,638	2,257,454	5,788,552	5,770,129
Increase (decrease) in net position before transfers	(454,592)	(1,555,138)	297,222	230,028	(157,370)	(1,325,110)
Transfers		(302,762)		302,762	-	-
Increase (decrease) in net position	(454,592)	(1,857,900)	297,222	532,791	(157,370)	(1,325,110)
Net Position - beginning	1,714,033	3,625,630	12,566,982	12,034,191	14,281,015	15,659,821
Prior Period Adjustment	(527,596)	(53,697)	(816,616)		(1,344,212)	(53,697)
Net Position - ending	731,846	1,714,033	12,047,587	12,566,982	12,779,433	14,281,015

City of Hardin
Management's Discussion and Analysis
June 30, 2015

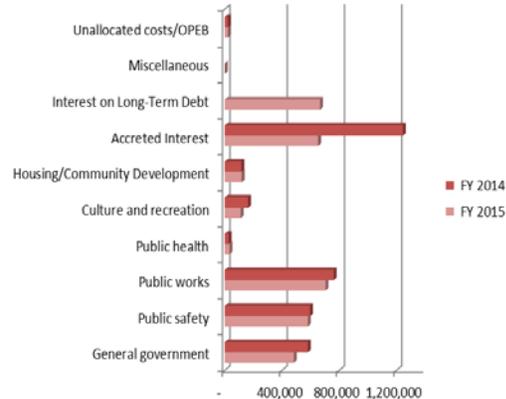
Governmental Activities: The City's governmental activities resulted in a decrease in net position of \$454,592 mainly due to accreted interest on a revenue bond for economic development. There were also prior adjustments of \$527,596 largely due to the change in accounting procedures related to regarding pensions.

Governmental Activities:

Revenues FY 2014 and 2015



Expenses FY 2014 and 2015



Revenues:

- Total Revenues increased \$959,785.
- Federal or State shared revenues increased \$28,510.
- Licenses or permits decreased \$24,040. Building permits in FY 2014 were \$22,453 and were reclassified as a charge for service for FY 2015.
- Charges for services increased \$166,253. Building permits included in this were \$56,973 and were previously included in the licenses and permits category. Building permits did increase \$34,520 from the previous year due to hail storm damage. FY 2015 was the first year SID 120 charged assessments for work done in the Wagner Subdivision for \$113,006 (includes principal and interest).
- Property taxes increased \$923,438. Of this \$857,179 was a first time property tax receivable related to coal-fired electrical generation in the Tax Increment Finance District (TIFD).
- This is the first year that the electrical generation plant has been eligible to pay property taxes. Previously, it had a ten year property tax exemption. However it has not paid the taxes due as of the date of this report.
- Grants and Contributions decreased \$182,828. The last year for the Electrical Generation Impact Fees was in FY 2014 and was \$192,000.

Expenses:

- Total Expenses decreased \$140,761.
- The portion of the Electrical Generation Impact fee for the School District was last paid in FY 2014 for a decrease of \$48,000.
- Public Works decreased \$57,751 due mainly to construction projects that were more active in FY 2014.
- Public Safety decreased \$15,702 by combining a position with another department.
- General Government activities decreased by \$98,271. FY 2014 had a \$48,112 settlement, \$27,867 severance agreement, and \$19,921 in outside legal services.

City of Hardin
Management’s Discussion and Analysis
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Business-type Activities: The City’s water, sewer, and solid waste activities resulted in an increase in net position of \$385,561 before the change in accounting procedures that negatively affected the overall Net Position. The total decrease for in net position was \$519,395.

Some of the highlights of changes by fund include:

Water:

- Metered water sales increased \$7,984 or 1.3%
- Purchases of radio-read meters increased by \$78,099
- Forgiveness of a water bond was \$279,500

Sewer:

- Sewer Service charges increased \$16,063 or 2.6%
- Additional plant personnel increased wages and benefits \$17,513 or 18.5%
- Plant repairs (i.e. valve repair) and supplies increased \$56,571 from the previous year’s amount of \$27,117

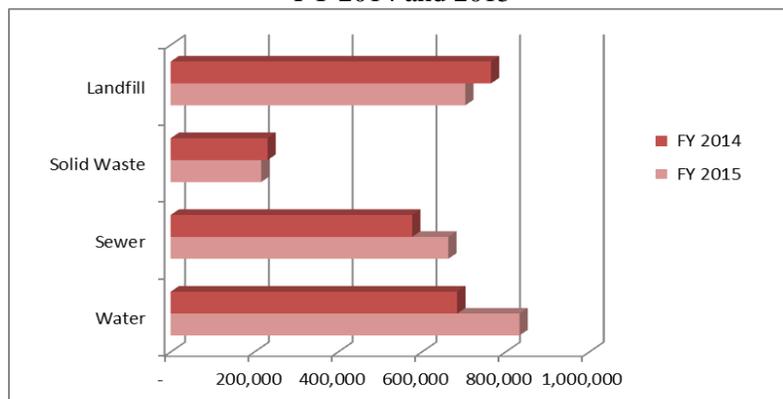
Solid Waste-Garbage:

- Fees for collection increased \$34,248 or 15.9%. Increased rates have been implemented to be able to purchase garbage trucks on a regular cycle.

Solid Waste-Landfill:

- Disposal charges decreased \$10,796 or 1.5%
- Personnel costs decreased \$47,249 or 16.6%, mostly because of vacancy savings.

Proprietary Funds Expenses
FY 2014 and 2015



FINANCIAL ANALYSIS OF THE CITY’S FUNDS

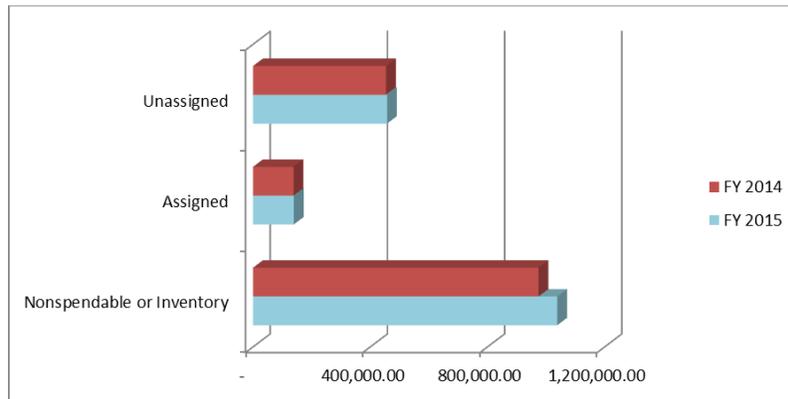
Governmental Funds: The focus of the City of Hardin’s Governmental Funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the city’s financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government’s net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the

City of Hardin
Management's Discussion and Analysis
June 30, 2015

City itself, or a group or individual that has been delegated authority to assign resources for use of particular purposes by the City Council.

As of June 30, the City's governmental funds reported combined fund balances of \$3,144,302, a decrease of \$164,414 compared to last year. Restrictions of \$3,924,719 include \$1,658,431 for interfund loans and \$1,153,456 for debt service requirements. The balance of \$1,112,832 is stipulated by constitution or enabling legislation. As the SIDs (interfund loans) are paid back, the fund balances will show spending reserves.

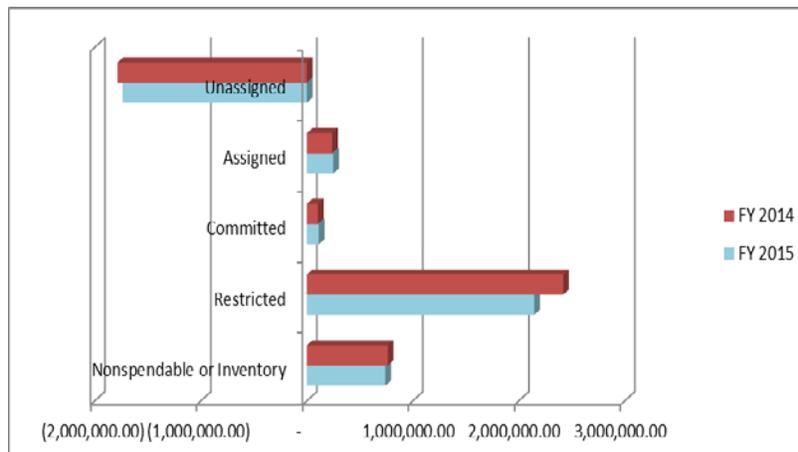
General Fund
Components of Fund Balance
June 30, 2014 and 2015



The City of Hardin's **General Fund** is the chief operating fund for governmental activities. At June 30, 2015 the total fund balance was \$1,634,602 which is a \$68,114 increase over the prior year. \$1,032,346 or 63.2% is non-spendable.

At the end of the current fiscal year, unrestricted fund balance (the total of the *committed*, *assigned*, and *unassigned* components of *fund balance*) for the General Fund was \$596,540, or approximately 49.4% of total General Fund expenditures (\$1,208,159).

Other Governmental Funds
Components of Fund Balance
June 30, 2014 and 2015



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The **Street Maintenance Fund** has a fund balance of \$452,075. Of this, 25.5% or \$115,076 represents inventory. The increase of \$68,644 from last year due was largely due to increased revenues to fund operating costs.

The **Tax Increment Finance District** has two funds. One is for debt service, the other for construction. The debt service fund decreased \$497,603 from interest earnings for an ending fund balance of \$1,153,456. The construction fund had the fund balance decrease by \$30,280. The remaining funds were transferred to the debt service fund and this fund closed. Anticipated revenues will not be enough to meet the debt service obligations. Current reserves are being used to help make the interest payments. More information is available on <http://www.emma.msrb.org> (Electronic Municipal Market Access) for Hardin's Tax Increment Bonds.

SID 120's fund balance increased \$26,329 to (\$1,228,070), and SID 121's increased \$19,540 to (\$511,120). These represent the balance of interfund loans for the Special Improvement Districts (SIDs) in the Wagner and Westlich-Heimat Subdivisions. Fund balances will continue to increase as taxpayers pay on their assessments.

Proprietary Funds:

The City of Hardin maintains separate proprietary funds for Water, Sewer, Solid Waste Collection, and Landfill activities. These funds provide the same type of information as the government-wide financial statements, only in more detail.

	Water	Sewer	Garbage	Landfill	Totals
Total Net Position	4,828,728	4,827,945	583,456	1,807,458	12,047,587
% of Total Net Position	40%	40%	5%	15%	100%
Unrestricted Net Position	1,027,467	194,113	180,825	(1,001,357)	401,048
% of Unrestricted Net Position	256%	48%	45%	-250%	100%
Change in Net Position	231,063	(20,144)	42,010	44,293	297,222
% Change in Net Position	78%	-7%	14%	15%	100%

The decrease in Net Position was largely due to the implementation of GASB 68 and 71 accounting principles regarding pensions (PERS).

General Fund Budgetary Highlights:

Actual revenues of \$1,277,125 were \$52,053 less than anticipated. Most of this was due to unpaid property taxes. Actual expenditures (other than transfers or loans) in the General Fund were \$1,086,105. Overall expenditures were \$362,061 less than anticipated. \$19,461 for an SID payoff was expensed in a previous year and paid in FY 2015. Professional services not utilized or delayed were \$82,252 of a \$281,627 budgeted amount for legal, engineering or other outside resources. \$130,000 had been aside for loans and lighting district development in the Industrial Park. \$100,000 was appropriated for future capital expenditures and \$22,054 was transferred to Street Maintenance.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets: The City of Hardin's capital assets for its governmental and business-type activities as of June 30, 2015 total \$28,582,325 net of accumulated depreciation. This investment in capital assets

City of Hardin
Management's Discussion and Analysis
June 30, 2015

includes land, easements, construction in progress, water and sewer plants, equipment, and infrastructure (e.g., water lines, sewer lines, streets, alleys, curbs, gutters, and sidewalks).

	Governmental Activities		Business-Type Activities		TOTAL	
	FY 2015	FY 2014	FY 2015	FY 2014	FY 2015	FY 2014
Non-depreciable Assets						
Land	\$ 598,380	\$ 598,379	\$ 463,193	\$ 463,193	\$ 1,061,573	\$ 1,061,572
Easements or Intangibles	\$ 40,622	\$ 40,622			\$ 40,622	\$ 40,622
Construction-in-progress	\$ 1,291,901	\$ 1,263,384	\$ 34,822	\$ 26,509	\$ 1,326,724	\$ 1,289,893
	\$ 1,930,903	\$ 1,902,385	\$ 498,015	\$ 489,702	\$ 2,428,918	\$ 2,392,087
Depreciable assets						
Buildings/improvements/systems	\$ 831,113	\$ 855,189	\$ 54,248	\$ 56,417	\$ 885,361	\$ 911,606
Improvements other than buildings	\$ 124,445	\$ 131,095	\$ 1,508,924	\$ 1,585,428	\$ 1,633,370	\$ 1,716,523
Machinery and equipment	\$ 376,657	\$ 399,927	\$ 548,888	\$ 692,024	\$ 925,545	\$ 1,091,951
Infrastructure (General Plant)	\$ 13,172,300	\$ 13,542,197	\$ 25,950	\$ 27,624	\$ 13,198,250	\$ 13,569,821
Treatment Plant			\$ 3,816,199	\$ 4,032,208	\$ 3,816,199	\$ 4,032,208
Transmission & Distribution			\$ 5,694,682	\$ 5,879,715	\$ 5,694,682	\$ 5,879,715
	\$ 14,504,516	\$ 14,928,408	\$ 11,648,891	\$ 12,273,416	\$ 26,153,406	\$ 27,201,824
TOTAL CAPITAL ASSETS	\$ 16,435,419	\$ 16,830,793	\$ 12,146,906	\$ 12,763,118	\$ 28,582,325	\$ 29,593,911

Major capital assets events include the following:

Governmental:

Welcome Signs	\$ 6,703
SID 120 improvements	19,751
Public Works equipment	34,610

Proprietary:

Landfill Shop improvements	34,822
----------------------------	--------

Outstanding debt:

At the end of the current fiscal year, the City of Hardin had total bonded debt outstanding of \$23,625,000. Conversion of the TIFD's (Tax Increment Finance District) bonds was in September, 2014 and the first interest payment was made in March, 2015.

	Governmental Activities		Business-Type Activities		Total	
	FYE 2015	FYE 2014	FYE 2015	FYE 2014	FYE 2015	FYE 2014
Tax Increment Revenue Bonds	\$ 20,920,000	\$ 20,267,550			\$ 20,920,000	\$ 20,267,550
Revenue Bonds			\$ 2,705,000	\$ 3,271,411	\$ 2,705,000	\$ 3,271,411
Total	\$ 20,920,000	\$ 20,267,550	\$ 2,705,000	\$ 3,271,411	\$ 23,625,000	\$ 23,538,961

The City of Hardin's total debt increased by \$86,039 (less than 0.4%). The reason for the increase was accreted interest in the TIFD for \$652,450. The Proprietary funds Revenue bonds decreased \$566,411.

City of Hardin
Management's Discussion and Analysis
June 30, 2015

\$279,500 of a Water Revenue Bond qualified for forgiveness. Additional information on long-term debt can be found in the notes of the basic financial statements.

Interfund Loans:

The City created and financed SID 120 and 121 to provide improved infrastructure in the Wagner and Westlich-Heimat subdivisions. To help alleviate the cost, the interest rate was reduced from 4% to 3% in September, 2014. The Water fund extended an interfund loan to the General Fund to help make this feasible. This chart represents only the Payables to other funds portion as listed on the Balance Sheet for Governmental Funds:

INTERFUND	Governmental Activities	
	FYE 2015	FYE 2014
General Fund	\$ 106,580	\$ 209,182
SID 120	\$ 1,253,891	\$ 1,294,626
SID 121	\$ 511,120	\$ 530,660
Other Funds	\$ 12,732	
	\$ 1,884,324	\$ 2,034,469

THE CITY OF HARDIN'S FUTURE

The City strives to offer an environment that is healthy for its citizens and future development. Two Rivers Trade Port Authority entered an agreement with Emerald Correctional Management to operate its detention facility. Due to the revaluation of a major industry in the Tax Increment Finance District, the anticipated revenue will not meet original projections.

The projects for the next year include:

- Heimat Park restrooms and sidewalk
- Welcome signs for Hardin
- Chip-sealing
- SCBAs for the Volunteer Fire Department
- Replace or purchase vehicles and machinery for several departments
- SID 120 completion
- Continue to upgrade water meters to radio-read
- Plan for a 500,000 gallon concrete reservoir
- Plan for water main extensions to the Watson Drive area and from 5th Street to LL Subdivision
- Purchase a generator for the Wastewater Treatment Plant
- Plant upgrades at the wastewater treatment plant: grit and grease removal system
- Upgrades to the Landfill shop

The City of Hardin is committed to providing a hometown atmosphere that is inviting to businesses. The development of the Industrial Park is a key goal along with attracting businesses to occupy it.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview for all those with an interest in the City of Hardin's finances. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to the City of Hardin, Finance Office, 406 North Cheyenne, Hardin, MT 59034.

Tripp & **A**ssociates
1645 Ave. D, Suite E
Billings, Montana 59102

INDEPENDENT AUDITOR'S REPORT

City Council
City of Hardin
Big Horn County
Hardin, Montana 59034

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Hardin as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

We were engaged to audit the financial statements of the aggregate discretely presented component units as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the component unit's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Unmodified
Business-Type Activities	Unmodified
Aggregate Discretely Presented Component Units	Disclaimer
Major Governmental Fund - General	Unmodified
Major Governmental Fund – Street Maintenance	Unmodified
Major Governmental Fund - TIFD	Unmodified
Major Governmental Fund – SID 120	Unmodified
Major Governmental Fund – SID 121	Unmodified
Enterprise Fund – Water	Unmodified
Enterprise Fund – Sewer	Unmodified
Enterprise Fund – Solid Waste	Unmodified
Aggregate Remaining Fund Information	Unmodified

Basis for Disclaimer of Opinion on the Aggregate Discretely Presented Component Units

The financial statements of the Two Rivers Authority (TRA) have not been audited, although we were engaged to audit TRA's financial statements as part of our audit of the City's basic financial statements. TRA's financial activities are included in the City's basic financial statements as a discretely presented component unit and represents 100% of the assets, net position, and revenues, respectively, of the City's aggregate discretely presented component units.

We were not provided with supporting documentation of receipts totaling \$1,861,990 and expenditures totaling \$2,359,245 found on the bank statements. The difference between receipts and expenditures of \$497,255 is attributable to bondholder loans. However, we were not provided with any documentation of such loan additions. None of these transactions were approved by the Board or noted in the minutes of their regular meetings. The management of TRA was not involved in these transactions nor provided us with documentation of them. The financial statements were compiled from copies of the bank statements.

Disclaimer of Opinion

Because of the significance of the matter described in the “Basis for Disclaimer of Opinion on the Aggregate Discretely Presented Component Units” paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the aggregate discretely presented component units of the City of Hardin. Accordingly, we do not express an opinion on these financial statements.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Hardin as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

Anticipated revenue bond delinquency: The City of Hardin does not expect to meet its future Tax Increment Financing District (TIFD) revenue bond requirements. The City does not expect to meet TIFD principal and interest payments as they become due for the following reasons. 1) The primary taxpayer in the TIFD is delinquent on their tax payments. 2) A dramatic drop in the market value of property in the TIFD caused lower taxes to be assessed than planned. 3) Resulting taxable valuation decrease of the real and personal property in the TIFD means the prospects of returning the tax assessments to the planned amount will not occur any time soon.

The Two Rivers Authority (TRA) has not made interest payments on its revenue bonds since November 2008. TRA has never made a principal payment on their revenue bonds. As of June 30, 2015, outstanding bond principal totaled \$27,015,000 of which \$6,105,000 is delinquent. Interest accrues at \$960,012 annually. Accrued interest payable totaled \$12,480,163 as of June 30, 2015. Revenues reported on the Statement of Activities are directed towards Emerald Correctional Management instead of TRA operations or bond requirements during the startup phase of the agreement with Emerald Correctional Management. TRA’s fiscal year 2015 revenue available for bond indebtedness was \$0. TRA cash available to meet bond indebtedness as of June 30, 2015 totaled \$125,225.

Other Matters

As discussed in Note 1 to the financial statements, the City implemented the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, in fiscal year 2015.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management’s Discussion and Analysis (MD&A) on pages 4 - 11; Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual on pages 49 – 50; Schedule of Funding Progress - Other Post-Employment Benefits Other Than Pensions on page 52; Schedule of Funding Progress – Firemen’s Disability and Pension Plan on page 53; and Schedule of Employer Contributions – Firemen’s Disability and Pension Plan on page 53 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Hardin’s basic financial statement. The Schedules of Combined Funds are presented for purposes of additional analysis and are not a required part to the basic financial statements.

The Schedules of Combined Funds are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedules of Combined Funds are fairly stated in all material respects in relation to the financial statements as a whole.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2016, on our consideration of City of Hardin's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Hardin's internal control over financial reporting and compliance.

Tripp & Associates

Billings, Montana
June 29, 2016

City of Hardin
Big Horn County
Hardin, Montana

STATEMENT OF NET POSITION
As of June 30, 2015

	Primary Government			Component Unit
	Governmental	Business-Type	Total	Two Rivers
	Activities	Activities	Primary Gov	Authority
ASSETS:				
Current Assets:				
Cash & Investments	\$ 2,042,342	\$ 2,174,307	\$ 4,216,649	\$ 738
Taxes/Assessments Receivable	2,793,809	27,630	2,821,439	-
Accounts Receivable	-	214,803	214,803	-
Accrued Investment Interest Receivable	2,707	-	2,707	-
Due From Other Governments	7,406	-	7,406	-
Internal Balances	(115,763)	115,763	-	-
Inventories	<u>120,792</u>	<u>50,973</u>	<u>171,765</u>	<u>-</u>
Total Current Assets	4,851,293	2,583,476	7,434,769	738
Restricted Cash & Investments	1,180,946	2,274,523	3,455,469	125,225
Non-Current Assets:				
Land/Construction in Progress	1,930,903	498,015	2,428,918	257,377
Other Capital Assets (Net)	<u>14,504,516</u>	<u>11,648,891</u>	<u>26,153,407</u>	<u>16,929,456</u>
Total Non-Current Assets	<u>16,435,419</u>	<u>12,146,906</u>	<u>28,582,325</u>	<u>17,186,833</u>
Total Assets	<u>22,467,658</u>	<u>17,004,905</u>	<u>39,472,563</u>	<u>17,312,796</u>
DEFERRED OUTFLOWS OF RESOURCES:				
Deferred Outflows - Pensions	29,544	47,102	76,646	-
LIABILITIES:				
Current Liabilities:				
Accounts Payable	52,630	68,463	121,093	910
Deferred Payroll	-	-	-	80,325
Deposits Payable	3,200	69,890	73,090	-
Revenues Collected in Advance	-	40,622	40,622	-
Other Current Liabilities	15,945	32,323	48,268	-
Due to Other Governments	22,352	-	22,352	-
Accrued Bond Interest Payable	-	-	-	12,480,163
Compensated Absences	11,341	26,498	37,839	1,939
Advance Funding Bondholder Loans	-	-	-	858,327
Current Revenue Bonds Payable	<u>660,000</u>	<u>123,000</u>	<u>783,000</u>	<u>6,105,000</u>
Total Current Liabilities	765,469	360,795	1,126,264	19,526,664
Non-Current Liabilities:				
Compensated Absences	34,024	79,493	113,516	-
Closure /Post-Closure Care Costs	-	971,862	971,862	-
OPEB Liability	171,447	158,260	329,707	-
Revenue Bonds Payable	20,260,000	2,582,000	22,842,000	20,910,000
Net Pension Liability	<u>424,348</u>	<u>676,531</u>	<u>1,100,879</u>	<u>-</u>
Total Non-Current Liabilities	<u>20,889,819</u>	<u>4,468,145</u>	<u>25,357,964</u>	<u>20,910,000</u>
Total Liabilities	21,655,288	4,828,940	26,484,228	40,436,664
DEFERRED INFLOWS OF RESOURCES:				
Deferred Inflows - Pensions	110,068	175,480	285,548	-
NET POSITION:				
Net Investment in Capital Assets	(4,484,581)	9,441,906	4,957,325	(22,308,330)
Restricted for:				
Bond Indenture Requirements	-	1,126,951	1,126,951	-
Debt Service	1,153,456	307,560	1,461,016	125,225
Closure/Post-closure	-	770,123	770,123	-
Other	1,778,852	-	1,778,852	-
Unrestricted	<u>2,284,119</u>	<u>401,048</u>	<u>2,685,167</u>	<u>(940,763)</u>
Total Net Position	<u>\$ 731,846</u>	<u>\$ 12,047,587</u>	<u>\$ 12,779,433</u>	<u>\$ (23,123,867)</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of this statement.

City of Hardin
Big Horn County
Hardin, Montana

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2015

Functions/Programs	-----Program Revenues-----				Net (Expense) Revenues and Changes in Net Position			Component Unit Two Rivers Trade Port Authority
	Expenses	Charges for Services, Fines & Forfeitures	Operating Grants & Contributions	Capital Grants & Contributions	Primary Government			
					Governmental Activities	Business-Type Activities	Total Primary Gov	
GOVERNMENTAL ACTIVITIES								
General Government	\$ 482,318	\$ 114,909	\$ -	\$ -	\$ (367,409)		\$ (367,409)	
Public Safety	580,167	56,973	-	-	(523,194)		(523,194)	
Public Works	703,995	448,357	55,732	18,423	(181,483)		(181,483)	
Public Health	32,966	2,991	-	-	(29,975)		(29,975)	
Culture & Recreation	111,763	-	-	-	(111,763)		(111,763)	
Housing & Community Development	118,787	-	-	8,706	(110,081)		(110,081)	
Accreted Interest	652,450	-	-	-	(652,450)			
Interest on Long-Term Debt	666,224	-	-	-	(666,224)		(666,224)	
Miscellaneous	500	-	-	-	(500)		(500)	
Unallocated Costs - OPEB Expense	22,744	-	-	-	(22,744)		(22,744)	
Total Governmental Activities	3,371,914	623,229	55,732	27,128	(2,665,824)		(2,013,374)	
BUSINESS-TYPE ACTIVITIES								
Water	833,174	762,760	-	3,707	-	(66,707)	(66,707)	
Sewer	663,295	647,312	-	11,383	-	(4,600)	(4,600)	
Landfill	920,169	985,592	-	-	-	65,423	65,423	
Total Business-Type Activities:	2,416,638	2,395,664	-	15,090	-	(5,884)	(5,884)	
TOTAL PRIMARY GOVERNMENT	<u>5,788,552</u>	<u>3,018,893</u>	<u>55,732</u>	<u>42,218</u>	<u>(2,665,824)</u>	<u>(5,884)</u>	<u>(2,671,709)</u>	
COMPONENT UNITS								
Two Rivers Trade Port Authority	4,730,915	1,861,989	-	-				(2,868,925)
GENERAL REVENUES:								
Taxes/Assessments					\$ 1,379,793	\$ -	\$ 1,379,793	\$ -
Licenses and Permits					29,662	-	29,662	-
Intergovernmental Revenue					727,230	19,129	746,359	-
Investment Earnings					7,200	25,407	32,607	33
Miscellaneous					67,348	5,578	72,926	-
Gain (Loss) on Dispositions of Capital Assets					-	(26,509)	(26,509)	-
Total General Revenues					2,211,232	23,606	2,234,838	33
SPECIAL ITEMS:								
Loan Forgiven by the Federal Government					-	279,500	279,500	-
CHANGE IN NET POSITION					(454,592)	297,222	(157,370)	(2,868,892)
Net Position Beginning of the Year					1,714,033	12,566,982	14,281,016	(20,254,975)
Restatements of Net Position - Pensions (Note 1-O)					(513,836)	(819,199)	(1,333,035)	-
Restated Beginning Net Position after GASB 68					1,200,197	11,747,783	12,947,981	(20,254,975)
Prior Period Adjustments - Funds					(13,760)	2,583	(11,177)	-
Restated Beginning Net Position					1,186,438	11,750,365	12,936,803	(20,254,975)
Net Position End of the Year					\$ 731,846	\$ 12,047,587	\$ 12,779,433	\$ (23,123,867)

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of this statement.

BALANCE SHEET
GOVERNMENTAL FUNDS
As of June 30, 2015

	MAJOR					Other	Total
	General Fund	Street Mtce. Fund	TIFD Fund	SID 120 Fund	SID 121 Fund	Government Funds	
ASSETS:							
Cash and Investments	\$ 633,646	\$ 343,238	\$ -	\$ 26,450	\$ 1	\$ 1,039,008	\$ 2,042,342
Taxes/Assessments Receivable	89,682	32,579	728,965	1,263,565	515,138	163,880	2,793,809
Accrued Interest Receivable	-	-	-	-	-	-	-
Due From Other Funds	1,138,926	3,550	-	-	-	626,085	1,768,561
Due From Other Governments	731	-	-	-	-	6,675	7,406
Accrued Interest Receivable	1,230	424	-	-	-	1,053	2,707
Inventories	5,716	115,076	-	-	-	-	120,792
Prepaid Expenses	-	-	-	-	-	-	-
Total Current Assets	1,869,932	494,866	728,965	1,290,014	515,139	1,836,701	6,735,618
Restricted Cash & Investments	3,200	-	1,155,956	-	-	21,790	1,180,946
Total Assets	1,873,132	494,866	1,884,921	1,290,014	515,139	1,858,492	7,916,564
LIABILITIES:							
Accounts Payable	31,107	4,913	2,500	629	-	13,482	52,630
Payable to Other Funds (Governmental)	-	-	-	1,253,891	511,120	2,650	1,767,661
Payable to Other Funds (Proprietary)	106,580	-	-	-	-	10,082	116,663
Due to Other Governments	-	-	-	-	-	22,352	22,352
Interest Payable	-	-	-	-	-	-	-
Other Current Liabilities	7,960	5,299	-	-	-	2,686	15,945
Deposits Payable	3,200	-	-	-	-	-	3,200
Total Liabilities	148,848	10,212	2,500	1,254,520	511,120	51,253	1,978,452
DEFERRED INFLOWS OF RESOURCES:							
Deferred Inflows - Property Tax Revenue	89,682	32,579	728,965	1,263,565	515,138	163,880	2,793,809
FUND BALANCES:							
Nonspendable:							
Inventory	5,716	115,076	-	-	-	-	120,792
Interfund Loans	1,032,346	-	-	-	-	626,085	1,658,431
Restricted:							
General Government	-	-	-	-	-	25,643	25,643
Debt Service	-	-	1,153,456	-	-	-	1,153,456
Public Works	-	312,103	-	-	-	321,072	633,175
Capital Projects/Acquisition	-	24,896	-	-	-	283,682	308,578
Housing & Comm. Development	-	-	-	-	-	24,645	24,645
Committed:							
Miscellaneous	-	-	-	-	-	113,395	113,395
Assigned:							
Public Safety	59,143	-	-	-	-	-	59,143
Public Works	-	-	-	-	-	248,078	248,078
Housing & Community Development	80,000	-	-	-	-	759	80,759
Unassigned:	457,397	-	-	(1,228,070)	(511,120)	-	(1,281,793)
Total Fund Balances	1,634,602	452,075	1,153,456	(1,228,070)	(511,120)	1,643,359	3,144,302
Total Liab., Deferred Inflows & Fund Bal.	\$ 1,873,132	\$ 494,866	\$ 1,884,921	\$ 1,290,014	\$ 515,139	\$ 1,858,492	\$ 7,916,564

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of this statement.

City of Hardin
Big Horn County
Hardin, Montana

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
As of June 30, 2015

Total fund balances - Governmental Funds		\$ 3,144,302
Capital Assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds		
Cost of Assets	18,926,183	
Less Accumulated Depreciation	<u>(2,490,764)</u>	16,435,419
Deferred Outflows of Resources are not attributable to any particular fund and therefore are not reported in the governmental funds.		
Deferred Outflows of Resources - Associated with Pensions - PERS (FY2015 Employer Contributions)	<u>29,544</u>	29,544
Less liabilities not reported in the governmental funds		
Compensated Absences	(45,365)	
Other Post-Employment Benefits (OPEB)	(171,447)	
Bonds Payable	(20,920,000)	
Net Pension Liability - PERS	<u>(424,348)</u>	(21,561,160)
Less Deferred Inflows of Resources not reported in the governmental funds		
Deferred Inflows of Resources Associated with Pensions - PERS		(110,068)
Plus Deferred Inflows of Resources due to Taxes Receivable that are not reported on the Stmt of Net Position		<u>2,793,809</u>
Net Position - Governmental Activities		<u>\$ 731,846</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of this statement.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2015

	MAJOR					Other	Total
	General Fund	Street Mctce. Fund	TIFD Fund	SID 120 Fund	SID 121 Fund	Government Funds	Governmental Funds
REVENUES:							
Taxes/Assessments	\$ 346,269	\$ 247,295	\$ 129,401	\$ 46,080	\$ 19,540	\$ 102,395	\$ 890,980
Investment Income	2,443	819	1,698	-	-	2,240	7,200
Licenses & Permits	89,496	350	-	-	-	-	89,846
Fines & Forfeitures	101,817	-	-	-	-	11,130	112,948
Miscellaneous	67,348	118	-	-	-	166,752	234,218
Intergovernmental Rev	667,622	-	389	122	-	141,959	810,090
Charges for Services	<u>2,131</u>	<u>7,878</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,769</u>	<u>23,777</u>
Total Revenues	1,277,125	256,459	131,487	46,201	19,540	438,245	2,169,058
EXPENDITURES:							
General Government	409,791	-	-	-	-	78,802	488,593
Public Safety	523,937	-	-	-	-	18,022	541,959
Public Works	13,803	187,162	-	122	-	202,195	403,281
Public Health	27,242	-	-	-	-	5,890	33,132
Culture & Recreation	97,223	-	-	-	-	3,945	101,168
Housing & Comm Develop	700	-	-	-	-	21,029	21,729
Other Current Charges	-	-	500	-	-	-	500
Total Current Expenditures	1,072,695	187,162	500	122	-	329,882	1,590,361
Capital Outlay	6,055	-	-	19,751	-	37,322	63,127
Debt Service	<u>7,354</u>	<u>-</u>	<u>658,870</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>666,224</u>
Total Expenditures	1,086,105	187,162	659,370	19,872	-	367,204	2,319,713
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	191,020	69,297	(527,883)	26,329	19,540	71,042	(150,655)
OTHER FINANCING SOURCES (USES)							
Fund Transfers In	-	22,054	29,782	-	-	172,707	224,543
Fund Transfers (Out)	(122,054)	(22,707)	(29,782)	-	-	(50,000)	(224,543)
NET CHANGES IN FUND BALANCES	68,966	68,644	(527,883)	26,329	19,540	193,749	(150,655)
FUND BALANCES:							
Beginning of the Year	1,566,488	383,432	1,681,338	(1,254,399)	(530,660)	1,462,517	3,308,716
Prior Period Adjustments	<u>(852)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(12,908)</u>	<u>(13,759)</u>
End of the Year	<u>\$ 1,634,602</u>	<u>\$ 452,075</u>	<u>\$ 1,153,456</u>	<u>\$ (1,228,070)</u>	<u>\$ (511,120)</u>	<u>\$ 1,643,359</u>	<u>\$ 3,144,302</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of this statement.

City of Hardin
 Big Horn County
 Hardin, 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, 2015

Total Net Change in Fund Balances - Governmental Funds		\$	(150,655)
Amounts reported for governmental activities in the statement of activities are different because:			
Revenues reported in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds:			
Increase (decrease) in Taxes/Assessments Receivable	748,264		
State Non-Employer Contributions - PERS	<u>11,998</u>		760,262
Long-Term debt accreted interest increases long-term liabilities in the Statement of Net Position			
Accreted Interest on TIF Bonds			(652,450)
Expenses in the statement of activities that do not require the use of current financial resources are not included in the governmental funds:			
Depreciation Expense		(458,501)	
Pension Expense - PERS (FY14 City Pension Expense)	(20,580)		
Pension Expense - PERS (FY14 State Non-Employer Contributions)	(11,999)		
Pension Expense - PERS (FY15 City Pension Expense)	<u>29,544</u>	(3,035)	
Other Post-Employment Benefits (Increase) Decrease		(22,744)	
(Increase) decrease in Compensated Absence Liability		<u>9,404</u>	(474,876)
Expenditures reported in the governmental funds not included in the Statement of Activities			
Capital Outlays			<u>63,127</u>
Change in net position reported on the Statement of Activities - governmental activities		\$	<u>(454,592)</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of this statement.

City of Hardin
Big Horn County
Hardin, Montana

STATEMENT OF FUND NET POSITION
PROPRIETARY FUNDS
As of June 30, 2015

	Major Enterprise Water	Major Enterprise Sewer	Major Enterprise Solid Waste	Total Enterprise Funds
ASSETS:				
Current Assets:				
Cash & Cash Equivalents	\$ 1,243,534	\$ 428,770	\$ 502,002	\$ 2,174,307
Assessments Receivable	525	503	26,602	27,630
Accounts Receivable	71,156	66,186	77,461	214,803
Due From Other Funds	110,820	1,960	3,882	116,663
Inventories	23,487	22,121	5,365	50,973
Total Current Assets	1,449,523	519,541	615,313	2,584,376
Restricted Cash & Cash Equivalents	175,731	583,901	1,514,892	2,274,523
Non-Current Assets:				
Land	121,191	21,286	320,716	463,193
Construction in Process	-	-	34,822	34,822
Improvements other than Buildings	-	-	2,040,909	2,040,909
Buildings	-	-	100,354	100,354
Machinery & Equipment	1,909	8,010	1,802,353	1,812,273
Infrastructure (Utility Systems)	6,978,048	8,220,125	-	15,198,174
Less: Accumulated Depreciation	(3,206,428)	(2,464,491)	(1,831,900)	(7,502,819)
Total Non-Current Assets	3,894,721	5,784,931	2,467,254	12,146,906
Total Assets	5,519,974	6,888,372	4,597,459	17,005,805
DEFERRED OUTFLOWS OF RESOURCES:				
Deferred Outflow of Resources - Pensions	15,709	12,474	18,919	47,102
LIABILITIES:				
Current Liabilities:				
Accounts Payable	32,067	17,057	19,339	68,463
Due to Other Funds	-	900	-	900
Other Accrued Payables	11,298	8,745	12,280	32,323
Revenues Collected in Advance	13,841	26,781	-	40,622
Customer Deposits	65,190	-	4,700	69,890
Compensated Absences	10,089	6,451	9,958	26,498
Revenue Bonds Payable	5,000	79,000	39,000	123,000
Total Current Liabilities	137,484	138,934	85,276	361,695
Non-Current Liabilities:				
Compensated Absences	30,267	19,352	29,873	79,493
Revenue Bonds Payable	199,000	1,656,000	727,000	2,582,000
Closure Postclosure Care Costs	-	-	971,862	971,862
Net Pension Liability	225,629	179,171	271,731	676,531
OPEB Liability	56,050	32,971	69,239	158,260
Total Non-Current Liabilities	510,946	1,887,494	2,069,705	4,468,145
Total Liabilities	648,431	2,026,428	2,154,981	4,829,840
DEFERRED INFLOWS OF RESOURCES:				
Deferred Inflows - Pensions	58,524	46,474	70,482	175,480
NET POSITION:				
Net Investment in Capital Assets	3,690,721	4,049,931	1,701,254	9,441,906
Restricted - Debt Service	16,050	196,591	94,919	307,560
Restricted - Closure Postclosure	-	-	770,123	770,123
Restricted - Replacement & Depreciation	993	297,604	645,150	943,747
Restricted - Capital Projects	93,498	89,706	-	183,204
Unrestricted	1,027,467	194,113	(820,532)	401,048
Total Net Position	4,828,728	4,827,945	2,390,914	12,047,587

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of this statement.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
 PROPRIETARY FUNDS
 For the Fiscal Year Ended June 30, 2015

	Major Enterprise Water	Major Enterprise Sewer	Major Enterprise Solid Waste	Total Enterprise Funds
OPERATING REVENUES:				
Charges for Services	\$ 762,760	\$ 647,312	\$ 983,248	\$ 2,393,320
Special Assessments	-	-	2,344	2,344
Miscellaneous Revenues	4,163	14,338	2,167	20,668
Total Operating Revenues	766,924	661,650	987,758	2,416,332
OPERATING EXPENSES:				
Personnel Services - Salaries	292,127	231,166	357,970	881,263
Fixed Charges (Insurance)	14,747	11,244	85,682	111,674
Other Purchased Services	99,227	144,626	89,256	333,108
Supplies & Materials	192,285	60,504	146,598	399,387
Depreciation	228,429	174,468	221,628	624,525
Total Operating Expenses	826,815	622,008	901,134	2,349,957
OPERATING INCOME (LOSS)	(59,892)	39,642	86,625	66,375
NON-OPERATING REVENUE (EXPENSES)				
Interest	11,433	2,944	11,030	25,407
Intergovernmental Revenue	285,880	5,066	7,683	298,629
Loss on Disposal of Capital Assets	-	(26,509)	-	(26,509)
Debt Service Interest Expense	(6,359)	(41,288)	(19,035)	(66,681)
Total Non-operating Revenue(Expenses)	290,954	(59,786)	(322)	230,846
CHANGE IN NET POSITION	231,063	(20,144)	86,303	297,222
NET POSITION, BEGINNING	4,870,876	5,062,460	2,633,646	12,566,982
Prior Period Adjustments	(273,210)	(214,372)	(329,034)	(816,616)
NET POSITION, ENDING	\$ 4,828,728	\$ 4,827,945	\$ 2,390,914	\$ 12,047,587

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of this statement.

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2015

	Major Enterprise Water	Major Enterprise Sewer	Major Enterprise Solid Waste	Total Enterprise Funds
CASH FLOWS FROM OPERATIONS:				
Cash Received From Customers	\$ 770,253	\$ 659,355	\$ 962,442	\$ 2,392,051
Cash Paid to Employees (Salaries & Benefits)	(280,319)	(224,385)	(383,085)	(887,788)
Supplies & Materials	(305,172)	(206,658)	(388,524)	(900,354)
Net Cash Provided (Used) by Operating Activities	184,762	228,312	190,833	603,908
CASH FLOWS FROM NONCAPITAL ACTIVITIES:				
Transfers from (to) Other Funds	98,362	(1,060)	(3,882)	93,419
Subsidies from Taxes and Other Governments (State Portion of Pensions)	6,380	5,066	7,683	19,129
Net Cash Provided (Used) by NonCapital Activities	104,742	4,006	3,801	112,549
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest Earnings	11,433	2,944	11,030	25,407
Net Cash Provided (Used) by Investing Activities	11,433	2,944	11,030	25,407
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Principal on Bonds	(10,911)	(154,000)	(122,000)	(286,911)
Interest and Agent Fees Paid on Bonds	(6,359)	(41,288)	(19,035)	(66,681)
Acquisition of Capital Assets	-	-	(34,822)	(34,822)
Net Cash Provided (Used) by Capital and Related Financial Activities	(17,270)	(195,288)	(175,857)	(388,414)
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	283,668	39,975	29,807	353,450
CASH & CASH EQUIVALENTS - JULY 1, 2014	1,135,597	972,696	1,987,087	4,095,380
CASH & CASH EQUIVALENTS - JUNE 30, 2015	<u>\$ 1,419,265</u>	<u>\$ 1,012,671</u>	<u>\$ 2,016,894</u>	<u>\$ 4,448,830</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating Income (Loss)	(59,892)	39,642	86,625	66,375
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:				
(Increase)Decrease in Inventory	125	216	475	816
(Increase)Decrease in Assessments Receivable	478	457	(4,381)	(3,445)
(Increase)Decrease in Accounts Receivable	(2,399)	(2,752)	(20,935)	(26,086)
(Increase)Decrease in Due From Other Funds	-	2,583	-	2,583
(Increase)Decrease in Customer Deposits	5,250	-	-	5,250
Increase(Decrease) in Accounts Payable	963	6,917	(132,542)	(124,663)
Increase(Decrease) in Compensated Absences	7,404	5,621	8,204	21,228
Increase(Decrease) in OPEB Liability	7,436	4,374	9,186	20,996
Increase(Decrease) in Accrued Wages Payable	1,735	571	(36,765)	(34,459)
Increase(Decrease) in Landfill Closure and Post-Closure Liability	-	-	65,079	65,079
Pension Expense	(4,766)	(3,785)	(5,740)	(14,291)
Depreciation Expense	228,429	174,468	221,628	624,525
Total Adjustments	244,654	188,670	104,209	537,533
Net Cash Provided by Operating Activities	<u>\$ 184,762</u>	<u>\$ 228,312</u>	<u>\$ 190,833</u>	<u>\$ 603,908</u>
NONCASH INVESTING, CAPITAL and FINANCING ACTIVITIES				
Capital Asset write offs	\$ -	\$ (26,509)	\$ -	\$ (26,509)
Series 2012A Water bond forgiven by the federal government	\$ 279,500	\$ -	\$ -	\$ 279,500

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of this statement.

City of Hardin
Big Horn County
Hardin, Montana

STATEMENT OF FIDUCIARY NET POSITION
AND
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
As of June 30, 2015

	Pension Trust Funds	Agency Funds
ASSETS:		
Cash & Cash Equivalents	\$ 149,190	\$ 8,235
Taxes Receivable	2,076	-
Other Assets	189	-
Total Assets	151,455	8,235
LIABILITIES:		
Warrants Payable	-	2,129
Accounts Payable	200	6,106
Total Liabilities	200	8,235
DEFERRED INFLOWS OF RESOURCES:		
Unavailable Revenue - Assessments	2,076	
NET POSITION:		
Restricted for Pension Benefits	149,179	-
Held in Trust for Agency	-	-
Total Net Position	\$ 149,179	\$ -

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
As of June 30, 2015

ADDITIONS:	
Intergovernmental Rev - Private Purpose Trusts	\$ 30,961
Taxes/Assessments	8,126
Interest Earnings	413
Total Additions	39,500
DEDUCTIONS:	
Administrative Expenses	35
Benefit Payments	24,840
Total Deductions	24,875
CHANGE IN NET POSITION:	14,626
Net Position, Beginning of the Year	134,553
Net Position, Ending of the Year	\$ 149,179

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A) REPORTING ENTITY

The City of Hardin is a political subdivision of the State of Montana governed by a Mayor and Council duly elected by the registered voters of the City. The City utilizes the Council-Mayor form of government. The City is considered a primary government because it is a general purpose local government. Further, it meets the following criteria: 1) It has a separately elected governing body 2) It is a legally separate entity and 3) It is fiscally independent from the State and other governments.

The accompanying financial statements present the primary government and its component units, entities for which the government is considered to be financially accountable. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that is legally separate from the government, but is financially accountable to or fiscally dependent upon the primary government or their omission from the financial statements would be misleading or incomplete.

Discretely Presented Component Unit –Two Rivers Authority

The criteria for including organizations as component units within the City's reporting entity is set forth in Section 2100 of the GASB "Codification of Government Accounting and Financial Reporting Standards." The basic criteria include appointing a voting majority of an organization's governing body, as well as the City's ability to impose its will on that organization, or the potential for the organization to provide specific financial benefit to, or impose specific financial burdens on, the City. Based on those criteria the City has determined that the Two Rivers Authority is a component unit of the City. Therefore, the financial statements of the reporting entity include those of the City of Hardin (the primary government) along with the Two Rivers Trade Port Authority herein referred to as Two Rivers Authority (a component unit) which is discretely presented. Questions regarding Two Rivers Authority should be directed to Jeff McDowell, Two Rivers Authority P.O. Box 324, Hardin MT 59034-0324.

The Two Rivers Authority (TRA) was created in 2004 with the purpose of promoting economic development. Since an Industrial Park was created through a Tax Increment Finance (TIF) District, TRA has been tasked with recruiting interested activities for both the Industrial Park and the City of Hardin. TRA owns a detention facility.

B) MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The measurement focus establishes the basis of accounting. The basis of accounting determines when transactions are recorded in the financial records and reported in the financial statements. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, the presentation of expenses versus expenditures, the recording of capital assets, the recognition of depreciation and the recording of long-term liabilities. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the Government-wide financial statements and the governmental fund financial statements.

The Governmental Accounting Standards Board's (GASB) Statement No. 62 codifies the requirement of all pre-November 30, 1989 FASB and AICPA pronouncements that apply to state and local governments. Both the government-wide and proprietary fund financial statements follow the guidance of the GASB. Governments can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including GASB Statement No. 62. The government has adopted GASB Statement No. 62.

Government-Wide Financial Statements

The government-wide financial statements include the *Statement of Net Position* and the *Statement of Activities*. These statements report financial information for the City as a whole except for the fiduciary funds. The trust funds are reported as private purpose trust funds in the fiduciary fund financial statements.

The government-wide financial statements and fiduciary fund statements report using the economic resources measurement focus and the accrual basis of accounting generally including the elimination of internal service activity between or within funds. Exceptions to this rule are payments-in-lieu of taxes and other charges between the governmental and proprietary functions and various other functions of the government. Elimination of these charges would distort costs and program revenue reported for the various functions. Separate columns are used to present governmental activities, business-type activities and the component unit. Revenues are recognized when

NOTES TO THE FINANCIAL STATEMENTS (Continued)

earned and expenses are recognized when the related liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met. Net Position is used as a practical measure of economic resources and the operating statement includes all transactions and events that increased or decreased Net Position. Depreciation is charged as an expense against current operations and accumulated depreciation is reported on the Statement of Net Position. Internally dedicated resources are reported as general revenues rather than as program revenues.

The *Statement of Activities* reports the expenses of a given function offset by program revenues directly connected with the functional program. Expenses which are not directly related to a function, indirect expenses, are not charges to a function. Program revenues include (1) charges for services such as water, snow removal, weed removal, sewer, garbage and landfill fees and (2) operating grants that are restricted to a particular functional program. Property taxes, special assessments and other revenue sources not properly included with program revenue are reported as general revenues.

Fund Financial Statements

Fund financial statements provide information on the City's major governmental funds and a combined column for all other non-major funds, and major proprietary funds and all non-major proprietary funds combined in one column. Since the resources in the fiduciary funds cannot be used for City operations, they are not included in the government-wide statements.

Governmental Funds

Governmental activities normally are supported by taxes and intergovernmental revenues. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay current liabilities. The City considers tax revenue to be available if collected within 60 days of the end of the fiscal period. Revenues from federal, state and other grants designated for payment of specific City expenditures is recognized when the related expenditures are incurred; accordingly, when such funds are received, they are reported as deferred revenues until earned. Expenditures are recognized when the liability is incurred, except for claims, compensated absences and interest on long-term debt which are recorded when normally expected to be liquidated with expendable available financial resources. Payments of long-term debt principal are reported as expenditures when paid. Capital asset purchases are recorded as functional expenditures and depreciation is not recognized.

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants and donations. Revenues from property taxes are recognized in the period for which the taxes are levied. Revenues from grants and donations are recognized when all eligibility requirements imposed by the provider have been satisfied. Eligibility requirements include timing requirements, which specify whether resources are required to be used for the year when use is first permitted, matching requirements and expenditure requirements in which the resources are provided to the City on a reimbursement basis. On the modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

GASB Statement No. 34 requires that the general fund be reported as a major fund. GASB Statement No. 54 requires that funds with similar restrictions to the General fund be combined in the General fund. The funds are combined into one General fund. All other governmental funds that exceed 10% of total governmental fund assets, liabilities, revenues, or expenditures are reported as major funds. The City reports the following **major governmental** funds:

General Fund – The General Fund is the primary operating fund of the City and accounts for all revenues and expenditures of the City not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund.

Street Maintenance Fund – This fund is used to account for the revenues and expenditures of the City's Street Maintenance District. Fees collected from taxpayers are used for the maintenance of the City's streets and right-of-ways within this district.

TIFD –The Tax Increment Finance District (TIFD) fund is used to account for revenues and costs to make payments on the revenue bond which was used to improve the industrial park and provide funds to finish the Industrial Park Infrastructure. The City uses two funds for accounting for the TIFD funds; TIFD Debt Service and TIF CIP. These funds are combined for reporting purposes. In fiscal year 2015, the balance of the TIF CIP fund was transferred into the TIFD fund to meet bond requirements. The TIF CIP fund was closed in fiscal year 2015.

SID 120 Fund – The Special Improvement District 120 fund is used to account for the costs and revenues associated with the construction of streets, curbs and gutters for the area of the Wagner Subdivision. It is financed by interfund loans.

SID 121 Fund – The Special Improvement District 121 fund is used to account for costs and revenues associated with the construction of streets, curbs and gutters for the area of the Dorn Subdivision. It is financed by interfund loans.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Proprietary Funds

Enterprise funds – Business-type activities rely to a significant extent on fees and charges for support. These business-type funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water, Sewer, and Solid Waste funds are charges to customers for sales and services.

Proprietary funds are reported using the full-accrual basis of accounting. Proprietary funds recognize as operating revenue, the portion of fees intended to recover cost of new construction to the system. The operating expenses for enterprise funds include cost of sales and services, administration expenses, and depreciation on capital assets. All revenue and expenditures not meeting this definition are reported as non-operating revenues and expenses.

The City reports the following **major enterprise** funds:

Water Fund – This fund accounts for the activities of the public water utility system operations.

Sewer Fund – This fund accounts for the activities of the public sewer collection and treatment operations.

Solid Waste Fund – This fund accounts for the activities of the public solid waste utility systems (garbage collection and landfill) operations. The City's Garbage and Landfill funds are combined as one Solid Waste fund for reporting purposes. Detailed information regarding each fund is included in the Supplementary Information (SI) section of this report.

Fiduciary Funds

The fiduciary fund statements report uses the economic resources measurement focus and accrual basis of accounting. Revenues are recognized when earned and expenses and benefits are recognized when the related liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied while contributions and grants are recognized when grantor eligibility requirements are met.

Private Purpose Trust Funds – The City maintains a pension trust fund for the Volunteer Fireman's Disability and Pension fund. This fund is used to account for assets held by the City in a trustee capacity for the Volunteer Fireman's Disability and Pension fund and associated disbursements.

Agency Funds – Agency Funds generally are used to account for assets that the City holds in the payroll and claims clearing funds. In addition to clearing funds, the City maintains an agency fund for the City Court which is used to account for the collection, holding and reimbursement of court bonds. Cash is held for warrants which were written but have not been paid by the bank. Agency funds do not report a measurement focus as they do not report operations. The City's clearing funds are not reported on the fiduciary fund statements.

C) CASH AND INVESTMENTS

Montana Code Annotated (MCA) allows cities to invest public money not necessary for immediate use in direct obligations of the U.S. government i.e., treasury bills, notes, bonds; certain U.S. treasury obligations; U.S. government security money market fund if investments consist of those listed above; time or savings deposits with a bank, savings and loan association, or credit union which is FDIC, FSLIC, or NCUA insured and are located in the state; or in repurchase agreements as authorized by MCA, or Montana Board of Investments Short Term Investment Pool (STIP). Interest earned on the pooled investments is distributed to each contributing entity and fund on a pro rata basis. The City's cash includes amounts in demand deposits, as well as short-term investments as authorized by State statutes.

The City does not have a formal investment policy that places any further restrictions on the nature of types of investments that may be purchased other than the State statute. Investments are reported at fair value.

The City considers on hand, demand accounts, savings, money markets, repurchase agreements, CD's and short-term investments with original maturities of three months or less from the date of acquisition, to be cash equivalents. For purposes of the statement of cash flows, the enterprise funds consider all funds (including restricted assets) held in the City cash pool described above and County cash pool to be cash equivalents. The City considers cash held in the Fiduciary funds to be cash equivalents and are reported at fair value.

Income from pooled investments is allocated to the individual funds or external participants based on the fund or the participant's month end cash management pool to cash equivalents.

D) ESTIMATES

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

E) INVENTORIES

Inventories are reported at cost (Last in, First out) and are charged to expenditures when purchased. Inventories consist primarily of a shared gravel pit between the governmental and proprietary activities. Inventories as of June 30, 2015 are \$120,792 for Governmental activities and \$50,973 for Business-type activities.

D) PROPERTY TAXES / ASSESSMENTS

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

The City collects any prepaid assessments directly. In fiscal year 2015, the City collected Street Improvement District (SID) assessments directly of \$40,735 for SID 120 and \$19,971 for SID 121. These amounts are reported as assessments revenue in the current year. The advantage for the residents to pay their assessments as soon as possible is the reduction in interest on the SIDs.

G) CAPITAL ASSETS

The useful lives of capital assets of City of Hardin and Two Rivers Authority are illustrated in the following table:

<u>Capital Asset Useful Lives</u>	<u>Governmental</u>	<u>Proprietary</u>	<u>Two Rivers Authority</u>
Infrastructure	5 – 50 years	5 – 50 years	-----
Improvements other than Buildings	20 – 40 years	10 – 37 years	-----
Intangibles – Logo	-----	-----	15 years
Buildings	10 – 50 years	40 – 50 years	50 years
Machinery and Equipment	5 – 20 years	5 – 20 years	6 years

Primary Government

The City’s governmental and business-type capital assets are capitalized at historical cost or estimated historical cost. The City considers capital assets to be those resulting expenditures which have an initial, individual cost of more than \$5,000 and have an estimated useful life in excess of five years. The governmental capital assets are reported in the government-wide Statement of Net Position but are not reported in the Balance Sheet – Governmental Funds. Capital assets are updated for additions and retirements during the year. Donated capital assets are recorded at their estimated fair value as of the date received. The City uses the straight-line depreciation method. The City capitalizes the value of all infrastructures acquired after July 1, 2003. The City has elected not to retroactively report general infrastructure assets. Major improvements are capitalized but the cost of normal maintenance and repairs that do not add a significant amount to the value of the asset or materially extend an asset’s life are not capitalized. Interest incurred during construction is not capitalized.

Two Rivers Authority – A Component Unit

Two Rivers Authority’s (TRA) assets are capitalized at historical cost or estimated historical cost. TRA considers capital assets to be those resulting expenditures which have an initial, individual cost of more than \$1,000, have an estimated useful life in excess of one year or are titled. Gifts or contributions of capital assets are recorded at fair market value when received. The costs of normal maintenance and repairs are charged to operations as incurred. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable. Depreciation is recorded on a straight-line basis over the useful lives of the assets.

H) COMPENSATED ABSENCES

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

The City’s liability incurred because of unused vacation and sick leave accumulated by employees is reflected in the financial statements. Expenditures for unused leave are recorded when paid in governmental funds and when accrued on the statement of activities. The governmental amount expected to be paid within one year is \$11,341 and it is generally paid out of the General fund. The current portion of the business-type activities compensated absences is \$26,498. Total accrued governmental and business-type liabilities for sick and vacation leave as of June 30, 2015 were \$45,365 and \$105,990 respectively for a total of \$151,355.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

I) INTERFUND TRANSACTIONS

Interfund transactions between governmental funds are reflected as transfers. Interfund loans are reported as receivables and payables as appropriate, and are referred to as either “due to/from other funds” and are subject to elimination upon consolidation of funds. Advances between funds, as reported in the fund financial statements, are offset by nonspendable fund balance in the General fund and as committed or assigned fund balance in other governmental funds as appropriate.

Unrestricted cash in the various funds of the City are pooled in one fund for unrestricted purposes. At each month-end the interfund balances reflect each fund’s portion of the cash/investment pool.

J) INTERNAL BALANCES

The governmental and proprietary funds are reported in separate columns on the Statement of Net Position. Loans between the governmental and proprietary funds are reported on the Balance Sheet – Governmental funds and on the Balance Sheet – Proprietary funds. Loans within governmental funds and within proprietary funds are eliminated from reporting on the Statement of Net Position. Balances on loans between governmental and proprietary funds are reported on the Statement of Net Position as Internal Balances.

K) LONG-TERM OBLIGATIONS

In the Government-wide, proprietary, and component unit financial statement, long term debt and other long-term obligations, are reported as liabilities. The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

L) COMPLIANCE AND ACCOUNTABILITY

The City adopts an annual budget for all of its funds in accordance with Montana Code Annotated (MCA) 7-6-40. State statute requires the adoption of a preliminary budget, public hearings on the preliminary budget and the final adoption of the budget by the later of the first Tuesday after the first Tuesday in September or within 30 calendar days of the receipt of the certified taxable valuations from the Department of Revenue. The City must also submit a copy of the final budget to the Department of Administration by the later of October 1 or 60 days after the receipt of the taxable values from the Department of Revenue.

State statute limits the making of expenditures or incurring obligations to the amount of the final budget as adopted or as amended. Budget transfers and amendments are authorized by law, and in some instances, may require further hearings. Any budget amendments providing for additional appropriations must identify the fund reserves, unanticipated revenue, or previously unbudgeted revenue that will fund the appropriations.

M) ENCUMBRANCES

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded to reserve a portion of an applicable appropriation, is utilized for budgetary control purposes. Encumbrances are not the equivalent of expenditures, and accordingly, amounts assigned for encumbrances at the governmental fund level indicate that portion of the fund balance segregated for expenditure upon vendor performance. The City reports invoices not paid by year end as accounts payables.

N) BOND INDENTURE REQUIREMENTS

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

O) IMPACT OF RECENTLY ISSUED ACCOUNTING STATEMENTS

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, were implemented in fiscal year 2015. Beginning Net Position was restated as shown below which represents the beginning balances of the net pension liabilities that were not previously reported on the financial statements. Previously, pension obligations were not reported at the employer level.

<u>Governmental Funds</u>	<u>Amount</u>
Net Position, June 30, 2014 (as previously reported)	\$1,714,033
City Contributions (7/1/13 – 6/30/14) – PERS	32,389
Beginning Proportionate Share of Net Pension Liability – PERS	(546,225)
Net Position, June 30, 2014, restated	<u>\$1,200,197</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Proprietary Funds	Water	Sewer	Solid Waste	Total Business-Type
Net Position, June 30, 2014 (as previously reported)	\$4,870,876	\$5,062,460	\$2,633,646	\$12,566,982
City Contributions (7/1/13 – 6/30/14) – PERS	17,222	13,676	20,740	51,638
Beginning Proportionate Share of Net Pension Liability – PERS	<u>(290,432)</u>	<u>(230,630)</u>	<u>(349,775)</u>	<u>(870,837)</u>
Net Position, June 30, 2014, restated	<u>\$4,597,666</u>	<u>\$4,845,506</u>	<u>\$2,304,611</u>	<u>\$11,747,783</u>

NOTE 2: JOINT VENTURES

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

A) CITY OF HARDIN and TWO RIVERS AUTHORITY (A Component Unit):

In March of 2010 the City signed a Memorandum of Understanding (MOU) between the City of Hardin and Two Rivers Authority (TRA). The MOU states that TRA shall pay necessary payments to the bondholders from proceeds received from the operation of the detention facility. All funds in excess of payments to bondholders shall be paid to the City. The City agreed to provide funding to TRA as necessary and approved by City Council. The provisions of the agreement are to be reviewed at least every two years.

Senior Lien Project Revenue Bonds

On April 24, 2006 Two Rivers Authority issued \$27,015,000 in Senior Lien Project Revenue Bonds to finance the cost of the construction of the detention facility, to establish a reserve, and to pay costs associated with the sale of bonds.

Resolution No. 1805 of the City specifies that the Bonds issued for the Detention Facility shall not constitute an obligation or debt of the City and shall not be payable from, nor shall constitute a charge, lien or encumbrance on property of the City, nor shall the holder of the Bonds ever have the right to enforce payment against any property of the City.

Two Rivers Authority Operations

In fiscal year 2015, Two Rivers Authority reported operating costs of \$2,417,139 which does not include depreciation or debt service requirements. Revenues totaled \$1,861,989. Basic operating costs outpaced revenues by \$555,150. In fiscal year 2015 bondholders advanced Two Rivers Authority an additional \$497,795 bringing total advances to \$858,327 to cover short term revenue shortages. Payroll accruals include current year amounts that were underpaid. In prior years, the Trustee (US Bank) authorized bond reserves to cover for operating and maintenance costs. According to the bond agreement, this is not proper use of reserve funds. However, the major bondholders agreed that the current use of reserves suits the needs of the bondholders.

B) TWO RIVERS AUTHORITY and the US BANK TRUSTEE

In June 2010, a portion of the TRA revenue bond proceeds of \$727,510 was deposited in an US Bank reserve account. The purpose of this account was to be used explicitly for the repayment of debt. When it became apparent that revenues were insufficient to meet the bond covenant requirements, the US Bank Trustee refused to release funds from the US Bank reserve account for TRA's day-to-day operations. Since then, some of the reserve account monies have been used for day-to-day operations and the account balance has dropped to \$125,225. The reserve account was never intended to be used for day-to-day operations of the facility.

Defaults and Remedies

The Series 2006 bonds have been in default since 2008 when Two Rivers Authority failed to make the November principal and interest payments. The US Bank Trustee controls the transactions between Emerald, the BIA, Three Tribes of North Dakota, and the bondholders under subsection (ii) of the following paragraph. Neither TRA's Board nor the Executive Director have been involved in, approved, nor received copies of supporting documentation for the transactions between these entities. TRA's financial statements were prepared by taking excerpts from bank statements in Two Rivers Authority's name for transactions between ECM and the BIA and the Three Tribes of North Dakota.

According to the terms of the Series 2006 Bonds, the Mortgage, Defaults and Remedies page 24:

If one or more events of default have occurred and are continuing, the Trustee at its election may, to the extent permitted by law, (i) foreclose the lien of the Mortgage (the series 2006 revenue bonds) on the Mortgaged Property (the detention facility) and sell the Project (the detention facility) at public auction, (ii) enter and take possession of the Mortgaged Property or any part thereof and exclusion of the Issuer (Two Rivers Authority) from possession of the Mortgaged Property, (iii) lease, sell or operate the Mortgaged Property or any part thereof for the account of the Issuer, (iv) apply to a court of competent jurisdiction for the appointment of a receiver, or (v) exercise any remedies available to a secured party under the Uniform Commercial Code.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

C) TWO RIVERS AUTHORITY and EMERALD CORRECTIONAL MANAGEMENT (EMERALD):

In May of 2014, Two Rivers Authority (TRA) executed start-up and operational agreements with Emerald Correctional Management LLC (Emerald) in order to bring the Two Rivers Regional Detention Facility into use. Start-up funding was provided by interested bondholders and was recorded as funding advances of \$858,327 at June 30, 2015.

NOTE 3: NET POSITION / FUND BALANCE

A) NET POSITION

In the government-wide Financial Statements, the difference between the City’s total assets and liabilities represents net position. The government-wide and proprietary fund financial statements utilize a net position presentation. Net Position is categorized as Net Investment in Capital Assets, Restricted and Unrestricted.

Net Investment in Capital Assets – This category of Net Position, reports capital assets, including infrastructure, as one component of Net Position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category. Restricted Net Position for Capital Projects reported on the Balance Sheet is also included in this category.

Restricted Net Position – The portion of Net Position that is subject to constraints either by creditors (such as debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. At June 30, 2015, restricted Net Position for governmental activities totaled \$1,778,852 of which \$786,812 was restricted by enabling legislation.

Unrestricted Net Position – This category reports the portion of Net Position that is not restricted for any project or other purpose. Outstanding liabilities attributable to these assets reduce the balance of this category.

When both restricted and unrestricted resources are available for use, it is the City’s policy to use the restricted funds first.

B) FUND BALANCE POLICY

Fund Statement – Net Position

In the fund financial statements, governmental funds report fund balance as Nonspendable, restricted, committed, assigned or unassigned based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the funds can be spent.

Nonspendable – Amounts that cannot be spent because they are in a nonspendable form or because they are legally or contractually required to be maintained intact i.e., inventory or Interfund loans.

Restricted – Amounts that can be spent only for specific purposes stipulated by external resource providers, constitutionally, or through enabling legislation.

Committed – Amounts that can be used only for specific purposes determined through a resolution approved by the City Council to establish, modify and rescind; and do not lapse at year end.

Assigned – Amounts intended for specific purposes by the Finance Officer and/or Mayor who have been delegated authority by the City Council to assign such amounts. This fund balance classification also reflects any funds assigned for capital projects.

Unassigned – All amounts not included in other spendable classifications.

When expenditures are incurred for which committed, assigned or unassigned amounts could be used, it is the City’s policy to first spend committed, then assigned and unassigned resources last.

C) FUND BALANCE CLASSIFICATIONS – Governmental Funds

Non-Spendable Net Position:

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	\$1,032,346	Interfund Loans
General Fund	5,716	Inventories
Street Maintenance Fund	115,076	Inventories
Curb & Gutter	95,061	Interfund loans
Gas Tax Apportionment	189,523	Interfund loans
Capital Improvement	<u>341,501</u>	Interfund loans
Total Non-Spendable	\$1,779,223	

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Restricted Net Position:

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
TIFD	\$1,153,456	Debt Service – Bond Requirements
Street Maintenance	312,103	Public Works – Special Districts
Street Maintenance	24,896	Capital Projects – State Statutes
Gas Tax	21,790	Capital Projects – State Statutes
Gas Tax	195,657	Public Works
Other Governmental Funds	261,892	Capital Projects/Acquisitions
Other Governmental Funds	25,643	General Gov. – Mill Levy
Other Governmental Funds	125,415	Public Works – Special Districts
Other Governmental funds	<u>24,645</u>	Housing/Community Development – CDBG or 7-6-16 MCA
Total Restricted	\$2,145,497	

Committed Net Position:

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
Other Governmental funds	\$ 113,395	Miscellaneous – Resolution 1943

Assigned Net Position:

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
General	\$ 59,143	Public Safety
General	80,000	Housing/Community Development
Other Governmental funds	759	Housing/Community Development
Other Governmental funds	<u>248,078</u>	Public Works
Total Assigned	\$ 387,980	

Unassigned Net Position:

<u>Fund</u>	<u>Amount</u>
General	\$ 457,397
SID 120	(1,228,070)
SID 121	<u>(511,120)</u>
Total Unassigned	(\$1,281,793)
Total Governmental	<u>\$3,144,302</u>

D) STATEMENT OF NET POSITION VS. BALANCE SHEET – GOVERNMENTAL FUNDS

The difference of \$786,812 between restricted fund balance on the Balance Sheet - Governmental Funds and restricted net position on the Statement of Net Position represents the deferred inflows of resources due to taxes/assessments receivable in the restricted funds. This difference is attributable to the difference in accounting basis of these two statements

NOTE 4: CASH AND INVESTMENTS

A) CASH and INVESTMENTS

Primary Government

The majority of the City’s cash resources are held and managed by the City Finance Officer. The Big Horn County held cash from taxes collected but not distributed to the City at June 30, 2015 of \$120,520. Deposits consist primarily of demand accounts, money markets and CD’s, and are carried at fair value. The City’s investments consist primarily of repurchase agreements and US Government Securities and are carried at fair value. At year end, the carrying amount of cash and cash equivalents was \$5,747,759 and the carrying amount of investments was \$2,188,364 for total cash and investments of \$7,936,123. This includes \$3,455,469 in restricted cash and investments, \$149,190 in the Trust funds and \$114,815 in Agency funds.

Two Rivers Authority (a component unit)

Operating cash resources of \$738 are held and managed by the Executive Director. The Bond reserve account of \$125,225 is held and managed by a US Bank Trustee. Deposits consist primarily of demand accounts are carried at fair value. At June 30, 2015, the carrying amount of cash and investments totaled \$125,963.

<u>Cash & Cash Equivalents:</u>	<u>City of Hardin</u>	<u>Two Rivers Authority</u>
Demand Accounts, Petty Cash	\$ 8,735	\$125,963
Money Markets	436,666	0
Certificates of Deposit	<u>5,302,358</u>	<u>0</u>
Total Cash & Cash Equivalents	<u>\$5,747,759</u>	<u>\$125,963</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

<u>Investments:</u>	<u>City of Hardin</u>	<u>Two Rivers Authority</u>
Repurchase Agreements	\$1,285,701	\$ 0
US Treasury Notes	260,740	0
US Government Securities	<u>641,923</u>	<u>0</u>
Total Investments	<u>2,188,364</u>	<u>0</u>
Total Cash & Cash Equivalents (from above)	<u>5,747,759</u>	<u>125,963</u>
Total Cash & Investments	<u>\$7,936,123</u>	<u>\$125,963</u>

B) CREDIT RISK – City of Hardin

Custodial Credit Risk – Deposits: Custodial credit risk for deposits is the risk that in the event of a bank failure, the entity may not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The State of Montana (the State) statutes require that City funds be deposited in banks located in the State and that all deposit balances in excess of Federal Deposit Insurance Corporation (FDIC) insurance limits are collateralized in accordance with State statutes. The City's deposits and investments are either covered by FDIC insurance, collateralized or uncollateralized US Government securities. The City is in compliance with State statutes concerning collateralization of cash balances.

Custodial Credit Risk – Investments: Custodial credit risk for investments is the risk that, in the event of a financial institution failure, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require all investments (other than federal or state government instruments) to be collateralized in accordance with State statutes. The City's policy for custodial credit risk requires compliance with the laws of the State of Montana. As of June 30, 2015, \$176,195 was held in a money market at a local Bank beyond the amount covered by FDIC.

Concentration of Credit Risk: The City places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the City at June 30, 2015:

<u>Investment Type</u>	<u>Fair Value</u>	<u>% to Total</u>
Repurchase Agreements	\$1,285,701	58.8%
U.S. Treasury Notes	260,740	11.9%
Federal Home Loan Mortgage Corp.	195,510	8.9%
Federal Home Loan Bank	139,114	6.4%
Federal Farm Credit Bank	99,370	4.5%
Federal National Mortgage Association	<u>207,929</u>	<u>9.5%</u>
Total Investments	<u>\$2,188,364</u>	<u>100.0%</u>

C) RESTRICTED CASH & INVESTMENTS

Restricted cash and investments as of June 30, 2015 were restricted for the purposes as shown below:

<u>Fund</u>	<u>City of Hardin</u>	<u>Two Rivers Authority</u>	<u>Description</u>
General	\$ 3,200		Street Excavation Bonds Payable
TIFD	1,155,956		Future Debt Service Payments
Gas Tax Apportionment	<u>21,790</u>		Capital Equipment Acquisition
Total Governmental funds	\$1,180,946		
Water	\$ 65,190		Customer Deposits
Water	16,050		Debt Service Payments
Water	94,491		Capital Projects – Bond Covenants
Sewer	196,591		Debt Service Payments
Sewer	387,310		Capital Projects – Bond Covenants
Solid Waste	300,000		Capital Projects
Solid Waste	345,150		Capital Projects – Bond/Loan Covenants
Solid Waste	4,700		Customer Deposits
Solid Waste	94,919		Debt Service Payments
Solid Waste	<u>770,123</u>		Closure/Post-Closure
Total Proprietary funds	<u>\$2,274,523</u>		
Total Primary Government	<u>\$3,455,469</u>		
Two Rivers Authority		<u>\$125,225</u>	Bond Requirements

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 5: TAXES / ASSESSMENTS and OTHER RECEIVABLES

A) MILL LEVIES

The taxable value of the roll as of January 1, 2014, upon which the levy for the 2015 fiscal year was based, was \$2,810,730 for the City. The tax rates assessed for the year ended June 30, 2015 were as follows:

<u>Fund</u>	<u>Mills</u>
General	140.04
PERS- (Employer Contribution)	8.78
Group Health Insurance	10.87
Local Government Study Commission	6.40
Firemen's Disability & Pension Trust	3.29
Permissive Medical	13.00
Comprehensive Insurance	<u>3.02</u>
Total Governmental	<u>185.40</u>

B) TAXES / ASSESSMENTS RECEIVABLE

An allowance for uncollectible accounts was not estimated for real and personal property taxes receivable. The direct write-off method is used for these accounts. Only the principal portions of Assessments Receivable are illustrated below. Protested taxes and past due assessments receivable are included in taxes receivable. Interest amounts will be reported as revenues in the year in which they are received.

	<u>Taxes</u>	<u>Assessments</u>	<u>Total Taxes &</u>
<u>Governmental Funds</u>	<u>Receivable</u>	<u>Receivable</u>	<u>Assessments Receivable</u>
General	\$ 89,682	\$ 0	\$ 89,682
Street Maintenance	1,238	31,341	32,579
TIFD	728,965	0	728,965
SID 120	11,886	1,251,679	1,263,565 Past due \$11,886
SID 121	7,312	507,826	515,138 Past due \$7,312
Curb & Gutter – Crow Ave SID	0	68,959	68,959
Curb & Gutter – Other SIDs	0	48,598	48,598
Other Governmental Funds	<u>25,272</u>	<u>21,051</u>	<u>46,323</u>
Total Governmental Funds	<u>\$864,355</u>	<u>\$1,929,454</u>	<u>\$2,793,809</u>
<u>Proprietary Funds</u>			
Water	\$ 0	\$ 525	\$ 525
Sewer	0	503	503
Solid Waste	<u>0</u>	<u>26,602</u>	<u>26,602</u>
Total Proprietary Funds	<u>0</u>	<u>27,630</u>	<u>27,630</u>
Total Primary Government	<u>\$864,355</u>	<u>\$1,957,084</u>	<u>\$2,821,439</u>
<u>Fiduciary Funds</u>			
Fire Disability Pension Trust	\$ <u>2,076</u>	\$ <u>0</u>	\$ <u>2,076</u>

C) SPECIAL IMPROVEMENT DISTRICTS (SIDs) ASSESSMENTS RECEIVABLE

The assessments receivable amounts reported in the above section include the following major SID assessments. The following is the expected repayment schedule for these projects.

<u>Fiscal Year</u>	<u>SID 120</u>	<u>SID 121</u>	<u>Crow Ave. SID</u>
<u>Ending 6/30:</u>	<u>Principal</u>	<u>Principal</u>	<u>Principal</u>
2016	\$ 45,328	\$ 28,957	\$11,948
2017	53,501	22,299	5,972
2018	55,118	22,973	6,465
2019	56,783	23,667	6,721
2020	58,500	24,383	6,997
2021 – 2025	320,114	133,422	30,856
2026 – 2030	371,506	154,843	0
2031 – 2034	<u>302,715</u>	<u>104,594</u>	<u>0</u>
Total	<u>\$1,263,565</u>	<u>\$515,138</u>	<u>\$68,959</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The schedule above will change each year because residents do not normally pay their assessments according to the schedule. Some pay more than the annual required amount and some are delinquent. Delinquent payments are put on the tax rolls. Therefore, the City expects to receive the entire principal amount. Past due assessments for SID's 120 and 121 of \$11,886 and \$7,312 respectively are reported with the current year payments due.

SID 120

In fiscal year 2013, the City began a street improvement project and financed it internally through interfund loans to keep the interest within the City rather than paying interest to third parties. The affected City residents will be billed over a 20-year period at 3% beginning in fiscal year 2015. Delinquent SID assessments of \$11,886 are reported with the current assessments due. Prepaid SID 120 assessments totaled \$40,735 and are reported as revenues in the year in which they are received.

SID 121

This street project was for the installment, construction and replacement of streets, curbs and gutters, sidewalks and driveway approaches and was completed in fiscal year 2013. The City financed this project internally through interfund loans to retain the interest within the City rather than paying interest to a third party. The affected City residents will be billed over a 20-year period at 3%. Prepaid SID 121 assessments totaled \$19,971 and are reported as revenues in the year in which they are received.

Crow Avenue SID

This street project was for the installment, construction, reconstruction and replacements of curbs and gutters, sidewalks and driveway approaches, and was completed in fiscal year 2013. This project was paid for from the Capital Improvement fund and Curb & Gutter fund. Assessments receivable and tracking of resident balances for the Crow Avenue SID is accounted for in the Curb & Gutter fund. The City covered a large portion of this improvement and assessed the residents the balance of \$88,250 over 12 years rather than 20 years (at 4% rather than 3%) due to the higher portion covered by the City for this project.

Other SIDs

Other assessments are accounted for in the Local Charges for Services fund and are reported as Other SIDs. Other SID assessment's receivable totaled \$48,598 as of June 30, 2015.

D) INTERFUND RECEIVABLES – DUE FROM OTHER FUNDS

DUE TO	DUE FROM						Reason
	General	SID 120	SID 121	Local Charges for Services Sewer		Total	
Fund	General	SID 120	SID 121	for Services	Sewer	Total	Reason
Governmental Funds							
General	\$ 0	\$ 827,736	\$311,190	\$ 0	\$ 0	\$1,138,926	In-house SID financing
Curb & Gutter	0	67,797	27,263	0	0	95,060	In-house SID financing
Gas Tax	0	125,909	63,614	0	0	189,523	In-house SID financing
Capital Projects	0	232,449	109,053	0	0	341,502	In-house SID financing
Street Maintenance	0	0	0	2,650	0	2,650	Outstanding Svc. Payment
Street Maintenance	0	0	0	0	900	900	Outstanding Svc. Payment
Total Governmental	<u>\$ 0</u>	<u>\$1,253,891</u>	<u>\$511,120</u>	<u>\$ 2,650</u>	<u>\$900</u>	<u>\$1,768,561</u>	
Proprietary Funds							
Water	\$ 0	0	0	4,240	0	\$ 4,240	Outstanding Svc. Payment
Water	106,580	0	0	0	0	106,580	In-house SID financing
Sewer	0	0	0	1,960	0	1,960	Outstanding Svc. Payment.
Solid Waste	0	0	0	3,882	0	3,882	Outstanding Svc. Payment
Total	<u>\$106,580</u>	<u>\$0</u>	<u>\$ 0</u>	<u>\$10,082</u>	<u>\$ 0</u>	<u>\$ 116,663</u>	
Total Gov. & Proprietary	<u>\$106,580</u>	<u>\$1,253,891</u>	<u>\$511,120</u>	<u>\$12,732</u>	<u>\$900</u>	<u>\$1,885,224</u>	

Totals may not foot due to rounding

E) INTERNAL BALANCES

Water (Proprietary fund) interfund loan to General fund (Governmental Fund)

In October 2012, the Water fund loaned the General fund \$300,000 on a 3-year basis to allow the General fund sufficient cash to fund the Special Improvement Districts 120 and 121 internally. This loan is to be repaid on a semi-annual schedule beginning in November of 2013 at 4% interest. In fiscal year 2015, the General fund made a principal and interest payments of \$102,602 and \$7,536 respectively to the Water fund leaving a balance of \$106,580 which is expected to be paid in full in fiscal year 2016.

By the end of fiscal year 2015, the Local Charges for Services fund had not paid the proprietary funds their shares of the year's charges leaving an outstanding balance of \$10,082 which is expected to be paid in fiscal year 2016. The Sewer fund had not paid the Street Maintenance fund \$900 of its portion of the fees collected.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	June 30, 2014		New	June 30, 2015	
<u>Loaning Fund</u>	<u>Balance</u>	<u>Payments</u>	<u>Loans</u>	<u>Balance</u>	<u>Due From / Reason</u>
Water	\$209,182	\$102,602	\$ 0	\$106,580	General – Internal funding of SIDs
Water	0	0	4,240	4,240	Local Chgs. for Svcs. – Late svc. Payment
Sewer	0	0	1,960	1,960	Local Chgs. for Svcs. – Late svc. Payment
Solid Waste	<u>0</u>	<u>0</u>	<u>3,882</u>	<u>3,882</u>	Local Chgs. for Svcs. – Late svc. Payment
Subtotal Proprietary	209,182	102,602	10,082	116,663	
Street Maintenance	<u>0</u>	<u>0</u>	<u>(900)</u>	<u>(900)</u>	Sewer – Outstanding service payment
Total Internal Balances	<u>\$209,182</u>	<u>\$102,602</u>	<u>\$ 9,182</u>	<u>\$115,763</u>	

Totals may not foot due to rounding

F) ACCOUNTS RECEIVABLE

An allowance for uncollectible accounts was not estimated for the City's proprietary funds because any uncollected accounts are placed on the tax rolls as assessments and the customer's services are shut off. As of June 30, 2015, proprietary fund Accounts Receivable totaled \$214,803 and consists of the following components:

<u>Fund</u>	<u>Accounts Receivable</u>	<u>Other Receivables</u>	<u>Contracts Receivable</u>	<u>Interest Receivable</u>	<u>Total Receivables</u>
Water	\$ 58,070	\$8,523	\$2,714	\$1,849	\$71,156
Sewer	58,179	0	6,580	1,427	66,186
Garbage	0	0	0	784	784
Solid Waste	<u>75,816</u>	<u>0</u>	<u>0</u>	<u>861</u>	<u>76,677</u>
Total	<u>\$192,065</u>	<u>\$8,523</u>	<u>\$9,294</u>	<u>\$4,921</u>	<u>\$214,803</u>

G) DUE FROM OTHER GOVERNMENTS

<u>Fund</u>	<u>Amount</u>	<u>Due From / Reason</u>
General	\$ 731	State of MT – HB758 (Oil & Gas production tax)
CTEP	<u>6,675</u>	CTEP Grants – Heiman Park Sidewalks & Welcome signs
Total	<u>\$7,406</u>	

H) ACCRUED INTEREST RECEIVABLE

<u>Fund</u>	<u>Amount</u>	<u>Due From / Reason</u>
General	\$1,230	CD Interest Receivable
Street Maintenance	424	CD Interest Receivable
Other Governmental Funds	<u>1,053</u>	CD Interest Receivable
Total	<u>\$2,707</u>	

NOTE 6: CAPITAL ASSETS – Governmental Activities

	Balance			Balance
	<u>July 1, 2014</u>	<u>Additions</u>	<u>Removals</u>	<u>June 30, 2015</u>
COST Non-Depreciable:				
Land	\$ 598,379	\$ 0	\$ 0	\$ 598,379
Rights of Way	40,622	0	0	40,622
CIP	<u>1,263,385</u>	<u>28,517</u>	<u>0</u>	<u>1,291,902</u>
Total Non-Depreciable	<u>\$1,902,386</u>	<u>\$ 28,517</u>	<u>\$ 0</u>	<u>\$ 1,930,903</u>
COST Depreciable:				
Land Improvements	\$ 192,315	\$ 0	\$ 7,950	\$ 184,365
Buildings	1,104,319	0	0	1,104,319
Machinery & Equipment	1,219,883	34,610	0	1,254,493
Infrastructure	<u>14,452,101</u>	<u>0</u>	<u>0</u>	<u>14,452,101</u>
Total Depreciable COST	<u>16,968,618</u>	<u>34,610</u>	<u>7,950</u>	<u>16,995,278</u>
Total COST	<u>\$18,871,004</u>	<u>\$ 63,127</u>	<u>\$ 7,950</u>	<u>\$18,926,181</u>
ACCUMULATED DEPRECIATION:				
Land Improvements	\$ (61,220)	\$ (6,649)	\$(7,950)	\$ (59,919)
Buildings	(249,130)	(24,076)	0	(273,206)
Machinery & Equipment	(819,957)	(57,880)	0	(877,837)
Infrastructure	<u>(909,906)</u>	<u>(369,896)</u>	<u>0</u>	<u>(1,279,802)</u>
Total Depreciation	<u>\$(2,040,213)</u>	<u>\$(458,501)</u>	<u>\$(7,950)</u>	<u>\$(2,490,764)</u>

Totals may not foot due to rounding

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Current year depreciation was charged to the governmental activities functions as follows:

General Government	\$ 7,869
Public Safety	40,706
Public Works	306,047
Culture & Recreation	10,776
Housing & Dev	<u>97,103</u>
Total Depreciation	<u>\$ 458,501</u>

NOTE 7: CAPITAL ASSETS – Business-Type Activities

	Balance July 1, 2014	Additions	Removals	Balance June 30, 2015
COST Non-Depreciable:				
Land	\$ 463,193	\$ 0	\$ 0	\$ 463,193
CIP	<u>26,509</u>	<u>34,822</u>	<u>26,509</u>	<u>34,822</u>
Total Non-Depreciable	\$ 489,702	\$ 34,822	\$26,509	\$ 498,015
COST Depreciable:				
Land Improvements	\$ 2,040,909	\$ 0	\$ 0	\$ 2,040,909
Infrastructure (Utility)				
Transmission & Dist.	8,669,372	0	0	8,669,372
Treatment Plant	6,097,828	0	0	6,097,828
General Plant	430,974	0	0	430,974
Buildings & Improvements	100,354	0	0	100,354
Machinery & Equipment	<u>1,812,278</u>	<u>0</u>	<u>0</u>	<u>1,812,278</u>
Total Depreciable COST	\$19,151,715	\$ 0	\$ 0	\$19,151,710
Non-Depreciable COST	<u>489,702</u>	<u>34,822</u>	<u>26,509</u>	<u>498,015</u>
Total COST	<u>\$19,641,417</u>	<u>\$ 34,822</u>	<u>\$26,509</u>	<u>\$19,649,725</u>

ACCUMULATED DEPRECIATION – Business-Type Activities:

Land Improvements	\$ (455,481)	\$ (76,504)	\$ 0	\$ (531,985)
Infrastructure (Utility)				
Transmission & Dist.	(2,789,657)	(185,033)	0	(2,974,690)
Treatment Plant	(2,065,621)	(216,008)	0	(2,281,629)
General Plant	(403,350)	(1,674)	0	(405,024)
Buildings & Improvements	(43,937)	(2,169)	0	(46,106)
Machinery & Equipment	<u>(1,120,250)</u>	<u>(143,135)</u>	<u>0</u>	<u>(1,263,385)</u>
Total Depreciation	<u>\$(6,878,296)</u>	<u>\$(624,523)</u>	<u>\$ 0</u>	<u>\$(7,502,819)</u>

Totals may not foot due to rounding

Depreciation was charged to the **proprietary funds** in fiscal year 2015 as follows:

Water	\$228,427
Sewer	174,468
Solid Waste	26,934
Solid Waste	<u>194,694</u>
Total Depreciation Expense	<u>\$624,523</u>

The Sewer fund reported a loss on removals due to abandoned Construction in Process (CIP) costs of \$26,509.

NOTE 8: CAPITAL ASSETS – Two Rivers Authority (A Component Unit)

	Balance July 1, 2014	Additions	Removals	Balance June 30, 2015
COST Non-Depreciable:				
Land	\$ 257,377	\$ 0	\$ 0	\$ 257,377
Total Non-Depreciable	<u>\$ 257,377</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 257,377</u>
COST Depreciable:				
Buildings	\$19,684,930	\$ 0	\$ 0	\$19,684,930
Intangibles – Logo	780	0	0	780
Machinery & Equipment	<u>1,220</u>	<u>0</u>	<u>1,220</u>	<u>0</u>
Total Depreciable COST	<u>\$19,686,930</u>	<u>\$ 0</u>	<u>\$ 1,220</u>	<u>\$19,685,710</u>
Total COST	<u>\$19,944,307</u>	<u>\$ 0</u>	<u>\$ 1,220</u>	<u>\$19,943,087</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

ACCUMULATED DEPRECIATION:

Buildings	\$(2,362,192)	\$(393,699)	\$ 0	\$(2,755,891)
Intangibles – Logo	(312)	(52)	0	(364)
Machinery & Equipment	<u>(1,220)</u>	<u>0</u>	<u>(1,220)</u>	<u>0</u>
Total Depreciation	<u>\$(2,363,724)</u>	<u>\$(393,751)</u>	<u>\$ (1,220)</u>	<u>\$(2,756,255)</u>

Totals may not foot due to rounding

NOTE 9: DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources are consumptions of net position by a governmental entity that are applicable to a future reporting period. Deferred Outflows of Resources associated with the employer’s proportionate share of pension plans consists of City contributions to the pension plan since the measurement date of June 30, 2014. The employer contributions made in fiscal year 2015 will be recognized as reductions of the Net Pension Liability in the year ended June 30, 2016.

Deferred Outflows of Resources	Total	----- Proprietary Funds -----			Total
	Governmental	<u>Water</u>	<u>Sewer</u>	<u>Solid Waste</u>	Proprietary
City Contributions (7/1/13- 6/30/14)	\$32,389	\$17,221	\$13,676	\$20,740	\$51,637
Ending – City Proportionate Share NPL	(32,389)	(17,221)	(13,676)	(20,740)	(51,637)
City Contributions made 7/1/14 – 6/30/15	<u>29,544</u>	<u>15,709</u>	<u>12,474</u>	<u>18,919</u>	<u>47,102</u>
Total	<u>\$29,544</u>	<u>\$15,709</u>	<u>\$12,474</u>	<u>\$18,919</u>	<u>\$47,102</u>

NOTE 10: CURRENT LIABILITIES – Primary Government

A) DUE TO OTHER GOVERNMENTS

<u>Fund</u>	<u>Amount</u>	<u>Due To / Reason</u>
Lighting District #54	<u>\$22,352</u>	Hardin School District –Tax revenue erroneously assessed by the City to the School

B) OTHER PAYABLES

Governmental Funds	Accounts Payable	Street	Accrued
		Excavation	Payroll
		<u>Bonds Payable</u>	<u>Expenses</u>
General	\$31,107	\$ 3,200	\$ 7,960
Street Maintenance	4,913	0	5,299
TIFD	2,500	0	0
SID 120	629	0	0
Other Governmental Funds	<u>13,482</u>	<u>0</u>	<u>2,686</u>
Total Governmental	<u>\$52,630</u>	<u>\$ 3,200</u>	<u>\$15,945</u>

Proprietary Funds	Accounts Payable	Customer	Revenues	Accrued
		Deposits	Collected	Payroll
			<u>in Advance*</u>	<u>Expenses</u>
Water	\$32,067	\$65,190	\$13,841	\$11,298
Sewer	17,057	0	26,781	8,745
Solid Waste	4,209	0	0	3,717
Solid Waste	<u>15,129</u>	<u>4,700</u>	<u>0</u>	<u>8,563</u>
Total Proprietary Funds	<u>\$68,463</u>	<u>\$69,890</u>	<u>\$40,622</u>	<u>\$32,323</u>

*Revenues collected in advance reported in the Water and Sewer funds represent prepaid water and sewer taps in exchange for land easements. The amounts reported above are the original amounts.

C) INTERFUND PAYABLES – DUE TO OTHER FUNDS

SID 120	Current	Total	<u>Due to / Reason</u>
	<u>Amount</u>		
SID 120	\$ 50,160	\$ 827,736	General – in- house SID financing
SID 120	4,108	67,797	Curb & Gutter – in-house SID financing
SID 120	7,630	125,909	Gas Tax – in- house SID financing
SID 120	<u>14,086</u>	<u>232,449</u>	Capital project – in- house SID financing
Subtotal SID 120	\$ 75,984	\$1,253,891	

NOTES TO THE FINANCIAL STATEMENTS (Continued)

<u>SID 121</u>	Current <u>Amount</u>	<u>Total</u>	<u>Due to / Reason</u>
SID 121	\$ 15,184	\$ 311,190	General – in- house SID financing
SID 121	1,330	27,263	Curb & Gutter – in-house SID financing
SID 121	3,103	63,614	Gas Tax – in- house SID financing
SID 121	<u>5,321</u>	<u>109,053</u>	Capital project – in- house SID financing
Subtotal SID 121	\$ 24,938	\$ 511,120	
Other Governmental funds			
Local Charges for Services	\$ 2,650	\$ 2,650	Street Maintenance – Late service payment
Local Charges for Services	4,240	4,240	Water – Late service payment
Local Charges for Services	1,960	1,960	Sewer – Late service payment
Local Charges for Services	3,882	3,882	Solid Waste– Late service payment
General	<u>106,580</u>	<u>106,580</u>	Water – provide funds for in-house financing of
Subtotal Other Governmental funds	\$119,312	\$ 119,313	
Total Governmental Interfund Loans	<u>\$220,234</u>	<u>\$1,884,324</u>	
Proprietary Funds			
Sewer	<u>\$ 900</u>	<u>\$ 900</u>	Street Maintenance – Outstanding service payment

NOTE 11: INTERFUND LOANS (LONG TERM) – Governmental Activities

A) SID INTERFUND LOANS

In fiscal year 2013, the City internally funded two Street Improvement District's (SID 120 and SID121) by loaning money from other governmental funds. Special assessments will be billed to residents over a 20-year period at 3%. As interest is received it will be allocated to the appropriate funds with the exception of the Gas Tax Apportionment fund where the interest will be allocated to the General fund. Interfund loans to the SID funds and the corresponding assessments receivable is illustrated below.

<u>Fund</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Payment Frequency</u>	<u>Semi-Annual Payments</u>
SID 120	\$1,253,891	3%	Semi-annually	\$44,719
SID 121	511,120	3%	Semi-annually	18,494

<u>Due To:</u>	<u>SID 120</u>	<u>SID 121</u>	<u>June 30, 2015</u>	<u>Current Portion</u>
General	\$ 827,736	\$311,190	\$1,138,926	\$ 65,343
Curb & Gutter	67,797	27,263	95,060	5,439
Gas Tax Apportionment	125,909	63,614	189,523	10,734
Capital Improvements	<u>232,449</u>	<u>109,053</u>	<u>341,502</u>	<u>19,407</u>
Total	<u>\$1,253,891</u>	<u>\$511,120</u>	<u>\$1,765,011</u>	<u>\$100,923</u>

Repayment schedule	<u>SID 120</u>		<u>SID 121</u>	
Due by June 30:	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2016	39,287	51,472	24,939	15,074
2017	54,728	36,031	22,299	14,419
2018	56,383	34,377	22,973	13,746
2019	58,087	32,672	23,667	13,051
2020	59,842	30,917	24,382	12,336
2021-2025	327,461	126,335	133,423	50,169
2026-2030	380,032	73,763	154,842	28,749
2031-2034	<u>278,071</u>	<u>15,532</u>	<u>104,595</u>	<u>5,559</u>
Total	<u>\$1,253,891</u>	<u>\$401,100</u>	<u>\$511,120</u>	<u>\$153,103</u>

B) CHANGES IN INTERFUND LOANS

<u>Due To Fund</u>	<u>June 30, 2014</u>	<u>Payments</u>	<u>New</u>	<u>June 30, 2015</u>	<u>Due From / Reason</u>
	<u>Balance</u>		<u>Loans</u>	<u>Balance</u>	
General	\$ 854,626	\$(26,890)	\$ 0	\$ 827,736	SID 120 – to fund street construction costs
Curb & Gutter	70,000	(2,203)	0	67,797	SID 120 – to fund street construction costs
Gas Tax Apportionment	130,000	(4,091)	0	125,909	SID 120 – to fund street construction costs
Capital Improvements	<u>240,000</u>	<u>(7,551)</u>	<u>0</u>	<u>232,449</u>	SID 120 – to fund street construction costs
Subtotal SID 120	<u>\$1,294,626</u>	<u>\$(40,735)</u>	<u>\$ 0</u>	<u>\$1,253,891</u>	

NOTES TO THE FINANCIAL STATEMENTS (Continued)

General	\$ 323,087	\$(11,897)	\$ 0	\$ 311,190	SID 121 – to fund street construction costs
Curb & Gutter	28,305	(1,042)	0	27,263	SID 121 – to fund street construction costs
Gas Tax Apportionment	66,046	(2,432)	0	63,614	SID 121 – to fund street construction costs
Capital Improvements	<u>113,222</u>	<u>(4,169)</u>	<u>0</u>	<u>109,053</u>	SID 121 – to fund street construction costs
Subtotal SID 121	<u>\$ 530,660</u>	<u>\$(19,540)</u>	<u>\$ 0</u>	<u>\$ 511,120</u>	

	June 30, 2014		New	June 30, 2015	
<u>Due To Fund</u>	<u>Balance</u>	<u>Payments</u>	<u>Loans</u>	<u>Balance</u>	<u>Due From / Reason</u>
Street Maintenance	\$ 0	\$ 0	\$2,650	\$ 2,650	Local Charges for Services. – Late Payment
Street Maintenance	<u>0</u>	<u>0</u>	<u>900</u>	<u>900</u>	Sewer – Late service payment
Total Governmental funds	<u>\$1,825,286</u>	<u>\$(60,275)</u>	<u>\$3,550</u>	<u>\$1,768,561</u>	

The balances on the SID interfund loans may not match the SID assessments receivable because the interfund loans are repaid as scheduled without regard to actual early and delinquent resident SID payments.

NOTE 12: LONG TERM DEBT OBLIGATIONS – Governmental Activities

A) CHANGES IN LONG TERM DEBT

	Balance				Balance	Principal
Governmental Activities:	<u>July 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Accretions</u>	<u>June 30, 2015</u>	<u>Due within</u>
						<u>one year</u>
TIF Bonds (Accretion Phase)	\$20,267,550	\$ 0	\$ 0	\$652,450	\$20,920,000	\$660,000
Compensated Absences	54,769	0	9,404	0	45,365	11,341
Net Pension Liability	0	424,348	0	0	424,348	0
OPEB Liability	<u>148,703</u>	<u>22,744</u>	<u>0</u>	<u>0</u>	<u>171,447</u>	<u>0</u>
Total	<u>\$20,471,022</u>	<u>\$447,092</u>	<u>\$9,404</u>	<u>\$652,450</u>	<u>\$21,561,160</u>	<u>\$671,341</u>

B) REVENUE BONDS

	Issue	Original	Original	Interest		Principal Balance
Governmental Revenue Bonds	<u>Date</u>	<u>Term</u>	<u>Amount</u>	<u>Rate</u>	<u>Accreted</u>	<u>June 30, 2016</u>
Tax Increment Financing (TIF)	9/1/2006	25 yrs.	\$12,600,953	6.25%	\$8,319,047	<u>\$20,920,000</u>

Tax Increments Financing District (TIF) Revenue Bonds

In September 2006, the City issued \$12,600,953 of revenue bonds to finance all or a portion of the costs of construction and installation of certain industrial infrastructure projects in relation to Rocky Mountain Power Inc. that operate a 116MW coal-fired electric generation station and related facilities. Interest was accreted until the end of fiscal year 2015. Accreted interest totaled \$8,319,047 bringing the fiscal year 2015 bond principal balance to \$20,920,000. The bonds are secured by a lien on the Tax Increment Financing (TIF) District.

TIF Bonds Amortization Schedule

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2016	660,000	1,286,875
2017	700,000	1,244,375
2018	745,000	1,199,219
2019	790,000	1,151,250
2020	840,000	1,100,312
2020-2024	5,065,000	4,617,031
2025-2029	6,850,000	2,768,750
2030-2034	<u>5,270,000</u>	<u>391,563</u>
Totals	<u>\$20,920,000</u>	<u>\$1,759,405</u>

Accretion Period

The conversion (accretion) period ran from September 2006 to September 1, 2014. During the conversion period, interest accrued at 6.5% and was added to accumulated principal. No principal or interest payments were required by the City during the conversion period. The accretion period ended in fiscal year 2015 and principal and interest payments are required to be made by the City beginning in fiscal year 2016.

The Hardin Industrial Infrastructure District is a Tax Increments Financing (TIF) District. The largest entity in the District is Rocky Mountain Power, Inc. Under MCA 15-24-3001 Rocky Mountain Power, Inc. was exempt from property taxes until January of 2015. In April 2012, Rocky Mountain Power, Inc. filed for Chapter 11 bankruptcy (reorganization).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Forecasted Tax Increment Financing District (TIFD) Bond Default

In 2013, the parent company of Rocky Mountain Power, Inc. and its affiliates filed for bankruptcy. As a result of the bankruptcy the market value and resulting taxable value of the power plant dropped significantly. The remaining taxable values of property within the Tax Increment Financing District (TIFD) are insufficient to allow the City to assess sufficient taxes to meet the debt obligation of the TIFD bonds.

Arbitrage-Rebate

Arbitrage is the profit made from investing of every yielding tax-exempt bond proceeds in higher yielding taxable investments. Arbitrage-rebate payments are required if the City earns more on the investments holding Bond proceeds than the bond yield. Each year the City is required to have an Arbitrage-Rebate analysis for the TIF Revenue Bonds. As of June 30, 2015, there is no arbitrage-rebate liability for the TIFD bonds.

NOTE 13: LONG TERM DEBT OBLIGATIONS – Business-Type Activities

A) CHANGES IN LONG TERM DEBT

Business-Type Activities:	Balance			Balance <u>June 30, 2015</u>	Due within <u>one year</u>
	<u>July 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>		
OPEB Liability	\$ 137,264	\$ 20,996	\$ 0	\$ 158,260	\$ 0
Revenue Bonds	3,271,411	0	566,411	2,705,000	123,000
Compensated Absences	84,762	21,228	0	105,990	26,498
Net Pension Liability – PERS	0	676,531	0	676,531	0
Landfill Closure / Post-closure	<u>906,783</u>	<u>65,079</u>	<u>0</u>	<u>971,862</u>	<u>0</u>
Total	<u>\$4,400,220</u>	<u>\$783,834</u>	<u>\$566,411</u>	<u>\$4,617,643</u>	<u>\$149,498</u>

The Water series 2012A bond of \$279,500 was forgiven by the federal government in fiscal year 2015. The City paid \$286,911 in revenue bond principal payments in fiscal year 2015

In the past few years the City made accelerated principal payments on the Landfill bonds to reduce total interest costs. The City intends to pay the remainder according to the schedule of payments.

B) REVENUE BONDS

Annual requirements to amortize proprietary funds debt are illustrated below. The amounts shown as “Retired” include bond payments and the effects of the refinancing on principal balances. The series 2012A Water bond was forgiven by the federal government in November of 2014. Principal was reduced by \$279,500 and interest by \$91,816.

Business-Type Bonds:	<u>Issue Date</u>	<u>Term</u>	<u>Interest Rate</u>	<u>Original Amt.</u>	<u>Retired</u>	<u>Balance</u>	
Sewer Series 2003	6/27/2005	10 years	2.25%	\$2,026,390	(\$1,050,390)	\$ 976,000	
Sewer Series 2010B	1/15/2010	20 years	0.75%	359,300	(93,300)	266,000	
Sewer Series 2010C	5/11/2010	20 years	3.00%	625,000	(132,000)	493,000	
Landfill Series 2009	6/19/2009	15 years	2.25%	1,650,000	(884,000)	766,000	
Water Series 2012A	11/6/2012	20 years	3.00%	279,500	(279,500)	0	Forgiven
Water Series 2012B	11/6/2012	20 years	3.00%	<u>235,411</u>	<u>(31,411)</u>	<u>204,000</u>	
Total Business-Type Bonds				\$5,175,601	(\$2,470,601)	<u>\$2,705,000</u>	

	Sewer Bonds		Landfill Bonds		Water Bonds		Total	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 79,000	\$ 26,963	\$ 39,000	\$ 8,617	\$ 5,000	\$ 3,060	\$ 123,000	\$ 38,640
2017	160,000	36,113	79,000	15,919	10,000	5,895	249,000	57,927
2018	163,000	32,561	80,000	14,130	10,000	5,595	253,000	52,286
2019	167,000	28,928	82,000	12,319	10,000	5,295	259,000	46,542
2020	170,000	25,193	84,000	10,462	10,000	4,995	264,000	40,650
2021-2025	706,000	69,191	402,000	22,905	57,000	20,160	1,165,000	112,256
2026-2030	290,000	18,521	0	0	65,000	11,100	355,000	29,621
2031-2033	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>37,000</u>	<u>1,709</u>	<u>37,000</u>	<u>1,709</u>
Totals	<u>\$1,735,000</u>	<u>\$237,470</u>	<u>\$766,000</u>	<u>\$84,352</u>	<u>\$204,000</u>	<u>\$57,809</u>	<u>\$2,705,000</u>	<u>\$379,631</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 14: CURRENT LIABILITIES – Two Rivers Authority (A Component Unit)

	Accounts Payable	Deferred Payroll**	Accrued Payroll	Bondholder Advances	Accrued Bond Interest	Accrued Bond Principal	Total Current Liabilities
Two Rivers Authority							
General	<u>\$910</u>	<u>\$80,325</u>	<u>\$1,939</u>	<u>\$858,327</u>	<u>\$12,480,163</u>	<u>\$6,105,000</u>	<u>\$19,526,664</u>

Payroll in arrears as of June 30, 2015 totaled \$82,264. Of this amount \$80,325 is considered deferred payroll for services provided in previous years that were not paid, and for amounts due to the executive director for taking a salary reduction until TRA's revenues generate sufficient monies to cover these expenses.

Two Rivers Authority's revenues are not sufficient to meet its current operating costs and liabilities as they become due. Bondholders have advanced cash to provide funding during the startup phase of the agreement with Emerald. According to the agreement between Two Rivers Authority, Emerald and the BIA none of the revenues are available to meet current TRA operating expenses or outstanding bond requirements.

**Deferred payroll represents the amount of accrued payroll that was paid less than the agreed upon amount. This reduction was made to assist in the start-up of the facility.

NOTE 15: LONG-TERM DEBT OBLIGATIONS – Two Rivers Authority (A Component Unit):

A) CHANGES IN LONG-TERM DEBT

Two Rivers Authority (a component unit)	Balance July 1, 2014	Additions	Payments Removals	Balance June 30, 2015	Due within one year
Revenue Bonds	\$27,015,000	\$ 0	\$ 0	\$27,015,000	\$ 6,105,000
Accrued Bond Interest	10,560,138	1,920,025	0	12,480,163	12,480,163
Advance Funding Bondholder Loans	360,532	497,795	0	858,327	0
Accrued Payroll Expense	26,051	54,274	0	80,325	80,325
Compensated Absences	<u>1,926</u>	<u>13</u>	<u>0</u>	<u>1,939</u>	<u>1,939</u>
Total	<u>\$37,963,660</u>	<u>\$2,472,107</u>	<u>\$ 0</u>	<u>\$40,435,754</u>	<u>\$18,667,427</u>

B) REVENUE BONDS – Two Rivers Authority

The Senior Lien Project Revenue Bonds were issued by Two Rivers Authority, Inc. (TRA) a local port authority created by the City of Hardin in denomination of \$5,000 each. Interest is payable semiannually on May 1 and November 1 or each year commencing November 1, 2006.

Series 2006 Bond Issuance – TRA

The Series 2006 Bonds were issued to finance the acquisition and construction of a 464 bed detention facility, the funding of a debt service reserve, the payment of interest on the Bonds for approximately 18 months, and the payment of costs of issuing the Bonds. Bond issuance costs of \$2,042,988 are classified as a prior year expense.

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>CUSIPS</u>
2011	\$ 2,685,000	6.00%	90206X AA8
2016	4,425,000	6.75%	90206X AB6
2021	6,205,000	7.25%	90206X AC4
2027	<u>13,700,000</u>	7.375%	90206X AD2
Total	<u>\$27,015,000</u>		

Series 2006 Bond Amortization - TRA

The series 2006 bonds are special, limited obligations payable solely from project revenues. TRA has no taxing power. The City has no obligation of any kind with respect to the Series 2006 bonds issued by Two Rivers Authority. These bonds were issued for the terms and payment schedules indicated in the following schedule:

	Issue Date	Original Term	Amount	Interest Rate	Retired	Balance June 30, 2015
Series 2006	11/2006	20 yrs.	\$27,015,000	6-7.375%	\$ 0	<u>\$27,015,000</u>

Debt service requirements to maturity for TRA's principal and interest for all bonded long term obligations are illustrated in the table on the next page. Unpaid interest payments are fixed at the amount of the last payment made of \$960,013. As of June 30, 2015, thirteen (13) interest payments are in arrears. As long as the bonds remain in default, interest accrues at \$960,013 instead of the scheduled amount.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Due for the years ended 6/30:	<u>Principal</u>	<u>Interest</u>
Past Due Portion	\$ 5,165,000	\$12,480,163
2016 Portion	<u>940,000</u>	<u>1,559,800</u>
Total Current Portion Due	<u>\$ 6,105,000</u>	<u>\$14,039,963</u>
Due for the years ended 6/30:	<u>Principal</u>	<u>Interest</u>
2016	\$ 6,105,000	14,039,963
2017	1,005,000	1,494,156
2018	1,075,000	1,421,269
2019	1,150,000	1,340,613
2020	1,235,000	1,254,156
2021-2025	7,660,000	4,727,572
2026-2029	<u>8,785,000</u>	<u>1,516,300</u>
Totals	<u>\$27,015,000</u>	<u>\$25,794,029</u>

Matured Interest Payable - TRA

Currently, TRA is in default on the loan agreement. The last interest payment of \$960,012 was made during fiscal year 2009 from money held in reserves. TRA did not make any bond principal or interest payments in fiscal year 2015. The interest due as of June 30, 2015 is reported as accrued bond interest payable. The facility is not in operation as of the date of this audit report.

Revenue Bond Indenture Requirements - TRA

The bond indenture requires that project revenues are paid directly to the Trustee for credit to the General Account. Project revenues will be transferred to various accounts in the project fund to the extent available in order to pay, in the following priority:

- 1) Bond Fund – A sum equal to 1/12th of the principal coming due on the Bonds on the next November 1 (if any) and, beginning November 1, 2007. 1/6th of the interest coming due on the Bonds on the next Interest Payment Date. Moneys in the Bond Fund are to be applied to payments of principal and interest due. The Bond Fund is originally established from the proceeds of the Bonds of \$2,566,590 together with interest earned on the original Reserve fund balance of \$123,695.
- 2) Operation and Maintenance Costs due and payable within one month are \$0. Accrued payroll expense is \$80,325. As of June 30, 2015 the operating account has a balance of \$738 to cover operating costs and liabilities.
- 3) An amount equal to \$20,000 or such lesser amount as is necessary to cause the balance in the Operating Reserve / Repair / Contingency Account to equal \$300,000. The Operating Reserve had a \$125,217 balance for fiscal year ended June 30, 2015.
- 4) Any remaining to the Surplus Account. The Surplus account had a \$0 balance for fiscal year ended June 30, 2015.

As of June 30, 2015 TRA's remaining cash from the original proceeds and interest in the reserve account totaled \$125,225. TRA's current Bond Fund requirements for principal are \$6,105,000 and \$14,039,963 for interest. TRA did not meet the bond covenants as of June 30, 2015.

Revenue Bond Covenants - TRA

Section 6.02(b) of the Trust Indenture requires Net Revenues as of the end of each fiscal year shall be equal to not less and 120% of the amount necessary to pay principal and interest coming due on the Bonds during such fiscal year. Two Rivers Authority did not meet the bond covenants for fiscal year 2015.

Operating Loss	\$(2,868,925)	2015 Principal and Interest Due	\$18,585,163
Add back Accrued Interest Expense	1,920,025		<u> x 120%</u>
Add back Depreciation Expense	<u>393,751</u>	Required Net Revenues	\$22,302,195
Net Revenues	<u>\$ (555,149)</u>	Actual Net Revenues	<u>\$ (555,149)</u>
		Net Revenue Shortage	<u><u>(\$22,357,344)</u></u>

Remedy of Default - TRA

In the event of a default in payment of principal and interest on the Series 2006 Bonds, a remedy available to the Trustee or the holders of 66-2/3% in principal amount of the Bonds then outstanding is to foreclose on the mortgage and attempt to sell the Project or to lease the Project. The bonds are in default. Attempts to lease the Project for the long term have not been successful.

C) ADVANCE FUNDING BONDHOLDER LOANS

In fiscal year 2015, bondholders made additional advances totaling \$497,795 to an account held and managed by the US Bank to cover start-up costs in the agreement between Two Rivers Authority and Emerald Correctional Management (ECM). As of June 30, 2015, bondholders have provided advances totaling \$858,327 to TRA to cover professional liability insurance and other costs during the transition of Emerald taking over management of the detention facility. The start-up and operating agreements between TRA and Emerald Correctional Management (ECM) provide for repayment of the advance funding loans, without a repayment schedule, prior to servicing the existing bond debt.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

D) ACCRUED PAYROLL

The Executive Director of Two Rivers Authority has worked since December 9, 2013 without receiving the full amount of his salary due to the unavailability of operating cash to meet payroll. Accrued payroll liabilities as of June 30, 2015 totaled \$83,174.

NOTE 16: LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

State and Federal laws and regulations require that the City of Hardin place a final cover on its landfill sites when it stops accepting waste and perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and post-closure costs will be paid only near or after the date the landfill stops accepting waste, the City reports a portion of these closure and post-closure care costs as an operating expense each period based on landfill capacity used as of each period. The landfill closure and post-closure liability at June 30, 2015 of \$971,862 represents the cumulative amount reported to-date based on the use of 59.93% of the Class II area and 19.07% of the Coal Ash area, which is a combined estimate of 29.4% of the landfill's aggregate capacity. The remaining estimated costs of closure and post-closure care costs are \$1,362,013 for total costs of \$2,333,875.

The City was notified by the Department of Environmental Quality (DEQ) that even though the solid waste and ash disposal areas are regulated under a single license, the costs relating to closure and post-closure care should be kept separate since the maintenance areas are significantly different. During fiscal year 2015, the DEQ noted two major violations at the time of inspection. Both violations were corrected to the DEQ's satisfaction as of September 29, 2016.

Closure and Post-Closure Costs

The City will recognize the remaining estimated cost of closure and post-closure care of \$1,362,013 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and post-closure in 2015. The City expects to close the Class II area landfill in 26 years, in the year 2041, and the Coal Ash Area in the year 2041. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. Closure Costs are estimated at \$1,066,468 and \$955,855 for the Class II and Coal Ash areas respectively. Post-closure costs are estimated at \$222,768 and \$88,784 for the Class II and Coal Ash areas respectively.

Landfill Areas

The Department of Environmental Quality (DEQ) determined that even though the solid waste and ash disposal areas are regulated under a single license, the costs relating to closure and post-closure care should be kept separate since the maintenance of the areas are significantly different.

	<u>June 30, 2014</u>	<u>Accrual Amount</u>	<u>June 30, 2015</u>
Class II Cell	\$742,429	\$30,261	\$772,690
Coal Ash Cell	<u>164,354</u>	<u>34,818</u>	<u>199,172</u>
Net Change in Landfill Liability	<u>\$906,783</u>	<u>\$65,079</u>	<u>\$971,862</u>

Class II Area

In February, 2014, it was estimated the average the site receives approximately 14,000 tons per year of solid waste. Based on the aforementioned estimate the remaining capacity of the Class II area is 26 years; estimated closure in year 2041. The Class II Area consists of the following two areas: 1) 25.0 acres – the originally licensed area and 2) 20.3 acres – expansion area to the south.

Coal Ash Area

The Coal Ash area, which was opened in April of 2009, consists of a 39.8 expansion area to dispose of coal ash. Based on 80,000 tons/year of ash, the area has a remaining capacity to dispose of the ash for 26 years; estimated closure in year 2041. This quantity is the average of the actual quantity that has been brought to the site over the past five years.

Trust Contributions

The City is required by State and federal laws and regulations to make annual contributions to a trust to finance closure and post-closure care. The City is in compliance with these requirements. As of June 30, 2015, \$770,123 in cash & investments are held for these purposes and are reported as restricted cash and investments in the *Statement of Net Position*. The City expects that future inflation costs will be paid from earnings and the annual contributions. However, if interest earnings are inadequate or additional post-closure care requirements are determined (due to changes in technology or applicable laws or regulations) these costs may need to be covered by charges to future landfill users or from future tax assessments. City contributions to the irrevocable trust account in fiscal year 2015 were \$64,080.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 17: DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources are acquisitions of net position by a governmental entity that are applicable to a future reporting period.

A) DEFERRED INFLOWS OF RESOURCES – Property Tax Revenue

Deferred Inflows of Resources associated with property taxes receivable is reported on the Balance Sheet for governmental funds but not the Statement of Net Position due to the differences in accounting methods of these two statements.

<u>Governmental Funds</u>	<u>Amount</u>	<u>Reason</u>
General	\$ 89,682	Taxes / Assessments Receivable
Street Maintenance	32,579	Taxes / Assessments Receivable
TIFD	728,965	Taxes / Assessments Receivable
SID 120	1,263,565	Taxes / Assessments Receivable
SID 121	515,138	Taxes / Assessments Receivable
Other Governmental Funds	<u>163,880</u>	Taxes / Assessments Receivable
Total Governmental Activities	<u>\$2,793,809</u>	

B) DEFERRED INFLOWS OF RESOURCES – Pensions

	<u>Governmental</u>	<u>Water</u>	<u>Sewer</u>	<u>Solid</u>	<u>Total</u>
Difference – Projected & Actual Investment Earnings	<u>\$110,068</u>	<u>\$58,524</u>	<u>\$46,474</u>	<u>\$70,482</u>	<u>\$175,480</u>

NOTE 18: RISK MANAGEMENT

The City is exposed to various types of risk of loss, including: a) damage to and loss of property and contents; b) employee torts; c) professional liability, i.e. errors and omissions; d) environmental damage; e) workers' compensation, i.e. employee injuries and f) medical insurance costs of employees. Several methods are used to provide insurance for these risks. Commercial policies, transferring all risks of loss, except for relatively small deductible amounts, are purchased for property and contents damage, employee torts, professional liabilities, and employee medical insurance.

Employee Health Insurance

The City has joined with other cities, towns and counties in Montana and Wyoming to provide health benefit coverage for employees and their dependents through the Joint Powers Trust which is administered by EBMS. JPT Administration may be reached at PO Box 81647, Billings, MT 59108-1647 or 866-886-8612.

Workers' Compensation, Property & Liability Coverage

The City has joined with other Cities throughout the state into an interlocal common risk pool to cover workers compensation, property and liability insurance needs for all participating cities and towns in a self- insurance pool. The Montana Municipal Interlocal Authority Program (MMIA) is managed by a board of directors elected annually. Members are responsible for fully funding the MMIA through the payment of annual premiums accessed.

There is no other liability to the City other than timely payments of premiums. The City can withdraw from the MMIA with 60 days' notice. Information regarding the MMIA may be obtained by contacting MMIA at PO Box 6669, Helena MT, 59604-6669.

Both workers' compensation and property & liability risk plans operate as common risk management and insurance programs for the City. The liability limits for damages in tort action are \$750,000 per claim and \$1,000,000 per occurrence with a \$1,000 deductible per occurrence. State tort law limits the City's liability to \$1.5 million. The City pays an annual premium for its employee injury insurance coverage, which is allowed to the employer funds based on total salaries and wages. The agreements for formation of the pools provide that they will be self-sustaining through member premiums.

The tort liability plan and workers' compensation program issued bonds in the amount of \$4.41 million and \$7.61 million, respectively, to immediately finance the necessary insurance reserves. All members signed a contingent note for a pro rata share of this liability in case operating revenues were insufficient to cover the debt service. Based on the plan's current financial position, the City doesn't expect to be required to make any payment on these notes.

Levels of insurance have not changed materially from the prior year and settlements have not exceeded insurance coverage limits during the current or each of the two previous years. There has been no reduction in insurance coverage and no liability in excess of insurance coverage for the past three fiscal years. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Early retirement actuarially reduced:

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

Benefits Provided - PERS

The member's *Highest Average Compensation (HAC)* is calculated as follows:

- Members hired prior to July 1, 2011 – Highest average compensation during any consecutive 36 months
- Members hired on or after July 1, 2011 – Highest average compensation during any consecutive 60 months
- Members hired on or after July 1, 2013 – 110% annual cap on compensation considered as part of a member's highest average compensation.

Monthly Benefit Formula - PERS

Members hired prior to July 1, 2011:

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

Members hired on or after July 1, 2011:

- Less than 10 years of membership service: 1.5% of HAC per year of service credit
- 10 years or more, but less than 30 year 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) – PERS

After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (shown below) each January, inclusive of other adjustments to the member's benefit. At this time, as a result of permanent injunction issued in the AMRPE vs. State litigation, the GABA rate in effect is being used in the calculation. Clarification of the GABA rate for members hired on or after July 1, 2013 is pending.

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

Members (Employees) Covered by Benefit Terms - PERS

At June 30, 2015, the following members (employees) were covered by the benefit terms:

Active plan members	28,237
Inactive members entitled to but not yet receiving benefits or a refund	
Vested	2,925
Non-vested	8,839
Inactive members and beneficiaries currently receiving benefits	
Service Retirements	20,080
Disability Retirements	176
Survivor Benefits	425

Overview of Contributions - PERS

1. Rates are specified by state law for periodic employer and employee contributions. The State legislature has the authority to establish and amend contribution rates to the plan.
2. Member contributions to the system:
 - a. Plan members are required to contribute 7.90% of member compensation. Contributions are deducted from each member's salary and remitted by participating employers.
 - b. The 7.90% member contributions rate is 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.
3. Employer contributions to the system:
 - a. State and University System employers are required to contribute 8.27% of members' compensation.
 - b. Local government entities are required to contribute 8.17% of members' compensation.
 - c. School District employers are required to contribute 7.90% of members' compensation.
 - d. Following the 2013 Legislative Session, PERS-employer contribution rates were temporarily increased. Effective July 1, 2013, employer contributions increased 1.0%. Beginning July 1, 2014, employer contributions will increase an additional 0.1% a year over 10 years, through 2024. The employer additional contributions including the 0.27% added in 2007 and 2009 terminates on January 1 following actuary valuation results that show the amortization period of the PERS-DBRP has dropped below 25 years and would remain below 25 years following the reductions of both the additional employer and member contribution rates.
 - e. Effective July 1, 2013, the additional employer contributions for DCRP and MUS-RP is allocated to the defined benefit plan's Plan Choice Rate unfunded liability.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

- f. Effective July 1, 2013, employers are required to make contributions on working retiree's compensation. Member contributions for working retirees are not required.
4. 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 member's compensation on behalf of school district entities.
- b. Not Special Funding
- i. The State contributes from the Coal Tax Severance fund

Net Pension Liability - PERS

In accordance with GASB 68, PERS has a *special funding situation* in which the State of Montana is legally responsible for making contributions directly to PERS on behalf of employers. Due to the existence of this special funding situation, local governments are required to report the portion of the State of Montana's proportionate share of the collective Net Pension Liability that is associated with the City.

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

The City's Net Pension Liability was measured as of June 30, 2014, and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

	Net Pension Liability as of 6/30/13	Net Pension Liability as of 6/30/14	Percent of Collective NPL
City Proportionate Share	\$1,416,662	\$1,100,879	0.083520%
State of Montana Proportionate Share associated with the City	17,300	13,443	0.112237%
Total	\$1,433,962	\$1,114,323	0.1957570%

At June 30, 2015, the City recorded a liability of \$1,100,879 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2014, and the Total Pension Liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of July 1, 2014. The City's proportion of the Net Pension Liability was based on the City's contributions received by PERS during the measurement period July 1, 2013 through June 30, 2014, relative to the total employer contributions received from all PERS' participating employers. At June 30, 2014, the City's proportion was 0.083520 percent.

Pension Expense - PERS

At June 30, 2015, the City recognized a Pension Expense of \$84,519 for its proportionate share of the PERS' pension expense as of the measurement date of June 30, 2014. Of this amount \$31,128 represented the State of Montana's proportionate share of the pension expense associated with the City.

	Pension Expense as of 6/30/14
City Proportionate Share	\$53,391
State of Montana Proportionate Share associated with the City	31,128
Total	\$84,519

Actuarial Assumptions - PERS

The Total Pension Liability as of June 30, 2014, is based on the results of an actuarial valuation date of June 30, 2014. There were several significant assumptions used to measure the total pension liability. The actuarial assumptions used in the June 30, 2014 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:

- General Wage Growth* 4.00% (includes inflation at 3%)
- Merit Increases 0% to 6%
- Investment Return 7.75%
- Postretirement Benefit Increases
 - 3% for members hired *prior to* July 1, 2007
 - 1.5% for members hired *on or after* July 1, 2007
 - 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.
- Mortality assumptions among contributing members, terminated vested members, service retired members, and beneficiaries based on RP2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.
- Mortality assumptions among disabled retirees are based on RP2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

*At this time as a result of a permanent injunction issued in the *AMRPE vs. State* litigation, the GABA rate in effect is being used in the calculation. Clarification of the GABA rate for members hired on or after July 1, 2013 is pending.

Target Allocations - PERS

The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared every four years for PERS. The most recent analysis, performed for the period covering fiscal years 2003 through 2009, is outlined in a report dated May 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption including rates of return adopted by similar public sector systems, and by using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates are presented as the arithmetic real rates of return for each major asset class included in the PERS' target asset allocation as of June 30, 2014, is summarized below:

Asset Class	Target Asset Allocation	Long Term Expected Real Rate of Return
Cash Equivalents	2.00%	(0.25%)
Domestic Equity	36.00%	4.80%
Foreign Equity	18.00%	6.05%
Fixed Income	24.00%	1.68%
Private Equity	12.00%	8.50%
Real Estate	8.00%	4.50%
Total	100.00%	

Discount Rate - PERS

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. In addition, the State contributes coal severance tax and interest money from the General fund. The interest is contributed monthly and the severance tax is contributed quarterly. Based on those assumptions, the PERS' fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2122. 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.

Sensitivity Analysis - PERS

In accordance with GASB 68 regarding the disclosure of the sensitivity of the Net Pension Liability to changes in the discount rate, the net pension liability calculated using the discount rate of 7.75% as well as what the net pension liability would be if it were calculated using a discount rate that is 1% lower 6.75%, or 1% higher 8.75% than the current rate as illustrated below.

	1.0% Decrease <u>6.75%</u>	Current Discount Rate <u>7.75%</u>	1.0% Increase <u>8.75%</u>
PERS' Net Pension Liability	\$1,982,274,732	\$1,246,010,898	\$625,044,646
City's Net Pension Liability	\$ 1,751,385	\$ 1,100,879	\$ 552,242

Beginning Deferred Outflows of Resources - PERS

At June 30, 2015, the City recognized a beginning deferred outflow of resources for the City's fiscal year 2014 employer contributions of \$32,389 in the Governmental funds and \$51,638 in the Proprietary funds for a total of \$84,027.

Deferred Inflows of Resources and Deferred Outflows of Resources - PERS

At June 30, 2015, the City reported its proportionate share of the PERS' deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and actual investment earnings	\$0	\$284,449
Changes in proportion & Diff. between City contrib. and proportionate share of NPL	0	1,099
*Contributions paid to PERS subsequent to the measurement date – FY2015	76,646	0
Total	\$76,646	\$285,548

NOTES TO THE FINANCIAL STATEMENTS (Continued)

*Amounts reported as Deferred Outflows of Resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2016. Other amounts reported as Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions will be recognized in Pension Expense as follows:

Year ended June 30:	Deferred Outflows of Resources (a)	Deferred Inflows of Resources (b)	Amount recognized in Pension Expense as an increase (decrease) to Pension Expense (a - b)
2016	\$0	\$71,478	\$(71,478)
2017	0	71,478	(71,478)
2018	0	71,112	(71,112)
2019	0	0	0
2020	0	0	0
Thereafter	0	0	0

NOTE 20: VOLUNTEER FIREMEN'S DISABILITY and PENSION FUND

The Firemen's Disability and Pension Plan is a single-employer defined benefit plan established under State law, and covers volunteer firefighters. Volunteer firemen who serve 20 years are eligible for the plan. The plan pays a lifetime benefit of \$100 a month to eligible retired volunteer firemen. Surviving spouses receive 50% of the member benefits. The plan does not contain a cost of living adjustment provision. As of June 30, 2015, the plan pays benefits to 24 retirees (18 retirees and 6 surviving spouses) and 19 active firemen.

State law determines the contributions made and the benefits paid. Effective April 7, 2005 MCA required each disability and pension fund to be soundly funded. According to MCA 19-18-503, the fund is soundly funded if (1) assets in the fund are maintained at a level equal to at least 0.21% but no more than 0.52% of the total assets value of taxable property, determined as provided in MCA Section 15-8-111, within the city limits; or (2) funding is maintained at a level determined by an actuarial valuation to be sufficient to keep the fund actuarially sound. Whenever the fund contains an amount that is less than the minimum required to keep the fund soundly funded, the city council shall, subject to MCA Section 15-10-420, levy an annual tax on the taxable value of all taxable property within the city.

When the fund contains an amount that is less than 0.52% but more than 0.21% of the total assessed value of all taxable property within the city, the city council may, if authorized by the voters as provided in MCA Section 15-10-425, levy an annual tax. All revenues from the tax must be deposited in the fund. Fiscal year 2015 tax revenues totaled \$8,126. City and State contributions to the plan for the year totaled \$30,961. Fiscal year 2015 City and State contributions were \$6,146 and \$24,815 respectively. No actuarial evaluation has been prepared for this fund because it would be cost prohibitive. The plan is administered on a pay-as-you-go basis.

The current minimum requirement (.21% of the assessed valuation of taxable property within the city limits of \$118,088,747) is \$247,986. As of June 30, 2015, the fund holds \$149,190 or 60.2% of the required holdings; for a shortage of \$98,796. The plan assets are included in the City's cash and investment pool as described in NOTE 3.

The plan was not in compliance when the MCA provision became law and the plan is not currently fully funded according to the definition above. The City contributes dollars (in addition to) the maximum tax levy to help bring this plan into compliance over time. Additions and deductions to the Volunteer Firemen's Disability and Pension fund for the past three years were as follows:

	<u>2013</u>	<u>2014</u>	<u>2015</u>
Additions	\$32,416	\$36,055	\$39,500
Deductions	<u>(24,240)</u>	<u>(23,992)</u>	<u>(24,875)</u>
Net Additions	<u>\$ 8,176</u>	<u>\$12,063</u>	<u>\$14,625</u>
	<u>2013</u>	<u>2014</u>	<u>2015</u>
Net Position	\$135,295	\$134,553	\$149,179

NOTE 21: OTHER POST EMPLOYMENT BENEFITS (OPEB) OTHER THAN PENSIONS

Plan Description - OPEB

In accordance with MCA (2-18-704) the City allows employees who are at least age 50 with at least 5 years of service to remain on the City's health insurance plan after retiring from the City as long as they pay the same premium as active employees. Since retirees are usually older than the average age of the active participants, they receive a benefit of lower insurance rates. This benefit is referred to as the "OPEB liability." The City has less than 100 plan members and elected to use the "Entry Age actuarial Cost Method" to calculate its

NOTES TO THE FINANCIAL STATEMENTS (Continued)

OPEB liability. The OPEB plan does not provide a stand-alone financial report. The City pays 80% of the single active employee's health insurance premium. The **implicit rate subsidy** is \$647 per member and \$1,284 per member and spouse depending upon the coverage selected. The required schedule of funding progress is reported in the Required Supplementary Information (RSI) section of this report which is immediately following the notes to the financial statements. As of June 30, 2015, eighteen (18) active employees received benefits through the City's healthcare plan. Two (2) retirees have elected coverage on the City's healthcare plan.

Funding Policy - OPEB

The City pays OPEB liabilities on a "pay-as-you-go" basis. The City's OPEB liability is amortized on a level dollar basis annually until the Actuarial Accrued Liability (AAL) is reached. A trust fund for future liabilities has not been established. Therefore, the City's OPEB liability will continue to grow until it reaches the Actuarial Accrued Liability (AAL) of \$339,170 as currently calculated.

Annual OPEB Cost and Net OPEB Obligation - OPEB

The City's annual Other Post-Employment Benefit (OPEB) cost (expense) is calculated based on the Annual Required Contribution (ARC) of the employer, an amount determined in accordance with the parameter of GASB statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed (30) years.

The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the City's net OPEB obligation.

Annual Required Contribution (ARC)	\$ 51,842
Interest on net OPEB obligation	1,430
Adjustment to ARC	9,532
Annual OPEB cost	43,740
Contribution made	<u>0</u>
Increase in net OPEB obligation	43,740
Net OPEB obligation - beginning of year	<u>285,967</u>
Net OPEB obligation - end of year	<u>\$329,707</u>
Net OPEB Obligation – end of year	\$329,707
Remaining ARC to meet AAL	<u>9,463</u>
AAL	<u>\$339,170</u>

OPEB OBLIGATION

<u>Fund</u>	<u>Prior Year</u>	<u>Additions</u>	<u>June 30, 2015</u>
Water	\$ 48,614	\$ 7,436	\$ 56,050
Sewer	28,597	4,374	32,971
Garbage	22,877	3,500	26,377
Solid Waste	<u>37,176</u>	<u>5,686</u>	<u>42,862</u>
Subtotal Proprietary	137,264	20,996	\$158,260
Governmental	<u>148,703</u>	<u>22,744</u>	<u>171,447</u>
Total	<u>\$285,967</u>	<u>\$43,740</u>	<u>\$329,707</u>

Funding status and progress - OPEB

As of June 30, 2015 the funded status of the plan was as follows:

Actuarial Accrued Liability (AAL)	\$339,170
Actuarial value of plan assets	<u>0</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 339,170</u>
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	\$1,293,140
UAAL as a percentage of covered payroll	26.2%
Amortization Factor	30 years
Amortization Method	level dollar
Date of latest AAL calculation	July 1, 2012

Actuarial Methods and Assumptions - OPEB

The following actuarial methods and assumptions were used:

Actuarial Cost Method	<u>Entry age actuarial Cost Method</u>
Average age of retirement (based on historical data)	59
Discount rate (average anticipated rate)	.99%
Average Salary Increase	2.80%

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Health care cost rate trend:

<u>Year</u>	<u>% Increase</u>	<u>Year</u>	<u>% Increase</u>	<u>Year</u>	<u>% Increase</u>
2016	9.00%	2019	7.50%	2022	6.00%
2017	8.50%	2020	7.00%	2023	6.50%
2018	8.00%	2021	6.50%	2024	5.00%
				2025	5.00%

Actuarial calculations reflect a long-term perspective and consistent with that perspective, the actuarial method and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and actuarial value of assets. The City has no actuarial value of assets because the plan is not funded. The City's Annual Required Contribution (ARC) for the current and preceding two fiscal years is illustrated below. The ARC is a misleading term, since no cash contribution is actually required.

<u>Fiscal Year</u>	<u>Annual Required</u>	<u>ARC Adjustment</u>	<u>Percent of ARC</u>	<u>Net OPEB</u>
<u>Ending June 30:</u>	<u>Contribution (ARC)</u>	<u>Adjustment</u>	<u>Contributed</u>	<u>Obligation</u>
2012	\$67,941	\$4,400	0%	\$196,203
2013	\$50,831	\$6,540	0%	\$241,475
2014	\$51,334	\$8,049	0%	\$285,967
2015	\$51,842	\$9,532	0%	\$329,707

The required supplementary information section of this report presents multiple years fund information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits. The projection of benefits are based on the types of benefits provided under the substantive plan at the time of each valuation and on the pattern of sharing of benefit costs between the employer and plan members to that point, and if applicable, the projections of benefits for financial reporting purposes do not explicitly incorporate the potential effects of legal or contractual funding limitations on the patterns of cash shares between the City and plan members in the future.

NOTE 22: DEFERRED-COMPENSATION RETIREMENT PLAN – 457b PLAN

The City provides a 457b tax-advantaged, deferred-compensation retirement plan that employees may contribute into. The City provides the plan and the employee defers compensation into it on a pre-tax basis. The plan operates similarly to a 401(k) or 403(b) plan. The key difference is that unlike a 401(k) plan, there is no 10% penalty for withdrawals before the age of 59½ (although the withdrawal is subject to ordinary income tax). Employee contributions are made by salary reductions. There is no monetary participation by the City.

NOTE 23: INTERFUND TRANSFERS

<u>Fund</u>	<u>Transfers Out</u>		<u>Transfers In</u>				<u>Purpose</u>
	<u>Amount</u>	<u>Maintenance</u>	<u>TIFD</u>	<u>Cap. Imp.</u>	<u>Fire Dept.</u>	<u>Parks</u>	
General	(\$ 22,054)	\$22,054	\$ 0	\$ 0	\$ 0	\$ 0	Part of 25% Contribution
General	(45,000)	0	0	0	0	45,000	Helmat Park Restroom
General	(25,000)	0	0	0	0	25,000	Helmat Park Restroom
General	(30,000)	0	0	0	30,000	0	Purchase Firetruck
Capital Improvement	(20,000)	0	0	0	20,000	0	Purchase Firetruck
Capital Improvement	(30,000)	0	0	0	0	30,000	Helmat Park Restroom
Street Maintenance	(22,707)	0	0	22,707	0	0	Construction In Process – Capital Imp.
TIF-CIP	(29,782)	0	29,782	0	0	0	Closed TIF-CIP fund into TIFD fund
Total	<u>(\$224,543)</u>	<u>\$22,054</u>	<u>\$29,782</u>	<u>\$22,707</u>	<u>\$50,000</u>	<u>\$100,000</u>	

NOTE 24: DEFICIT FUND BALANCES

In fiscal year 2013, the City internally funded two street improvement districts. SID 120 and SID 121 funds are expected to have deficit fund balances for the 20-year terms of the funding agreement.

<u>Fund</u>	<u>Balance</u>	<u>How to Correct</u>
SID 120	\$(1,228,070)	Collect assessments according to 20-year schedule
SID 121	(511,120)	Collect assessments according to 20-year schedule
Total	<u>\$(1,739,190)</u>	

The internal loans are to be paid back over 20 years with 3% interest which matches the assessments to residents within the SID. Resolution 2047 passed September 2, 2014 authorized the interest for SID 120 at 3%. Resolution 2051 passed September 16, 2014 reduced the interest for SID 121 from 4% to 3%.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 25: PRIOR PERIOD ADJUSTMENTS

<u>Governmental Funds</u>	<u>Amount</u>	<u>Reason</u>
General	(\$ 852)	Reclassify industrial park lighting expenses (from Sewer)
Lighting District #54	(11,176)	School revenues placed in City accounts by County in error
Electrical Generation Impact	<u>(1,732)</u>	Reclassify industrial park lighting expenses (from Sewer)
Total Governmental Funds	<u>(\$13,759)</u>	
<u>Proprietary Funds</u>		
Sewer	<u>2,583</u>	Reclassify industrial park lighting expenses (to governmental funds)
Total Fund Adjustments	<u>(\$11,177)</u>	

Restatements of Net Position associated with the implementation of GASBS 68 and 71 are illustrated in Note 1-O.

NOTE 26: SUBSEQUENT EVENTS

Subsequent events were evaluated through June 29, 2016.

A) LEGAL MATTERS

No lawsuits were outstanding as of June 30, 2015. Four lawsuits have been filed against the City of Hardin subsequent to June 30, 2015. MMIA is addressing two of them. The City Attorney will represent the City in the other two. The City does not expect to experience any losses in connection with these cases.

B) TAX INCREMENT FINANCING DISTRICT (TIFD) BONDS

On September 28, 2006, the City of Hardin issued its \$12,600,953 Tax Increment Industrial Infrastructure Development Revenue Bonds (Rocky Mountain Power, Inc. Project), Series 2006 (the "Bonds"), payable from the incremental taxable value of a coal-fired electrical generating facility (the "Facility") owned by Rocky Mountain Power, Inc. (the Company).

Decrease in taxable value

The taxable value of the Facility for the tax year 2014 was \$1,471,108. On June 25, 2015, the Montana Department of Revenue informed the City that the taxable value of the Facility for tax year 2015 is \$1,281,520 for a difference of \$189,588.

Delinquency of tax payments

As of April 30, 2016, Rocky Mountain Power has not paid its property taxes with respect to the Facility due on November 30, 2014, May 30, 2015 or November 30, 2015. On May 1, 2015, there was an unscheduled draw on the Reserve Account which was applied to the March 1, 2016 interest payment on the Bonds. On September 1, 2015 there was an unscheduled draw of \$593,798 from the Reserve Account which was applied to interest on the Bonds. On March 1, 2016 there was another unscheduled draw of \$123,314 from the Reserve Account which was applied to the September 1, 2015 interest payment on the Bonds. No portion of principal payments due on September 1, 2015 (i.e., \$660,000) has been paid as of the date of this report. Additional information with respect to the TIFD Revenue Bonds is filed on <http://emma.msrb.org/>.

The City is not able to predict when the Company will pay all or any portion of its delinquent property taxes with regard to the Facility that were due on November 30, 2014, May 31, 2015, November 30, 2015 and May 31, 2016 together with interest and penalties thereon, whether it will make such payments at all.

C) ROCKY MOUNTAIN POWER DELINQUENT LANDFILL PAYMENT

In May of 2016, the Company made a payment of \$101,860 for delinquent landfill charges.

D) TWO RIVERS AUTHORITY – DETENTION FACILITY OPERATIONS

In April of 2016, Emerald Correctional Management (Emerald) ceased operations at the Two Rivers detention facility and the facility was closed. Two Rivers Authority continues to explore other options for the facility. Two Rivers Authority's management does not have an expected date that the facility may be reopened.

City of Hardin
Big Horn County
Hardin, Montana

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
(Budget and Actual)
MAJOR GOVERNMENTAL SPECIAL REVENUE FUNDS
For the Fiscal Year Ended June 30, 2015

	General Fund			Street Maintenance Fund		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
REVENUES:						
Taxes/Assessments	\$ 395,615	\$ 395,615	\$ 346,269	\$ 500	\$ 500	\$ 350
Investment Earnings	1,000	1,000	2,443	600	600	819
Licenses and Permits	49,000	84,000	89,496	-	-	-
Fines and Forfeitures	70,651	101,651	101,817	-	-	-
Miscellaneous	85,149	73,255	67,348	263,440	263,440	247,413
Intergovernmental Revenue	671,902	671,902	667,622	-	-	-
Charges for Services	<u>1,755</u>	<u>1,755</u>	<u>2,131</u>	<u>-</u>	<u>4,145</u>	<u>7,878</u>
Total Revenues	1,275,072	1,329,178	1,277,125	264,540	268,685	256,459
EXPENDITURES:						
General Government	529,925	529,925	409,791	-	-	-
Public Safety	566,438	566,438	523,937	-	-	-
Public Works	50,000	50,000	13,803	266,887	366,887	187,162
Public Health	31,000	31,000	27,242	-	-	-
Culture & Recreation	133,418	108,418	97,223	-	-	-
Housing & Community Development	150,000	150,000	700	-	-	-
Miscellaneous	<u>5,030</u>	<u>5,030</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	1,465,811	1,440,811	1,072,695	266,887	366,887	187,162
Capital Outlay	18,500	18,500	6,055	-	-	-
Debt Service	<u>7,355</u>	<u>7,355</u>	<u>7,354</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	1,491,666	1,466,666	1,086,105	266,887	366,887	187,162
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES						
	(216,594)	(137,488)	191,020	(2,347)	(98,202)	69,297
OTHER FINANCING SOURCES/USES						
Sale of Capital Assets	1,000	1,000	-	-	-	-
Fund Transfers In	-	-	-	29,593	49,593	22,054
Fund Transfers (Out)	<u>(104,593)</u>	<u>(149,593)</u>	<u>(122,054)</u>	<u>(122,707)</u>	<u>(22,707)</u>	<u>(22,707)</u>
NET CHANGES IN FUND BALANCES	(320,187)	(286,081)	68,966	(95,461)	(71,316)	68,644
FUND BALANCES:						
BEGINNING FISCAL YEAR FUND BALANCES			1,566,488			383,432
PRIOR PERIOD ADJUSTMENTS			<u>(852)</u>			<u>-</u>
ENDING FISCAL YEAR FUND BALANCES			<u>\$ 1,634,602</u>			<u>\$ 452,075</u>

The accompanying NOTES TO REQUIRED SUPPLEMENTAL INFORMATION are an integral part of this statement.

NOTES TO THE BUDGET AND ACTUAL SCHEDULE

NOTE 1: BUDGETS

Budgets are adopted on a basis consistent with the State of Montana budget laws (MCA 7-6-40) which are consistent with generally accepted accounting principles (GAAP). State statutes require the adoption of a preliminary budget, public hearings on the preliminary budget and the final adoption of the budget. Annual appropriated budgets are adopted for all funds. State statute limits the making of expenditures or incurring obligations to the amount of the final budget as adopted or as amended. Budget transfers and amendments are authorized by law, and in some instances may require further public hearings. Any budget amendments providing for additional appropriations must identify the fund reserves, unanticipated revenue, or previously unbudgeted revenue that will fund the appropriations.

Appropriations are created by fund, function, and activity any may further be detailed by department. Expenditure limitations imposed by law extend to the department level which is identified as the legal level of budgetary control. All annual appropriations lapse at the end of the fiscal year. The City reports outstanding purchase orders as Accounts Payable and these amounts are included in the following year's budget.

General Budget Policies:

All City funds are budgeted in accordance with State statutes. A legal budget must be adopted to have expenditures. The Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual, has been prepared on the modified accrual basis of accounting and contains financial information for only the major special revenue funds. The TIFD Debt Service, SID 120 and SID 121 funds are not included in the schedule because they are debt service funds not special revenue funds

Budget Operation:

The City operates within the budget requirements for cities as specified by State law. The financial report reflects the following budgetary standards:

- (1) Before the fourth Monday in July, the City Council estimates the revenue required for each fund.
- (2) By the first Monday in August, the County Assessor transmits a statement of the assessed valuation and taxable valuation of all property within the City's borders.
- (3) Before the later of the first Thursday in September or within 30 calendar days of the receipt of the Certified Taxable Valuations from the County Assessor, the City Council must meet to legally adopt the final budget. The final budget for the general fund is fund total only.
- (4) Once adopted, the budget can be amended by subsequent City Council action. An increase of the total budget of a given fund requires the adoption of an amended budget in accordance with State statutes.
- (5) According to State statutes, expenditures may not legally exceed the adopted budget for any fund.
- (6) At the end of a fiscal year, unencumbered appropriations lapse unless specifically obligated by the City. The City expenses unpaid purchase orders and reports the unpaid amount as Accounts Payable.

NOTE 2: BUDGET AMENDMENTS

The City approved a budget amendment due to unanticipated revenues under the provisions of 17-7-404, MCA or on unanticipated expenses. The budget resolution 2071 is illustrated below:

<u>Fund</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Reason</u>
General	\$ 35,000	\$ 0	Additional building licenses & permits revenue due to hail
General	31,000	0	Additional city court revenue
General – Parks Wages	0	(10,000)	Reclassify appropriation
General – Parks Trees	0	(2,000)	Reclassify appropriation
General – Parks Supplies	0	(3,000)	Reclassify appropriation
General – Parks Utility Services	0	(10,000)	Reclassify appropriation
General – Parks Interfund Transfer Out	0	25,000	Reclassify appropriation
General – Street Mtce. Interfund Transfer Out	0	20,000	Reclassify appropriation
Parks Capital Projects	25,000	0	Interfund transfer in
General	(11,894)	0	Reduce interfund loan interest from 4% to 3%
Gas Tax	(846)	0	Reduce interfund loan interest from 4% to 3%

NOTES TO THE BUDGET AND ACTUAL SCHEDULE (Continued)

<u>Fund</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Reason</u>
Capital Improvements	(2,899)	0	Reduce interfund loan interest from 4% to 3%
Street Maintenance – Equip Rental	4,145	0	Additional revenue
Street Maintenance – Transfer In	20,000	0	Additional rev. – Fund received full 25% match
Street Maintenance – Roads & Streets	0	100,000	Reclassify chip seal as maintenance vs. capitalized costs
Street Maintenance – Capital Expenditures	0	(100,000)	Reclassify chip seal as maintenance vs. capitalized costs
Crime Victims Assist	6,500	6,500	Additional Rev – Wages & Benefits
Local Chgs for Svcs- Wages	0	4,500	Unanticipated Expenditures
Local Chgs for Svcs – Prof Svcs	0	12,500	Unanticipated Expenditures
TIFD – Taxes	91,500	0	County levies - current year - Taxes
TIFD – P&I on delinquent taxes	34,000	0	County levies - current year – P&I on delinquent taxes
TIFD	7,000	0	Current year investment earnings
TIFD	(14,130)	0	Loss on fair market value – early redemption of CD
TIFD	29,783	0	Transfer In – Closed TIF – CIP fund into TIFD
TIF	0	11	Reclassify expenditures - Construction
TIF	3	0	Accrued Interest
TIF	0	(250)	Reclassify expenditures – Professional Svcs
TIF	0	(29,541)	Reclassify expenditures - Miscellaneous
TIF	0	29,783	Close out fund to TIFD
SID 120	40,800	0	Resident prepays & payoffs
SID 120	5,400	0	Sidewalk assessment
Capital Projects – Fire Department	100	0	Accrued Interest
Capital Projects – Street Mtce	(100,000)	0	Reclassify chip seal as maintenance
Capital Projects – Street Mtce	<u>0</u>	<u>(100,000)</u>	Reclassify chip seal as maintenance
Total Governmental Funds	\$200,462	\$(56,497)	
Water	\$279,500	\$ 0	EPA Loan forgiven
Water	0	85,000	Additional Depreciation – Plant improvements
Sewer	8,400	0	Additional plant investment fees
Sewer	<u>(100,000)</u>	<u>0</u>	Decrease Coal Board Grant
Total Proprietary Funds	\$180,340	\$ 85,000	
Total Governmental & Proprietary Funds	<u>\$380,802</u>	<u>\$ 28,503</u>	

**SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 Public Employee's Retirement System (PERS)
 For the Fiscal Year Ended June 30, 2015**

	PERS
	2015
The City's proportionate share of the Net Pension Liability	\$1,100,879
The City's proportionate share of the Net Pension Liability associated with the City (as a percentage)	0.08352%
State of Montana's proportionate share of the Net Pension Liability associated with the City	\$13,443
Total Pension Liability (TPL)	\$1,114,323
The City's covered-employee payroll	\$1,000,147
The City's proportionate share of the Net Pension Liability (as a percentage of its covered-employee payroll)	110.0720%
Plan Fiduciary Net Position (FNP) as a percentage of the Total Pension Liability (TPL)	79.9%

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

**SCHEDULE OF CONTRIBUTIONS
 Public Employee's Retirement System (PERS)
 For the Fiscal Year Ended June 30, 2015**

	PERS
	2015
Contractually required contributions	\$76,646
Contributions in relation to the contractually required contributions	\$76,646
Contribution deficiency (excess)	0
City's covered-employee payroll	\$919,407
Contributions as a percentage of covered employee payroll	8.3364%

Dollar amount in thousands

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

NOTES TO SCHEDULES of PROPORTIONATE SHARE of NPL and CONTRIBUTIONS

Changes in Actuarial Assumptions and Methods - PERS

The following changes in assumptions or other inputs that affected the measurement of the Total Pension Liability have been made since the previous measurement date of June 30, 2013.

- Assumed rate of inflation was reduced from 3.5% to 3.25%
- Payroll growth assumption was reduced from 4.5% to 4.0%
- Assumed real wage growth was reduced from 1.0% to 0.75%
- Investment return assumption was changed from net of investment and administrative expenses to net of investment expenses only.
- Mortality among contributing members, service retired members, and beneficiaries was updated to the following:
 - For Males & Females: RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years, with mortality improvements projected by Scale BB to 2018.
- Mortality among disabled members was updated to the following:
 - For Males: RP 2000 Disabled Mortality Table for Males, set forward one year, with mortality improvements projected by Scale BB to 2018.
 - For Females: RP 2000 Disabled Mortality Table for Females, set forward five years, with mortality improvements projected by Scale BB to 2018.

Changes in Proportionate Share - PERS

There were no changes between the measurement date of the collective net pension liability and the City's reporting date that are expected to have a significant effect on the City's proportionate share of the collective NPL.

Method and assumptions used in calculations of actuarially determined contributions - PERS

The actuarially determined contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2014, determined as of June 30, 2014.

The following actuarial methods and assumptions were used to determine actuarial contribution rates reported in that schedule:

Actuarial cost method	Entry age
Asset valuation method	4-year smoothed market
Inflation	3.25%
General wage increase	4.00%
Investment rate of return	7.75%, net of pension plan investment expense, including inflation

Changes in Benefit Terms - PERS

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

City Council
 City of Hardin
 Big Horn County
 Hardin, Montana 59034

**SCHEDULE OF FUNDING PROGRESS
 FIREMEN’S DISABILITY & PENSION PLAN**
 For the Fiscal Year Ended June 30, 2015

	<u>2013</u>	<u>2014</u>	<u>2015</u>
Cash – Beginning of year	\$113,806	\$122,146	\$134,360
Increase (Decrease)*	<u>8,340</u>	<u>12,214</u>	<u>14,830</u>
Cash – End of year	<u>\$122,146</u>	<u>\$134,360</u>	<u>\$149,190</u>

*The increase (decrease) in cash may not match the sum in Fiduciary Funds Statement of Net Position due to changes in other assets and liabilities.

**SCHEDULE OF EMPLOYER CONTRIBUTIONS
 FIREMEN’S DISABILITY & PENSION PLAN**
 For the Fiscal Year Ended June 30, 2015

	<u>2013</u>	<u>2014</u>	<u>2015</u>
City Contributions	\$18,908	\$22,872	\$24,815
State Contributions	3,807	3,908	6,146
Tax Assessments	<u>9,810</u>	<u>8,789</u>	<u>8,126</u>
Total Contributions	\$32,525	\$35,569	\$39,087
Interest Additions	<u>923</u>	<u>486</u>	<u>413</u>
Total Additions	<u>\$33,447</u>	<u>\$36,055</u>	<u>\$39,500</u>

Totals may not foot due to rounding

City Council
 City of Hardin
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 Hardin, Montana 59034

SCHEDULE OF FUNDING PROGRESS
OTHER POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)
 For the Fiscal Year Ended June 30, 2015

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial AAL Unit Credit Cost Method (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/(c))
July 1, 2009	\$0	\$445,264	\$445,264	0%	\$945,200	47%
July 1, 2012	0	399,170	399,170	0%	1,293,140	31%

The above table shows data as of the most recent actuarial valuation and the two preceding valuations.

The City recalculated its OPEB Accrued Actuarial Liability (AAL) on July 1, 2012. GASBS 45 requires that the OPEB liability be recalculation every three years.

The purpose of the above table is to provide information that serves as a surrogate for the funding progress of the Other Post-Employment Benefit plan.

SCHEDULE OF COMBINED FUNDS
BALANCE SHEET - COMBINED FUNDS
As of June 30, 2015

	Governmental			Proprietary		
	TIFD Debt Svc	TIF CIP	Total TIFD	Garbage	Landfill	Total Solid Waste
	Fund	Fund	Fund	Fund	Fund	Fund
ASSETS:						
Current Assets						
Cash & Cash Equivalents	\$ -	\$ -	\$ -	\$ 300,965	\$ 201,037	\$ 502,002
Taxes/Assessments Receivable	728,965	-	728,965	26,602	-	26,602
Accounts Receivable	-	-	-	784	76,677	77,461
Due From Other Funds	-	-	-	-	3,882	3,882
Inventories	-	-	-	840	4,525	5,365
Total Current Assets	728,965	-	728,965	329,190	286,122	615,313
Noncurrent Assets						
Restricted Cash & Investments	1,155,956	-	1,155,956	300,000	1,214,892	1,514,892
Land	-	-	-	-	320,716	320,716
Construction in Progress	-	-	-	-	34,822	34,822
Buildings	-	-	-	20,927	79,427	100,354
Improvements other than Buildings	-	-	-	-	2,040,909	2,040,909
Machinery & Equipment	-	-	-	577,584	1,224,769	1,802,353
Less: Accumulated Depreciation	-	-	-	(495,880)	(1,336,020)	(1,831,900)
Total Assets	1,884,921	-	1,884,921	731,821	3,865,637	4,597,459
DEFERRED OUTFLOWS OF RESOURCES						
Deferred Outflows of Resources - Pensions	-	-	-	5,507	13,412	18,919
LIABILITIES:						
Current Liabilities						
Accounts Payable	2,500	-	2,500	4,209	15,129	19,339
Matured Interest on Bonds Payable	-	-	-	-	39,000	39,000
Other Accrued Payables	-	-	-	3,717	8,563	12,280
Compensated Absences	-	-	-	4,989	4,969	9,958
Deposits Payable	-	-	-	-	4,700	4,700
Total Current Liabilities	2,500	-	2,500	12,915	72,361	85,276
Noncurrent Liabilities						
Revenue Bonds Payable	-	-	-	-	727,000	727,000
Closure/postclosure Care Costs	-	-	-	-	971,862	971,862
Net Pension Liability	-	-	-	79,098	192,633	271,731
OPEB Liability	-	-	-	26,377	42,862	69,239
Compensated Absences	-	-	-	14,966	14,907	29,873
Total Noncurrent Liabilities	-	-	-	120,441	1,949,264	2,069,705
Total Liabilities	2,500	-	2,500	133,356	2,021,625	2,154,981
DEFERRED INFLOWS OF RESOURCES:						
Deferred Inflows - Taxes & Assessments Revenue	728,965	-	728,965	-	-	-
Deferred Inflows - Pensions	-	-	-	20,516	49,965	70,482
Total Deferred Inflows of Resources	728,965	-	728,965	20,516	49,965	70,482
FUND BALANCES / NET POSITION:						
Net Investment in Capital Assets	-	-	-	102,631	1,598,623	1,701,254
Restricted:						
Debt Service	1,153,456	-	1,153,456	-	94,919	94,919
Closure/postclosure Care Costs	-	-	-	-	770,123	770,123
Replacement & Depreciation	-	-	-	300,000	345,150	645,150
Unrestricted	-	-	-	180,825	(1,001,357)	(820,532)
Total Fund Balances / Net Position	1,153,456	-	1,153,456	583,456	1,807,458	2,390,914
Total Liabilities, Deferred Inflows & Fund Bal.	\$ 1,884,921	\$ -	\$ 1,884,921			

SCHEDULE OF COMBINED FUNDS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - COMBINED FUNDS
For the Year Ended June 30, 2015

	Governmental			Proprietary		
	TIFD Debt Svc	TIF CIP	Total TIFD	Garbage	Landfill	Total Solid Waste
	Fund	Fund	Fund	Fund	Fund	Fund
REVENUES:						
Taxes/Assessments	\$ 129,401	\$ -	\$ 129,401	\$ 2,344	\$ -	\$ 2,344
Investment Income	1,696	2	1,698	-	-	-
Intergovernmental Revenue	389	-	389	-	-	-
Charges for Services	-	-	-	249,915	733,333	983,248
Miscellaneous Income	-	-	-	2,154	12	2,167
Total Revenues	131,485	2	131,487	254,413	733,346	987,758
EXPENDITURES / OPERATING EXPENSES:						
Public Works	-	-	-	-	-	-
Miscellaneous	-	500	500	-	-	-
Capital Outlay	-	-	-	-	-	-
Personal Services	-	-	-	109,524	248,446	357,970
Supplies	-	-	-	65,735	80,863	146,598
Purchased Services	-	-	-	9,770	79,486	89,256
Fixed Charges	-	-	-	4,277	81,405	85,682
Depreciation	-	-	-	26,934	194,694	221,628
Total Current Expenditures / Operating Expenses	-	500	500	216,240	684,894	901,134
Debt Service	658,870	-	658,870	-	-	-
Total Expenditures	658,870	500	659,370	216,240	684,894	901,134
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES / OPERATING INCOME (LOSS)	(527,385)	(498)	(527,883)	38,173	48,452	86,625
OTHER FINANCING SOURCES (USES) / NONOPERATING REVENUES (EXPENSES)						
Fund Transfers In	29,782	-	29,782	-	-	-
Fund Transfers (Out)	-	(29,782)	(29,782)	-	-	-
Intergovernmental Revenue	-	-	-	2,237	5,447	7,683
Interest Revenue	-	-	-	1,600	9,430	11,030
Debt Service Interest Expense	-	-	-	-	(19,035)	(19,035)
Total Other Financing Sources (Uses)/Nonoperating Rev (Exp)	29,782	(29,782)	-	3,836	(4,158)	(322)
NET CHANGES IN FUND BALANCES/ NET POSITION	(497,603)	(30,280)	(527,883)	42,010	44,293	86,303
FUND BALANCES / NET POSITION						
Beginning of the Year	1,651,059	30,280	1,681,338	637,224	1,996,421	2,633,646
Prior Period Adjustments	-	-	-	(95,778)	(233,256)	(329,034)
End of the Year	\$ 1,153,456	\$ -	\$ 1,153,456	\$ 583,456	\$ 1,807,458	\$ 2,390,914

City of Hardin
 Big Horn County
 Hardin, Montana

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 (Budget and Actual)
 COMBINED GOVERNMENTAL FUNDS
 For the Fiscal Year Ended June 30, 2015

	TIFD Debt Service Fund			TIF CIP Fund		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
REVENUES:						
Taxes/Assessments	\$ 765,698	\$ 891,198	\$ 129,401	\$ -	\$ -	\$ -
Intergovernmental Revenue	777	777	389	-	-	-
Investment Earnings	<u>4,500</u>	<u>(2,630)</u>	<u>1,696</u>	-	<u>3</u>	<u>2</u>
Total Revenues	770,975	889,345	131,485	-	3	2
EXPENDITURES:						
Other Current Charges	<u>-</u>	<u>-</u>	<u>-</u>	<u>750</u>	<u>500</u>	<u>500</u>
Total Current Expenditures	-	-	-	750	500	500
Capital Outlay	-	-	-	29,541	29,552	-
Debt Service (Principal, Interest, Fees)	<u>658,750</u>	<u>658,870</u>	<u>658,870</u>	-	-	-
Total Expenditures	658,750	658,870	658,870	30,291	30,052	500
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES						
	112,225	230,475	(527,385)			(498)
OTHER FINANCING SOURCES/USES						
Fund Transfers In	-	29,783	29,782	-	-	-
Fund Transfers Out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(29,783)</u>	<u>(29,782)</u>
NET CHANGES IN FUND BALANCES	112,225	260,258	(497,603)			(30,280)
FUND BALANCES:						
BEGINNING FISCAL YEAR FUND BALANCES			<u>1,651,059</u>			<u>30,280</u>
ENDING FISCAL YEAR FUND BALANCES			<u>\$ 1,153,456</u>			<u>\$ -</u>

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

City Council
City of Hardin
Big Horn County
Hardin, Montana 59034

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Hardin as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise City of Hardin's basic financial statements and have issued our report thereon dated June 29, 2016.

We were engaged to audit the financial statements of the aggregate discretely presented component unit as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the component unit's basic financial statements and have issued our report thereon dated June 29, 2016. Our report disclaims an opinion on such financial statements because of the lack of audit evidence provided to us to support the majority of the revenues and expenditures reported in the component unit's financial statements; and the lack of board and management participation in the majority of the revenues and expenditures reported in the component unit's financial statements.

Internal Control over Financial Reporting

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

In connection with our engagement to audit the financial statements of the component unit, we considered *the component unit's* internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the component unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the component unit's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first two paragraphs of this section 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. We did identify certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Responses that we consider to be material weaknesses; items 2015-004, 2015-005, 2015-006, 2015-007 and 2015-008.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **City of Hardin's** financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as item 2015-001.

In compliance with our engagement to audit the financial statements of the **component unit**, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not

an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2015-002 and 2015-003. Additionally, if the scope of our work had been sufficient to enable us to express opinions on the basic financial statements, other instances of noncompliance or other matters may have been identified and reported herein.

City of Hardin’s Response to Findings

City of Hardin’s response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. City of Hardin’s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

The Component Unit’s Response to Findings

Two Rivers Authority’s response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. Two Rivers Authority’s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the entity’s internal control or on compliance. This report is an integral part of the audit performed in accordance with Governmental Auditing Standards in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Tripp & Associates

Tripp & **A**ssociates
Billings, Montana
June 29, 2016

SUMMARY SCHEDULE of PRIOR FINDINGS

**FINDING NUMBER 2014- 001 – TWO RIVERS AUTHORITY (a component unit) REVENUE BOND REQUIREMENTS:
(Repeat Finding since 2011):**

Condition: A material weakness in internal controls. The Two Rivers Authority (TRA) is not in compliance with the debt covenants of their outstanding bonds. Section 6.02(b) of the revenue bond agreement specifies that a reserve fund must be made that is equal to 120% of the average annual debt service payments or the maximum amount of principal and interest to come due in any future year. The future reserve requirement is \$2,534,531 which is the highest annual debt payment required on the schedule due in fiscal year 2028. The bond agreement also requires a current bond reserve in order to make the current bond payment. The current reserve requirement is \$18,876,166. The bond fund requires an Operation and Maintenance reserve approximately \$10,000. The bond fund requires an Operating Reserve/Repair/Contingency Account equal to \$300,000. TRA has not maintained the required bond reserves as required by the revenue bond agreement. Total reserve requirements equal \$19,186,166 and Two Rivers Authority has total reserves of \$125,225.

Recommendation: The auditor recommended that the TRA review all alternatives available to come into compliance with this revenue bond covenant.

Current Status: TRA continues to not be in compliance with MCA concerning this matter. The reserve balance remains below the required amount and principal and interest payments due continue to accrue. This finding is reported as finding number 2015-002 on the Schedule of Findings and Responses.

FINDING NUMBER 2014-002 – FIREMEN’S DISABILITY AND PENSION - FIDUCIARY FUND: (Repeat finding since 2012):

Condition: A significant deficiency in internal controls. The Firemen’s Disability and Pension Trust Fund is not in compliance with MCA requirements. The Fireman’s Disability and Pension fund appears to be underfunded. MCA 19-18-504 requires the City to levy an annual tax whenever the funds of the Firemen’s Disability and Pension Fund are less than .21% of the total assessed value of taxable property within the city limits. At year end the Firemen’s Disability and Pension Fund held cash of \$134,360 which represents .16% of the assessed value of taxable property within the city limits. The current requirement (.21% of the assessed valuation of taxable property within the city limits of \$91,005,878) is \$191,112. The fund holds 70% of the required cash and investment holdings. Fiscal year 2014 revenues were in excess of current benefit payments by \$12,062.

Recommendation: The auditor recommended that the City continue to assess an annual levy and continue making contributions to the Fund. And when possible, increase the levy and contributions as appropriate.

Current Status: This is still a finding. It is reported as finding number 2015-001 on the Schedule of Findings and Responses. Although the City contributes approximately \$30,000 in excess of the levy to the fund annually, the account balance remains below the required balance amount according to taxable valuations.

FINDING NUMBER 2014-003 – DEPRECIATION EXPENSE:

Condition: A significant deficiency in internal controls. Depreciation totaling \$25,174 on Governmental Capital assets was calculated twice. Governmental Capital Assets of \$302,762 were transferred to Proprietary funds. Fiscal year 2014 depreciation on transferred assets was calculated on both the Governmental activities side before the transfer and again on the Proprietary fund side after the transfer.

Recommendation: The auditor recommended that the City carefully review all depreciation calculations prior to finalizing the financial statement.

Current Status: This is not a finding for fiscal year 2015.

SUMMARY SCHEDULE of PRIOR FINDINGS (Continued)

FINDING NUMBER 2014-004 – WATER LOAN FORGIVENESS BOOKED in WRONG YEAR:

Condition: A material weakness in internal controls. A Water fund loan of \$279,500 was forgiven by the federal government in November of 2014 (which is fiscal year 2015) but was booked in fiscal year 2014 in error.

Recommendation: The auditor recommended that the City void the fiscal year 2014 entries to eliminate this bond and book the loan forgiveness as federal revenue in fiscal year 2015.

Current Status: This finding has been resolved.

FINDING NUMBER 2014-005 – TWO RIVERS AUTHORITY (a component unit) PAYROLL in ARREARS:

Condition: TRA is not in compliance with wage and hour laws. An employee of TRA worked from December 9, 2013 to June 30, 2014 without pay. No agreement was made that this employee be paid annually. In fiscal year 2015 the employee was paid less than agreed upon and the remainder was booked as Deferred Payroll. As of June 30, 2014 the deferred payroll liability totaled \$26,051. As of June 30, 2015 deferred payroll totaled \$80,325. This amount does not include vacations payable of \$1,939.

Recommendation: The auditor recommended that TRA pay all accrued payroll expenses and keep up to date with payroll expenses as they occur in compliance with Montana wage and hour laws.

Current Status: TRA has paid the Executive Director (the only employee) a reduced salary. TRA continues to accrue deferred payroll. As of June 30, 2015, deferred payroll increased by \$52,103 bringing the total payroll in arrears to \$80,325. As of the date of this audit report deferred payroll continues to increase. This finding is reported on the Schedule of Findings and Responses as 2015-003

SCHEDULE OF FINDINGS AND RESPONSES

A. Summary of Auditor's Results

Financial Statements:

The auditor, Tripp & Associates, has issued an unqualified opinion on City of Hardin's financial statements as of and for the year ended June 30, 2015. The auditor, Tripp & Associates, has issued a disclaimer of opinion on the component unit's (Two Rivers Authority) financial statements as of and for the year ended June 30, 2015.

Internal Control over financial reporting:

- Material Weaknesses identified? YES NO
- Significant Deficiencies identified? YES NONE REPORTED

Noncompliance material to financial statements noted? YES NO

B. Findings relating to the financial statements that are required to be reported in accordance with "Governmental Auditing Standards."

CITY OF HARDIN

FINDING NUMBER 2015-001 – FIREMEN'S DISABILITY AND PENSION - FIDUCIARY FUND:
(Repeat finding since 2012):

Criteria: In 2005 Montana Code Annotated (MCA) 19-18-504 required the City to levy an annual tax whenever the funds of the Firemen's Disability and Pension Fund are less than .21% of the total assessed value of taxable property within the city limits.
Condition: Noncompliance with MCA. The Fireman's Disability and Pension fund appears to be underfunded.
Context: At year end the Firemen's Disability and Pension Fund held cash of \$149,190 which represents .17% of the assessed value of taxable property within the city limits. The current requirement for the cash balance (.21% of the assessed valuation of taxable property within the city limits of \$118,088,747) is \$247,986. The Firemen's Pension fund holds 60% of the required cash and investment holdings. The City is behind in meeting this requirement by \$98,796. Although the fund cash balance is behind schedule, fiscal year 2015 revenues were in excess of current benefit payments by \$14,626.
Effect: The Firemen's Disability and Pension Trust Fund is not in compliance with MCA requirements.
Cause: The Fund's holdings were below the required amount at the onset of the MCA ruling. MCA does not allow the City to levy additional taxes to bring the account into compliance. Each year the City contributes amounts to the fund in excess of the levy. In fiscal year 2015, the City contributed \$30,961 in addition to the levy, but the fund cash balance remains below state statutes.
Recommendation: We recommend that the City make contributions to the Fund to bring the fund into compliance. The City should increase its funding or the levy as appropriate.
Auditee Response: The City is committed to assessing an annual levy and continuing contributions to the Firemen's Disability and Pension fund as evidenced by the increase in revenues in excess of expenditures totaling \$2,632 in FY2012; \$8,176 in FY2013; \$12,062 in FY14 and \$14,626 in FY15.

TWO RIVERS AUTHORITY

FINDING NUMBER 2015-002 – TWO RIVERS AUTHORITY (a component unit) REVENUE BOND REQUIREMENTS:
(Repeat Finding since 2011):

Criteria: The revenue bond agreement specifies that principal and interest payments are to be paid according to the amortization schedule. Section 6.02(b) of the revenue bond agreement specifies that a reserve fund must be made that is equal to 120% of the average annual debt service payments or the maximum amount of principal and interest to come due in any future year. The future reserve requirement is \$2,534,531 which is the highest annual debt payment required on the schedule due in fiscal year 2028. The bond agreement also requires a current bond reserve in order to make the current bond payment. The current reserve requirement is \$18,876,166. The bond fund requires an Operation and Maintenance reserve of approximately \$10,000. The bond fund requires an Operating Reserve /Repair / Contingency Account equal to \$300,000.
Condition: Two Rivers Authority is not in compliance with the bond agreement concerning bond principal and interest payments, nor in maintaining the proper reserve account balance. Interest payments have not been made since November of 2008. TRA has never made any bond principal payments which were scheduled to begin in November of 2008. The required bond reserves as required by the revenue bond agreement have not been maintained.

SCHEDULE OF FINDINGS AND RESPONSES (Continued)

Effect: Total reserve requirement is \$19,186,166 and Two Rivers Authority's reserve account totals \$125,225 and the operating cash account totals \$738.

Cause: From inception in 2007 to June 30, 2014, no inmates were held in the detention facility. The facility opened early in fiscal year 2015 but was closed again in May of 2016. The fiscal year 2015 revenues were directed to the operator of the facility in accordance with the operating agreement. Therefore no operating revenues were available to meet bond debt service requirements.

Recommendation: We recommend that TRA review all alternatives available to come into compliance with this revenue bond covenant or begin foreclosure proceedings.

Auditee response: Factors beyond the control of Two Rivers Authority and the Operator have severely hindered efforts to fully utilize the Detention Facility. Two Rivers Authority continues to pursue all possible remedies to this situation.

FINDING NUMBER 2015-003 – TWO RIVERS AUTHORITY – PAYROLL in ARREARS: (Finding since 2014)

Criteria: Montana wage and hour laws require that employees are paid according to the payroll schedule selected by the company. The Two Rivers Authority selected a bi-weekly payroll schedule. Executives must be paid at least annually.

Condition: TRA is not in compliance with wage and hour laws. An employee was not paid according to the salary agreement. Instead, the employee was paid a portion of his agreement and the balance was booked as a Deferred Payroll liability. The deferred payroll liability increased by \$52,103 in fiscal year 2015. As of June 30, 2015 Deferred Payroll liability totaled \$80,325. This amount does not include vacations payable of \$1,939.

Context: In fiscal year 2016, the City of Hardin agreed to contribute \$7,750 per quarter towards meeting the payroll expenses of the TRA office. There is no requirement for the City to make these contributions now or in the future.

Effect: An employee is working without full compensation. TRA is not in compliance with wage and hour laws.

Cause: In accordance with the agreement with Emerald, inmate revenues have been diverted to cover the expenses associated with the operations of the facility rather than TRA's operations. TRA has not had sufficient revenues to cover operating expenses, including payroll since 2013.

Recommendation: We recommend that TRA pay all accrued payroll expenses and keep up to date with payroll expenses as they occur in compliance with Montana wage and hour laws. If TRA does not have sufficient revenues to do so, we recommend that the salary agreement be modified to bring TRA into compliance with Wage and Hours laws.

Auditee Response: In FYE 2016 with funding from the City of Hardin, Two Rivers Authority was able to compensate its Executive Director at a reduced salary. Two Rivers Authority remains hopeful that Detention Facility operations will eventually generate sufficient revenue to service this liability.

FINDING NUMBER 2015-004 – TWO RIVERS AUTHORITY – BACKDATED ENTRIES:

Criteria: GAAP requires that financial statements filed with third parties (i.e, State of Montana) are reflective of the entity's financial records.

Condition: Material Weakness in internal controls. Entries were backdated into previously audited account balances without auditor knowledge.

Context: TRA backdated entries into fiscal year 2013 and 2014 without auditor knowledge. Fiscal year 2013, advance funding bondholder liability and utility expenses increased by \$3,880. Fiscal year 2014, deferred payroll liability increased by \$2,171, payroll expenses increased by 2,171, bank expenses and retained earnings decreased by \$20.

Effect: Net Position remained the same. Balance Sheet beginning account balances changed by \$6,051 collectively for years 2013 and 2014. Auditor discomfort with verifiability of beginning account balances throughout the financial statements due to possible additional adjustments not noted.

Cause: In reviewing additional data, TRA determined that items were booked in the wrong year and made corrections to entries as well as additional entries in fiscal years 2013 and 2014's records.

Recommendation: We recommend that after the audit the accounting system closes access to previous years. In the event that corrections are determined to be necessary for prior years, prior period adjustments should be reported in the current year rather than backdating items to years already submitted to the State.

Auditee Response: In FYE 2013 and 2014, Two Rivers Authority performed certain maintenance services and incurred certain expenses at the Two Rivers Regional Detention Facility on behalf of Bondholders. Two Rivers Authority submitted invoices to US Bank for these services and expenses; the reimbursements received by Two Rivers Authority from US Bank were booked as revenue. Two Rivers Authority was advised after the fact by the Auditor that the reimbursements were not revenue but were in fact "funding advances." Auditor directed Two Rivers Authority to make general journal entries changing the reimbursements from revenue to liabilities.

SCHEDULE OF FINDINGS AND RESPONSES (Continued)

FINDING NUMBER 2015-005 – TWO RIVERS AUTHORITY – ACCRUALS NOT MADE

Criteria: Generally Accepted Accounting Principles (GAAP) requires that entities report on a consistent basis of accounting.

Condition: Material weakness in internal controls over reporting account balances on the accrual basis. Accounts receivable, accounts payable, revenues and expenses may be understated by approximately \$1 million dollars.

Context: Some accounts were reported on the accrual basis while others are reported on the cash basis. The current portion of bonds payable and interest payable have proper accruals but accounts receivable, revenues and expenditures do not. We estimated that \$1,054,651 in revenues received in July by the US Bank Trustee and \$1,054,651 in expense payments to Emerald in July were actually for services rendered in June of 2015 but were not properly accrued.

Effect: Accounts Receivable, Accounts Payable, Revenues and Expenses may be understated by \$1,054,651.

Cause: The financial statements were compiled using bank statements as the source document because vendor invoices and revenue requests from the BIA and Three Tribes of North Dakota were not provided to the management of Two Rivers Authority.

Recommendation: We recommend that TRA consider whether the transactions between Emerald and the BIA and Three Tribes belong on the financial statements of TRA. Further, if all parties agree that these transactions are part of TRA's financial statements, then TRA's management should be involved in the transactions through proper approvals and documentation maintenance.

Auditee Response: The process for receiving and disbursing Detention Facility revenue was established under the Indenture and through the Operating and Management Agreement with Emerald at the direction of and to the apparent satisfaction of the Bondholders and the Trustee. Two Rivers Authority is also satisfied with this arrangement, as it does not have the staff resources to involve itself in the day-to-day financial activity of the Detention Facility.

FINDING NUMBER 2015-006 – TWO RIVERS AUTHORITY – INSUFFICIENT MANAGEMENT REPRESENTATION

Criteria: Governmental Auditing Standards state that the entity's management is required to have sufficient knowledge of all transactions to provide assurances to the auditor as to the completeness, accuracy, and to accept responsibility for all aspects of the financial statements.

Condition: Material Weakness in internal control over assets, liabilities, revenues and expenditures.

1. Two Rivers Authority's management does not have first-hand knowledge of transactions between US Bank, Emerald, BIA, or the Three Tribes of North Dakota that are reported on TRA's financial statements.
2. US Bank employees are not part of Two Rivers Authority's management team. It is impossible for TRA's management to provide audit assurance or accept responsibility for transactions for which they did not initiate, authorize prior to their occurrence, or obtain supporting documentation.
3. Two Rivers Authority's financial statements were prepared from excerpts of bank statements in TRA's name rather than from actual supporting documents of these transactions.

Context: A review of the bank statements revealed expenditures to Emerald Correctional Management (Emerald) totaling \$2,359,245; receipts totaling \$754,477 and revenues totaling \$1,107,513 in and out of Two Rivers Authority's bank accounts that were not initiated or approved by the Board or TRA's Management. The supporting documentation of these transactions was not provided as audit evidence. The difference between receipts and expenditures of \$497,255 was reported as an increase to advances from bondholders on the financial statements without any supporting documentation of the transactions. Receipts totaling \$768,892 were not identifiable as to the source.

Effect: Management is unable to accept responsibility for transactions of which they do not have first-hand knowledge resulting in a Disclaimer of audit opinion.

Cause: The US Bank Trustee controls the transactions between Emerald, the BIA, and the Three Tribes of North Dakota based on a bond indenture paragraph that allows for the US Bank Trustee to *enter and take possession of the Mortgaged Property* [the detention facility] *or any part thereof and exclusion of the Issuer* [Two Rivers Authority] *from possession of the Mortgaged Property*. Emerald submits invoices of inmates housed for the BIA and Three Tribes of North Dakota. Payments from the BIA and Three Tribes flow through the US Bank Trustee. Payments to Emerald are made by the US Bank Trustee. US Bank personnel are not part of TRA's management team. Two Rivers Authority's Board and management are not involved in these transactions prior to them appearing on the bank statements. TRA does not receive copies of the supporting documentation of these transactions. These transactions are reported on TRA's financial statements because they are run through bank accounts in Two Rivers Authority's name.

Recommendation: We recommend that the US Bank Trustee works more closely with Two Rivers Authority's Board and management to allow sufficient involvement for Two Rivers Authority's management to employ proper internal controls over the transactions so they can accept responsibility for the transactions and financial statements.

Auditee Response: The process for receiving and disbursing Detention Facility revenue was established under the Indenture and through the Operating and Management Agreement with Emerald at the direction of and to the apparent satisfaction of the Bondholders and the Trustee. Two Rivers Authority is also satisfied with this arrangement, as it does not have the staff resources to involve itself in the day-to-day financial activity of the Detention Facility.

SCHEDULE OF FINDINGS AND RESPONSES (Continued)

FINDING NUMBER 2015-007 – TWO RIVERS AUTHORITY – INSUFFICIENT SUPPORTING DOCUMENTATION

Criteria: Governmental Auditing Standards requires that proper supporting documentation of transactions is maintained and provided as audit evidence.

Condition: Material weakness in internal controls over revenues and expenditures. Supporting documentation of increases to bondholder liabilities of \$497,795, revenues of \$1,861,989, and expenditures of \$2,360,421 was not provided as audit evidence.

Context: Two Rivers Authority's Board and management were unable to provide the supporting evidence of the bondholder liabilities, tribal revenues and Emerald expenses because they have never received copies of the supporting documentation.

Effect: The transactions mentioned above were not verifiable. The auditors were unable to determine whether the transactions were reported in the proper period.

Cause: The US Bank Trustee controls the transactions between Emerald, the BIA, and the Three Tribes of North Dakota based on a bond indenture paragraph that allows for the US Bank Trustee to *enter and take possession of the Mortgaged Property* [the detention facility] *or any part thereof and exclusion of the Issuer* [Two Rivers Authority] *from possession of the Mortgaged Property*. Emerald submits invoices of inmates housed for the BIA and Three Tribes of North Dakota. Payments from the BIA and Three Tribes flow through the US Bank Trustee. Payments to Emerald are made by the US Bank Trustee. US Bank personnel are not part of TRA's management team. Two Rivers Authority's Board and management are not involved in these transactions prior to them appearing on the bank statements. TRA does not receive copies of the supporting documentation of these transactions. These transactions are reported on TRA's financial statements because they are run through bank accounts in Two Rivers Authority's name.

Recommendation: We recommend that the US Bank Trustee provides the supporting documentation of transactions reported on Two Rivers Authority's bank statements for Board approval and involvement in the transactions to allow TRA's Board and management to employ proper internal controls over the transactions reported in their financial statements.

Auditee Response: The process for receiving and disbursing Detention Facility revenue was established under the Indenture and through the Operating and Management Agreement with Emerald at the direction of and to the apparent satisfaction of the Bondholders and the Trustee. Two Rivers Authority is also satisfied with this arrangement, as it does not have the staff resources to involve itself in the day-to-day financial activity of the Detention Facility.

FINDING NUMBER 2015-008 – TWO RIVERS AUTHORITY – ASSETS NOT REPORTED

Criteria: Governmental Auditing Standards requires that all assets are fully disclosed.

Condition: Material weakness in internal controls over cash. Bank confirmations show two additional bank accounts totaling \$15,248 in Two Rivers Authority's name that are not included in TRA's accounting system nor reported on TRA's financial statements.

Context: The bank confirmation shows two advance funding accounts totaling \$15,248 but TRA's board and management have not received copies of these bank Statements nor provided them as audit evidence.

Effect: Incomplete financial statements.

Cause: The US Bank Trustee controls the transactions of the bondholder's advance funding accounts. US Bank personnel are not part of TRA's management team. Two Rivers Authority's Board and management are not involved in these transactions. TRA does not receive copies of the supporting documentation of these transactions. These transactions were not reported on TRA's financial statements because Two Rivers Authority's management did not receive copies of the bank statements.

Recommendation: We recommend that the US Bank Trustee provides the supporting documentation of transactions reported on Two Rivers Authority's bank statements for Board approval and involvement in the transactions to allow TRA's Board and management to employ proper internal controls over accounts in their name.

Auditee Response: Two Rivers Authority is unaware of any funded accounts beyond its own checking account with First Interstate Bank and the three active trust accounts with US Bank. Two Rivers Authority has requested from US Bank access to electronic statements for these other accounts but has received no response at this time. It is the considered opinion of Two Rivers Authority that these other two accounts are not actually its accounts but rather remnants of the "Advance Funding" from FYE 2013-2014 and are designated "Two Rivers Authority" for purposes of identification by the Trustee and the Bondholders who provided the "Advance Funding." Two Rivers Authority, to the best of its knowledge and ability has accounted for all "Advance Funding" provided by certain Bondholders and expended by itself and Emerald Correctional Management. Any remaining "Advance Funding" held in reserve by US Bank would appear to belong to the funding Bondholders.