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

**ORGANIZATION**  
Fiscal Year Ended June 30, 2016

Jack Lane

Mayor

**CITY COUNCIL**

Kenny Kepp

Council Member

Karen Molina

Council Member

Clayton Greer

Council Member

Harry Kautzman

Council Member

Darren Zent

Council Member

Jeremy Krebs

Council Member

**CITY OFFICIALS**

Michelle Dyckman

Finance Officer/City Clerk

James Seykora

City Judge

Jordan Knudsen

City Attorney

Russell Dill

Superintendent of Public Works

**TWO RIVERS AUTHORITY  
ORGANIZATION**

Fiscal Year Ended June 30, 2016

**BOARD**

Jon D. Matovich

Chairman

Russell Dill

Vice Chairman

Waylon Fortune

Member

**OFFICIALS**

Jeffrey S. McDowell

Executive Director

Keith Marshall

US Bank Trustee

**City of Hardin**  
**Management's Discussion and Analysis**  
**June 30, 2016**

As management of the City of Hardin (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2016. 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's financial performance.

The 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 exceeded its liabilities at the close of the most recent fiscal year by \$12,393,427 (*net position*). Of this amount, \$4,216,174 is the Net Investment in Capital Assets, \$10,051,211 is Restricted, and (\$1,873,958) represents unrestricted net position, which would be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net position decreased \$386,006 over the prior fiscal year due to the delinquency of a principal payment due on the Tax Increment Revenue Bond.
- At the close of the current fiscal year, the City's governmental funds reported combined fund balances of \$2,574,132, a decrease of \$570,170 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$368,526, or approximately 24% of the General Fund's total fund balance of \$1,563,269.
- At the end of the current fiscal year, the total of the *committed*, *assigned*, and *unassigned* components of *fund balance* for the General Fund was \$482,668 or 35% of total General Fund expenditures.
- The City's total debt decreased by \$247,000 (1%) during the current fiscal year. Key factors in the change include:
  - The Tax Increment Revenue Bond's principal balance remained the same.
  - Payment of principal on revenue bonds for water, wastewater, and landfill was \$247,000.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The Management's Discussion and Analysis Report is intended to serve as an introduction to the City's basic financial statements. The City'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 are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

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 Fire Department Relief Association (FDRA) is reported in the fiduciary fund financial statements.

**City of Hardin**  
**Management's Discussion and Analysis**  
**June 30, 2016**

The *Statement of Net Position* includes all assets plus deferred outflows of resources, less liabilities and deferred inflows of resources, equaling *Net Position*. The *Statement of Activities* presents revenue and expense information showing how the city's net position changed during the year. Over time, increases or decreases to the City's net position serve as a useful indicator of whether the City's financial position is improving or deteriorating.

All changes to net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenditures are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

The *Statement of Net Position* and the *Statement of Activities* distinguishes between the following activities:

- **Governmental Activities** - much of the City's basic services are reported here, including general administration, public safety, public works, public health, culture and recreation, and community development. Property taxes, state entitlement distributions, property assessments, and state and federal grants finance most of the costs of these activities.
- **Business-type Activities** - the City charges a fee to customers to recover the cost of certain services provided. The City's water, wastewater, solid waste, and landfill activities are reported here.

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 (the primary government) along with the Two Rivers Trade Port Authority herein referred to as Two Rivers Authority (a discretely presented 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

**City of Hardin**  
**Management's Discussion and Analysis**  
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**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 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.

Governmental Accounting Standards Board (GASB) Statement No. 34 requires that the General Fund be reported as a major fund. GASB Statement No. 54 requires that funds with similar revenue 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.

**City of Hardin**  
**Management's Discussion and Analysis**  
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***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.

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 system composed of garbage collection services and landfill operations. The City maintains two separate funds (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.

***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.

In fiscal year 2016, the City reclassified the Fireman's Pension Trust Fund as required by GASB 73 to an agency fund. It is used to account for assets held by the City in a trustee capacity for the Volunteer Fireman's Disability and Pension fund or Fire Department Relief Association (FDRA).

**City of Hardin**  
**Management's Discussion and Analysis**  
**June 30, 2016**

**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 (RSI)* concerning the City'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, schedules relating to pensions, and Budget and Actual Schedules.

**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 exceeded its liabilities and deferred inflows at the close of the year by \$12,393,427 (net position). The total net position decreased by \$386,006 or 3% from last year. The decrease in Net Position was largely due to delinquencies of principal and interest on the Tax Increment Revenue Bond. Total Liabilities and Deferred Inflows of Resources increased by \$97,285. Total assets of the City decreased 1%. Net investment in capital assets decreased \$741,150 or 15%. Of this, depreciation was \$1,123,924.

A portion of the City's Net Position (\$4,216,174 or 34%) 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 liquidated to pay these liabilities.

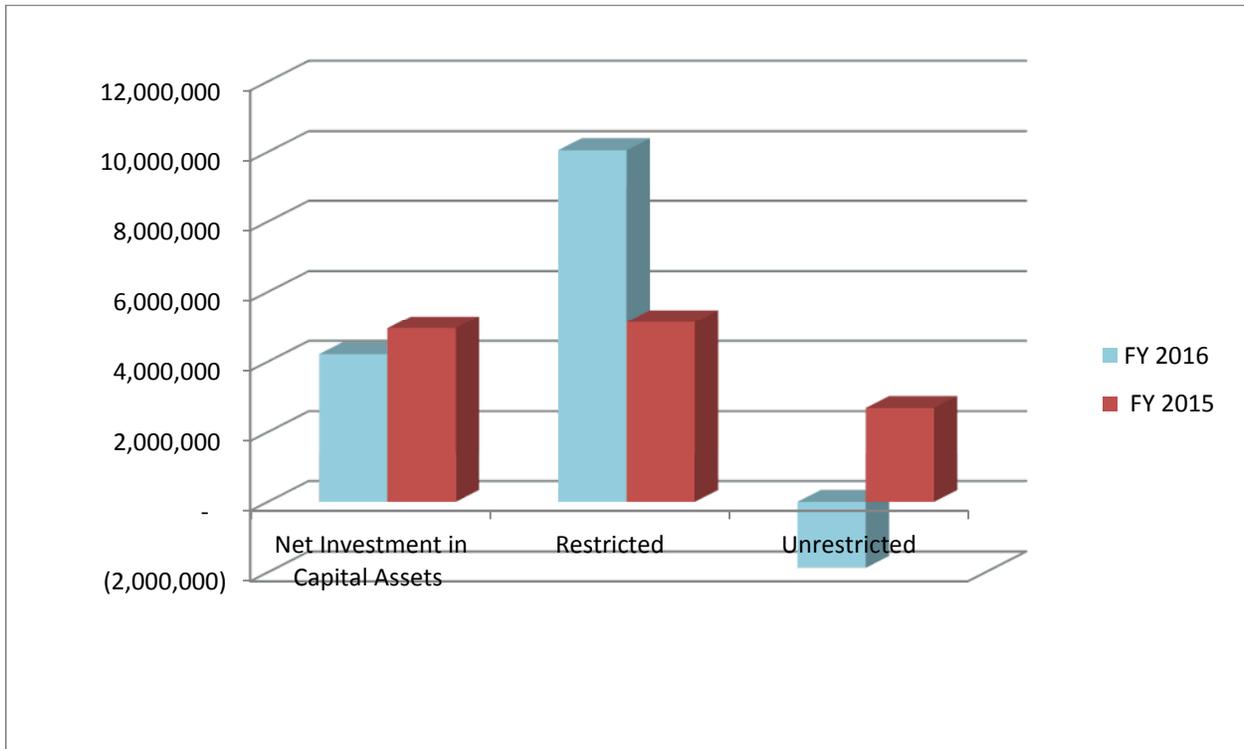
<b>CITY of HARDIN 's Net Position</b>						
	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>FY 2016</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2015</b>
Current and other Assets	5,426,054	4,851,293	1,276,465	2,583,476	6,702,519	7,434,769
Restricted Cash	659,543	1,180,946	3,692,191	2,274,523	4,351,733	3,455,469
Capital assets	16,207,449	16,435,419	11,917,161	12,146,906	28,124,611	28,582,324
Total Assets	22,293,046	22,467,658	16,885,818	17,004,905	39,178,864	39,472,563
Total Deferred Outflows of Resources	31,348	29,544	50,277	47,102	81,624	76,646
Long-term Liabilities outstanding	20,089,895	20,889,819	4,246,199	4,468,145	24,336,094	25,357,964
Other Liabilities	1,975,818	765,469	340,182	360,795	2,315,999	1,126,264
Total Liabilities	22,065,713	21,655,288	4,586,381	4,828,940	26,652,094	26,484,228
Total Deferred Inflows of Resources	84,498	110,068	130,469	175,480	214,967	285,548
Net Position:						
Net Investment in Capital Assets	(5,242,987)	(4,484,581)	9,459,161	9,441,906	4,216,174	4,957,324
Restricted	6,415,130	2,932,308	3,636,081	2,204,633	10,051,211	5,136,941
Unrestricted	(997,959)	2,284,119	(875,998)	401,048	(1,873,958)	2,685,167
Total Net Position	174,183	731,846	12,219,244	12,047,587	12,393,427	12,779,433

**City of Hardin**  
**Management's Discussion and Analysis**  
**June 30, 2016**

The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$12,393,427 (*net position*). \$10,051,211 or 81% is the restricted portion of the City's net position. This represents resources that are subject to external restrictions on how they may be used. The balance of unrestricted net position (\$1,873,958) represents the net position which would be used to meet the government's ongoing obligations to citizens and creditors.

At June 30, the City is able to report positive balances in two categories of net position.

**CITY of HARDIN's Net Position June 30, 2015 and 2016**



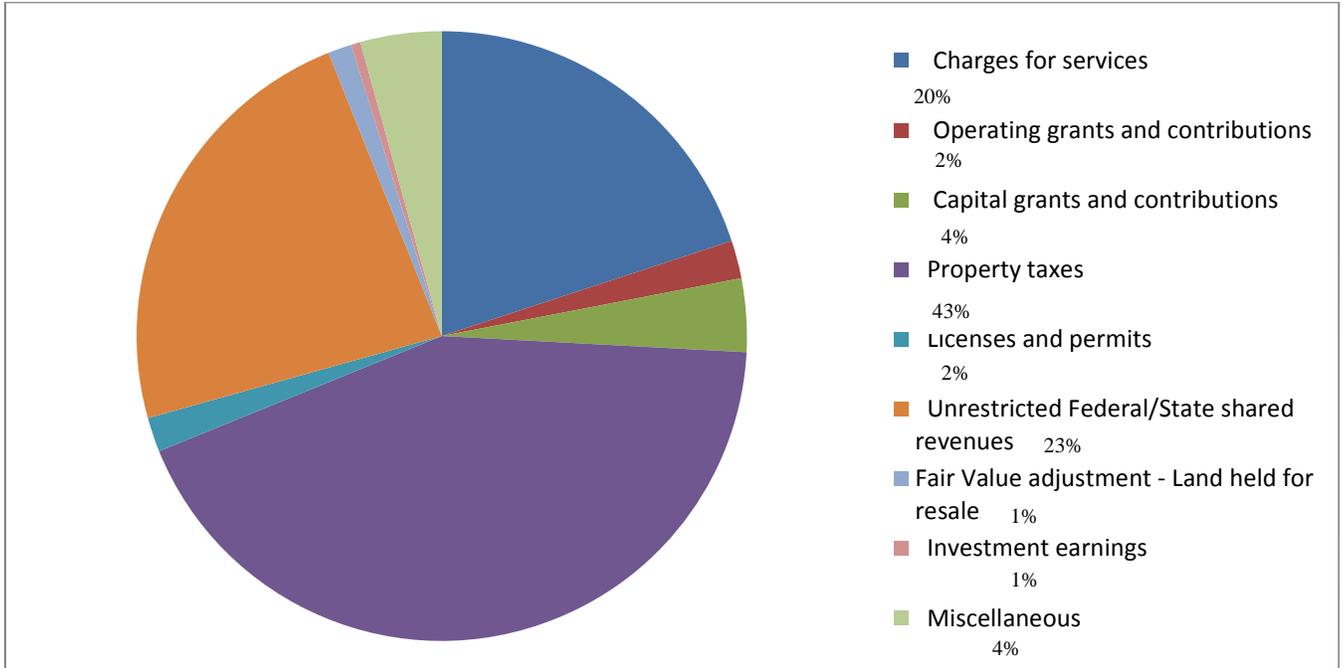
**City of Hardin**  
**Management's Discussion and Analysis**  
**June 30, 2016**

CITY of HARDIN's Changes in Net Position							
		Governmental Activities		Business-Type Activities		Total	
		FY 2016	FY 2015	FY 2016	FY 2015	FY 2016	FY 2015
<b>Revenues</b>							
<i>Program revenues</i>							
Charges for services	20%	621,739	623,229	2,600,163	2,395,664	3,221,903	3,018,893
Operating grants and contributions	2%	62,668	55,732			62,668	55,732
Capital grants and contributions	4%	121,720	27,128	-	294,590	121,720	321,718
Property taxes	43%	1,340,207	1,379,793			1,340,207	1,379,793
Licenses and permits	2%	56,637	29,662			56,637	29,662
Unrestricted Federal/State shared revenues	23%	726,338	727,230	17,390	19,129	743,729	746,359
Fair Value adjustment - Land held for resale	1%	38,722				38,722	-
Investment earnings	1%	15,700	7,200	32,799	25,407	48,499	32,607
Miscellaneous	4%	134,017	67,348	27,003	(20,931)	161,020	46,418
<b>Total revenues</b>		<b>3,117,748</b>	<b>2,917,322</b>	<b>2,677,356</b>	<b>2,713,859</b>	<b>5,795,104</b>	<b>5,631,182</b>
<b>Program expenses</b>							
General government		478,921	482,318			478,921	482,318
Public safety		663,668	580,167			663,668	580,167
Public works		997,912	703,995			997,912	703,995
Public health		40,397	32,966			40,397	32,966
Culture and recreation		154,438	111,763			154,438	111,763
Housing/Community Development		130,367	118,787			130,367	118,787
Conservation of Natural Resources							-
Accreted Interest			652,450			-	652,450
Accrued Interest		530,436					
Interest on Long-Term		780,309	666,224			780,309	
Miscellaneous		101	500			101	500
Unallocated costs/OPEB		(106,891)	22,744			(106,891)	22,744
Water				801,710	833,174	801,710	833,174
Sewer				654,904	663,295	654,904	663,295
Solid Waste				249,334	216,240	249,334	216,240
Landfill				799,751	703,929	799,751	703,929
							-
<b>Total expenses</b>		<b>3,669,658</b>	<b>3,371,914</b>	<b>2,505,699</b>	<b>2,416,638</b>	<b>6,175,358</b>	<b>5,788,552</b>
Increase (decrease) in net position before transfers		(551,910)	(454,592)	171,657	297,222	(380,253)	(157,370)
Transfers						-	-
<b>Increase (decrease) in net position</b>		<b>(551,910)</b>	<b>(454,592)</b>	<b>171,657</b>	<b>297,222</b>	<b>(380,253)</b>	<b>(157,370)</b>
<b>Net Position - beginning</b>		731,846	1,714,033	12,047,587	12,566,982	12,779,433	14,281,015
Prior Period Adjustment		(5,753)	(527,596)	-	(816,616)	(5,753)	(1,344,212)
<b>Net Position - ending</b>		174,183	731,846	12,219,244	12,047,587	12,393,427	12,779,433

**Governmental Activities:** During the current fiscal year, total Net Position for governmental activities decreased \$557,663 or 76% from the prior fiscal year for an ending balance of \$174,183. Implementation of GASB 72 regarding application of fair value for investments resulted in land held for resale currently valued at \$146,378 to be reclassified as an investment. Expenditures exceeded revenues by \$551,910. Depreciation and accreted interest exceeded long-term receivables (deferred inflows).

**City of Hardin  
Management's Discussion and Analysis  
June 30, 2016**

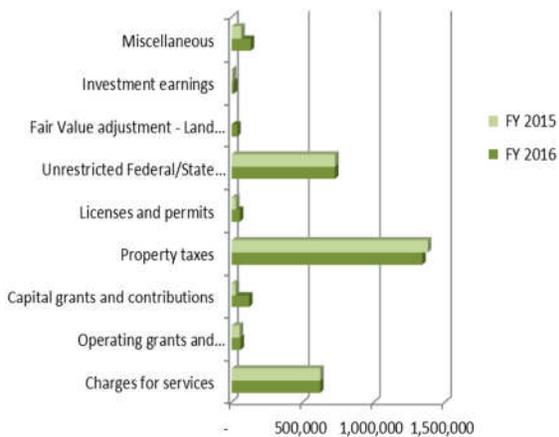
Revenues by Source – Governmental Activities



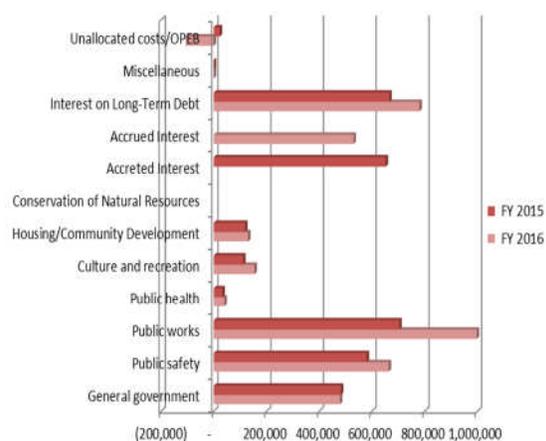
Of the \$1,340,207 listed as property taxes, \$890,345 is classified to the TIFD.

**Governmental Activities:**

**Revenues FY 2015 and 2016**



**Expenses FY 2015 and 2016**



**Revenues:**

- Total Revenues increased \$200,426.
- Capital Grants and Contributions increased \$94,592. C-TEP grants for sidewalks and welcome signs and a LWCF grant for a park restroom accounted for this increase.
- There was an increase in the Fair Value for land held for resale for \$38,722.

**City of Hardin**  
**Management's Discussion and Analysis**  
**June 30, 2016**

- The hail damage reimbursement increased \$66,669
- Federal or State shared revenues decreased \$891.
- Licenses or permits increased \$26,974.
- Charges for services decreased \$1,490.
- Property taxes decreased \$39,586.
- Although taxes had not been paid by a major taxpayer in the TIFD as of June 30, a payment for some delinquencies was made in September of 2016. Taxes receivable as of June 30 in the TIFD were \$1,389,096.

**Expenses:**

- Total Governmental Expenses increased \$297,744.
- Public Works increased \$293,918. The following expenses were some of the increases: Chip-sealing was \$152,977; curbs and gutters were \$22,814; completion of SID 120 was \$54,281; and park sidewalks were 22,910.
- Under GASB 45, a new OPEB calculation is to be completed every three years. This year's Other Post Employment Benefits (OPEB) liabilities decreased \$106,891 from the previous year due to the recalculation of this liability.
- Public safety expenses increased by \$83,501. Hail damage repairs to the Firehall roof were \$96,850.

**Business-type Activities:** The City's water, sewer, and solid waste activities resulted in an increase in net position of \$171,657.

Some of the highlights of changes by fund include:

**Water:**

- Revenues decreased \$254,168. The previous year had \$279,500 for a Federal loan that was forgiven. Rates were increased by 1%.
- Expenses decreased \$31,464. Radio-read meter purchases decreased by \$46,830.
- The net position increased \$8,359.

**Sewer:**

- Revenues decreased \$4,164. Rates were increased by 1%.
- Expenditures decreased \$34,900. Plant repairs (i.e. valve repair) decreased \$41,646.
- The net position increased \$10,593.

**Solid Waste-Garbage:**

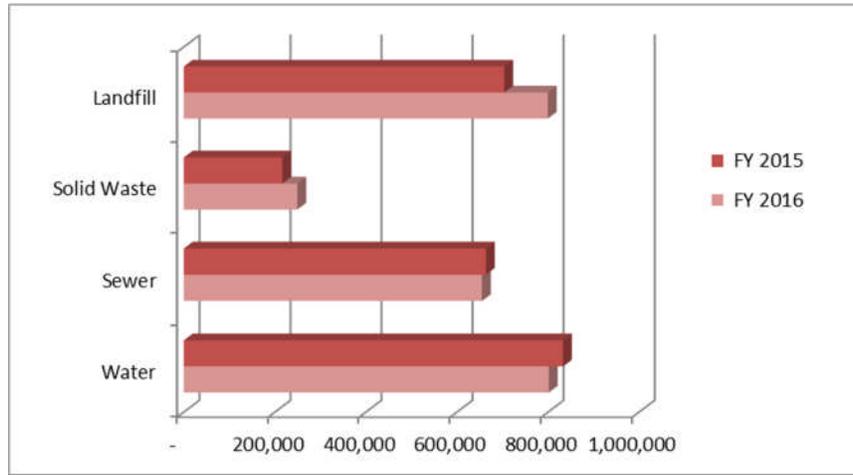
- Revenues increased \$220,652. The time frame for revenues was established as a calendar year. The revenues posted for this change were \$174,864. Fees for collection increased 15% as a Capital Improvement Program is being established and fees are incrementally increased to fund it.
- Expenses increased \$33,095. Personnel expenses increased \$30,033 to add additional routes.
- The net position increased \$229,567.

**Solid Waste-Landfill:**

- Revenues decreased \$25,333 despite a rate increase. The coal ash cell had a significant drop in usage.
- Expenses increased \$95,822. Repairs and equipment rentals were \$103,422 more than the previous year.
- The net position decreased \$76,862.

**City of Hardin  
Management's Discussion and Analysis  
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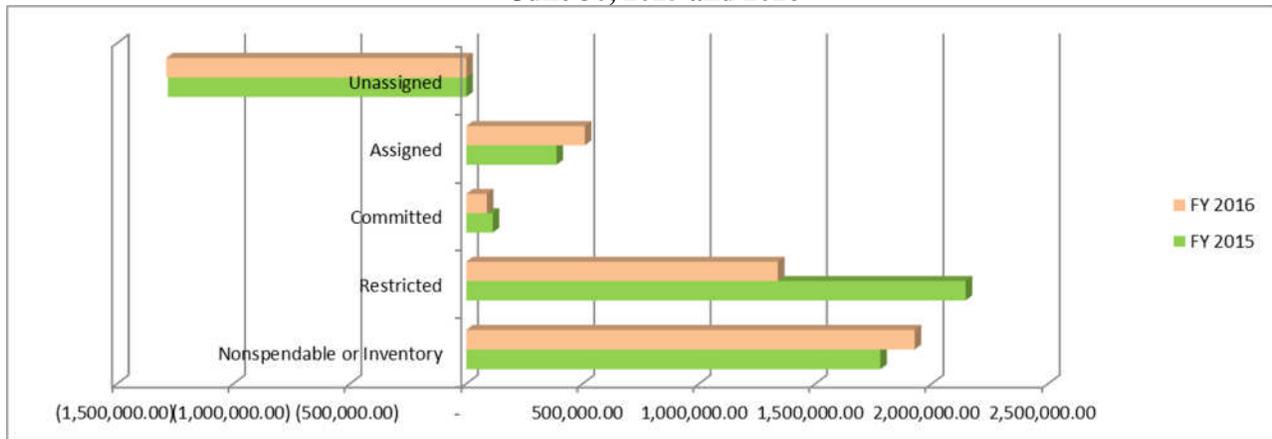
Proprietary Funds Expenses  
FY 2015 and 2016



**FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

**Governmental Funds:** The focus of the City'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 itself, or a group or individual that has been delegated authority to assign resources for use of particular purposes by the City Council.

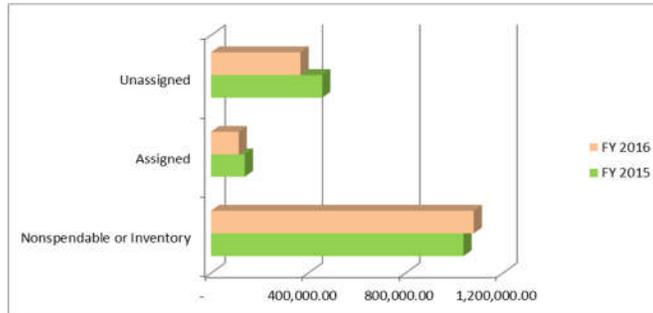
**Governmental Funds - Fund Balance  
June 30, 2015 and 2016**



As of June 30, the City's governmental funds reported a combined fund balance of \$2,574,132, a decrease of \$570,170 compared to last year. Non-spendable amounts of \$1,659,081 are for interfund loans, \$120,941 is for inventory, and \$146,378 is land that is held for resale. The restricted fund balance of \$1,338,774 is stipulated by constitutional provisions or enabling legislation. \$138,878 previously restricted for capital projects was reclassified to assigned fund balance. As the SIDs (interfund loans) are paid back, the fund balances will show spending reserves.

**City of Hardin**  
**Management's Discussion and Analysis**  
**June 30, 2016**

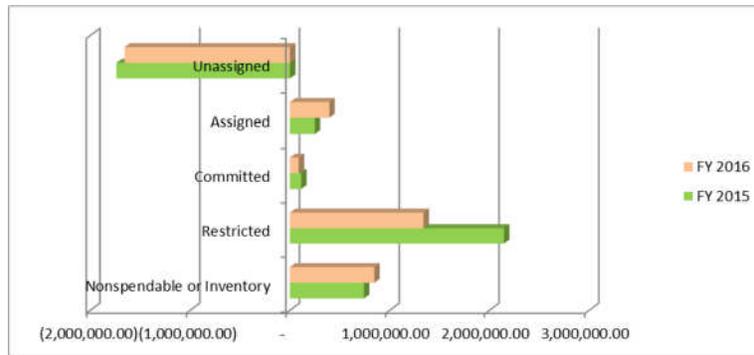
**General Fund**  
**Components of Fund Balance**  
**June 30, 2015 and 2016**



The City's **General Fund** is the chief operating fund for governmental activities. At June 30, 2016 the total fund balance was \$1,563,269 which is a \$71,333 decrease over the prior year. \$1,080,600 or 69% 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 \$482,668, or 35% of total General Fund expenditures (\$1,380,234).

**Other Governmental Funds**  
**Components of Fund Balance**  
**June 30, 2015 and 2016**



The **Street Maintenance Fund** has a fund balance of \$413,562. Of this, 28% or \$115,265 represents inventory. The decrease of \$38,513 from last year due was due to a chip-sealing project.

The **Tax Increment Finance District** is for debt service of a revenue bond. The fund balance decreased \$537,490 as reserves were used for bond payments. 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 \$44,943 to (\$1,183,127), and **SID 121's** increased \$45,718 to (\$465,401). 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.

**City of Hardin**  
**Management's Discussion and Analysis**  
**June 30, 2016**

**Proprietary Funds:**

The City maintains separate proprietary funds for Water; Sewer; and Solid Waste which consists of Collection (Garbage) 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	4,837,087	4,838,538	813,023	1,730,596	12,219,244
% of Total Net Position	40%	40%	7%	14%	100%
Change in Net Position	8,359	10,593	229,567	(76,862)	171,657

The increase in net position for water and sewer was due to continued diligence in following a capital improvement plan and 1% rate increases. The increase in net position for garbage collection allowed the City to purchase a new garbage truck and the previously mentioned classification of revenues to a calendar year. Landfill's decrease in net position was due to increased expenses related to equipment repairs.

**General Fund Budgetary Highlights:**

Actual revenues of \$1,345,645 were \$187,262 less than anticipated. \$123,017 was for miscellaneous revenues for reimbursement of roof repairs. Actual expenditures (other than transfers or loans) in the General Fund were \$1,380,234. Overall expenditures were \$339,564 less than anticipated. Professional services not utilized or delayed were \$65,890 less than budgeted for legal, engineering or other outside resources; and \$35,000 in capital purchases were delayed. \$130,000 had been aside for loans and lighting district development in the Industrial Park. \$38,072 was transferred to Street Maintenance.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets:** The City's capital assets for its governmental and business-type activities as of June 30, 2016 total \$28,124,611 net of accumulated depreciation. This investment in capital assets 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).

<b>Capital Assets</b>						
Net of Accumulated Depreciation						
	Governmental Activities		Business-Type Activities		TOTAL	
	FY 2016	FY 2015	FY 2016	FY 2015	FY 2016	FY 2015
<b>Non-depreciable Assets</b>						
Land	\$ 490,725	\$ 598,380	\$ 463,193	\$ 463,193	\$ 953,918	\$ 1,061,573
Easements or Intangibles	\$ 40,622	\$ 40,622			\$ 40,622	\$ 40,622
Construction-in-progress	\$ 23,352	\$ 1,291,901	\$ -	\$ 34,822	\$ 23,352	\$ 1,326,724
	<u>\$ 554,699</u>	<u>\$ 1,930,903</u>	<u>\$ 463,193</u>	<u>\$ 498,015</u>	<u>\$ 1,017,892</u>	<u>\$ 2,428,918</u>
<b>Depreciable assets</b>						
Buildings/improvements/systems	\$ 930,487	\$ 831,113	\$ 90,160	\$ 54,248	\$ 1,020,647	\$ 885,361
Improvements other than buildings	\$ 134,590	\$ 124,445	\$ 1,432,419	\$ 1,508,924	\$ 1,567,009	\$ 1,633,370
Machinery and equipment	\$ 431,379	\$ 376,657	\$ 696,794	\$ 548,888	\$ 1,128,174	\$ 925,545
Infrastructure (General Plant)	\$ 14,156,294	\$ 13,172,300	\$ 72,023	\$ 25,950	\$ 14,228,316	\$ 13,198,250
Treatment Plant			\$ 3,600,183	\$ 3,816,199	\$ 3,600,183	\$ 3,816,199
Transmission & Distribution			\$ 5,562,389	\$ 5,694,682	\$ 5,562,389	\$ 5,694,682
	<u>\$ 15,652,750</u>	<u>\$ 14,504,516</u>	<u>\$ 11,453,969</u>	<u>\$ 11,648,891</u>	<u>\$ 27,106,719</u>	<u>\$ 26,153,406</u>
<b>TOTAL CAPITAL ASSETS</b>	<u>\$ 16,207,449</u>	<u>\$ 16,435,419</u>	<u>\$ 11,917,161</u>	<u>\$ 12,146,906</u>	<u>\$ 28,124,611</u>	<u>\$ 28,582,325</u>

**City of Hardin**  
**Management's Discussion and Analysis**  
**June 30, 2016**

Investments in capital assets events include the following:

Governmental:

Fire department SCBAs	\$ 69,300
Curb & gutter improvements	22,060
Welcome signs	16,650
Heimat Park sidewalks	23,664
SID 120 – completion	54,281
Heimat Park restroom	172,387

Proprietary:

Mini-excavator	\$ 49,823
Rankin Drive meter pit	49,994
Garbage truck	317,000
Completion of shop improvements at landfill	4,460

**Outstanding debt:**

At the end of the current fiscal year, the City had total bonded debt outstanding of \$23,378,000. Conversion of the TIFD's (Tax Increment Finance District) bonds was in September, 2014 and the first interest payment was made in March, 2015. As of the date of this report, no principal payments have been made on the TIFD revenue bond. Revenue bonds in the proprietary funds are current.

	Governmental Activities		Business-Type Activities		Total	
	FYE 2016	FYE 2015	FYE 2016	FYE 2015	FYE 2016	FYE 2015
Tax Increment						
Revenue Bonds	\$ 20,920,000	\$ 20,920,000			\$ 20,920,000	\$ 20,920,000
Revenue Bonds			\$ 2,458,000	\$ 2,705,000	\$ 2,458,000	\$ 2,705,000
<b>Total</b>	<b>\$ 20,920,000</b>	<b>\$ 20,920,000</b>	<b>\$ 2,458,000</b>	<b>\$ 2,705,000</b>	<b>\$ 23,378,000</b>	<b>\$ 23,625,000</b>

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. The Water fund extended an interfund loan to the General Fund to help make this feasible. That interfund loan was paid off this year. To help alleviate the cost to the property owners, the interest rate was reduced from 4% to 3% in September, 2014. These charts represent receivables and payables within the funds as listed on the Balance Sheet for Governmental Funds:

Receivables	FYE 2016	FYE 2015
General Fund	\$ 1,074,925	\$ 1,138,926
Curb & Gutter	\$ 88,796	\$ 95,061
Gas Apportionment	\$ 176,734	\$ 189,523
Capital Improvements	\$ 318,626	\$ 341,501
Water	\$ -	\$ 110,820
Other Funds	\$ -	\$ 9,392
	<b>\$ 1,659,081</b>	<b>\$ 1,885,224</b>

Payables	FYE 2016	FYE 2015
General Fund	\$ -	\$ 106,580
SID 120	\$ 1,183,127	\$ 1,253,891
SID 121	\$ 465,402	\$ 511,120
Other Funds	\$ 10,551	\$ 13,632
	<b>\$ 1,659,081</b>	<b>\$ 1,885,224</b>

The \$10,551 payable will be repaid to the General Fund when grant money is received for capital projects.

**City of Hardin**  
**Management's Discussion and Analysis**  
**June 30, 2016**

**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 is looking for a buyer or tenant for the detention facility. Due to the valuation of a major industry in the Tax Increment Finance District, the anticipated revenue for the TIFD revenue bond will not meet original projections. Love's Truck Stop opened its first Montana facility on June 8, 2017.

**The projects for the next year include:**

- Updating an air compressor for the Volunteer Fire Department
- Storm drainage improvements on 4<sup>th</sup> Street from Chouteau to Miles
- Welcome signs for Hardin
- Chip-sealing
- Replace or purchase vehicles and machinery for several departments
- Continue to replace curbs and gutters as needed
- Repair North Terry Avenue in front of the high school in conjunction with other agencies
- Continue to upgrade water meters to radio-read
- Plan for a 500,000 gallon concrete reservoir
- Plan for water main extensions along North Custer Avenue area north of Center Avenue
- Plant upgrades at the wastewater treatment plant: grit and grease removal system

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.

**T**ripp & **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, 2016, 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, 2016, 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
Major Enterprise Fund – Water	Unmodified
Major Enterprise Fund – Sewer	Unmodified
Major 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.

### **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, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of a Matter**

The *City of Hardin* has made its Tax Increment Financing District (TIFD) revenue bond principal and interest payments due in fiscal year 2016. The City does not expect to meet current or future 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) The 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, 2016, outstanding bond principal totaled \$27,015,000 of which \$7,110,000 is delinquent. Interest accrues at \$960,012 annually. Accrued interest payable totaled \$14,400,188 as of June 30, 2016. Revenues reported on the Statement of Activities are actually directed to the operator of the facility instead of to TRA for operations or bond requirements. TRA's fiscal year 2016 revenue available for bond indebtedness was \$0. TRA cash available to meet bond indebtedness as of June 30, 2016 totaled \$125,305.

### **Other Matters**

In fiscal year 2016, the City adopted the provisions of **GASB 72 Fair Value Measurement and Application**.

#### *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 - 17; *Schedule of Revenues, Expenditures and Changes in Fund Balances (Budget and Actual)* on page 61; *Schedule of Proportionate Share of the Net Pension Liability – PERS* on pages 64; *Schedule of Contributions – PERS* on pages 64; and *Schedule of Funding Progress for Other Post-Employment Benefits Other Than Pensions* (OPEB) on page 68 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 Proprietary Funds are presented for purposes of additional analysis and are not a required part to the basic financial statements.

The Schedules of Combined Proprietary 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 Proprietary 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 28, 2017, on our consideration of *City of Hardin's* and its component unit, *Two Rivers Authority'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* and should be considered in assessing City of Hardin's internal control over financial reporting and compliance.

*Tripp & Associates*

Billings, Montana  
June 28, 2017

City of Hardin  
Big Horn County  
Hardin, Montana

STATEMENT OF NET POSITION  
As of June 30, 2016

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total Primary Gov.	Two Rivers Authority
<b>ASSETS:</b>				
<b>Current Assets:</b>				
Cash & Investments	\$ 1,709,042	\$ 803,750	\$ 2,512,792	\$ 11,950
Land Held for Resale	146,378	-	146,378	-
Taxes/Assessments Receivable	3,439,699	218,272	3,657,972	-
Accounts Receivable	-	148,467	148,467	-
Other Receivables	4,419	24,916	29,335	-
Due From Other Governments	5,576	-	5,576	-
Inventories	120,941	81,059	202,000	-
Total Current Assets	5,426,054	1,276,465	6,702,519	11,950
<b>Restricted Cash &amp; Investments</b>	659,543	3,692,191	4,351,733	125,305
<b>Non-Current Assets:</b>				
Land/Rights of Way/Construction in Progress	554,697	463,193	1,017,890	257,377
Other Capital Assets (Net)	15,652,751	11,453,968	27,106,719	16,535,705
Total Non-Current Assets	16,207,448	11,917,161	28,124,609	16,793,082
<b>Total Assets</b>	22,293,045	16,885,817	39,178,862	16,930,337
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>				
Deferred Outflows - Pensions - PERS	31,348	50,277	81,624	-
<b>LIABILITIES:</b>				
<b>Current Liabilities:</b>				
Accounts Payable	41,492	45,435	86,927	-
Deferred Payroll	-	-	-	117,427
Deposits Payable	3,204	56,110	59,314	-
Revenues Collected in Advance	-	40,622	40,622	-
Other Current Liabilities	27,070	45,226	72,296	-
Compensated Absences	13,615	27,790	41,405	5,059
Advance Funding Bondholder Loans	-	-	-	858,327
Accrued Bond Interest Payable	530,436	-	530,436	14,400,188
Current Revenue Bonds Payable	1,360,000	125,000	1,485,000	7,110,000
Total Current Liabilities	1,975,818	340,182	2,315,999	22,491,000
<b>Non-Current Liabilities:</b>				
Compensated Absences	40,846	83,369	124,215	-
Closure /Post-Closure Care Costs	-	1,038,280	1,038,280	-
OPEB Liability	64,555	114,766	179,321	-
Revenue Bonds Payable	19,560,000	2,333,000	21,893,000	19,905,000
Net Pension Liability - PERS	424,493	676,785	1,101,277	-
Total Non-Current Liabilities	20,089,894	4,246,199	24,336,094	19,905,000
Total Liabilities	22,065,712	4,586,381	26,652,093	42,396,000
<b>DEFERRED INFLOWS OF RESOURCES:</b>				
Deferred Inflows - Pensions - PERS	84,498	130,469	214,967	-
<b>NET POSITION:</b>				
Net Investment in Capital Assets	(5,242,988)	9,459,161	4,216,174	(25,355,127)
Restricted for:				
Bond Indenture Requirements	-	2,478,151	2,478,151	-
Debt Service	2,005,062	307,560	2,312,622	-
Closure/Post-closure	-	850,370	850,370	-
Non-Spendable (other than Perm Fund)	1,926,399	-	1,926,399	-
Other	2,483,668	-	2,483,668	-
Unrestricted	(997,959)	(875,998)	(1,873,958)	(110,536)
Total Net Position	\$ 174,183	\$ 12,219,243	\$ 12,393,427	\$ (25,465,664)

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, 2016

Functions/Programs	Program Revenues				Net (Expense) Revenues and Changes in Net Position			Component Unit Two Rivers Trade Port Authority
	Expenses	Charges for	Operating	Capital	Primary Government			
		Services, Fines & Forfeitures	Grants & Contributions	Grants & Contributions	Governmental Activities	Business-Type Activities	Total Primary Gov	
<b>GOVERNMENTAL ACTIVITIES</b>								
General Government	\$ 479,121	\$ 73,677	\$ 3,972	\$ -	\$ (401,472)		\$ (401,472)	
Public Safety	663,668	75	614	-	(662,979)		(662,979)	
Public Works	997,914	547,987	57,041	42,029	(350,858)		(350,858)	
Public Health	40,397	-	506	-	(39,892)		(39,892)	
Culture & Recreation	154,236	-	536	75,000	(78,701)		(78,701)	
Housing & Community Development	130,367	-	-	4,692	(125,675)		(125,675)	
Accrued Interest	530,436	-	-	-	(530,436)		(530,436)	
Interest on Long-Term Debt	777,094	-	-	-	(777,094)		(777,094)	
Interest on Loan from Water Fund	3,215	-	-	-	(3,215)		(3,215)	
Miscellaneous	101	-	-	-	(101)		(101)	
Unallocated Costs - OPEB Expense	(106,891)	-	-	-	106,891		106,891	
<b>Total Governmental Activities</b>	<b>3,669,659</b>	<b>621,739</b>	<b>62,668</b>	<b>121,720</b>	<b>(2,863,532)</b>		<b>(2,863,532)</b>	
<b>BUSINESS-TYPE ACTIVITIES</b>								
Water	801,710	774,902	-	-	-	(26,808)	(26,808)	
Sewer	654,904	651,187	-	-	-	(3,717)	(3,717)	
Landfill	1,049,086	1,174,074	-	-	-	124,989	124,989	
<b>Total Business-Type Activities:</b>	<b>2,505,699</b>	<b>2,600,163</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>94,464</b>	<b>94,464</b>	
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>6,175,358</b>	<b>3,221,903</b>	<b>62,668</b>	<b>121,720</b>	<b>(2,863,532)</b>	<b>94,464</b>	<b>(2,769,067)</b>	
<b>COMPONENT UNITS</b>								
Two Rivers Trade Port Authority	6,202,549	3,829,674	31,000	-				(2,341,876)
<b>GENERAL REVENUES:</b>								
Taxes/Assessments					\$ 1,340,207	\$ -	\$ 1,340,207	\$ -
Licenses and Permits					56,637	-	56,637	-
Intergovernmental Revenue					726,338	17,390	743,729	-
Investment Earnings					15,698	32,799	48,497	79
Gain on a Capital Asset reclassified as "Land held for resale"					38,722	-	38,722	-
Other					134,018	27,003	161,021	-
<b>Total General Revenues</b>					<b>2,311,620</b>	<b>77,193</b>	<b>2,388,813</b>	<b>79</b>
<b>CHANGE IN NET POSITION</b>					(551,911)	171,657	(380,255)	(2,341,796)
Net Position Beginning of the Year					731,846	12,047,587	12,779,434	(23,123,867)
Prior Period Adjustments - Funds					107,656	-	107,656	-
Prior Period Adjustments - Capital Assets					(107,656)	-	(107,656)	-
Prior Period Adjustments - Capital Assets					(5,752)	-	(5,752)	-
<b>Restated Beginning Net Position</b>					<b>726,094</b>	<b>12,047,587</b>	<b>12,773,682</b>	<b>(23,123,867)</b>
<b>Net Position End of the Year</b>					<b>\$ 174,183</b>	<b>\$ 12,219,244</b>	<b>\$ 12,393,427</b>	<b>\$ (25,465,664)</b>

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

City of Hardin  
Big Horn County  
Hardin, Montana

BALANCE SHEET  
GOVERNMENTAL FUNDS  
As of June 30, 2016

	MAJOR					Other	Total
	General Fund	Street Mtce. Fund	TIFD Debt Svc Fund	SID 120 Debt Svc Fund	SID 121 Debt Svc Fund	Government Funds	
<b>ASSETS:</b>							
Cash and Investments	\$ 514,985	\$ 315,115	\$ -	\$ -	\$ 1	\$ 878,941	\$ 1,709,042
Land Held for Resale	-	-	-	-	-	146,378	146,378
Taxes/Assessments Receivable	134,735	59,362	1,389,096	1,196,707	468,102	191,698	3,439,699
Due From Other Funds	1,074,925	-	-	-	-	584,156	1,659,081
Due From Other Governments	576	-	-	-	-	5,000	5,576
Interest Receivable	2,253	605	-	-	-	1,561	4,419
Inventories	5,676	115,265	-	-	-	-	120,941
Total Current Assets	1,733,149	490,347	1,389,096	1,196,707	468,103	1,807,734	7,085,135
Restricted Cash & Investments	3,204	-	615,966	-	-	40,373	659,543
Total Assets	1,736,353	490,347	2,005,062	1,196,707	468,103	1,848,107	7,744,677
<b>LIABILITIES:</b>							
Accounts Payable	20,199	7,635	-	-	-	13,658	41,492
Payable to Other Funds (Governmental)	-	-	-	1,183,127	465,402	10,551	1,659,081
Other Current Liabilities	14,947	9,788	-	-	-	2,335	27,070
Deposits Payable	3,204	-	-	-	-	-	3,204
Total Liabilities	38,350	17,423	-	1,183,127	465,402	26,545	1,730,847
<b>DEFERRED INFLOWS OF RESOURCES:</b>							
Deferred Inflows - Property Tax Revenue	134,735	59,362	1,389,096	1,196,707	468,102	191,698	3,439,699
<b>FUND BALANCES:</b>							
Nonspendable:							
Inventory	5,676	115,265	-	-	-	-	120,941
Land Held for Resale	-	-	-	-	-	146,378	146,378
Interfund Loans	1,074,925	-	-	-	-	584,156	1,659,081
Restricted:							
General Government	-	-	-	-	-	13,996	13,996
Public Works	-	298,297	-	-	-	278,629	576,926
Capital Projects/Acquisition	-	-	615,966	-	-	100,373	716,339
Housing & Comm. Development	-	-	-	-	-	31,512	31,512
Committed:							
Miscellaneous	-	-	-	-	-	88,519	88,519
Assigned:							
Public Safety	34,143	-	-	-	-	-	34,143
Public Works	-	-	-	-	-	256,113	256,113
Housing & Community Development	80,000	-	-	-	-	-	80,000
Capital Projects	-	-	-	-	-	138,878	138,878
Unassigned:	368,526	-	-	(1,183,127)	(465,401)	(8,691)	(1,288,694)
Total Fund Balances	1,563,269	413,562	615,966	(1,183,127)	(465,401)	1,629,864	2,574,132
Total Liab., Deferred Inflows & Fund Bal.	\$ 1,736,353	\$ 490,347	\$ 2,005,062	\$ 1,196,707	\$ 468,103	\$ 1,848,107	\$ 7,744,677

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, 2016

Total fund balances - Governmental Funds		\$	2,574,132
Capital Assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds			
Cost of Assets	19,171,116		
Less Accumulated Depreciation	<u>(2,963,669)</u>		16,207,447
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	<u>31,348</u>		31,348
Less liabilities not reported in the governmental funds			
Compensated Absences	(54,462)		
Other Post-Employment Benefits (OPEB)	(64,555)		
Accrued Interest Payable	(530,436)		
Bonds Payable	(20,920,000)		
Net Pension Liability - PERS	<u>(424,493)</u>		(21,993,946)
Less Deferred Inflows of Resources not reported in the governmental funds			
Deferred Inflows of Resources Associated with Pensions - PERS			(84,498)
Plus Deferred Inflows of Resources due to Taxes Receivable that are not reported on the <i>Statement of Net Position</i>			<u>3,439,700</u>
Net Position - Governmental Activities		\$	<u>174,183</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, 2016

	MAJOR					Other	Total
	General Fund	Street Mtce. Fund	TIFD Debt Svc Fund	SID 120 Debt Svc Fund	SID 121 Debt Svc Fund	Government Funds	Governmental Funds
<b>REVENUES:</b>							
Taxes/Assessments	\$ 388,623	\$ 237,700	\$ 230,214	\$ 70,764	\$ 45,718	\$ 260,637	\$ 1,233,656
Investment Write Up to Fair Value	-	-	-	-	-	38,722	38,722
Investment Income	3,192	946	9,135	-	-	2,426	15,698
Licenses & Permits	56,437	200	-	-	-	-	56,637
Fines & Forfeitures	63,431	-	-	-	-	7,242	70,673
Miscellaneous	123,073	11,123	-	-	-	1	134,197
Intergovernmental Rev	707,318	-	255	-	-	203,154	910,727
Charges for Services	<u>3,573</u>	-	-	-	-	<u>7,976</u>	<u>11,549</u>
Total Revenues	1,345,645	249,969	239,604	70,764	45,718	520,159	2,471,859
<b>EXPENDITURES:</b>							
General Government	417,602	-	-	-	-	61,084	478,686
Public Safety	620,167	-	-	-	-	17,012	637,179
Public Works	66,868	326,554	-	-	-	282,985	676,408
Public Health	30,900	-	-	-	-	11,086	41,986
Culture & Recreation	139,407	-	-	-	-	4,002	143,409
Housing & Comm Develop	32,774	-	-	-	-	491	33,265
Other Current Charges	-	-	-	-	-	<u>101</u>	<u>101</u>
Total Current Expenditures	1,307,719	326,554	-	-	-	376,761	2,011,034
Capital Outlay	69,300	-	-	25,821	-	263,221	358,342
Debt Service	<u>3,215</u>	-	<u>777,094</u>	-	-	-	<u>780,309</u>
Total Expenditures	1,380,234	326,554	777,094	25,821	-	639,982	3,149,685
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>							
	(34,588)	(76,586)	(537,490)	44,943	45,718	(119,824)	(677,826)
<b>OTHER FINANCING SOURCES (USES)</b>							
Fund Transfers In	1,327	38,072	-	-	-	17,359	56,759
Fund Transfers (Out)	(38,072)	-	-	-	-	(18,686)	(56,759)
<b>NET CHANGES IN FUND BALANCES</b>	(71,333)	(38,513)	(537,490)	44,943	45,718	(121,151)	(677,826)
<b>FUND BALANCES:</b>							
Beginning of the Year	1,634,602	452,075	1,153,456	(1,228,070)	(511,120)	1,643,359	3,144,302
Prior Period Adjustments	-	-	-	-	-	<u>107,656</u>	<u>107,656</u>
End of the Year	<u>\$ 1,563,269</u>	<u>\$ 413,562</u>	<u>\$ 615,966</u>	<u>\$ (1,183,127)</u>	<u>\$ (465,401)</u>	<u>\$ 1,629,864</u>	<u>\$ 2,574,132</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, 2016

Total Net Change in Fund Balances - Governmental Funds		\$	(677,826)
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			645,890
Less accrued interest on long-term debt. Accrued interest increases long-term liabilities on the <i>Statement of Net Position</i> but is not reported in the governmental funds:			
Accrued Interest on TIF Bonds (Increase in past due portion)	(530,436)		(530,436)
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			(472,905)
Increase (Decrease) in Deferred Outflows of Resources - PERS	1,804		
(Increase) Decrease in Net Pension Liability - PERS	(144)		
(Increase) Decrease in Deferred Inflows of Resources - PERS	<u>25,570</u>		27,230
(Increase) Decrease in Compensated Absence Liability			(9,097)
(Increase) Decrease in Other Post-Employment Benefits Liability			106,891
Expenditures reported in the governmental funds not included in the <i>Statement of Activities</i>			
Capital Outlays	<u>358,342</u>	<u>358,342</u>	
Change in net position reported on the Statement of Activities - Governmental activities		\$	<u>(551,911)</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, 2016

	Major Enterprise Water	Major Enterprise Sewer	Major Enterprise Solid Waste	Total Enterprise Funds
<b>ASSETS:</b>				
<b>Current Assets:</b>				
Cash & Cash Equivalents	\$ 230,113	\$ 282,251	\$ 291,387	\$ 803,750
Assessments Receivable	265	302	217,705	218,272
Accounts Receivable	47,690	48,014	52,763	148,467
Other Receivables	14,392	8,167	2,357	24,916
Inventories	29,219	31,053	20,787	81,059
Total Current Assets	321,679	369,787	585,000	1,276,465
<b>Non-Current Assets:</b>				
Restricted Cash & Cash Equivalents	1,362,301	734,750	1,032,633	3,129,685
Restricted Investments	-	-	562,506	562,506
Land	121,191	21,286	320,716	463,193
Improvements other than Buildings	-	-	2,040,909	2,040,909
Buildings	-	-	139,636	139,636
Machinery & Equipment	1,909	8,010	2,119,353	2,129,273
Infrastructure (Utility Systems)	7,077,865	8,220,125	-	15,297,990
Less: Accumulated Depreciation	(3,434,418)	(2,638,733)	(2,080,689)	(8,153,840)
Total Non-Current Assets	5,128,848	6,345,439	4,135,065	15,609,352
Total Assets	5,450,528	6,715,226	4,720,064	16,885,818
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>				
Deferred Outflow of Resources - Pensions	16,732	13,299	20,245	50,277
<b>LIABILITIES:</b>				
<b>Current Liabilities:</b>				
Accounts Payable	12,258	6,646	26,532	45,435
Other Accrued Payables	14,809	11,538	18,879	45,226
Revenues Collected in Advance	13,841	26,781	-	40,622
Customer Deposits	51,410	-	4,700	56,110
Compensated Absences	9,567	6,129	12,094	27,790
Revenue Bonds Payable	5,000	80,000	40,000	125,000
Total Current Liabilities	106,884	131,093	102,204	340,182
<b>Non-Current Liabilities:</b>				
Compensated Absences	28,702	18,386	36,281	83,369
Revenue Bonds Payable	189,000	1,496,000	648,000	2,333,000
Closure Postclosure Care Costs	-	-	1,038,280	1,038,280
Net Pension Liability	225,711	179,237	271,837	676,785
OPEB Liability	35,864	30,485	48,417	114,766
Total Non-Current Liabilities	479,277	1,724,108	2,042,815	4,246,199
Total Liabilities	586,161	1,855,201	2,145,019	4,586,381
<b>DEFERRED INFLOWS OF RESOURCES:</b>				
Deferred Inflows - Pensions	44,012	34,786	51,672	130,469
<b>NET POSITION:</b>				
Net Investment in Capital Assets	3,572,547	4,034,689	1,851,925	9,459,161
Restricted - Debt Service	16,050	196,591	94,919	307,560
Restricted - Closure Postclosure	-	-	850,370	850,370
Restricted - Replacement & Depreciation	1,201,343	448,454	645,150	2,294,947
Restricted - Capital Projects	93,498	89,706	-	183,204
Unrestricted	(46,351)	69,099	(898,746)	(875,998)
Total Net Position	4,837,087	4,838,538	2,543,619	12,219,244

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, 2016

	Major Enterprise Water	Major Enterprise Sewer	Major Enterprise Solid Waste	Total Enterprise Funds
<b>OPERATING REVENUES:</b>				
Charges for Services	\$ 774,902	\$ 651,187	\$ 1,168,130	\$ 2,594,219
Special Assessments	-	-	5,945	5,945
Miscellaneous Revenues	<u>20,628</u>	<u>5,966</u>	<u>409</u>	<u>27,003</u>
Total Operating Revenues	795,530	657,154	1,174,483	2,627,167
<b>OPERATING EXPENSES:</b>				
Personnel Services - Salaries	280,876	244,878	388,189	913,943
Fixed Charges (Insurance)	14,335	11,545	117,982	143,862
Other Purchased Services	124,975	104,485	161,854	391,315
Supplies & Materials	147,489	81,883	115,474	344,846
Depreciation	<u>227,990</u>	<u>174,242</u>	<u>248,789</u>	<u>651,021</u>
Total Operating Expenses	795,665	617,033	1,032,289	2,444,987
<b>OPERATING INCOME (LOSS)</b>	(135)	40,121	142,194	182,180
<b>NON-OPERATING REVENUE (EXPENSES)</b>				
Interest	8,932	3,827	20,039	32,799
Interest from General Fund on interfund loan	3,215	-	-	3,215
Intergovernmental Revenue	2,392	4,516	7,268	14,175
Debt Service Interest Expense	<u>(6,045)</u>	<u>(37,871)</u>	<u>(16,796)</u>	<u>(60,713)</u>
Total Non-operating Revenue(Expenses)	8,494	(29,528)	10,511	(10,523)
<b>CHANGE IN NET POSITION</b>	8,359	10,593	152,705	171,657
NET POSITION, BEGINNING	<u>4,828,728</u>	<u>4,827,945</u>	<u>2,390,914</u>	<u>12,047,587</u>
NET POSITION, ENDING	<u>\$ 4,837,087</u>	<u>\$ 4,838,538</u>	<u>\$ 2,543,619</u>	<u>\$ 12,219,244</u>

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, 2016

	Major Enterprise Water	Major Enterprise Sewer	Major Enterprise Solid Waste	Total Enterprise Funds
<b>CASH FLOWS FROM OPERATIONS:</b>				
Cash Received From Customers	\$ 792,740	\$ 668,369	\$ 1,006,432	\$ 2,467,541
Cash Paid to Employees (Salaries & Benefits)	(315,092)	(258,306)	(413,900)	(987,297)
Supplies & Materials	(291,841)	(214,756)	(337,121)	(843,719)
Net Cash Provided (Used) by Operating Activities	185,808	195,307	255,410	636,525
<b>CASH FLOWS FROM NONCAPITAL ACTIVITIES:</b>				
Transfers from (to) Other Funds	114,035	1,060	3,882	118,978
Subsidies from Taxes and Other Governments (State Portion of Pensions)	2,392	4,516	7,268	14,175
Net Cash Provided (Used) by NonCapital Activities	116,427	5,576	11,150	133,153
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Interest Earnings	7,276	2,818	19,328	29,422
Net Cash Provided (Used) by Investing Activities	7,276	2,818	19,328	29,422
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Principal on Bonds	(10,000)	(159,000)	(78,000)	(247,000)
Interest and Agent Fees Paid on Bonds	(6,045)	(37,871)	(16,796)	(60,713)
Insurance Payments for Roof Damage	(20,500)	(2,500)	-	(23,000)
Acquisition of Capital Assets	(99,817)	-	(321,460)	(421,277)
Net Cash Provided (Used) by Capital and Related Financial Activities	(136,362)	(199,371)	(416,256)	(751,989)
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	173,149	4,330	(130,368)	47,111
CASH & CASH EQUIVALENTS - JULY 1, 2015	1,419,265	1,012,671	2,016,894	4,448,830
CASH & INVESTMENTS - JUNE 30, 2016	\$ 1,592,414	\$ 1,017,001	\$ 1,886,526	\$ 4,495,941
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>				
Operating Income (Loss)	(135)	40,121	142,194	182,180
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:				
(Increase)Decrease in Inventory	(5,732)	(8,932)	(15,422)	(30,086)
(Increase)Decrease in Assessments Receivable	228	163	(194,228)	(193,837)
(Increase)Decrease in Accounts Receivable	10,763	11,052	26,177	47,991
(Increase)Decrease in Customer Deposits	(13,780)	-	-	(13,780)
Increase(Decrease) in Accounts Payable	691	(7,911)	7,193	(27)
Increase(Decrease) in Compensated Absences	(2,087)	(1,288)	8,544	5,168
Increase(Decrease) in OPEB Liability	(35,639)	(14,933)	(40,853)	(91,425)
Increase(Decrease) in Accrued Wages Payable	3,511	2,793	6,599	12,903
Increase(Decrease) in Landfill Closure and Post-Closure Liability	-	-	66,418	66,418
Depreciation Expense	227,990	174,242	248,789	651,021
Total Adjustments	185,943	155,186	113,216	454,345
Net Cash Provided by Operating Activities	\$ 185,808	\$ 195,307	\$ 255,410	\$ 636,525

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, 2016

	Pension Trust Funds	Agency Funds
<b>ASSETS:</b>		
Cash & Cash Equivalents	\$ -	\$ 418,398
Taxes Receivable	-	3,197
Other Assets	-	<u>350</u>
Total Assets	-	421,946
<b>LIABILITIES:</b>		
Warrants Payable	-	249,514
Accounts Payable	-	5,396
Due to Others	-	<u>163,836</u>
Total Liabilities	-	418,746
<b>DEFERRED INFLOWS OF RESOURCES:</b>		
Unavailable Revenue - Assessments	-	3,200
<b>NET POSITION:</b>		
Restricted for Pension Benefits	-	-
Held in Trust for Agency	-	-
Total Net Position	<u>\$ -</u>	<u>\$ -</u>

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STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
 As of June 30, 2016

<b>ADDITIONS:</b>	
Intergovernmental Rev - Private Purpose Trusts	\$ -
Taxes/Assessments	-
Interest Earnings	-
Total Additions	-
<b>DEDUCTIONS:</b>	
Administrative Expenses	-
Benefit Payments	-
Total Deductions	-
<b>CHANGE IN NET POSITION:</b>	
Net Position, Beginning of the Year	<u>149,179</u>
Prior Period Adjustment	<u>(149,179)</u>
Net Position, Ending of the Year	<u>\$ -</u>

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 accounting principles generally accepted in the United States of America (US GAAP). The City applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

#### A) REPORTING ENTITY

The City is a local government governed by a Mayor and City Council (the Council) elected by the public. The City utilizes the Mayor/Council form of government. The Council has the authority to make decisions, appoint administrators and managers, and significantly influence operations. The statements reflect all funds and accounts directly under the control of the City.

The accompanying financial statements present the primary government and its component unit. A component unit is an entity 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 it is legally separate from the government, but is financially accountable to or fiscally dependent upon the primary government or their omission from the financial statements would be misleading or incomplete.

#### **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 (TRA) is a component unit of the City. Therefore, the financial statements of the reporting entity the City of Hardin (primary government) include those of Two Rivers Authority (component unit) herein referred to as Two Rivers Authority. Questions regarding Two Rivers Authority should be directed to Jeff McDowell, Two Rivers Authority, PO Box 324, Hardin, MT 59034-0324.

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

#### 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 City adopted the Governmental Accounting Standards Board's (GASB) **Statement No. 62** which 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 GASBS 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, and its component units except for the fiduciary funds.

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 the governmental activities, 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. Internally dedicated resources are reported as general revenues rather than as program revenues.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

The *Statement of Activities* demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (1) charges to customers who purchase, use or directly benefit from goods, services or privileges provided by a given function such as water, sewer and solid waste management fees, licenses and permits, weed and snow removal, and landfill fees and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Property taxes and other revenue sources not properly included among program revenues are reported as general revenues.

### **Fund Financial Statements**

Fund financial statements provide information for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide statements. Major individual governmental funds and major individual enterprise funds are reported in separate columns in the fund financial statements. Each fund financial statements reports combined columns for non-major governmental funds, proprietary funds and fiduciary funds. 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 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 year. Revenues from federal, state and other grants designated for payment of specific City expenditures are 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 a 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 and interest are reported as expenditures when paid. Proceeds from issuance of long-term debt are recognized when received. Capital asset purchases are recorded as functional expenditures and depreciation is not recognized in the fund financial statements.

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Revenues from property taxes are recognized in the period for which the taxes are levied. Revenues from grants, entitlements 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. 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 General fund, Street Maintenance fund, TIFD fund, SID 120 fund and SID 121 fund as major governmental funds.

**General Fund** – This is the primary operating fund of the City. It 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 special revenue 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 the district.

**TIFD Debt Service Fund** – This debt service fund is used to account for the revenues and costs to make debt service payments on the Tax Increment Finance District (TIFD) Revenue Bond which was used to improve the industrial park and provide funds to finish the Industrial Park Infrastructure.

**SID 120 Debt Service Fund** – This debt service fund is used to account for the costs and revenues associated with the construction of streets, curbs and gutters for the Wagner Subdivision area known as Special Improvement District 120. It is financed by interfund loans.

**SID 121 Debt Service Fund** – This debt service fund is used to account for the costs and revenues associated with the construction of streets, curbs and gutters for the area of the Dorn Subdivision, known as the Special Improvement District 121. It is financed by interfund loans.

### **Proprietary Funds**

**Enterprise funds** – Business-type activities rely to a significant extent on fees and charges for services for support. The Water, Sewer, and Solid Waste proprietary 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 service

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

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

**Solid Waste Enterprise Fund** – This fund accounts for the activities of the public solid waste utility systems (garbage collection and landfill) operations. The City's Garbage fund and Landfill fund 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**

Fiduciary funds are reported using the economic resources measurement focus and accrual basis of accounting. These funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organization, other governments, and/or other funds. These may include (a) expendable trust funds, (b) nonexpendable trust funds, (c) pension trust funds and (d) agency funds. Revenues are recognized when earned and expenses and benefits are recognized when the related liability is incurred, regardless of the timing of the 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** – Trust Funds account for the receipts and disbursements of monies from private purpose trusts. These organizations exist with the explicit approval of and are subject to revocation by the City Council. This accounting reflects the City's trust relationship with other organizations. In fiscal year 2016, it was determined that the Firemen's Disability and Pension Trust fund that was previously reported as a Private Purpose Trust fund was actually an Agency fund. The full balance was transferred to Agency funds. After the removal of this fund from this category, there are no remaining private purpose trust funds.

**Agency Funds** – Agency Funds generally are used to account for assets that the City holds on behalf of others as their agent. Agency funds include City clearing funds, the Firemen's Disability and Pension fund, and the City Court fund. Cash is held in the payroll and claims clearing funds for warrants which were written but have not been cleared; clearing funds are not reported on the fiduciary fund statements. The Firemen's Disability and Pension fund is used to track the activities of payments to retired volunteer firemen and their spouses. The City Court fund is used to track the activities of the City Court. Agency funds do not report a measurement focus as they do not report operations.

## C) BUDGETS

The City adopts an annual budget for all of its funds in accordance with MCA 7-6-4000. MCA 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 1<sup>st</sup> Thursday after the 1<sup>st</sup> 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 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 amended. Budget transfers and amendments are authorized by law, and in some cases, may require further hearings. Budget amendments providing for additional appropriations must identify fund reserves, unanticipated revenue or previously unbudgeted revenue that will fund the appropriations.

## D) CASH AND INVESTMENTS

Montana Code Annotated (MCA) 7-6-200 allows cities to invest public money not necessary for immediate use in 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 and registered warrants 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, other than STIP, are recorded at fair value. STIP investments are recorded at Net Asset Value (NAV).

The City considers cash on hand, demand accounts, savings, money markets, repurchase agreements, CD's, STIP, and short-term investments with original maturities of three months or less when purchased, to be cash equivalents. For purposes of the *Statement of Cash Flows*, the enterprise funds consider all cash (including restricted cash) to be cash equivalents. The City considers cash held in fiduciary funds to be cash equivalents and are reported at fair value.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Income from pooled investments is allocated to individual funds based on each fund's month-end proportionate share of the pool investment earnings.

E) RESTRICTED ASSETS

Certain assets of the governmental funds are restricted for the repayment of revenue bonds debt and capital acquisitions. Certain assets of the enterprise funds are restricted for a specific use as required by the bond indenture agreement covenants established with the issuance and sale of revenue bonds representing a liability to the enterprise funds, repayment of revenue bond debt requirement, customer deposits and meeting the closure and post-closure requirements of the City's landfill.

F) 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>
Infrastructures	5 – 50 years	5 – 50 years	-----
Improvements other than Buildings	20 – 40 years	10 – 37 years	-----
Intangibles – Logo	-----	-----	15 years
Buildings & Improvements	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. Insurance recoveries for damage to capital assets were used to repair the capital assets. No capital assets have been impaired as the result of damage.

**Two Rivers Authority (TRA) – A Component Unit**

TRA's 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.

G) COMPENSATED ABSENCES

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

The 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 \$13,615 and it is generally paid out of the General fund. The current portion of the business-type activities compensated absences is \$27,790. Total accrued governmental and business-type liabilities for sick and vacation leave as of June 30, 2016 were \$54,462 and \$111,158 respectively for a total of \$165,620.

H) 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)

### I) DEFERRED OUTFLOWS / INFLOWS OF RESOURCES

In addition to assets, the Statement of Financial Position will sometimes report a separate section for Deferred Outflows of Resources. This separate financial statement element represents a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expenditure) until then.

In addition to liabilities, the Statement of Financial Position will sometimes report a separate section for Deferred Inflows of Resources. This separate financial statement element represents an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. These amounts are recognized as an inflow of resources in the period that the amounts become available.

### J) INVENTORIES

The primary inventory item is a gravel pit that is accounted for in the governmental, Street Maintenance fund. Inventory in the proprietary funds consists of garbage cans, pipes, meters and concrete rings etc. Inventories are reported at cost (last-in, first-out) and are charged to expenditures when purchased or used.

### K) LONG-TERM OBLIGATIONS

Long-term debt and other long-term obligations are reported as liabilities in the government-wide, and proprietary and component unit financial statements. In the fund financial statements, governmental fund types recognize bond premiums and discounts as well as bond issuance costs, during the current period. The face amount of debt issued is reported as an Other Financing Source. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

### L) 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. The City collects Street Improvement District (SID) assessments for SID 120 and SID 121 through the county tax rolls. SID assessments 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.

### M) 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 are reported as nonspendable fund balance in the receiving fund on the fund Balance Sheet.

### N) ENCUMBRANCES

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded to carryover 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 has no encumbrances; instead unpaid invoices at year end are reported as Accounts Payable.

### O) 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 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.

## 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.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 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 all necessary payments to the bondholders from proceeds received from the operation of the detention facility. All proceeds received from the operation of the Detention Center 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. In fiscal year 2016, the City provided \$31,000 to TRA for its operations.

#### **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.

City Resolution No. 1805 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 2016, Two Rivers Authority reported operating costs of \$6,202,549, which does not include depreciation or debt service requirements, and revenues of \$3,860,674. Reported basic operating costs outpaced revenues by \$2,341,876. In fiscal years 2014 and 2015 bondholders advanced Two Rivers Authority a total of \$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 \$125,260 as of June 30, 2016. 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. 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, of (v) exercise any remedies available to a secured party under the Uniform Commercial Code."*

### 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 as of June 30, 2016. As of June 30, 2016 no inmates were housed at the facility and Emerald had vacated the facility.

## **NOTE 3: NET POSITION/FUND BALANCES**

### 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

*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.

	<u>Governmental</u>	<u>Business-Type</u>	<u>Two Rivers Authority</u>
Capital Assets, Net	\$16,207,448	\$11,917,161	\$ 16,793,082
Bond Proceeds	0	0	125,305
Less Accrued Bond Interest Due	(530,436)	0	(14,400,188)
Less Bond Principal Due	(20,920,000)	(2,458,000)	(27,015,000)
Less Bondholder Loans	<u>0</u>	<u>0</u>	<u>(858,327)</u>
Net Investment in Capital Assets	<u>\$ (5,242,988)</u>	<u>\$ 9,459,161</u>	<u>\$ (25,355,128)</u>

*Restricted Net Position* – This category reports 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, 2016, restricted Net Position for governmental activities totaled \$6,415,130, of which \$2,005,062 was restricted by enabling legislation for the TIFD and \$1,664,809 is for assessments in the Special Improvement Districts #120 and #121. The prior year restricted net position contained elements in SID 120 and SID 121 that are reported as unrestricted in FY2016.

*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 – Fund Balances**

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, amounts due from other funds, or endowment corpus.

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

**Committed** – Amounts that can be used only for specific purposes determined by the City Council resolution 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 restricted, committed, assigned or unassigned amounts could be used, it is the City’s policy to first spend restricted, committed, then assigned and unassigned resources last.

C) GOVERNMENTAL FUND BALANCE CLASSIFICATIONS

**Non-Spendable Net Position:**

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	\$1,074,925	Interfund Loans
General Fund	5,676	Inventories
Street Maintenance Fund	115,265	Inventories
Capital Improvement	146,378	Land held for resale
Curb & Gutter	88,796	Interfund loans
Gas Tax Apportionment	176,734	Interfund loans
Capital Improvement	<u>318,626</u>	Interfund loans
Total Non-Spendable	\$1,926,400	

**Restricted Net Position:**

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
TIFD	\$ 615,966	Debt Service – Bond Requirements
Street Maintenance	298,297	Public Works – Special Districts
Gas Tax	40,372	Capital Projects – State Statutes
Gas Tax	172,967	Public Works – State Statutes
Other Governmental Funds	13,996	General Government – Mill Levy
Other Governmental Funds	60,000	Capital Projects/Acquisitions
Other Governmental Funds	105,664	Public Works – Special Districts
Other Governmental Funds	6,780	Miscellaneous – Permissive Medical
Other Governmental funds	<u>24,732</u>	Housing/Community Development – CDBG or 7-6-16 MCA
Total Restricted	\$1,338,774	

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**Committed Net Position:**

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
Other Governmental funds	\$ 88,519	Miscellaneous – Resolution 1943

**Assigned Net Position:**

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
General	\$ 34,143	Public Safety
General	80,000	Housing/Community Development
Other Governmental funds	138,878	Capital Projects
Other Governmental funds	<u>256,113</u>	Public Works
Total Assigned	\$ 509,134	

**Unassigned Net Position:**

<u>Fund</u>	<u>Amount</u>
General	\$ 368,526
SID 120	( 1,183,127)
SID 121	( 465,402)
Other Gov. Funds	<u>( 8,691)</u>
Total Unassigned	(\$1,288,694)
Total Governmental	<u>\$ 2,574,132</u>

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

The difference of \$5,076,355 between restricted fund balance on the *Balance Sheet - Governmental Funds*, which is illustrated above, and restricted net position on the *Statement of Net Position*, includes \$1,926,399 of nonspendable items as shown above and \$3,149,956 of deferred inflows of resources due to taxes receivable in the restricted funds. These differences are attributable to the difference in accounting basis of these two statements as shown below:

Restricted Net Position – Statement of Net Position	\$6,415,130
Less Restricted Net Position – Balance Sheet – Governmental Funds	<u>1,338,775</u>
Difference	\$5,076,355
Deferred Inflows of Resources – Associated with Taxes Receivable on restricted funds	\$3,149,956
Non-Spendable Net Position – Balance Sheet – Governmental Funds	<u>1,926,399</u>
Total	\$5,076,355

**NOTE 4: 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 holds cash from taxes collected but not distributed to the City by June 30, 2016. Reported fair values are based on exit prices. At June 30, 2016 the combined *liquid portion of cash and investments* reported by the City totaled \$7,282,921. In addition, the City has 5 lots identified as “*land held for re-sale*” which are valued at a combined total of \$146,378. As of June 30, 2016, cash and investments of the primary government totaled \$7,429,299 which includes land held for resale of \$146,378 and \$418,395 in agency funds. Restricted cash for Governmental funds totaled \$659,543 and \$3,692,191 for Business-Type funds.

	<u>Holdings</u>	
County Investment Pool	\$ 146,440	
City Investment Pool	5,727,425	
First Interstate Bank	850,370	Landfill Trust
US Bank	<u>558,686</u>	TIFD Revenue Bonds
Subtotal	\$7,282,921	
Less Cash held in Agency funds	<u>( 418,396)</u>	
Subtotal Liquid Cash & Investments – Primary Government	\$6,864,525	
Less Restricted Cash & Investments	<u>(4,351,733)</u>	
Subtotal Liquid Cash & Investments – Primary Government	2,512,792	
Land held for resale	<u>146,378</u>	
Total Unrestricted Cash & Investments – Primary Gov.	<u>\$2,659,170</u>	

**Two Rivers Authority (a component unit)**

Operating cash resources of \$11,950 are held and managed by the Executive Director. The Bond reserve account of \$125,305 is held and managed by a US Bank Trustee. Deposits consist primarily of demand accounts and are reported at fair value.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

<u>Cash &amp; Cash Equivalents</u>	<u>City of Hardin</u>	<u>Two Rivers Authority</u>
Demand Accounts, Petty Cash	\$ 500	\$137,255
Money Markets	270,406	0
Certificates of Deposit	<u>5,534,880</u>	<u>0</u>
Total Cash & Cash Equivalents	<u>\$5,805,786</u>	<u>\$137,255</u>

A) COUNTY INVESTMENT POOL

Property taxes and assessments are assessed and collected by the Big Horn County Treasurer. Cash of \$146,440 is held in the **Big Horn County investment pool which** represents revenues collected but not yet distributed to the City as of June 30, 2016. These resources are combined with cash resources of other governmental entities within county to form a pool of cash and investments. The County does not issue separate financial statements on the investment pool. The external investment pool is audited as part of Big Horn County's financial statements. The County investment pool is not registered with or monitored by the Securities and Exchange Commission (SEC) or subject to other regulatory oversight. The County provides monthly statements to the City.

The County Treasurer has not provided or obtained any legally binding guarantees during the year to support the values of shares. State statute requires that United State government securities or agencies be held as collateral to secure deposits of public funds in excess of Federal Deposit Insurance Corporation (FDIC) insurance. The City does not own specific identifiable investment securities in the pool. Therefore, the City's portion of the pool is not subject to categorization. Information regarding investment risk, collateral, security, and fair values for Big Horn County investment pool deposits and investments is available from the Big Horn County Treasurer's office, 121 3<sup>rd</sup> St. W. Hardin, MT 59034. Fair values approximate carrying values for investments as of June 30, 2016. Investments within the Big Horn County investment pool are not subject to forced sales because the presence of other participants in the pool provides additional stability.

B) CITY INVESTMENT POOL

The City's cash and investment pool is held and managed by the City Finance Officer. Deposits of pooled cash consists primarily of demand accounts, money markets and CDs. Fair value investments consist primarily of repurchase agreements and US Government Securities and are valued using the market approach meaning that investments are measured using quoted market prices.

C) CASH HELD and MANAGED BY BANK TRUSTEES

Cash of \$1,409,056 is held and managed by Bank Trustees for the TIFD revenue bonds and the landfill trust. These amounts are reported in the City's total cash because the accounts are in the City's name. The US Bank holds and manages \$558,686 for the TIFD revenue bonds. The First Interstate Bank – Polson holds and manages \$850,370 for the Landfill Trust. The City has no control over the investments held and managed for the Landfill Trust or the TIFD revenue bonds.

D) CREDIT RISK

**Custodial Credit Risk – Deposits:** Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's 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 City's deposits held by the County are exposed to custodial credit risk in that they are uninsured, unregistered and are not in the City's name. The State of Montana (the State) statutes require that City funds be deposited in banks located in the City and that all deposit balances in excess of Federal Deposit Insurance Corporation (FDIC) insurance limits be collateralized in accordance with State statutes. The City's deposit policy for custodial credit risk requires compliance with the laws of the State.

As of June 30, 2016, \$4,534,880 of the City's bank balance was exposed to custodial credit risk because this amount was uninsured. State law requires that the City obtain securities for the uninsured portion of deposits as follows: (1) securities equal to 50% of such deposits if the institution in which the deposits are made has a net worth to total assets ratio of 6% or more, OR (2) securities equal to 100% if the ratio of net worth to total assets is less than 6%. State law does not specify in whose custody or in whose name the collateral is to be held. The amount of collateral held for the City's deposits exceeded the amount required by State law as of June 30, 2016.

**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. Obligations of the US Government or obligations explicitly guaranteed by the US Government are not considered to have credit risk. As of June 30, 2016, none of the City's investments was exposed to custodial credit risk.

**Concentration of Credit Risk:** The City places no limit on the amount that may be invested in any one issuer. The table in the Section D below includes the percentage of each investment type held at June 30, 2016.

**Interest Rate Risk – Investments:** Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Interest rate risk is minimized by compliance with State law which limits local governments to certain investment types. Additionally, under State law, an investment may not have a maturity date exceeding 5 years, except when the investment is used in an escrow account for an advance refunding of an outstanding bond issue, or for investments of local government group self-insurance programs. As of June 30, 2016, the City had the following liquid investments and their associated maturities:

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Investment Type	Fair Value	Investment Maturity (in Years)		
		Less Than 1	1-5	More Than 5
Repurchase Agreements	\$ 838,484	\$ 838,484	\$ 0	\$ 0
US Treasury Notes	154,151	67,109	87,042	0
US Gov. Securities	484,500	9,035	410,452	65,013
Land Held for Resale	<u>146,378</u>	<u>146,378</u>	<u>0</u>	<u>0</u>
Total	<u>\$1,623,513</u>	<u>\$1,061,006</u>	<u>\$497,494</u>	<u>\$65,013</u>

E) FAIR VALUE MEASUREMENTS

The City categorized its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy, as follows, is based on the valuation inputs used to measure fair value. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs. The fair value of "land held for resale" is based on previous sales of land similar to these City lots, which has not occurred for many years.

**Level 1 Inputs** – Quoted prices in active markets for identical assets; these investments are valued using *prices quoted in active markets*.

**Level 2 Inputs** – Significant other observable inputs.

**Level 3 Inputs** – Significant unobservable inputs; these investments are valued using *last available broker estimate*.

	Fair Value				
Cash on Hand (petty cash)	\$ 500				
Money Markets	270,406				
CDs	<u>5,534,880</u>				
Total Cash & Cash Equivalents	<u>\$5,805,786</u>				
<b>Investment by Fair Value Level</b>	<b>6/30/2016</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>% of Total</b>
Repurchase Agreements	\$ 838,484	\$ 838,484	\$0	\$ 0	52%
U.S. Treasury Notes	154,151	154,151	0	0	10%
Federal Home Loan Bank	49,294	49,294	0	0	3%
Federal Farm Credit Bank	120,118	120,118	0	0	7%
Federal National Mortgage Association	213,347	213,347	0	0	13%
Federal National Loan Mortgage Corporation	101,741	101,741	0	0	6%
Land held for Resale – 5 City Lots	<u>146,378</u>	<u>0</u>	<u>0</u>	<u>146,378</u>	<u>9%</u>
Total Investments by Fair Value	\$1,623,513	\$1,477,135	\$0	\$146,378	100%
Total Cash (from previous page)	<u>5,805,786</u>				
Total Cash & Investments	<u>\$7,429,299</u>				

F) RESTRICTED CASH & INVESTMENTS

Fund	City of Hardin	Two Rivers Authority	Description
General	\$ 3,204		Customer Deposits
TIFD – Debt Service	615,966		Debt Service Payments
Gas Tax Apportionment	<u>40,373</u>		Capital Equipment Acquisition
Total Governmental funds	\$ 659,543		
Water	\$ 51,410		Customer Deposits
Water	16,050		Debt Service Payments
Water	<u>1,294,841</u>	1,362,301	Capital Projects – Bond Covenants
Sewer	196,591		Debt Service Payments
Sewer	<u>538,159</u>	734,750	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>850,370</u>	<u>1,595,139</u>	Closure/Post-Closure
Total Proprietary funds		<u>\$3,692,191</u>	
Total Primary Government		<u>\$4,351,733</u>	
Two Rivers Authority		<u>\$125,305</u>	Bond Requirements

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**NOTE 5: TAXES / ASSESSMENTS and OTHER RECEIVABLES**

A) MILL LEVIES

The assessed value of the roll as of January 1, 2015, upon which the levy for the 2016 fiscal year was based, was \$3,128,451 for the City while the taxable value for the Tax Increment Financing district was \$1,633,367. The incremental taxable value for the TIFD was \$1,168,223. The tax rates assessed for the year ended June 30, 2016 to finance City operations were as follows:

<u>Fund</u>	<u>Mills</u>	<u>Fund</u>	<u>Mills</u>
General	125.09	Permissive Medical	13.00
PERS-(Employer Contribution)	8.14	Comprehensive Insurance	<u>2.80</u>
Group Health Insurance	10.07	Total Mills	<u>162.15</u>
Firemen's Disability & Pension Trust	3.05		

B) TAXES / ASSESSMENTS RECEIVABLE

An allowance for uncollectible accounts was not maintained for real and personal property taxes receivable or assessments. 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 &amp;</u>	
<u>Governmental Funds</u>	<u>Receivable</u>	<u>Receivable</u>	<u>Assessments Receivable</u>	
General	\$ 134,735	\$ 0	\$ 134,735	
Street Maintenance	0	59,362	59,362	
TIFD	1,389,096	0	1,389,096	
SID 120	13,580	1,183,127	1,196,707	Taxes Rec. – Interest on delinquents
SID 121	2,700	465,402	468,102	Taxes Rec. – Interest on delinquents
Curb & Gutter – Crow Ave SID	0	63,225	63,225	
Curb & Gutter – Other	0	45,513	45,513	
Other Governmental Funds	<u>43,865</u>	<u>39,095</u>	<u>82,960</u>	
Total Governmental Funds	<u>\$1,583,976</u>	<u>\$1,855,724</u>	<u>\$3,439,699</u>	
Water	0	265	265	
Sewer	0	302	302	
Solid Waste	<u>0</u>	<u>217,705</u>	<u>217,705</u>	
Total Proprietary Funds	0	218,272	218,272	
Total Primary Government	<u>\$1,583,976</u>	<u>\$2,073,996</u>	<u>\$3,657,972</u>	
<u>Fiduciary Funds</u>				
Fire Department Relief Association	<u>\$ 3,197</u>	<u>\$ 0</u>	<u>\$ 3,197</u>	

*Totals may not foot or cross foot due to rounding*

C) SPECIAL IMPROVEMENT DISTRICTS (SIDs) ASSESSMENTS RECEIVABLE

The assessments receivable amounts reported in the above section include the following major SID assessments. The following table illustrates the expected payments from residents for these projects. Delinquent assessments were \$5,576 and \$2,948 for SID 120 and SID 121 respectively. The delinquents are reported as due in the subsequent year.

<u>Fiscal Year</u>	<u>SID 120</u>	<u>SID 121</u>	<u>Crow Ave. SID</u>	<u>Total</u>
<u>Ending 6/30:</u>	<u>Principal</u>	<u>Principal</u>	<u>Principal</u>	<u>Principal</u>
2017	\$ 44,810	\$ 21,210	\$ 5,972	\$ 71,992
2017 – Delinquents	5,576	2,948	0	8,524
2018	46,164	21,852	6,214	74,230
2019	52,622	22,512	6,465	81,599
2020	55,501	23,192	6,721	85,414
2021	57,178	23,894	6,997	88,069
2022 – 2026	312,882	130,747	30,856	474,485
2027 – 2031	363,113	151,739	0	514,852
2032 – 2034	<u>245,281</u>	<u>67,309</u>	<u>0</u>	<u>312,590</u>
Subtotal	<u>\$1,183,127</u>	<u>\$465,402</u>	<u>\$63,225</u>	<u>\$1,711,754</u>

*Totals may not foot or cross foot due to rounding*

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 are reported with the current year assessments due.

**SID 120** - In 2013, a street improvement project was financed internally through interfund loans to keep the interest within the City rather than paying interest to third parties. Beginning in fiscal year 2015, the affected City residents were billed over a 20-year period at 3%. Delinquent SID assessments are reported with the current year taxes receivable. Prepaid SID 120 assessments are reported as revenues in the year in which they are received; prepaid assessments in fiscal year 2016 totaled \$40,686. Assessments for 6 properties were deferred and will begin in fiscal year 2017.

**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 \$23,726 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 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. As of June 30, 2016, the outstanding balance is \$63,225.

**Other SIDs** - Other assessments are accounted for in the Local Charges for Services and Curb & Gutter funds and are reported as Other SIDs. Other SID assessment's receivable totaled \$45,513 as of June 30, 2016.

D) 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 2016, the General fund made a principal and interest payments of \$106,580 and \$3,215 respectively to the Water fund. As of June 30, 2016, the internal balances were eliminated.

E) INTERFUND RECEIVABLES – DUE FROM OTHER FUNDS

RECEIVING FUND	----- DUE FROM -----					Reason
	SID 120	SID 121	Cap. Projects Parks	CTEP	Total	
General	\$ 781,018	\$283,356	\$ 0	\$ 0	\$1,064,374	In-house SID financing
General	0	0	1,860	8,691	10,551	Cover negative cash
Curb & Gutter	63,971	24,825	0	0	88,796	In-house SID financing
Gas Tax	118,810	57,924	0	0	176,734	In-house SID financing
Capital Projects	<u>219,328</u>	<u>99,298</u>	<u>0</u>	<u>0</u>	<u>318,626</u>	In-house SID financing
Total Governmental	<u>\$1,183,127</u>	<u>\$465,402</u>	<u>\$1,860</u>	<u>\$8,691</u>	<u>\$1,659,081</u>	
<i>Totals may not foot due to rounding</i>						
Current Portion	\$50,386	\$24,157	\$1,860	\$8,691	\$85,094	

F) RECEIVABLES

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 until payment is received. As of June 30, 2016, governmental and proprietary fund other receivables balances were reported at \$4,419 and \$24,916 respectively and consist of the following components:

Fund	Contracts Receivable	Other Receivables	CD Interest Receivable	Total Other Receivables
General	\$ 0	\$ 0	\$ 2,253	\$ 2,253
Street Maintenance	0	0	605	605
Other Governmental Funds	<u>0</u>	<u>0</u>	<u>1,561</u>	<u>1,561</u>
Subtotal Governmental	0	0	4,419	4,419
Water	2,363	8,523	3,506	14,392
Sewer	5,731	0	2,436	8,167
Garbage	0	0	812	812
Solid Waste	<u>0</u>	<u>0</u>	<u>1,545</u>	<u>1,545</u>
Subtotal Proprietary Funds	8,094	8,523	8,299	24,916
Total	<u>\$ 8,094</u>	<u>\$8,523</u>	<u>\$12,718</u>	<u>\$ 29,335</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

G) DUE FROM OTHER GOVERNMENTS

Fund	Amount	Due From / Reason
General	\$ 576	State of MT / Oil & Gas
CTEP	<u>5,000</u>	Federal Gov. / LWCF Grant
Total	<u>\$5,576</u>	

NOTE 6: CAPITAL ASSETS – Governmental Activities:

	Balance July 1, 2015	Additions	Removals	Transfers	Balance June 30, 2016
COST Non-Depreciable:					
Land	\$ 598,379	\$ 0	\$ 107,656	\$ 0	\$ 490,723
Rights of Way	40,622	0	0	0	40,622
CIP	<u>1,291,902</u>	<u>16,650</u>	<u>0</u>	<u>( 1,285,200)</u>	<u>23,352</u>
Total Non-Depreciable	\$ 1,930,903	\$ 16,650	\$ 107,656	(\$1,285,200)	\$ 554,697
COST Depreciable:					
Land Improvements	\$ 184,365	\$ 16,936	\$ 0	\$ 0	\$ 201,301
Buildings	1,104,319	124,140	0	0	1,228,459
Machinery & Equipment	1,254,493	101,024	0	0	1,355,517
Infrastructure	<u>14,452,101</u>	<u>99,592</u>	<u>0</u>	<u>1,279,449</u>	<u>15,831,142</u>
Total Depreciable Cost	16,995,278	341,692	0	( 5,751)	18,616,419
Total Non-Depreciable Cost	<u>1,930,903</u>	<u>16,650</u>	<u>107,656</u>	<u>( 1,285,200)</u>	<u>554,697</u>
Total COST	<u>\$ 18,926,181</u>	<u>\$ 358,342</u>	<u>\$ 107,656</u>	<u>(\$ 5,751)</u>	<u>\$19,171,116</u>

ACCUMULATED DEPRECIATION:

Land Improvements	(\$ 59,919)	(\$ 6,791)	(\$ 0)	(\$ 0)	(\$ 66,710)
Buildings	( 273,206)	( 24,766)	( 0)	( 0)	( 297,972)
Machinery & Equipment	( 877,837)	( 46,300)	( 0)	( 0)	( 924,137)
Infrastructure	<u>( 1,279,802)</u>	<u>( 395,048)</u>	<u>( 0)</u>	<u>( 0)</u>	<u>( 1,674,850)</u>
Total Depreciation	<u>(\$ 2,490,764)</u>	<u>(\$472,905)</u>	<u>(\$ 0)</u>	<u>(\$ 0)</u>	<u>(\$2,963,669)</u>

Totals may not foot due to rounding

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

General Government	\$ 7,869	Culture & Recreation	\$ 12,704
Public Safety	28,335	Housing & Development	<u>97,102</u>
Public Works	326,895	Total Depreciation	<u>\$472,905</u>

Land Reclassified as Land Held for Resale

In fiscal year 2016, 5 city lots of land with original costs of \$107,656 were removed from the capital asset listing because it was determined that these assets were actually lots that were intended for resale at the time of their purchase and should have been reported as investments in the Capital Projects fund rather than as capital assets. The fair value of the land as of June 30, 2016 was determined to be \$146,378. The difference between the original cost and the fair value is reported as a gain on investments of \$38,722 in the Capital Projects fund.

NOTE 7: CAPITAL ASSETS – Business-Type Activities:

	Balance July 1, 2015	Additions	Removals	Balance June 30, 2016
COST Non-Depreciable:				
Land	\$ 463,193	\$ 0	\$ 0	\$ 463,193
CIP	<u>34,822</u>	<u>0</u>	<u>34,822</u>	<u>0</u>
Total Non-Depreciable	\$ 498,015	\$ 0	\$34,822	\$ 463,193
COST Depreciable:				
Land Improvements	\$ 2,040,909	\$ 0	\$ 0	\$ 2,040,909
Infrastructure (Utility)				
Transmission & Dist.	8,669,372	49,994	0	8,719,366
Treatment Plant	6,097,828	0	0	6,097,828
General Plant	430,974	49,823	0	480,797
Buildings & Improvements	100,354	39,282	0	139,636
Machinery & Equipment	<u>1,812,278</u>	<u>316,995</u>	<u>0</u>	<u>2,129,273</u>
Total Depreciable COST	\$19,151,715	\$ 456,094	\$ 0	\$19,607,809
Non-Depreciable COST	<u>498,015</u>	<u>0</u>	<u>34,822</u>	<u>463,193</u>
Total COST	<u>\$19,649,730</u>	<u>\$ 456,094</u>	<u>\$34,822</u>	<u>\$20,071,002</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	Balance <u>July 1, 2015</u>	Additions	Removals	Balance <u>June 30, 2016</u>
<b>ACCUMULATED DEPRECIATION</b>				
Land Improvements	(\$ 531,985)	(\$ 76,505)	(\$ 0)	(\$ 608,490)
Infrastructure (Utility)				
Transmission & Dist.	( 2,974,690)	( 182,286)	( 0)	( 3,156,976)
Treatment Plant	( 2,281,629)	( 216,016)	( 0)	( 2,497,645)
General Plant	( 405,024)	( 3,750)	( 0)	( 408,774)
Buildings & Improvements	( 46,406)	( 3,371)	( 0)	( 49,476)
Machinery & Equipment	<u>( 1,263,385)</u>	<u>( 169,094)</u>	<u>( 0)</u>	<u>( 1,432,479)</u>
Total Depreciation	<u>(\$7,502,819)</u>	<u>(\$651,022)</u>	<u>(\$ 0)</u>	<u>(\$8,153,841)</u>

*Totals may not foot due to rounding*

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

Water	\$227,990
Sewer	174,240
Solid Waste	53,124
Landfill	<u>195,668</u>
Total Depreciation Expense	<u>\$651,022</u>

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

	Balance <u>July 1, 2015</u>	Additions	Removals	Balance <u>June 30, 2016</u>
<b>COST Non-Depreciable:</b>				
Land	<u>\$ 257,377</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 257,377</u>
Total Non-Depreciable	\$ 257,377	\$ 0	\$ 0	\$ 257,377
<b>COST Depreciable:</b>				
Buildings	\$19,684,930	\$ 0	\$ 0	\$19,684,930
Intangibles – Logo	780	0	0	780
Machinery & Equipment	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Depreciable COST	<u>\$19,685,710</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$19,685,710</u>
Total COST	<u>\$19,943,087</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$19,943,087</u>
<b>ACCUMULATED DEPRECIATION:</b>				
Buildings	(\$2,755,891)	(\$393,698)	(\$ 0)	(\$3,149,589)
Intangibles – Logo	<u>( 364)</u>	<u>( 52)</u>	<u>( 0)</u>	<u>( 416)</u>
Total Depreciation	<u>(\$2,756,255)</u>	<u>(\$393,750)</u>	<u>(\$ 0)</u>	<u>(\$3,150,005)</u>

*Totals may not foot due to rounding*

**NOTE 9: DEFERRED OUTFLOWS OF RESOURCES – ASSOCIATED WITH PENSIONS**

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, 2015. 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.

	Total Governmental	---- Proprietary Funds ----			Total Proprietary	Total Primary Gov.
<u>Deferred Outflows of Resources</u>		<u>Water</u>	<u>Sewer</u>	<u>Solid Waste</u>		
City Contributions made 7/1/15 – 6/30/16	<u>\$31,348</u>	\$16,732	\$13,299	\$20,245	<u>\$50,277</u>	<u>\$81,624</u>

**NOTE 10: CURRENT LIABILITIES – Primary Government**

	Accounts Payable	Revenues Collected in Advance <sup>1</sup>	Accrued Payroll Expenses	Customer Deposits Payable <sup>2</sup>
<b>Governmental Funds</b>				
General	\$20,199	\$ 0	\$14,947	\$ 3,204
Street Maintenance	7,635	0	9,788	0
Other Governmental Funds	<u>13,658</u>	<u>0</u>	<u>2,335</u>	<u>0</u>
Total Governmental Funds	<u>\$41,492</u>	<u>\$ 0</u>	<u>\$27,070</u>	<u>\$ 3,204</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	Accounts Payable	Revenues Collected in Advance <sup>1</sup>	Accrued Payroll Expenses	Customer Deposits Payable <sup>2</sup>
<b>Proprietary Funds</b>				
Water	\$12,258	\$13,841	\$14,809	\$51,410
Sewer	6,646	26,781	11,538	0
Solid Waste	14,164	0	6,785	0
Landfill	<u>12,368</u>	<u>0</u>	<u>12,094</u>	<u>4,700</u>
Total Proprietary Funds	\$45,435	\$40,622	\$45,226	\$56,110
Total Primary Government	<u>\$86,927</u>	<u>\$40,622</u>	<u>\$72,296</u>	<u>\$59,314</u>

1. 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.

2. The customer deposits payable balance reduced by a significant amount in fiscal year 2016 due to the City ordinance to refund the deposits for long-standing customers without any outstanding balances or late fees in the past year.

**11: CURRENT LIABILITIES – Two Rivers Authority (A Component Unit)**

A) CURRENT LIABILITIES

<b>Two Rivers Authority</b>	Deferred Payroll	Compensated Absences	Adv. Funding Bondholder Loans	Accrued Bond Interest	Accrued Bond Principal	Total Current Liabilities
General	<u>\$117,427</u>	<u>\$5,059</u>	<u>\$858,327</u>	<u>\$14,400,188</u>	<u>\$7,110,000</u>	<u>\$22,491,000</u>

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. As of June 30, 2016, Emerald operations were discontinued and the facility did not house any inmates.

B) DEFERRED 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. The Board agreed to cover the deferred payroll when TRA's revenues generate sufficient monies to cover these expenses. At the time of the agreement with the Executive Director, the agreement with Emerald appeared to have a chance at meeting this obligation. Deferred payroll as of June 30, 2016 totaled \$117,427.

C) ADVANCE FUNDING BONDHOLDER LOANS

In fiscal years 2014 and 2015, bondholders made additional advances totaling \$858,327 to an account held and managed by the US Bank to cover the start-up costs in an agreement between Two Rivers Authority and Emerald Correctional Management (ECM). No new bondholder advances were made in fiscal year 2016. The advances were made 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. As of June 30, 2016, Emerald operations were discontinued and the facility did not house any inmates. No formal action has been made concerning the bondholder advances.

**NOTE 12: INTERFUND LOANS – Governmental Activities**

A) INTERFUND LOANS – DUE TO OTHER FUNDS

	Current Amount	Total	Due to / Reason
SID 120	\$33,261	\$ 781,018	General – in- house SID financing
SID 120	2,724	63,972	Curb & Gutter – in-house SID financing
SID 120	5,060	118,810	Gas Tax – in- house SID financing
SID 120	<u>9,341</u>	<u>219,328</u>	Capital project – in- house SID financing
Subtotal SID 120	<u>\$50,386</u>	<u>\$1,183,127</u>	
SID 121	\$14,708	\$ 283,355	General – in- house SID financing
SID 121	1,289	24,825	Curb & Gutter – in-house SID financing
SID 121	3,007	57,924	Gas Tax – in- house SID financing
SID 121	<u>5,154</u>	<u>99,298</u>	Capital project – in- house SID financing
Subtotal SID 121	<u>\$24,158</u>	<u>\$ 465,402</u>	

NOTES TO THE FINANCIAL STATEMENTS (Continued)

<u>Other Funds</u>	Current <u>Amount</u>	Total	<u>Due to / Reason</u>
CTEP	\$ 8,691	\$ 8,691	General – cover negative cash – grant receivable
Capital Projects – Parks	<u>1,861</u>	<u>1,861</u>	General – cover negative cash – grant receivable
Subtotal Other Governmental funds	\$10,551	\$ 10,551	
Total Interfund Loans	<u>\$85,095</u>	<u>\$1,659,081</u>	

B) LONG-TERM INTERFUND LOANS - SID

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. Delinquents are included in the totals below.

<u>Fund</u>	<u>Outstanding</u>	<u>Interest Rate</u>	<u>Payment Frequency</u>	<u>Semi-Annual Payments</u>
SID 120	\$1,183,127	3%	Semi-annually	\$42,773
SID 121	<u>465,402</u>	3%	Semi-annually	18,359
Total	\$1,648,529			

<u>Due To:</u>	<u>SID 120</u>	<u>SID 121</u>	<u>Balance as of June 30, 2016</u>	<u>Current Portion (SID 120 + 121)</u>
General	\$ 781,018	\$283,356	\$1,064,374	\$47,969
Curb & Gutter	63,972	24,825	88,796	4,013
Gas Tax Apportionment	118,810	57,924	176,734	8,066
Capital Improvements	<u>219,327</u>	<u>99,297</u>	<u>318,624</u>	<u>14,495</u>
Total	<u>\$1,183,127</u>	<u>\$465,402</u>	<u>\$1,648,529</u>	<u>\$74,543</u>

<u>Repayment schedule</u>	<u>SID 120</u>		<u>SID 121</u>		<u>Total</u>	
Due by June 30:	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 50,386	\$ 54,875	\$ 24,158	\$ 16,416	\$ 74,544	\$ 71,291
2018	46,165	39,942	21,852	13,075	68,017	53,017
2019	52,622	33,484	22,512	12,414	75,134	45,898
2020	55,501	30,606	23,193	11,734	78,694	42,340
2021	57,178	28,928	23,894	11,033	81,072	39,960
2022-2026	312,882	117,648	130,747	35,874	443,629	153,522
2027-2031	363,113	67,418	151,736	22,894	514,849	90,312
2032-2034	<u>245,281</u>	<u>13,037</u>	<u>67,310</u>	<u>2,542</u>	<u>312,589</u>	<u>15,580</u>
Total	<u>\$1,183,127</u>	<u>\$385,938</u>	<u>\$465,402</u>	<u>\$125,982</u>	<u>\$1,648,529</u>	<u>\$511,920</u>

Delinquent SID assessments are removed from the assessments receivable schedule and put on the tax rolls. At that time they become part of the taxes receivables. However, they remain on the Due to Other Funds repayment schedule. The repayment schedules are recalculated annually to reflect the remaining cash flows.

C) CHANGES IN INTERFUND LOANS

<u>Due To Fund</u>	June 30, 2015		New	June 30, 2016		<u>Due From / Reason</u>
	<u>Balance</u>	<u>Payments</u>	<u>Loans</u>	<u>Balance</u>		
General	\$ 827,736	(\$ 46,718)	\$ 0	\$ 781,018		SID 120 – to fund street construction costs
Curb & Gutter	67,797	( 3,825)	0	63,972		SID 120 – to fund street construction costs
Gas Tax Apportionment	125,909	( 7,099)	0	118,810		SID 120 – to fund street construction costs
Capital Improvements	<u>232,449</u>	<u>( 13,121)</u>	<u>0</u>	<u>219,328</u>		SID 120 – to fund street construction costs
Subtotal <b>SID 120</b>	<u>\$1,253,891</u>	<u>( \$ 70,763)</u>	<u>\$ 0</u>	<u>\$1,183,127</u>		
General	\$ 311,190	(\$ 27,834)	\$ 0	\$ 283,356		SID 121 – to fund street construction costs
Curb & Gutter	27,263	( 2,438)	0	24,825		SID 121 – to fund street construction costs
Gas Tax Apportionment	63,614	( 5,690)	0	57,924		SID 121 – to fund street construction costs
Capital Improvements	<u>109,053</u>	<u>( 9,755)</u>	<u>0</u>	<u>99,298</u>		SID 121 – to fund street construction costs
Subtotal <b>SID 121</b>	<u>\$ 511,120</u>	<u>( \$ 45,717)</u>	<u>\$ 0</u>	<u>\$ 465,402</u>		
Street Maintenance	\$ 2,650	(\$ 2,650)	\$ 0	\$ 0		Local Charges for Services. – Late Payment
Street Maintenance	<u>900</u>	<u>( 900)</u>	<u>0</u>	<u>0</u>		<b>Sewer</b> – Late service payment
Subtotal <b>SID 121</b>	<u>\$ 3,550</u>	<u>( \$ 3,550)</u>	<u>\$ 0</u>	<u>\$ 0</u>		

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Due To Fund	June 30, 2015		New	June 30, 2016		Due From / Reason
	Balance	Payments	Loans	Balance		
General	\$ 0	\$ 0	\$ 8,690	\$ 8,690		CTEP - Cover negative cash
General	0	0	1,860	1,860		Capital Projects - Parks - Cover negative Cash
Subtotal General	0	0	10,550	10,550		
Total Governmental funds	<u>\$1,768,561</u>	<u>(\$120,030)</u>	<u>\$10,550</u>	<u>\$1,659,081</u>		
Water	\$ 106,580	(\$106,580)	\$ 0	\$ 0		General
Water	4,240	( 4,240)	0	0		Local Charges for Services
Sewer	1,960	( 1,960)	0	0		Local Charges for Services
Solid Waste	3,882	( 3,882)	0	0		Local Charges for Service
Total Proprietary	<u>\$ 116,663</u>	<u>(\$116,663)</u>	<u>\$ 0</u>	<u>\$ 0</u>		
Total Primary Government	<u>\$1,885,224</u>	<u>(\$236,693)</u>	<u>\$10,550</u>	<u>\$1,659,081</u>		

The balances on the SID interfund loans may not match the SID assessments receivable because the interfund loans are repaid as assessments are received. Delinquent resident SIDs are placed on the tax rolls as assessments.

**NOTE 13: LONG TERM DEBT OBLIGATIONS – Governmental Activities**

A) CHANGES IN LONG TERM DEBT

Governmental Activities:	Balance			Balance	Due within
	July 1, 2015	Additions	Deletions		
TIF District Revenue Bonds	\$20,920,000	\$ 0	\$ 0	\$20,920,000	\$1,360,000
TIF District Bonds Accrued Interest	0	530,436	0	530,436	530,436
Compensated Absences	45,365	9,097	0	54,462	13,615
Net Pension Liability	424,348	145	0	424,493	0
OPEB Liability	171,447	0	106,892	64,555	0
Total	<u>\$21,561,160</u>	<u>\$539,678</u>	<u>\$106,892</u>	<u>\$21,993,946</u>	<u>\$1,904,051</u>

B) REVENUE BONDS – Governmental

Governmental Revenue Bonds	Issue Date	Original Term	Original Amount	Interest Rate	Accreted Interest	Principal Balance June 30, 2016
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 - Governmental Activities**

In September 2006, the City issued \$12,600,953 of revenue bonds, with an interest accretion phase of \$8,319,047 for total bond principal of \$20,920,000, 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. The City is required to begin making scheduled principal and interest payments in fiscal year 2016. The bonds are secured by a lien on the Tax Increment Financing (TIF) District. In fiscal year 2015, the City made the scheduled interest payment of \$653,750. In fiscal year 2016, the City made interest payments of \$777,064 of the scheduled interest amount of \$1,307,500, but no principal payments. Because the full interest payment was not made, the next scheduled interest payment becomes the same as the last full amount paid. The bonds are considered to be in default because the principal payments have not been paid as scheduled.

TIF Bonds Amortization Schedule

Fiscal Year	Principal	Interest*	Fiscal Year	Principal	Interest*
2017	\$ 1,360,000	\$ 1,837,936	2022-2026	\$ 5,380,000	\$ 4,290,625
2018	745,000	1,199,239	2027-2031	7,280,000	2,327,188
2019	790,000	1,151,250	2032-2032	3,630,000	113,438
2020	840,000	1,100,313	Totals	<u>\$20,920,000</u>	<u>\$13,066,083</u>
2021	895,000	1,046,094			

The interest schedule above is presented with the assumption that the bond payments will be made on time in the future. In the event that the bonds remain in default, the remaining interest would be \$653,750 for each semi-annual payment period for a total of \$20,796,686.

**Interest in Arrears**

\*The interest schedule changed from the prior year because the principal and interest payments have not been made on time. Principal and full interest payments are still in arrears. Therefore, the annual interest amount due remains at the most recent scheduled interest payment that was paid on time. In fiscal year 2016, interest payments of \$123,314 were made on the interest due as of September 1, 2015 of \$653,750 leaving an accrued interest balance of \$530,436.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**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 Schools, County and City to assess sufficient taxes in incremental taxes to meet the debt obligation of the TIFD bonds.

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).

**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, 2016, there is no arbitrage-rebate liability for the TIFD bonds. All of the bond proceeds have been spent as of June 30, 2016.

**NOTE 14: LONG TERM DEBT OBLIGATIONS – Business-Type Activities**

A) CHANGES IN LONG TERM DEBT

Business-Type Activities:	Balance			Balance June 30, 2016	Due within one year
	July 1, 2015	Additions	Deletions		
OPEB Liability	\$ 158,260	\$ 0	\$ 43,494	\$ 114,766	\$ 0
Revenue Bonds	2,705,000	0	247,000	2,458,000	125,000
Compensated Absences	105,990	5,168	0	111,158	27,790
Net Pension Liability – PERS	676,531	254	0	676,785	0
Landfill Closure / Post-closure	<u>971,862</u>	<u>66,418</u>	<u>0</u>	<u>1,038,280</u>	<u>0</u>
Total	<u>\$4,617,643</u>	<u>\$71,840</u>	<u>\$290,494</u>	<u>\$4,398,989</u>	<u>\$152,790</u>

B) REVENUE BONDS – Business-Type Activities

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.

Business-Type Bonds:	Issue Date	Term	Interest Rate	Original Amt.	Retired	Balance
Sewer Series 2003	6/27/2005	20 years	2.25%	\$2,026,390	(\$1,163,390)	\$ 863,000
Sewer Series 2010B	1/15/2010	20 years	0.75%	359,300	( 111,300)	248,000
Sewer Series 2010C	5/11/2010	20 years	3.00%	<u>625,000</u>	<u>( 160,000)</u>	<u>465,000</u>
Subtotal Sewer Bonds				3,010,690	( 1,434,690)	1,576,000
Landfill Series 2009	6/19/2009	15 years	2.25%	1,650,000	( 962,000)	688,000
Water Series 2012B	11/16/2012	20 years	3.00%	<u>235,411</u>	<u>( 41,411)</u>	<u>194,000</u>
Total Business-Type Bonds				<u>\$4,896,101</u>	<u>(\$2,438,101)</u>	<u>\$2,458,000</u>

	Sewer Bonds		Landfill Bonds		Water Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 80,000	\$ 17,614	\$ 40,000	\$ 7,740	\$ 5,000	\$ 2,910	\$ 125,000	\$ 28,264
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	175,000	21,386	86,000	8,561	10,000	4,695	271,000	34,642
2022-2026	585,000	54,064	316,000	14,344	59,000	18,435	960,000	86,843
2027-2031	236,000	12,262	0	0	67,000	9,135	303,000	21,397
2032-2033	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>23,000</u>	<u>705</u>	<u>23,000</u>	<u>705</u>
Totals	<u>\$1,576,000</u>	<u>\$192,008</u>	<u>\$688,000</u>	<u>\$67,556</u>	<u>\$194,000</u>	<u>\$51,765</u>	<u>\$2,458,000</u>	<u>\$311,329</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

A) CHANGES IN LONG-TERM DEBT

<b>Two Rivers Authority (A component unit)</b>	Balance		Payments /	Balance	Due within
	<u>July 1, 2015</u>	<u>Additions</u>	<u>Removals</u>	<u>June 30, 2016</u>	<u>one year</u>
Revenue Bonds	\$27,015,000	\$ 0	\$ 0	\$27,015,000	\$ 7,110,000
Accrued Bond Interest	12,480,163	1,920,025	0	14,400,188	14,400,188
Advance Funding Bondholder Loans	858,327	0	0	858,327	0
Deferred Payroll	80,325	37,102	0	117,427	117,427
Compensated Absences	<u>1,939</u>	<u>3,120</u>	<u>0</u>	<u>5,059</u>	<u>5,059</u>
Total	<u>\$40,435,754</u>	<u>\$1,960,247</u>	<u>\$ 0</u>	<u>\$42,396,000</u>	<u>\$21,632,674</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:

	<u>Issue Date</u>	<u>Original Term</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Retired</u>	<u>Balance June 30, 2016</u>
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, 2016, fifteen (15) interest payments are in arrears. As long as the bonds remain in default, interest accrues at \$960,013 instead of the scheduled amount.

Due for the years ended 6/30:	<u>Principal</u>	<u>Interest</u>
Past Due Portion	\$ 6,170,000	\$14,400,187
<u>2017 Portion</u>	<u>940,000</u>	<u>1,494,156</u>
2017 Total	\$ 7,110,000	\$15,894,343
2018	1,075,000	1,421,269
2019	1,150,000	1,340,613
2020	1,235,000	1,254,156
2021	1,325,000	1,161,356
2022-2026	8,220,000	4,144,600
2027-2029	<u>6,900,000</u>	<u>613,969</u>
Totals	<u>\$27,015,000</u>	<u>\$25,830,306</u>

**Matured Interest Payable - TRA**

Currently, TRA is in default on the revenue bond 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 2016. The interest due as of June 30, 2016 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:

NOTES TO THE FINANCIAL STATEMENTS (Continued)

- 1) Bond Fund – A sum equal to 1/12<sup>th</sup> of the principal coming due on the Bonds on the next November 1 (if any) and, beginning November 1, 2007. 1/6<sup>th</sup> 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 \$122,486. Deferred payroll represents \$117,427 and the compensated absences balance of \$5,059 is the remainder. As of June 30, 2016 the operating account has a balance of \$11,950 available 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 \$125,305 balance for fiscal year ended June 30, 2016.
- 4) Any remaining to the Surplus Account. The Surplus account had a \$0 balance for fiscal year ended June 30, 2016.

TRA's reserve fund which consists of cash remaining from the original bond proceeds plus interest, totaled \$125,305 as of June 30, 2016. TRA's current Bond Fund requirements for principal are \$7,110,000 and \$15,894,343 for interest. TRA is not in compliance with the bond covenants as of June 30, 2016.

**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. As of June 30, 2016 Two Rivers Authority has not met the bond covenants and is considered to be in default.

Operating Loss	(\$2,341,796)	2016 Principal and Interest Due	\$34,125,000
Add back Accrued Interest Expense	1,920,025		<u>x 120%</u>
Add back Depreciation Expense	<u>393,751</u>	Required Net Revenues	\$4,095,000
Net Revenues	<u>(\$ 28,020)</u>	Actual Net Revenues	<u>(28,020)</u>
		Net Revenue Shortage	<u>(\$4,123,020)</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.

**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, 2016 of \$1,038,280 represents the cumulative amount reported to-date based on the available use of 61.5% of the Class II area and 22.2% of the Coal Ash area, which is a combined estimate of 32.4% of the landfill's aggregate capacity. The liability for closure and post-closure care costs is based on landfill capacity used to date. The remaining estimated costs of closure and post-closure care costs are \$1,327,569 for total costs of \$2,365,849.

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 have been corrected to the DEQ's satisfaction as of September 29, 2016.

**Closure and Post-Closure Costs**

<u>Closure/Post-Closure Liability</u>	<u>June 30, 2015</u>	<u>Accrual Amount</u>	<u>June 30, 2016</u>
Class II Cell	\$772,690	\$30,726	\$ 803,416
Coal Ash Cell	<u>199,172</u>	<u>35,692</u>	<u>234,864</u>
Net Change in Landfill Liability	<u>\$971,862</u>	<u>\$66,418</u>	<u>\$1,038,280</u>

The City will recognize the remaining estimated cost of closure and post-closure care of \$1,327,569 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and post-closure in 2016. The City expects to close the Class II area landfill in 25 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. Total Closure and Post-Closure costs are estimated as follows:

	<u>Closure Costs</u>	<u>Post-Closure Costs</u>	<u>Total</u>
Class II	\$1,081,079	\$225,820	\$1,306,899
Coal Ash	<u>968,950</u>	<u>90,000</u>	<u>1,058,950</u>
Total	<u>\$2,050,029</u>	<u>\$315,820</u>	<u>\$2,365,849</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**Class II Area**

In February, 2016, 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 25 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 25 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, 2016, cash and investments of \$850,370 are held for these purposes and are reported as restricted cash and investments in the *Statement of Net Position*. The City expects that future inflations 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 2016 totaled \$64,995.

**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	\$ 134,735	Taxes / Assessments Receivable
Street Maintenance	59,362	Taxes / Assessments Receivable
TIFD	1,389,096	Taxes / Assessments Receivable
SID 120	1,196,707	Taxes / Assessments Receivable
SID 121	468,102	Taxes / Assessments Receivable
Other Governmental Funds	<u>191,698</u>	Taxes / Assessments Receivable
Total Governmental Activities	<u>\$3,439,699</u>	

B) DEFERRED INFLOWS OF RESOURCES – **Pensions**

	<u>Governmental</u>	<u>Water</u>	<u>Sewer</u>	<u>Solid Waste</u>	<u>Total Proprietary</u>
Difference – Expected & Actual Experience	\$2,619	\$ 1,364	\$ 1,078	\$ 1,602	\$ 4,044
Difference – Projected & Actual Investment Earnings	36,648	19,089	15,087	22,411	56,587
Changes in Proportionate Share & Diff. in Employer Contributions & Proportionate Share of Contributions	<u>45,231</u>	<u>23,559</u>	<u>18,620</u>	<u>27,659</u>	<u>69,838</u>
Total	<u>\$84,498</u>	\$44,012	\$34,786	\$51,672	<u>\$130,469</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.

**Unemployment insurance** is obtained through the State of Montana Unemployment Insurance Division. Information about the State's unemployment insurance may be obtained by contacting the Montana Department of Labor & Industry, Unemployment Insurance Division at PO Box 6339, Helena, MT 59604-6339 or at [uiservices.mt.gov](http://uiservices.mt.gov).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**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 assessed.

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.

**NOTE 19: RETIREMENT PLANS**

In accordance with GASB Statement 68, Accounting and Financial Reporting for Pensions, employers and the non-employer contributing entity are required to recognize and report certain amounts associated with their participation in the Public Employees' Retirement System (PERS). GASB 68, which became effective June 30, 2015, includes requirements for employers to record and report their proportionate share of the collective Net Pension Liability (NPL), Pension Expense, Deferred Inflows of Resources and Deferred Outflows of Resources associated with pensions. The following table shows pension related liabilities, deferred outflows of resources, deferred inflows of resources and pension expense as of the measurement date of June 30, 2015.

	<b>The City's Proportionate Share Associated with PERS</b>
Total Pension Liability	\$1,114,805
Fiduciary Net Position	\$13,527
Net Pension Liability	\$1,101,277
Deferred Outflows of Resources	\$81,624
Deferred Inflows of Resources	\$214,967
Pension Revenue – Coal Board	\$26,429
Pension Revenue - State	\$841
Pension Expense	\$34,339

**NOTE 20: PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS) – DEFINED BENEFIT**

A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Montana Public Employee Retirement Administration (MPERA) prepares its financial statements using the accrual basis of accounting. For the purposes of measuring the NPL, Deferred Inflows of Resources and Deferred Outflows of Resources related to pensions, Pension Expense, information about the Fiduciary Net Position and additions to/deductions from Fiduciary Net Position have been determined on the same accrual basis as they are reported by MPERA. For this purpose, member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Revenues are recognized in the accounting period they are earned and become measurable. Benefit payments and refunds are recognized in the accounting period when due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred. Investments are reported at fair value. MPERA adheres to all applicable GASB statements.

**Stand-Alone Statements** - The PERS financial information is reported in the Public Employees' Retirement Board's *Comprehensive Annual Financial Report* for the fiscal year ended. It is available from the PERB at 100 North Park, PO Box 200131, Helena, MT 59620-0131; 406-444-3154. CAFR information including stand-alone financial statements can be found on the following website <http://mpera.mt.gov/annualReports.shtml>. The latest actuarial valuation and experience study can be found at <http://mpera.mt.gov/actuarialValuations.shtml>.

B) GENERAL INFORMATION ABOUT THE PENSION PLAN

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**Summary of Benefits – PERS**

Eligibility for Benefits

**Service Retirement - PERS**

- Hired prior to July 1, 2011: Age 60, 5 years of membership service; Age 65, regardless of membership service; or Any age, 30 years of membership service
- Hired on or after July 1, 2011: Age 65, 5 years of membership service; Age 70, regardless of membership service

**Early Retirement - PERS**

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

**Vesting – PERS:** Benefits fully vest after 5 years of membership service.

**Member's Highest Average Compensation (HAC) - PERS**

- 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

**Compensation Cap - PERS**

- 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 (provided below) each January, **inclusive** of other adjustments to the member's benefit.

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

**Overview of Contributions – PERS:** Rates are specified by state law for periodic employer and employee contributions and are a percentage of the member's compensation. Contributions are deducted from each member's salary and remitted by participating employers. The State legislature has the authority to establish and amend contribution rates to the plan. Member and employer contribution rate are as follows:

1. Member contributions to the system of 7.90% are temporary and will be decreased to 6.9% on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and additional member contribution rates.
2. Employer contributions to the system:
  - a. Effective July 1, 2014, following the 2013 Legislative Session, PERS-employer contributions increase an additional 0.1% a year and will continue over 10 years through 2014. The additional employer contributions including the 0.27% added in 2007 and 2009, will terminate on January 1 following an actuary valuation that shows the amortization period of the PERS-DBRP has dropped below 25 years and remains below the 25 years following the reduction of both the additional employer and member contribution rates.
  - b. Effective July 1, 2013 employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.
  - c. The portion of employer contributions allocated to the PCR are included in the employers reporting. The PCR was paid off effective March 2016 and the contributions previously directed to the PCR are now directed to member accounts.
3. Non Employer Contributions
  - a. Special Funding
    - i. The State contributes 0.1% of members' compensation on behalf of local government entities.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

- 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 Severance Tax income and earnings from the Coal Trust Permanent Trust fund.

Fiscal Year	Member		State & Universities	Local Governments		School Districts	
	Hired <7/01/11	Hired >7/1/11	Employer	Employer	State	Employer	State
2016	7.9%	7.9%	8.370%	8.270%	0.100%	8.000%	0.370%
2015	7.9%	7.9%	8.270%	8.170%	0.100%	7.900%	0.370%
2014	7.9%	7.9%	8.170%	8.070%	0.100%	7.800%	0.370%
2012-2013	6.9%	7.9%	7.170%	7.070%	0.100%	6.800%	0.370%
2010-2011	6.9%		7.170%	7.070%	0.100%	6.800%	0.370%
2008-2009	6.9%		7.035%	6.935%	0.100%	6.800%	0.235%
2000-2007	6.9%		6.900%	6.800%	0.100%	6.800%	0.100%

**Net Pension Liability – PERS:** 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 Tax Severance fund. All employers are required to report the portion of Coal Tax Severance income and earnings attributable to the employer.

The Total Net Pension Liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of June 30, 2014, with update procedures to roll forward the TPL to the measurement date of June 30, 2015. For the City, their June 30, 2016 reporting will use the 2016 reporting values presented in these notes.

	Net Pension Liability as of 6/30/16	Net Pension Liability as of 6/30/15	Percent of Collective NPL as of 6/30/16	Percent of Collective NPL As of 6/30/15	Change in Percent of Collective NPL
City Proportionate Share	\$1,101,277	\$1,100,879	0.078782%	0.088352%	-0.009570%
State of Montana Proportionate Share associated with the City	13,527	13,443	0.000968%	0.001079%	-0.000111%
Total	\$1,114,805	\$1,114,323	0.079750%	0.089431%	-0.009681%

The Table above displays the City's proportionate share of the NPL and the City's proportion of the NPL for June 30, 2015 and 2016. The City's proportion of the NPL was based on the City's contributions received by PERS during the *measurement period* of July 1, 2014 through June 30, 2015, relative to the total employer contributions received from all PERS' participating employers. As of the City's reporting date the City reported a liability of \$1,114,805 and the City's proportionate share was 0.079750 percent.

**Pension Expense – PERS:** At June 30, 2016, the City recognized its proportionate share of the PERS' Pension Expense of \$33,499. The City also recognized grant revenue of \$841 for the support provided by the State of Montana for the proportionate share of the Pension Expense that is associated with the City, and grant revenue of \$26,429 from the Coal Tax Fund.

<u>As of the Reporting Date</u>	<u>Pension Expense as of 6/30/2016</u>
The City's Proportionate Share	\$33,498
State of Montana's Proportionate Share associated with the City	<u>841</u>
Total	\$34,339

**Changes in Proportionate Share – PERS:** Between the measurement date of the collective NPL and the City's reporting date, there were some changes in proportion that may have an effect on the employer's proportionate share of the collective NPL. There are no significant changes to the City's proportionate share.

**Changes in Benefit Terms – PERS:** There have been no changes in benefit terms since the previous measurement date.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**Actuarial Assumptions – PERS:** The Total Pension Liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of June 30, 2014, with update procedures to roll forward the TPL to June 30, 2015. There were several significant assumptions and other inputs used to measure the TPL. The actuarial assumptions used in the June 30, 2015 valuation were based on the results of the last actuarial experience study, dated May 2010 for the six year period July 1, 2003 to June 30, 2009. Among those assumptions were the following:

- Investment Return (net of admin expenses) 7.75%
- Admin Expense as a % of Payroll 0.27%
- General Wage Growth 4.00% (includes inflation at 3%)
- Merit Increases 0% to 6%

**Postretirement Benefit Increases**

**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 (provided below) each January, *inclusive* of other adjustments to the member’s benefit.

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

**Target Allocations – PERS:** The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the System. The most recent analysis, performed for the period covering fiscal years 2003 through 2009, is outlined in a report dated June 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption. These factors include rates of return adopted by similar public sector systems, as well as the utilization of 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. Summarized in the table below are best estimates of the arithmetic real rates of return for each major asset class included in the System’s target asset allocation as of June 30, 2015.

Asset Class	Target Asset Allocation	Long Term Expected Real Rate of Return
Cash Equivalents	2.00%	(0.25%)
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.10%
Fixed Income	24.00%	1.25%
Private Equity	12.00%	8.00%
Real Estate	8.00%	4.25%
Total	100.00%	

**Discount Rate – PERS:** The discount rate used to measure the TPL 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 System’s fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2123. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL. A municipal bond rate was not incorporated in the discount rate.

**Sensitivity Analysis – PERS:** The NPL calculated using the discount rate of 7.75% as well as what the NPL would be if it were calculated using a discount rate that is 1.00% lower or 1.00% higher than the current rate as illustrated below.

	1.0% Decrease	Current Discount	1.0% Increase
<u>As of Reporting Date</u>	<u>6.75%</u>	<u>Rate 7.75%</u>	<u>8.75%</u>
City’s Net Pension Liability	\$1,697,931	\$1,101,277	\$597,417

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**Recognition of Deferred Inflows and Deferred Outflows – PERS:** At June 30, 2016, 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
Actual vs. Expected Experience	\$0	\$6,663
Changes in Assumptions	\$0	\$0
Actual vs. Expected Investment Earnings	\$0	\$93,235
Difference between actual and Expected contributions	\$0	\$0
Changes in Proportionate Share and Differences between City Contributions and Proportionate Share of Contributions	\$0	\$115,070
City Contributions Subsequent to the measurement date – #FY2016 Contributions	\$82,624	\$0
Total	\$82,624	\$214,967

*#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, 2017.*

Other amounts reported as Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions will be recognized in Pension Expense as follows:

For the Reporting Year ended June 30:	Amount of Deferred Outflows and Deferred Inflows recognized in future years as an increase (decrease) to Pension Expense
2017	(\$79,857)
2018	(\$79,857)
2019	(\$79,503)
2020	24,249
2021	0
Thereafter	0

**NOTE 21: VOLUNTEER FIREMEN’S DISABILITY and PENSION FUND – AGENCY 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, 2016, the plan pays benefits to 23 retirees (18 retirees and 5 surviving spouses). There are 21 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 2016 tax revenues totaled \$8,396. City and State contributions to the plan for the year totaled \$31,247. Fiscal year 2016 City and State contributions were \$6,437 and \$24,810 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 \$190,996,634) is \$401,093. As of June 30, 2016, the fund holds \$163,486 or 41% of the required holdings; for a shortage of \$237,607. The plan assets are included in the City’s cash and investment pool. Firemen’s pension deposits consist of repurchase agreements. The following table illustrates changes to the requirements based on the assessed valuation:

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	Assessed <u>Valuation</u>	MCA <u>Rate</u>	Minimum Fund Requirement <u>MCA 19-18-503</u>	Cash in Fund at <u>year end</u>	<u>Difference</u>	Percent of <u>Requirement Met</u>
FY2016	\$190,996,634	.21%	\$401,093	\$163,486	(\$237,607)	41%
FY2015	<u>118,088,747</u>	<u>.21%</u>	<u>247,986</u>	<u>149,190</u>	<u>( 98,796)</u>	<u>60%</u>
Change	\$ 72,907,887	.00%	\$153,107	\$ 14,296	(\$138,811)	(19%)

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 four years were as follows:

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
City Contributions	\$18,908	\$22,872	\$24,815	\$24,810
State Contributions	3,807	3,908	6,146	6,437
Tax Assessments	<u>9,810</u>	<u>8,789</u>	<u>8,126</u>	<u>8,346</u>
Total Contributions	\$32,525	\$35,569	\$39,087	\$39,593
Interest Additions	<u>923</u>	<u>486</u>	<u>413</u>	<u>567</u>
Total Additions	\$33,447	\$36,055	\$39,500	40,160
Deductions	<u>(24,240)</u>	<u>(23,992)</u>	<u>(24,875)</u>	<u>( 25,503)</u>
Net Additions	<u>\$ 9,207</u>	<u>\$12,063</u>	<u>\$14,625</u>	<u>\$14,657</u>
<i>Totals may not foot due to rounding</i>				
Due to Others	\$122,490	\$134,553	\$149,179	\$163,836

In 2017, the Montana Legislature will be asked to address sound funding of disability and pension funds for firefighters as many Montana cities and towns are having difficulties meeting the current requirements with limited funding mechanisms. Montana League of Cities and Towns sponsored SB16 that changes the funding requirements to a realistic multiplier of actual liability exposure.

**NOTE 22: OTHER POST EMPLOYMENT BENEFITS (OPEB) OTHER THAN PENSIONS**

The City allows its retired employees to continue to participate in its group health insurance plan at a premium rate that does not cover all of the related healthcare costs. The fact that older persons pay the same health insurance premium as younger employees results in an OPEB benefit referred to as an *"implicit rate subsidy."* The City's OPEB liability is considered to be a long-term liability and is recorded on the modified accrual basis for governmental funds, and on the accrual basis for proprietary funds and the Government-wide *Statement of Net Position* and the *Statement of Activities*.

**Plan Description – OPEB:** The City is a member of the Joint Powers Trust (JPT), a non-profit group health benefit trust which administers a pool of various sized public entities. In accordance with MCA (2-18-704) the City provides its employees who retire, along with their eligible spouses and dependents, the option to continue to participate in the City's group health insurance plan until the retiree becomes eligible for Medicare coverage. To continue this health insurance coverage, the retirees are required to pay the full amount of their premium. State law does not require that the City provide the same premium rates to retirees as it pays for its active employees. Nor does it require that the City pay any portion of the retiree premiums. Premium rates and healthcare benefits may be administratively altered at the end of any contract year.

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 *"Alternative Measurement Method"* to calculate its 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 health insurance premiums are \$703 per member and \$1,406 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, 2016, twenty-two (22) 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 reported at the full Actuarial Accrued Liability (AAL). A trust fund for future liabilities has not been established.

**Annual OPEB Cost and Net OPEB Obligation – OPEB:** The City's annual Other Post-Employment Benefit (OPEB) cost (expense) is calculated based on the Actuarial Accrued Liability (AAL) of the employer, an amount determined in accordance with the parameter of GASB statement 45. The AAL is recalculated every three 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Prior year Actuarial Accrued Liability (AAL)	\$329,707
Contributions made	<u>0</u>
Net OPEB obligation - beginning of year	\$329,707
Increase (Decrease) in net OPEB obligation	<u>(150,385)</u>
Net OPEB obligation - end of year	<u>\$179,321</u>
Net OPEB Obligation – end of year	\$179,321
Remaining ARC to meet AAL	<u>0</u>
Accrued Actuarial Liability (AAL)	<u>\$179,321</u>

<u>OPEB OBLIGATION</u>		Current Year	
<u>Fund</u>	<u>Prior Year</u>	<u>Reductions</u>	<u>June 30, 2016</u>
Water	\$ 56,050	(\$ 20,186)	\$ 35,864
Sewer	32,971	( 2,486)	30,485
Solid Waste	<u>69,239</u>	<u>( 20,822)</u>	<u>48,417</u>
Subtotal Proprietary	158,260	( 43,494)	\$114,766
Governmental	<u>171,447</u>	<u>(106,891)</u>	<u>64,556</u>
Total	<u>\$329,707</u>	<u>(\$150,385)</u>	<u>\$179,321</u>

**Funding status and progress – OPEB:** As of June 30, 2016 the funded status of the plan was as follows:

Actuarial Accrued Liability (AAL)	\$179,321
Actuarial value of plan assets	<u>0</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$179,321</u>
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	\$842,595
UAAL as a percentage of covered payroll	21%
Amortization Factor	30 years
Amortization Method	level dollar
Date of latest AAL calculation	July 1, 2016
Measurement Date	June 30, 2016

**Actuarial Methods and Assumptions - OPEB**

<u>Actuarial Cost Method</u>	<u>Alternate Measurement Method</u>
Average age of retirement (based on historical data)	60.9
Discount rate (average anticipated rate)	3%
Employees expected to stay on the plan after retirement	8%
Average years of service for current employees	8.2
Average age for employees	46
Average age for retirees	57.1

Health care cost rate trend: 2.966% for the next 10 years  
 Marital status of members was assumed to continue throughout retirement

**Covered Employees**

	<u>Number</u>
Active Employees	22
Inactive Employees currently receiving benefit payments	2
Inactive Employees entitled to but not yet receiving payments	None – Retirees must go directly on the plan to be eligible.

The Actuarial Accrued Liability (AAL) for the preceding 10 calculations is illustrated below:

Fiscal Year	Actuarial Accrued	AAL	Percent of AAL	Net OPEB
<u>Ending June 30:</u>	<u>Liability (AAL)</u>	<u>Adjustment</u>	<u>Contributed</u>	<u>Obligation</u>
2010	\$446,264	\$ 0	0%	\$ 66,615
2013	\$329,707	(\$116,557)	0%	\$329,707
2016	\$179,321	(\$150,386)	0%	\$179,321

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**NOTE 23: 457(b) DEFERRED COMPENSATION RETIREMENT PLAN – 457(b) PLAN**

The City provides a 457(b) tax-advantaged, deferred-compensation retirement plan that employees may contribute into. The City provides the plan and the employee may elect to defer their compensation into it as either ROTH contributions or contributions 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. The record-keeper for the plan is the State of Montana through the Montana Public Employee Retirement Administration (MPERA). Further information about the plan may be obtained by visiting the MPERA website <http://mpera.mt.gov/.shtml>.

**NOTE 24: GARBAGE SERVICES ON TAX ROLLS - DATE CHANGE**

In fiscal year 2016, the City changed the way that garbage services are assessed. In the past, garbage services were assessed based on a fiscal year. However, due to confusion between calendar year and fiscal year when talking with customers, the City issued a resolution in fiscal year 2016, to begin assessing garbage services based on a calendar year.

**NOTE 25: INTERFUND TRANSFERS**

<u>From Fund</u>	<u>Amount</u>	<u>To Fund</u>	<u>Purpose</u>
General	(\$38,072)	Street Maintenance	25% Contribution to Street Maintenance fund
CTEP	( 1,327)	General	Revenue placed in wrong fund in prior year
Lighting Dist. #45	<u>( 17,359)</u>	Lighting Dist. #1	Closed Lighting District #45 into Lighting District #1
Total	<u>(\$56,759)</u>		

**NOTE 26: DEFICIT FUND BALANCES**

The fund deficits shown below resulted from either operations during the year or a carryover deficit from prior years but are expected to be corrected through normal operations in the next fiscal year. The majority of these funds are grants related to transactions working on a reimbursement basis, often reimbursements are delayed more than 90 days.

<u>Fund</u>	<u>Balance</u>	<u>How to Correct</u>
SID 120	(\$1,183,127)	Receive resident SID payments over 20 years
SID 121	( 465,401)	Receive resident SID payments over 20 years
CTEP	<u>( 8,692)</u>	Receive grant revenue proceeds
Total	<u>(\$1,657,220)</u>	

**NOTE 27: INSURANCE RECOVERIES**

In fiscal year 2016, the City received insurance payments of \$157,018 for hail damage to the roofs of City buildings. The roofs have been repaired as of the date of this report.

**NOTE 28: PRIOR PERIOD ADJUSTMENTS**

<u>Governmental Activities</u>	<u>Amount</u>	<u>Reason</u>
Capital Improvements Fund	\$ 107,655	Reclassify capital asset as "land held for resale"
Statement of Activities – Capital Assets	( 107,655)	Reclassify capital asset as "land held for resale"
Statement of Activities – Capital Assets	<u>( 5,752)</u>	Correct an internal CIP item booked in a prior year
Net Prior Period Adjustments – Governmental Activities	<u>(\$ 5,752)</u>	
 <u>Fiduciary Funds</u>		
Firemen’s DI & Pension Fund (Trust fund)	(\$149,179)	Reclassified Private Purpose Trust Fund to an Agency Fund
Firemen’s DI & Pension Fund (Agency fund)	<u>149,179</u>	Reclassified Private Purpose Trust Fund to an Agency Fund
Total Fiduciary Funds	<u>\$ 0</u>	

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**NOTE 29: SUBSEQUENT REPORTABLE EVENTS**

Subsequent events were evaluated through the date of this report.

Changes in fair value from the measurement date of June 30, 2016 to the date of this report are immaterial.

**City of Hardin**

On September 28, 2006, the City of Hardin issued its \$12,600,952.80 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").

The taxable value of the Facility for tax year 2014 was \$1,471,108; \$1,281,520 for tax year 2015; and \$1,343,684 for tax year 2016.

In September of 2016, the Company made tax payments on some of their 2015 tax accounts but not others. On March 1, 2015, an unscheduled draw was made on the Reserve Account and applied to the March 1, 2015 interest payment on the Bonds. On September 1, 2015, another unscheduled draw was made on the Reserve Account and applied to the September 1, 2015 interest payment on the Bonds. On March 1, 2016 and November 1, 2016, proceeds were withdrawn from the Trust account revenue fund and applied towards the interest that was due on March 1, 2016. On December 6, 2016 a default distribution was made. This represents the remaining balance of interest that was due on March 1, 2016 and some interest that was due on September 1, 2016. None of the principal amounts of the Bonds due on September 1, 2015 (i.e. \$660,000.00) and September 1, 2016 (i.e. \$700,000.00) have been paid.

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, May 31, 2016, November 30, 2016 and May 31, 2017 together with the interest and penalties thereon, or whether it will make such payments at all.

Continuing disclosures with respect to these Revenue Bonds are filed on <http://emma.msrb.org/>.

**The Two Rivers Trade Port Authority**

In August of 2016, Emerald Correctional Management terminated its agreements with Two Rivers Authority. As of the date of this report, the Two Rivers Authority is discussing an agreement with the Bureau of Indian Affairs regarding leasing the detention facility.

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, 2016

	General Fund			Street Maintenance Fund		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
<b>REVENUES:</b>						
Taxes/Assessments	\$ 443,152	\$ 443,152	\$ 388,623	\$ 263,430	\$ 263,430	\$ 237,700
Investment Earnings	1,000	1,000	3,192	600	600	946
Licenses and Permits	49,000	54,000	56,437	500	500	200
Fines and Forfeitures	70,651	70,651	63,431	-	-	-
Miscellaneous	121,828	121,828	56	11,145	11,145	123
Intergovernmental Revenue	715,223	715,223	707,318	-	-	-
Charges for Services	<u>1,635</u>	<u>3,035</u>	<u>3,573</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenues	1,402,489	1,408,889	1,222,628	275,675	275,675	238,969
<b>EXPENDITURES:</b>						
General Government	526,117	526,617	417,602	-	-	-
Public Safety	666,336	716,336	689,467	-	-	-
Public Works	60,000	70,250	66,868	392,229	392,229	326,554
Public Health	37,369	37,369	30,900	-	-	-
Culture & Recreation	163,052	173,052	139,407	-	-	-
Housing & Community Development	176,000	176,000	32,774	-	-	-
Miscellaneous	<u>5,030</u>	<u>5,030</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	1,633,904	1,704,654	1,377,019	392,229	392,229	326,554
Capital Outlay	-	-	-	88,000	88,000	-
Debt Service	<u>3,216</u>	<u>3,216</u>	<u>3,215</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	1,637,120	1,707,870	1,380,234	480,229	480,229	326,554
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>						
	(234,631)	(298,981)	(157,606)	(204,554)	(204,554)	(87,586)
<b>OTHER FINANCING SOURCES/USES</b>						
Sale of Capital Assets	1,000	1,000	-	-	-	-
Special Items	-	123,018	123,017	-	11,000	11,000
Fund Transfers In	-	-	-	50,000	50,000	38,072
Fund Transfers (Out)	<u>(100,000)</u>	<u>(50,000)</u>	<u>(38,072)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>NET CHANGES IN FUND BALANCES</b>	(333,631)	(224,963)	(72,661)	(154,554)	(143,554)	(38,513)
<b>FUND BALANCES:</b>						
BEGINNING FISCAL YEAR FUND BALANCES			1,634,602			452,075
PRIOR PERIOD ADJUSTMENTS			<u>1,327</u>			<u>-</u>
ENDING FISCAL YEAR FUND BALANCES			<u>\$ 1,563,269</u>			<u>\$ 413,562</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**

City budgets are adopted on a basis consistent with the State of Montana budget laws which are consistent with generally accepted accounting principles (GAAP). Annual appropriated budgets are adopted for all funds. All annual appropriations lapse at the end of the fiscal year, unless the City elects to encumber supplies and personal property ordered but not received at year end.

**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 major funds TIF, SID 120 and SID 121 are not included in the schedule because they are 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 County Superintendent 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 in 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 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, the expenditures of a budgeted fund may not legally exceed the adopted budget.
- (6) At the end of a fiscal year, unencumbered appropriations lapse unless specifically obligated by the City.

**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 resolutions are summarized below:

<u>Fund</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Reason</u>
General	\$ 5,000	\$ 0	Additional revenues
General	1,400	0	New program
General	123,018	0	Insurance reimbursement – roof
Street Maintenance	11,000	0	Insurance reimbursement – roof
TIFD – Debt Service	20,000	0	Gain on Investments – Bondholders option
SID #121	23,700	0	Partial payoff
Fire Department	50,000	0	Reallocated to SCBAs
General –Fire	0	50,000	Reclassify firetruck to SCBAs
General – Storm Drainage Maintenance	0	10,250	Spend additional revenue
General – Parks	0	10,000	Roofing covered by insurance
PERS (Retirement)	0	10,000	End of year accrual
Lighting District #1	0	1,750	Cover lighting costs
CTEP	0	23,000	Heimat park sidewalk originally budgeted in FY15
TIFD – Debt Service	<u>0</u>	<u>21,000</u>	Additional interest due as a result of the late payment
Total Governmental Funds	\$234,118	\$ 126,000	
Water	\$ 7,000	\$ 0	Increased revenues
Water	20,500	0	Insurance reimbursement – roof
Sewer	1,000	0	increased revenues
Sewer	2,500	0	Insurance reimbursement – roof
Landfill	8,900	0	Increased interest & fair value increases
Landfill	(30,000)	0	Decreased revenues and disposal charges
Solid Waste	0	20,400	Increased allocation, added route
Landfill	<u>0</u>	<u>97,000</u>	End of Year OPEB accrual & equipment repairs
Total Proprietary Funds	\$ 9,900	\$117,400	

**SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**  
For the Fiscal Year Ended June 30, 2016

	<b>PERS</b>	
	<b>2016</b>	<b>2015</b>
The City's proportionate share of the Net Pension Liability	\$1,101,277	\$1,100,879
The City's proportionate share of the Net Pension Liability associated with the City (as a percentage)	0.078782%	0.008352%
State of Montana's proportionate share of the Net Pension Liability associated with the City	\$13,527	\$13,443
<b>Total Pension Liability (TPL)</b>	<b>\$1,114,805</b>	<b>\$1,114,323</b>
The City's covered-employee payroll	\$919,407	\$1,000,147
The City's proportionate share of the Net Pension Liability (as a percentage of its covered-employee payroll)	119.781%	110.0720%
Plan Fiduciary Net Position (FNP) as a percentage of the Total Pension Liability (TPL)	78.4%	79.9%

*The amounts presented above for each fiscal year were determined as of June 30<sup>th</sup>, the measurement date. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.*

**SCHEDULE OF CONTRIBUTIONS**  
For the Fiscal Year Ended June 30, 2016

	<b>PERS</b>	
	<b>2016</b>	<b>2015</b>
Contractually required contributions	\$82,194	\$77,215
Contributions in relation to the contractually required contributions	\$82,194	\$77,215
Contribution deficiency (excess)	0	0
City's pensionable payroll	\$969,627	\$919,407
Contributions as a percentage of pensionable payroll	8.477%	8.398%

*The amounts presented above for each fiscal year were determined as of June 30<sup>th</sup>, the City's more recent fiscal year end. 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

**NOTE 1: PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS)**

***Changes in Benefit Terms***

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

2013 Legislative Changes:

Working Retirees: House Bill 95 – PERS, SRS and FURS, effective July 1, 2013

- The law requires employer contributions on working retiree compensation.
- Member contributions are not required.
- Working retiree limitations are not impacted. PERS working retirees may still work up to 960 hours a year, without impacting benefits.

Highest Average Compensation (HAC) Cap – House Bill 97, effective July 1, 2013

All PERS members hired on or after July 1, 2013 are subject to a 110% annual cap on compensation considered as part of a member's highest or final average compensation.

All bonuses paid to PERS members on or after July 1, 2013 will not be treated as compensation for retirement purposes.

House Bill 454 – Permanent Injunction Limits Application of the GABA reduction passed under HB454

***Guaranteed Annual Benefit Adjustment (GABA) – for PERS***

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

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

***Legislative Changes:***

**General Revisions – House Bill 101, effective January 1, 2016**

Second Retirement Benefit – PERS

1) Applies to PERS members who return to active service on or after January 1, 2016. Members who retire before January 1, 2016, return to PERS-covered employment, and accumulate less than 2 years of service credit before retiring again:

- Refund of member's contributions from second employment plus regular interest (currently 0.25%);
- No service credit for second employment;
- Start same benefit amount the month following termination; and
- GABA starts again in the January immediately following second retirement.

2) For members who **retire before January 1, 2016, return to PERS-covered employment and accumulate less than 5 years of service credit before retiring again:**

- Member receives a recalculated retirement benefit based on laws in effect at second retirement; and
- GABA starts in the January after receiving recalculated benefit for 12 months.

3) For members who retire **on or after January 1, 2016, return to PERS-covered employment and accumulate less than 5 years of service credit before retiring again:**

- Refund of member's contributions from second employment plus regular interest (currently 0.25%);
- No service credit for second employment;
- Start same benefit amount the month following termination; and
- GABA starts again in the January immediately following second retirement.

4) For members who retire **on or after January 1, 2016, return to PERS-covered employment and accumulate 5 or more years of service credit before retiring again:**

- Member receives same retirement benefit as prior to return to service;
- Member receives second retirement benefit for second period of service based on laws in effect at second retirement; and
- GABA starts on both benefits in January after member receives original and new benefit for 12 months.

NOTES TO SCHEDULES of PROPORTIONATE SHARE of NPL and CONTRIBUTIONS (Continued)

**Revise DC Funding Laws – House Bill 107, effective July 1, 2015**

***Employer Contributions and the Defined Contribution Plan – for PERS and MUS-RP***

The PCR was paid off effective March 2016 and the contributions of 2.37%, 0.47%, and the 1.0% increase previously directed to the PCR are now directed to the Defined Contribution or MUS-RP member's account.

***Changes in Actuarial Assumptions and Methods:***

***Method and assumptions used in calculations of actuarially determined contributions***

The following addition to the actuarial assumptions was adopted in 2014 based upon implementation of GASB Statement 68.

Admin Expenses as a % of Payroll	0.27%
----------------------------------	-------

The following changes were adopted in 2013 based on the 2013 Economic Experience Study:

General Wage Growth	4% (Includes inflation at 3.00%)
Investment Rate of Return	7.75%, net of pension plan investment expense, and including inflation

The following Actuarial Assumptions are from the June 2010 Experience Study:

General Wage Growth	4.25% (Includes inflation at 3.00%)
Merit Increase	0% to 7.3%
Investment Rate of Return	8.00%, net of pension plan investment expense, and including inflation
Asset Valuation Method	4-year smoothed market
Actuarial Cost Method	Entry Age
Amortization Method	Level percentage of pay, open

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, 2016

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Cash – Beginning of year	\$113,806	\$122,146	\$134,360	\$149,190
Increase (Decrease)	<u>8,340</u>	<u>12,214</u>	<u>14,830</u>	<u>14,296</u>
Cash – End of year	<u>\$122,146</u>	<u>\$134,360</u>	<u>\$149,190</u>	<u>\$163,486</u>

**SCHEDULE OF CONTRIBUTIONS**  
**FIREMEN'S DISABILITY & PENSION PLAN**  
 For the Fiscal Year Ended June 30, 2016

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
City Contributions	\$18,908	\$22,872	\$24,815	\$24,810
State Contributions	3,807	3,908	6,146	6,437
Tax Assessments	<u>9,810</u>	<u>8,789</u>	<u>8,126</u>	<u>8,346</u>
Total Contributions	\$32,525	\$35,569	\$39,087	39,593
Interest Additions	<u>923</u>	<u>486</u>	<u>413</u>	<u>567</u>
Total Additions	<u>\$33,447</u>	<u>\$36,055</u>	<u>\$39,500</u>	<u>\$40,160</u>

*Totals may not foot due to rounding*

**SCHEDULE OF FUNDING PROGRESS for OTHER POST-EMPLOYMENT BENEFITS**  
 OTHER THAN PENSIONS (OPEB)  
 For the Fiscal Year Ended June 30, 2016

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%
July 1, 2016	0	179,321	179,321	0%	842,595	21%

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

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.

City of Hardin  
Big Horn County  
Hardin, Montana

SCHEDULE OF COMBINED PROPRIETARY FUNDS  
BALANCE SHEET - COMBINED FUNDS  
As of June 30, 2016

	<b>Proprietary</b>		
	Garbage	Landfill	Total
	Fund	Fund	Solid Waste Fund
<b>ASSETS:</b>			
<b>Current Assets</b>			
Cash & Cash Equivalents	\$ 60,797	\$ 230,590	\$ 291,387
Taxes/Assessments Receivable	217,705	-	217,705
Accounts Receivable	3,937	51,183	55,120
Inventories	<u>16,366</u>	<u>4,421</u>	<u>20,787</u>
Total Current Assets	298,805	286,195	585,000
<b>Noncurrent Assets</b>			
Restricted Cash & Investments	300,000	1,295,139	1,595,139
Land	-	320,716	320,716
Buildings	20,927	118,709	139,636
Improvements other than Buildings	-	2,040,909	2,040,909
Machinery & Equipment	894,584	1,224,769	2,119,353
Less: Accumulated Depreciation	<u>(549,003)</u>	<u>(1,531,686)</u>	<u>(2,080,689)</u>
Total Assets	965,313	3,754,751	4,720,064
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred Outflows of Resources - Pensions	5,962	14,284	20,245
<b>LIABILITIES:</b>			
<b>Current Liabilities</b>			
Accounts Payable	14,164	12,368	26,532
Matured Interest on Bonds Payable	-	40,000	40,000
Other Accrued Payables	6,785	12,094	18,879
Compensated Absences	6,093	6,000	12,094
Deposits Payable	<u>-</u>	<u>4,700</u>	<u>4,700</u>
Total Current Liabilities	27,043	75,162	102,204
<b>Noncurrent Liabilities</b>			
Revenue Bonds Payable	-	648,000	648,000
Closure/postclosure Care Costs	-	1,038,280	1,038,280
Net Pension Liability	79,134	192,703	271,837
OPEB Liability	19,725	28,692	48,417
Compensated Absences	<u>18,280</u>	<u>18,001</u>	<u>36,281</u>
Total Noncurrent Liabilities	<u>117,139</u>	<u>1,925,675</u>	<u>2,042,815</u>
Total Liabilities	144,182	2,000,837	2,145,019
<b>DEFERRED INFLOWS OF RESOURCES:</b>			
Deferred Inflows - Pensions	<u>14,070</u>	<u>37,602</u>	<u>51,672</u>
Total Deferred Inflows of Resources	14,070	37,602	51,672
<b>FUND BALANCES / NET POSITION:</b>			
Net Investment in Capital Assets	366,508	1,485,417	1,851,925
Restricted:			
Debt Service	-	94,919	94,919
Closure/postclosure Care Costs	-	850,370	850,370
Replacement & Depreciation	300,000	345,150	645,150
Unrestricted	<u>146,515</u>	<u>(1,045,261)</u>	<u>(898,746)</u>
Total Fund Balances / Net Position	<u>\$ 813,023</u>	<u>\$ 1,730,596</u>	<u>\$ 2,543,619</u>
Total Liabilities, Deferred Inflows & Fund Bal.	<u>\$ 971,275</u>	<u>\$ 3,769,035</u>	<u>\$ 4,740,310</u>

SCHEDULE OF COMBINED PROPRIETARY FUNDS  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - COMBINED FUNDS  
For the Year Ended June 30, 2016

	Proprietary		
	Garbage	Landfill	Total
	Fund	Fund	Solid Waste Fund
<b>REVENUES:</b>			
Taxes/Assessments	\$ 5,945	\$ -	\$ 5,945
Charges for Services	468,785	699,345	1,168,130
Miscellaneous Income	<u>209</u>	<u>199</u>	<u>409</u>
Total Revenues	474,939	699,545	1,174,483
<b>EXPENDITURES / OPERATING EXPENSES:</b>			
Personal Services	139,556	248,633	388,189
Supplies	44,764	70,710	115,474
Purchased Services	7,467	154,388	161,854
Fixed Charges	4,424	113,558	117,982
Depreciation	<u>53,123</u>	<u>195,666</u>	<u>248,789</u>
Total Expenditures / Operating Expenses	249,334	782,955	1,032,289
<b>EXCESS (DEFICIENCY) OF REVENUES</b>			
<b>OVER EXPENDITURES / OPERATING INCOME (LOSS)</b>	225,604	(83,410)	142,194
<b>OTHER FINANCING SOURCES (USES) / NONOPERATING REVENUES (EXPENSES)</b>			
Intergovernmental Revenue	2,491	4,777	7,268
Interest Revenue	1,472	18,568	20,039
Debt Service Interest Expense	<u>-</u>	<u>(16,796)</u>	<u>(16,796)</u>
Total Other Financing Sources (Uses)/Nonoperating Rev (Exp)	3,963	6,548	10,511
<b>NET CHANGES IN FUND BALANCES/ NET POSITION</b>	229,567	(76,862)	152,705
<b>FUND BALANCES / NET POSITION</b>			
Beginning of the Year	<u>583,456</u>	<u>1,807,458</u>	<u>2,390,914</u>
End of the Year	<u>\$ 813,023</u>	<u>\$ 1,730,596</u>	<u>\$ 2,543,619</u>

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

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, 2016, 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 28, 2017.

We were engaged to audit the financial statements of the aggregate discretely presented *component unit* as of and for the year ended June 30, 2016, 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 28, 2017. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses to be material weaknesses; items 2016-006, 2016-007 and 2016-008.

*A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Responses to be significant deficiencies; item 2016-002.

**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 items 2016-001, 2016-003, 2016-004 and 2016-005.

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 de-

termination 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. The City’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*

**T**ripp & **A**ssociates  
Billings, Montana  
June 28, 2017

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

**City Of Hardin**

**FINDING NUMBER 2015-001 – FIREMEN’S DISABILITY AND PENSION – FIDUCIARY FUND (Finding 2012-006; 2013-002; 2014-002; 2015-001):**

**Condition:** This finding was a *noncompliance* with MCA 19-18-504. The Firemen’s Disability and Pension fund appears to be underfunded.

**Recommendation:** The auditor recommended that the City increase its contributions to the Fund to bring it into compliance with MCA.

**Current Status:** This is still a finding for fiscal year 2016. It is reported as finding number 2016-001.

**Two Rivers Authority**

**FINDING NUMBER 2015-002 – TWO RIVERS AUTHORITY (a Component Unit) REVENUE BOND REQUIREMENTS (Repeat finding 2010- 002; 2011-002; 2012-002; 2013-001, 2014-001):**

**Condition:** The Two Rivers Authority is *not in compliance with the revenue bond covenants* concerning bond principal and interest payments, not in maintaining the proper reserve account balance. TRA has never made any bond principal payments which were scheduled to begin in November of 2008. Bond interest payments have not been made since November of 2008.

**Recommendation:** The auditor recommended that TRA review all alternatives available to come into compliance with this revenue bond covenant or begin foreclosure proceedings.

**Current Status:** This is still a finding for fiscal year 2016. It is reported as finding number 2016-004.

**FINDING NUMBER 2015-003 – TWO RIVERS AUTHORITY – PAYROLL IN ARREARS (Repeat finding 2014-005):**

**Condition:** TRA is *not in compliance with wage and hour laws of Montana*. An employee has not been 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 accrued payroll liability increased by \$54,274 in fiscal year 2015 to a balance of \$80,325.

**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 Hours laws.

**Current Status:** This is still a finding for fiscal year 2016. It is reported as finding number 2016-005.

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

**Condition:** This is a *material weakness* in internal controls over financial statement reporting. TRA backdated entries into the previously audited account balances without auditor knowledge.

**Recommendation:** The auditor recommended that TRA close access to the accounting system for prior periods. In the event that corrections are determined to be necessary, the entries should be booked as Prior Period Adjustments rather than backdating the transactions.

**Current Status:** This is not a finding for fiscal year 2016.

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

**Condition:** This is a *material weakness* in internal controls over reporting account balances. Some accounts were reported on the cash basis of accounting while others were reported on the accrual basis of accounting. Accounts Receivable, Accounts Payable, Revenues and Expenses may be understated by approximately \$1 million dollars.

**Recommendation:** The auditor recommended that TRA consider wither the transactions between Emerald and the BIA and Three Tribes belong on TRA’s financial statements. Further, if all parties agree that these transactions belong on TRA’s financial statements, then TRA’s management and Board should be involved in the transactions through proper approvals and documentation maintenance.

**Current Status:** This is not a finding for fiscal year 2016.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (CONTINUED)

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

**Condition:** This is a **material weakness** in internal controls over assets, liabilities, revenues and expenditures resulting in a *disclaimer of opinion* on TRA's financial statements.

1. Two Rivers Authority's management and Board do not have first-hand knowledge of transactions between US BANK, Emerald Correctional Management, the 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. TRA's financial statements were prepared from excerpts of bank statements in TRA's name rather than from actual supporting documentation of the transactions.

**Recommendation:** The auditor recommended that TRA that the US Bank Trustee and Two Rivers Authority's Board and Management work more closely together 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.

**Current Status:** This is still a finding for fiscal year 2016. It is reported as finding number 2016-006.

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

**Condition:** This is a material weakness in internal controls over revenue 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 available to be provided as audit evidence. The US Bank Trustee and Emerald Correctional Management did not involve TRA's management or Board in the day-to-day transactions reported on TRA's financial statements.

**Recommendation:** The auditor recommended that the US Bank Trustee provide the supporting documentation of transactions reported on Two Rivers Authority's bank statements for Board approval and involvement in the transactions sufficient to allow TRA's Board and management to employ proper internal controls over the transactions reported on TRA's financial statements.

**Current Status:** This is still a finding for fiscal year 2016. It is reported as finding number 2016-007.

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

**Condition:** This is a material weakness in internal controls over cash. Bank confirmations revealed two additional bank accounts totaling \$15,248 as of June 30, 2015 in Two Rivers Authority's name that were not included in TRA's accounting system nor reported on TRA's financial statements.

**Recommendation:** The auditor recommended that the US Bank Trustee provide supporting documentation of transactions reported on Two Rivers Authority's bank statements for Board approval and involvement in the transactions sufficient to allow TRA's Board and management to employ proper internal controls over all bank accounts in their name.

**Current Status:** This is still a finding for fiscal year 2016. It is reported as finding number 2016-008.

SCHEDULE OF FINDINGS AND RESPONSES

**A. Summary of Auditor's Results:**

***Financial Statements:***

The auditor, Tripp & Associates, has issued an unmodified opinion on City of Hardin's financial statements as of and for the year ended June 30, 2016 and a disclaimer of opinion on the Component Unit (Two Rivers Authority).

***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 which are required to be reported in accordance with "Governmental Auditing Standards."**

***CITY OF HARDIN***

**FINDING NUMBER 2016-001 – FIREMEN'S DISABILITY AND PENSION - FIDUCIARY FUND: (Repeat finding 2012-006; 2013-002; 2014-002; 2015-001):**

**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:** The City is ***not in compliance 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 \$163,486 which represents .09% 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 \$190,996,634) is \$401,093. The Firemen's Pension fund holds 41% of the required cash and investment holdings. The City is behind in meeting this requirement by \$237,607. Fiscal year 2016 revenues were in excess of current benefits payments by \$14,296.

**Effect:** The cash balance of The Firemen's Disability and Pension Trust Fund increases annually by approximately \$14,000. Meeting the firemen's future pension payments may become a burden to the City of Hardin because the City is basically paying benefits on a pay-as-you-go basis.

**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 2016, the City contributed \$24,810 in addition to the levy, but the fund cash balance remains below State statutes.

**Recommendation:** We recommend that the City increase its contributions to the Fund to bring it into compliance.

**Auditee Response:** *The City of Hardin 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 FY2014, \$14,626 in FY2015, and an increase of \$14,295.55 for FY2016. The City will comply with SB 16 recently passed by Legislature.*

**FINDING NUMBER 2016-002 MLLS NOT PROPERLY REPORTED ON AFR:**

**Criteria:** Generally Accepted Accounting Principles in the United States requires that financial data is reported for the proper year.

**Condition:** A ***significant deficiency*** in internal controls over financial statement reporting. The Mills reported on the AFR were the mills for the fiscal year 2017 rather than for the fiscal year 2016.

**Context:** Same as Condition.

**Effect:** Readers of the AFR would not be able to reconcile the mills reported to the reported property tax revenue.

**Cause:** The wrong budget was used to during the AFR preparation.

**Recommendation:** We recommend that the City verify that the Mills reported on the AFR represent the proper year.

**Auditee Response:** *The City of Hardin will verify that the mills reported on the AFR represent the proper year.*

SCHEDULE OF FINDINGS AND RESPONSES (Continued)

**CITY OF HARDIN**

**FINDING NUMBER 2016-003 – REVENUE BONDS REQUIREMENTS NOT MET:**

Criteria: The revenue bond agreement specifies that principal and interest payments are to be paid according to the amortization schedule.

Condition: The City of Hardin is *not in compliance* with its Tax Increment Financing District revenue bond agreement concerning bond principal and interest payments.

Context: The principal payment of \$660,000 that was due in fiscal year 2016 was not made. Only a partial interest payment was made in fiscal year 2016. Accrued interest due as of June 30, 2016 totaled \$530,436.

Effect: The rating of the financial health of the City of Hardin has been downgraded by this default. The City may not be able to issue bonds for future projects while these revenue bonds remain in default.

Cause: Revenues assessed to meet the TIFD revenue bond were insufficient to meet the bond principal and interest payments as they become due. The primary business in the District filed for bankruptcy and has not made its scheduled tax payments on time. The taxable value of the plant within the TIFD was reduced as a result of the bankruptcy. The maximum allowable taxes assessments are not sufficient to meet the bond principal and interest payments as they become due.

Recommendation: The financial statements of The City of Hardin properly reflect that the City is not in compliance with the TIFD revenue bond requirements. We recommend that the City look into all available alternatives for meeting the revenue bond requirements. We recommend that the City continue to accrue a liability for interest payments missed.

Auditee response: *The City of Hardin has transferred all incremental taxes received to the trustee for the revenue bonds. Hopefully new businesses will be attracted to the Industrial Park to help increase the incremental taxes received. The City will continue to transfer all incremental taxes received to be applied towards payments due. The City will continue to accrue a liability for interest payments missed.*

**TWO RIVERS AUTHORITY**

**FINDING NUMBER 2016-004 – TWO RIVERS AUTHORITY (a component unit) REVENUE BOND REQUIREMENTS:**

**(Repeat Finding 2010-002; 2011-002; 2012-002; 2013-001; 2014-001; 2015-002):**

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 \$42,273,514. 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. As of June 30, 2016, the reserve account totaled \$125,305 and the operating cash account totaled \$11,950. Current liabilities, other than bond requirements totaled \$125,486.

Effect: The Two Rivers Authority cannot raise or obtain sufficient cash to meet its current liabilities as they come due.

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 and 2016 revenues were directed to the operator of the facility in accordance with the operating agreement. 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: *Two Rivers Authority is aware of the compliance issues. As has been noted previously, it is the considered opinion of Two Rivers Authority that the reasons for the underutilization of the Facility and consequential effect on cash flow are entirely political. Until certain political jurisdictions recognize and accept the feasibility of housing inmates in the Facility, the current situation is likely to persist. These factors beyond the control of Two Rivers Authority and the erstwhile Operator have severely hindered efforts to fully utilize the Facility. Two Rivers Authority continues to pursue all possible remedies to this situation. As of May 2017, Two Rivers Authority is in discussions with the Bureau of Indian Affairs regarding a lease of the Facility.*

SCHEDULE OF FINDINGS AND RESPONSES (Continued)

**FINDING NUMBER 2016-005 – TWO RIVERS AUTHORITY – PAYROLL in ARREARS: (Repeat finding 2014-005; 2015-003):**

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 \$37,102 in fiscal year 2016. As of June 30, 2016, the Deferred Payroll liability totaled \$117,427. This amount does not include vacations payable of \$5,059.

Context: In fiscal year 2016, the City of Hardin contributed \$31,000 towards meeting TRA's day-to-day operations. There is no requirement for the City to continue making these contributions in the future.

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

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 its 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: *Two Rivers Authority is cognizant of the accrued payroll issue. As Two Rivers Authority effectively has no current funds and has no independent source of funding, it is uncertain how to implement the recommendation to "pay all accrued payroll expenses and keep up to date with payroll expenses as they occur" or to modify the payroll agreement in order to comply with Wage and Hour laws.*

**FINDING NUMBER 2016-006 – TWO RIVERS AUTHORITY – INSUFFICIENT MANAGEMENT REPRESENTATION (Repeat finding 2015-006):**

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 controls** over assets, liabilities, revenues and expenditures.

1. Two Rivers Authority's management does not have first-hand knowledge of transactions between US Bank, Emerald, the 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: Payments to Emerald Correctional Management (Emerald) totaling \$3,817,200; and receipts totaling \$3,829,674 reported on Two Rivers Authority's bank accounts were not initiated or approved by the Board or TRA's Management. The supporting documentation of these transactions was not provided as audit evidence.

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 TRA's Board and management work more closely with the US Bank Trustee to allow sufficient involvement for Two Rivers Authority's management to employ proper internal controls over the transactions in accounts bearing their name.

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 Correctional Management 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 2016-007 – TWO RIVERS AUTHORITY – INSUFFICIENT SUPPORTING DOCUMENTATION**

**(Repeat finding 2015-007):**

**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 reported revenues of \$3,829,674, and expenditures of \$3,817,200 was not provided as audit evidence.

**Context:** Two Rivers Authority's Board and management were unable to provide the supporting evidence of the tribal revenues and Emerald expenses because they have never approved these transactions nor received copies of the supporting documentation.

**Effect:** The revenue and expenditure transactions mentioned above were not verifiable. The auditors were unable to determine whether the transactions were proper and 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 Correctional Management 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 2016-008 – TWO RIVERS AUTHORITY – ASSETS NOT REPORTED (Repeat finding 2015-008):**

**Criteria:** Generally Accepted Accounting Principles (GAAP) in the United States and Governmental Auditing and Attestation Standards (GAAS) requires that all assets are fully disclosed.

**Condition:** *Material weakness in internal controls* over cash. The prior year bank confirmations showed two additional bank accounts totaling \$15,248 in Two Rivers Authority's name that were not included in TRA's accounting system nor reported on TRA's financial statements. After multiple requests, we did not receive bank confirmations for any of TRAs accounts for fiscal year 2016.

**Context:** Prior year bank confirmations showed two advance funding accounts totaling \$15,248 but TRA's board and management have no knowledge of the accounts nor presented these bank Statements as audit evidence.

**Effect:** Possible 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 Board take a more proactive stance in the transactions in accounts bearing their name and employ proper internal controls over accounts in their name.

**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 Correctional Management 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. The terms of the Indenture require Two Rivers Authority to provide the Trustee with an annual audited financial statement. As such, it seems incumbent on the Trustee to be more forthcoming with certain financial details, at least to the degree of identifying and making available statements relating to the "advance funding" accounts.*