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

ORGANIZATION
Fiscal Year Ended June 30, 2017

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 |

OFFICIALS

| | |
|------------------|--------------------------------|
| Michelle Dyckman | Finance Officer/City Clerk |
| James Seykora | City Judge |
| Jordan Knudsen | City Attorney |
| Russell Dill | Superintendent of Public Works |

**THE TWO RIVERS AUTHORITY (a Component Unit)
ORGANIZATION**

Fiscal Year Ended June 30, 2017

BOARD

| | |
|-----------------|----------|
| Jon D. Matovich | Chairman |
| Bill Joseph | Member |
| Russell Dill | Member |

OFFICIALS

| | |
|---------------------|--------------------|
| Jeffrey S. McDowell | Executive Director |
| Keith Marshall | US Bank Trustee |

City of Hardin
Management's Discussion and Analysis
June 30, 2017

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, 2017. 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 \$12,058,387 (*net position*). Of this amount, \$3,321,628 is the Net Investment in Capital Assets, \$7,343,827 is Restricted, \$1,829,292 is non-spendable, and (\$436,360) 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 \$335,040 over the prior fiscal year mainly 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 \$2,783,763, an increase of \$209,631 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$536,780, or approximately 32% of the General Fund's total fund balance of \$1,652,129.
- 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 \$633,331 or 48% of total General Fund expenditures.
- The City's total debt increased by \$184,941 during the current fiscal year. Key factors in the change include:
 - The Tax Increment Revenue Bond's principal balance remained the same and interest payable increased \$435,941.
 - Payments of principal on revenue bonds for water, wastewater, and landfill was \$251,000.

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.

City of Hardin
Management's Discussion and Analysis
June 30, 2017

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.

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 or removal, 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

City of Hardin
Management's Discussion and Analysis
June 30, 2017

discretely presented. Questions regarding Two Rivers Authority should be directed to Jeff McDowell, Two Rivers Authority, PO Box 324, Hardin, MT 59034-0324.

Fund Financial Statements

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

Governmental Funds

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

City of Hardin
Management's Discussion and Analysis
June 30, 2017

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.

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. Cash is held for warrants which were written but have not been paid by the bank. The City's clearing funds are not reported on the fiduciary fund statements. 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. The Fire Department Relief Association (FDRA) is used to account for assets held by the City in a trustee capacity. Agency funds do not report a measurement focus as they do not report operations.

City of Hardin
Management's Discussion and Analysis
June 30, 2017

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 \$12,058,387 (net position). The total net position decreased by \$335,040 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 \$385,231. Total assets of the City decreased less than 1%. Net investment in capital assets decreased \$894,546 or 28%. Of this, depreciation was \$1,142,681.

A portion of the City's Net Position (\$3,321,628 or 28%) 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.

City of Hardin
Management's Discussion and Analysis
June 30, 2017

CITY of HARDIN 's Net Position

| | Governmental Activities | | Business-Type Activities | | Total | |
|--------------------------------------|-------------------------|-------------------|--------------------------|-------------------|-------------------|-------------------|
| | FY 2017 | FY 2016 | FY 2017 | FY 2016 | FY 2017 | FY 2016 |
| Current and other Assets | 5,466,506 | 5,279,676 | 1,527,987 | 1,276,465 | 6,994,492 | 6,556,141 |
| Restricted Cash | 715,698 | 659,543 | 3,808,610 | 3,692,191 | 4,524,308 | 4,351,733 |
| Land held for Resale | 146,378 | 146,378 | - | - | | |
| Capital assets | 15,905,032 | 16,207,449 | 11,509,973 | 11,917,161 | 27,415,005 | 28,124,611 |
| Total Assets | 22,233,614 | 22,293,046 | 16,846,570 | 16,885,818 | 38,933,806 | 39,032,486 |
| Total Deferred Outflows of Resources | 90,449 | 31,348 | 140,045 | 50,277 | 230,494 | 81,624 |
| Long-term Liabilities outstanding | 19,468,042 | 20,089,895 | 4,215,772 | 4,246,199 | 23,683,814 | 24,336,094 |
| Other Liabilities | 3,180,460 | 1,975,818 | 330,388 | 340,182 | 3,510,848 | 2,315,999 |
| Total Liabilities | 22,648,502 | 22,065,713 | 4,546,160 | 4,586,381 | 27,194,661 | 26,652,094 |
| Total Deferred Inflows of Resources | 22,615 | 84,498 | 35,015 | 130,469 | 57,630 | 214,967 |
| Net Position: | | | | | | |
| Net Investment in Capital Assets | (5,981,345) | (5,242,987) | 9,302,973 | 9,459,161 | 3,321,628 | 4,216,174 |
| Restricted | 6,341,108 | 6,415,130 | 2,832,011 | 2,785,710 | 9,173,119 | 9,200,840 |
| Unrestricted | (706,817) | (997,959) | 270,456 | (25,628) | (436,360) | (1,023,587) |
| Total Net Position | (347,053) | 174,183 | 12,405,440 | 12,219,244 | 12,058,387 | 12,393,427 |

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 \$12,058,387 (*net position*). \$9,173,119 or 76% 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 (\$436,360) 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, 2017 and 2016

City of Hardin
Management's Discussion and Analysis
June 30, 2017



City of Hardin
Management's Discussion and Analysis
June 30, 2017

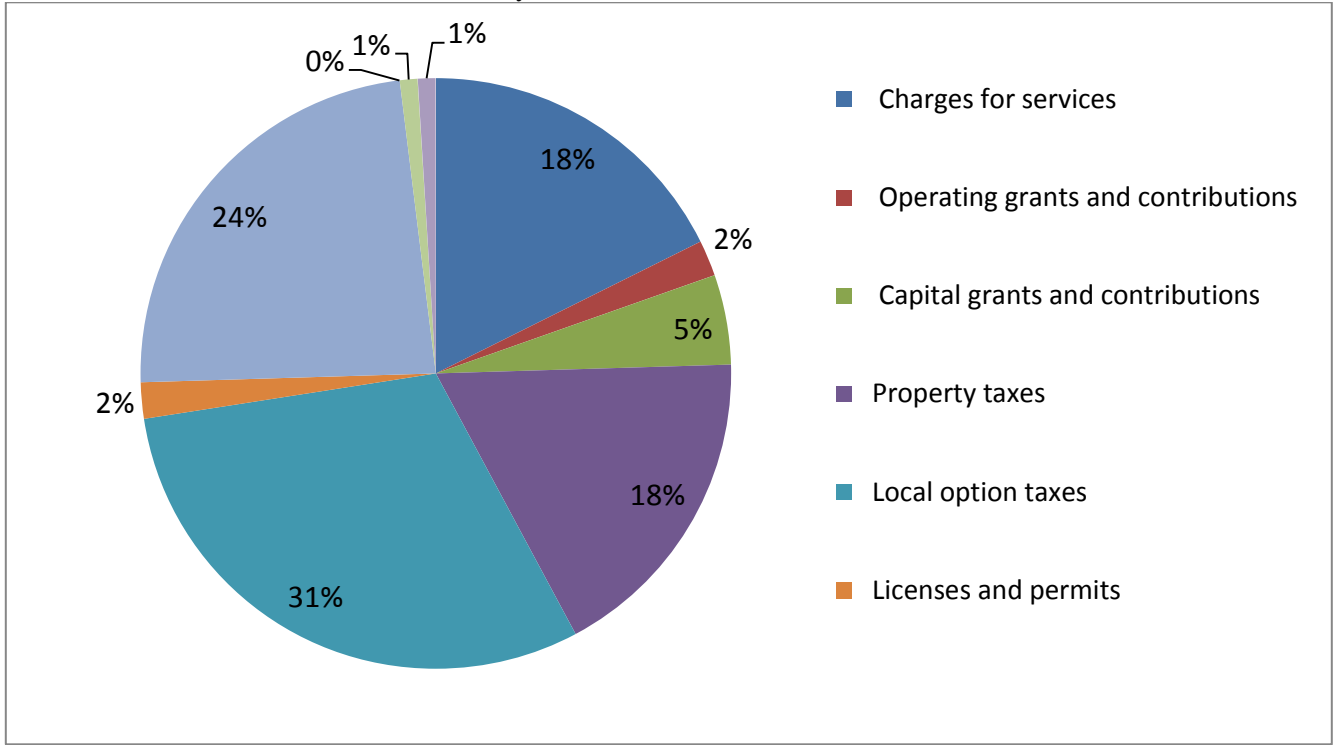
CITY of HARDIN's Changes in Net Position

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|--------------------------------|------------------|---------------------------------|-------------------|-------------------|-------------------|
| | FY 2017 | FY 2016 | FY 2017 | FY 2016 | FY 2017 | FY 2016 |
| Revenues | | | | | | |
| <i>Program revenues</i> | | | | | | |
| Charges for services | 554,173 | 621,739 | 2,477,426 | 2,600,163 | 3,031,599 | 3,221,903 |
| Operating grants and contributions | 60,779 | 62,668 | | | 60,779 | 62,668 |
| Capital grants and contributions | 164,336 | 121,720 | 187,706 | - | 352,042 | 121,720 |
| Property taxes | 554,015 | 449,862 | | | 554,015 | 449,862 |
| Local option taxes | 960,376 | 890,345 | | | 960,376 | 890,345 |
| Licenses and permits | 48,255 | 56,637 | | | 48,255 | 56,637 |
| Unrestricted Federal/State shared revenues | 746,337 | 726,338 | 15,536 | 17,390 | 761,873 | 743,729 |
| Fair Value adjustment - Land held for resale OR loss on Sale of Capital Asset | | 38,722 | 1,000 | | 1,000 | 38,722 |
| Investment earnings | 17,119 | 15,700 | 15,957 | 32,799 | 33,076 | 48,499 |
| Miscellaneous | 18,580 | 134,017 | 15,098 | 27,003 | 33,678 | 161,020 |
| Total revenues | 3,123,970 | 3,117,748 | 2,712,723 | 2,677,356 | 5,836,693 | 5,795,104 |
| Program expenses | | | | | | |
| General government | 499,511 | 478,921 | | | 499,511 | 478,921 |
| Public safety | 586,998 | 663,668 | | | 586,998 | 663,668 |
| Public works | 945,245 | 997,912 | | | 945,245 | 997,912 |
| Public health | 43,363 | 40,397 | | | 43,363 | 40,397 |
| Culture and recreation | 134,674 | 154,438 | | | 134,674 | 154,438 |
| Housing/Community Dev | 97,424 | 130,367 | | | 97,424 | 130,367 |
| Interest on Long-Term Debt | 890,439 | 780,309 | | | 890,439 | |
| Accrued Bond Interest | 435,941 | 530,436 | | | 435,941 | |
| Miscellaneous | 11,611 | 101 | | | 11,611 | 101 |
| OPEB Expense | | (106,891) | | | - | (106,891) |
| Water | | | 842,218 | 801,710 | 842,218 | 801,710 |
| Sewer | | | 669,713 | 654,904 | 669,713 | 654,904 |
| Solid Waste | | | 274,103 | 249,334 | 274,103 | 249,334 |
| Landfill | | | 740,492 | 799,751 | 740,492 | 799,751 |
| Total expenses | 3,645,206 | 3,669,658 | 2,526,526 | 2,505,699 | 6,171,733 | 6,175,358 |
| Increase (decrease) in net position before transfers | (521,236) | (551,910) | 186,196 | 171,657 | (335,040) | (380,253) |
| Transfers | | | | | - | - |
| Increase (decrease) in net position | (521,236) | (551,910) | 186,196 | 171,657 | (335,040) | (380,253) |
| Net Position - beginning | 174,183 | 731,846 | 12,219,244 | 12,047,587 | 12,393,427 | 12,779,433 |
| Prior Period Adjustment | | (5,753) | - | | - | (5,753) |
| Net Position - ending | (347,053) | 174,183 | 12,405,440 | 12,219,244 | 12,058,387 | 12,393,427 |

Governmental Activities: During the current fiscal year, total Net Position for governmental activities decreased \$521,236 from the prior fiscal year for an ending balance of (\$347,053). Expenditures exceeded revenues by \$521,236.

City of Hardin
Management's Discussion and Analysis
June 30, 2017

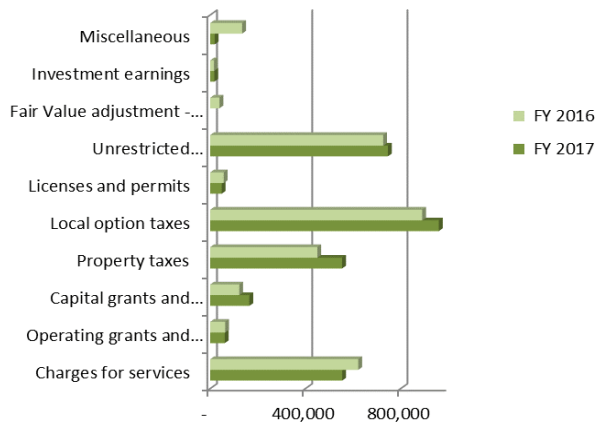
Revenues by Source – Governmental Activities



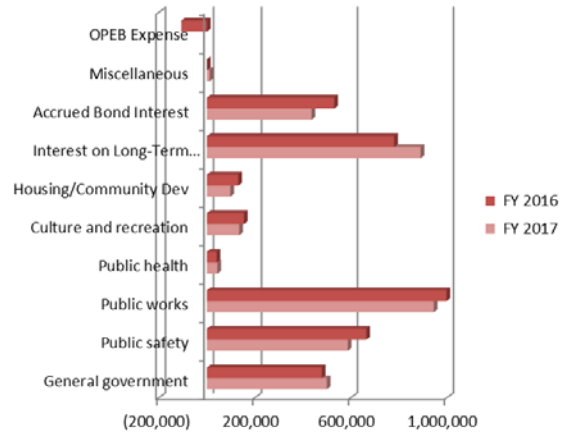
Note: Local option taxes are for the TIFD

Governmental Activities:

Revenues FY 2016 and 2017



Expenses FY 2015 and 2016



Revenues:

- Total Revenues increased \$6,221.
- Charges for services decreased \$67,566
- Capital Grants and Contributions increased \$42,616.
- Property taxes increased \$104,153.
- Local option taxes (TIFD) increased \$70,031.

City of Hardin
Management's Discussion and Analysis
June 30, 2017

- Federal or State shared revenues increased \$19,999.
- Licenses or permits decreased \$8,382.
- 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 \$1,449,449.

Expenses:

- Total Governmental expenses decreased \$24,452.
- General government expenses increased \$20,590. \$13,929 were related to City Court.
- Public Safety expenses decreased by \$76,670.
- Public Works expenses decreased \$52,667.
- The City contributed equipment booked at \$11,611 to a non-profit.
- Under GASB 45, a new OPEB calculation is to be completed every three years. Last year's Other Post-Employment Benefits (OPEB) liabilities decreased \$106,891 from the previous year due to the recalculation of this liability so no expense was recorded this year.

Business-type Activities: The City's water, sewer, and solid waste activities resulted in an increase in net position of \$186,196.

Some of the highlights of changes by fund include:

Water:

- Revenues increased \$65,035. Included in this is a capital contribution for \$81,871. Rates were increased by 2.1%.
- Expenses increased \$40,508 largely due to the GASB 68 – Pension expense calculation.
- The net position increased \$32,886.

Sewer:

- Revenues increased \$116,771. Rates were increased by 6.8%. There was an insurance reimbursement for \$11,684, plant investment fees for \$35,117, and a capital contribution for \$61,058
- Expenditures increased \$14,810.
- The net position increased \$112,554.

Solid Waste-Garbage:

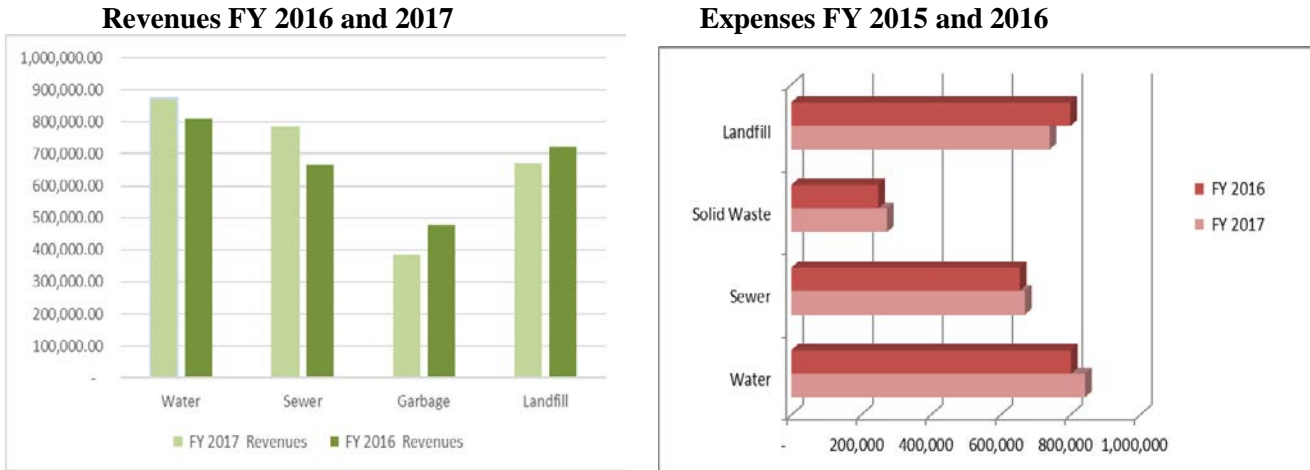
- Revenues decreased \$95,232. The previous year had a calendar year change that showed a \$174,864 reclassification. Commercial fees were increased to work toward the equivalent of residential fees.
- Expenses increased \$24,769. \$21,416 of this was an increase in depreciation for the recent purchase of a garbage truck.
- The net position increased \$109,566.

Solid Waste-Landfill:

- Revenues decreased \$51,207 despite a rate increase. The coal ash cell had a significant drop in usage.
- Expenses decreased \$59,260. Repairs were \$53,662 less than the previous year.
- The net position decreased \$68,810.

**City of Hardin
Management's Discussion and Analysis
June 30, 2017**

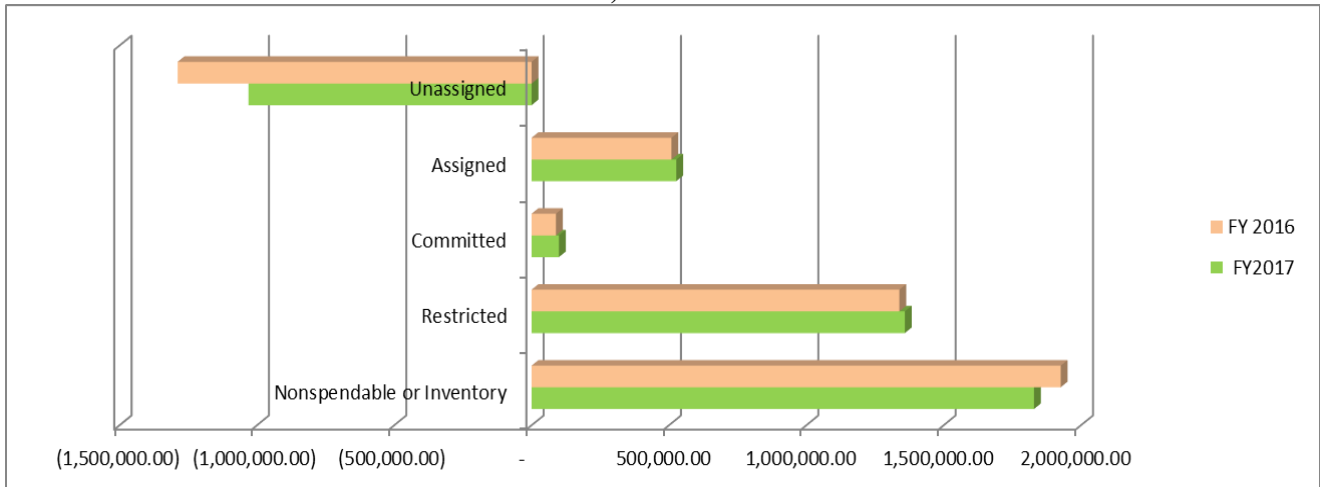
Proprietary Funds



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, 2016 and 2017**

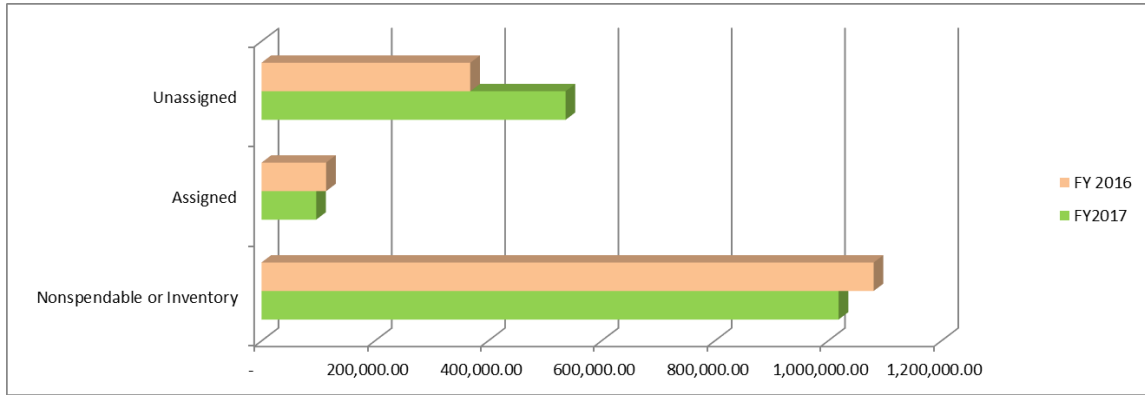


As of June 30, the City's governmental funds reported a combined fund balance of \$2,783,763, an increase of \$209,631 compared to last year. Non-spendable amounts of \$1,829,292 are for interfund loans, inventory, and land that is held for resale. The restricted fund balance of \$1,358,762 is stipulated by constitutional provisions or enabling legislation. \$99,416 is Committed by resolution for taxes levied for insurance or employee benefits. \$526,989 is Assigned for various items such as Public Safety, Housing and Community

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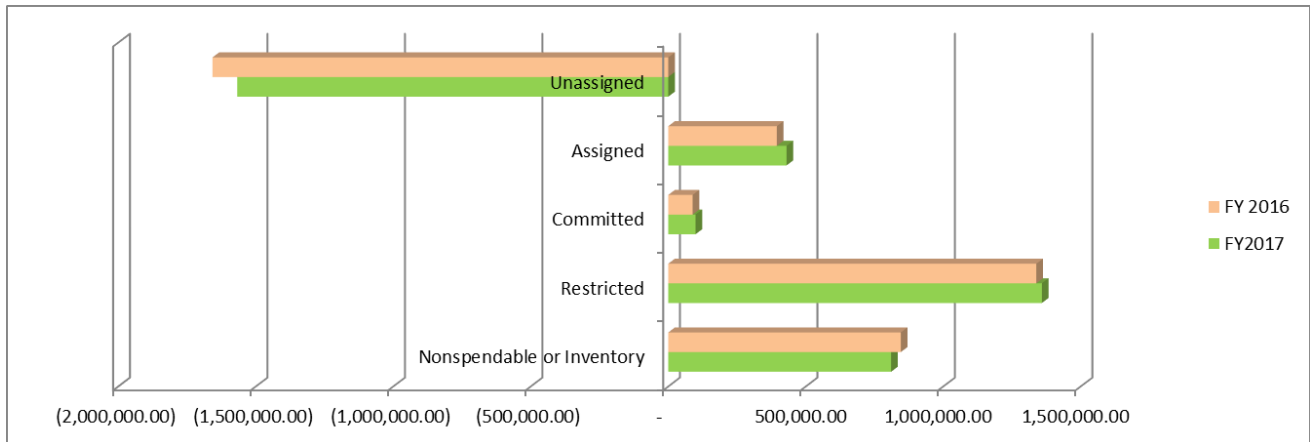
Development, Curb and Gutter and Capital Improvements. As the SIDs (interfund loans) are paid back, the Unassigned fund balances will increase.

General Fund
Components of Fund Balance
June 30, 2016 and 2017



The City's **General Fund** is the chief operating fund for governmental activities. At June 30, 2017 the total fund balance was \$1,652,129 which is an \$88,861 increase over the prior year. \$1,018,818 or 62% is non-spendable (interfund loans receivable or inventory). 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 \$633,311.

Other Governmental Funds
Components of Fund Balance
June 30, 2016 and 2017



The **Street Maintenance Fund** has a fund balance of \$395,857. Of this, 28% or \$112,196 represents inventory. The decrease of \$17,705 from last year due was due to expenditures being greater than revenues.

The **Tax Increment Finance District** is for debt service of a revenue bond. The fund balance increased \$18,875. 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.

City of Hardin
Management's Discussion and Analysis
June 30, 2017

SID 120's fund balance increased \$39,336 to (\$1,143,792), and **SID 121's** increased \$48,284 to (\$417,117). These represent the balance of interfund loans for the Special Improvement Districts (SIDs) in the Wagner and Westlich-Heimat Subdivisions. Fund balances will continue to increase as taxpayers pay on their assessments.

Proprietary Funds:

The City 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.

| | <u>Water</u> | <u>Sewer</u> | <u>Garbage</u> | <u>Landfill</u> | <u>Totals</u> |
|-------------------------|--------------|--------------|----------------|-----------------|---------------|
| Total Net Position | 4,869,973 | 4,951,092 | 922,589 | 1,661,786 | 12,405,440 |
| % of Total Net Position | 39% | 40% | 7% | 13% | 100% |
| Change in Net Position | 32,886 | 112,554 | 109,566 | (68,810) | 186,196 |

The increase in net position for water and sewer was due to continued diligence in following a capital improvement plan and doing modest rate increases. The increase in net position for garbage collection will allow the City to contribute to the Landfill next year as well as continuing to purchase equipment in the future. Landfill's decrease in net position was mainly due to decreased coal-ash disposal.

General Fund Budgetary Highlights:

Actual revenues of \$1,401,261 were \$36,863 less than anticipated. Actual expenditures (other than transfers or loans) in the General Fund were \$1,286,882. Overall expenditures were \$426,908 less than anticipated. Professional services not utilized or delayed were \$232,595 less than budgeted for legal, engineering or other outside resources; and \$78,327 in capital purchases were delayed. \$130,000 had been aside for loans and lighting district development in the Industrial Park. \$25,518 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, 2017 total \$27,415,005 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).

City of Hardin
Management's Discussion and Analysis
June 30, 2017

| | Capital Assets | | | | | |
|-----------------------------------|---------------------------------|----------------------|--------------------------|----------------------|----------------------|----------------------|
| | Net of Accumulated Depreciation | | | | | |
| | Governmental Activities | | Business-Type Activities | | TOTAL | |
| | FY 2017 | FY 2016 | FY 2017 | FY 2016 | FY 2017 | FY 2016 |
| Non-depreciable Assets | | | | | | |
| Land | \$ 511,285 | \$ 490,725 | \$ 463,193 | \$ 463,193 | \$ 974,478 | \$ 953,918 |
| Easements or Intangibles | \$ 40,622 | \$ 40,622 | | | \$ 40,622 | \$ 40,622 |
| Construction-in-progress | \$ 37,130 | \$ 23,352 | \$ - | \$ - | \$ 37,130 | \$ 23,352 |
| | <u>\$ 589,037</u> | <u>\$ 554,699</u> | <u>\$ 463,193</u> | <u>\$ 463,193</u> | <u>\$ 1,052,230</u> | <u>\$ 1,017,892</u> |
| Depreciable assets | | | | | | |
| Buildings/improvements/systems | \$ 902,273 | \$ 930,487 | \$ 86,682 | \$ 90,160 | \$ 988,955 | \$ 1,020,647 |
| Improvements other than buildings | \$ 127,095 | \$ 134,590 | \$ 1,355,913 | \$ 1,432,419 | \$ 1,483,008 | \$ 1,567,009 |
| Machinery and equipment | \$ 420,824 | \$ 431,379 | \$ 567,181 | \$ 696,794 | \$ 988,005 | \$ 1,128,174 |
| Infrastructure (General Plant) | \$ 13,865,803 | \$ 14,156,294 | \$ 65,367 | \$ 72,023 | \$ 13,931,170 | \$ 14,228,316 |
| Treatment Plant | | | \$ 3,384,216 | \$ 3,600,183 | \$ 3,384,216 | \$ 3,600,183 |
| Transmission & Distribution | | | \$ 5,587,420 | \$ 5,562,389 | \$ 5,587,420 | \$ 5,562,389 |
| | <u>\$ 15,315,995</u> | <u>\$ 15,652,750</u> | <u>\$ 11,046,780</u> | <u>\$ 11,453,969</u> | <u>\$ 26,362,774</u> | <u>\$ 27,106,719</u> |
| TOTAL CAPITAL ASSETS | <u>\$ 15,905,032</u> | <u>\$ 16,207,449</u> | <u>\$ 11,509,973</u> | <u>\$ 11,917,161</u> | <u>\$ 27,415,005</u> | <u>\$ 28,124,611</u> |

Investments in capital assets include the following:

Governmental:

| | |
|--|-----------|
| Land contribution | \$ 20,561 |
| Mapping scanner/printer (apportioned) | 7,143 |
| Compressor & charge station | 45,455 |
| Welcome signs | 13,778 |
| Road and Detention pond (contribution) | 100,512 |
| Curb and Gutters | 13,465 |

Proprietary:

| | |
|--|----------|
| Mapping scanner/printer (apportioned) | \$ 3,456 |
| Valve Exorcisor | 34,250 |
| Water extension – Kokomo Road (contribution) | 81,871 |
| North Custer Avenue water main extension | 68,337 |
| Sanitary Sewer – Kokomo Road (contribution) | 61,058 |

Outstanding debt:

At the end of the current fiscal year, the City had total bonded debt outstanding of \$23,127,000. There is an additional 966,377 interest payable. 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.

City of Hardin
Management's Discussion and Analysis
June 30, 2017

| | Governmental Activities | | Business-Type Activities | | Total | |
|--------------------------------|--------------------------------|----------------------|---------------------------------|---------------------|----------------------|----------------------|
| | FYE 2017 | FYE 2016 | FYE 2017 | FYE 2016 | FYE 2017 | FYE 2016 |
| Tax Increment Revenue Bonds | \$ 20,920,000 | \$ 20,920,000 | | | \$ 20,920,000 | \$ 20,920,000 |
| Tax Increment Interest Payable | \$ 966,377 | \$ 530,436 | | | \$ 966,377 | \$ 530,436 |
| Revenue Bonds | | | \$ 2,207,000 | \$ 2,458,000 | \$ 2,207,000 | \$ 2,458,000 |
| Total | \$ 21,886,377 | \$ 21,450,436 | \$ 2,207,000 | \$ 2,458,000 | \$ 24,093,377 | \$ 23,908,436 |

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. These charts represent receivables and payables within the funds as listed on the Balance Sheet for Governmental Funds:

| Receivables | FYE 2017 | FYE 2016 | Payables | FYE 2017 | FYE 2016 |
|----------------------|---------------------|---------------------|-----------------|---------------------|---------------------|
| General Fund | \$ 1,015,715 | \$ 1,074,925 | General Fund | \$ - | \$ - |
| Curb & Gutter | \$ 84,094 | \$ 88,796 | SID 120 | \$ 1,143,792 | \$ 1,183,127 |
| Gas Apportionment | \$ 166,774 | \$ 176,734 | SID 121 | \$ 417,118 | \$ 465,402 |
| Capital Improvements | \$ 301,032 | \$ 318,626 | Other Funds | \$ 6,706 | \$ 10,551 |
| | \$ 1,567,615 | \$ 1,659,081 | | \$ 1,567,615 | \$ 1,659,081 |

The \$6,706 payable will be repaid to the General Fund when grant money is received for capital projects.

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 the computer system
- Storm drainage improvements on 4th 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
- River bank restoration
- Plant upgrades at the wastewater treatment plant: grit and grease removal system
- Water well and cistern installation at Wastewater Treatment plant

City of Hardin
Management's Discussion and Analysis
June 30, 2017

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

REQUESTS FOR INFORMATION

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

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

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Hardin as of and for the year ended June 30, 2017, 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, 2017 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 of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Hardin 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. Because of the matter described in the basis for disclaimer of opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion of the discretely presented component unit.

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 of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Hardin.

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. The Board and Management of TRA do not have first-hand knowledge of transactions that appear on their bank statements prior to the receipt of the bank statements.

Disclaimer of Opinion

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

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Hardin as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

The *City of Hardin* has not made its Tax Increment Financing (TIF) District (TIFD) revenue bond principal and interest payments due in fiscal year 2017. Interest accrues at \$653,750 semi-annually. 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.

Our opinion on the basic financial statements was not affected by this item.

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, 2017, the full bond principal of \$27,015,000 was still outstanding, of which \$8,185,000 is delinquent. Interest accrues at \$960,012 annually. As of June 30, 2017 accrued interest payable totaled \$16,320,213. TRA’s fiscal year 2017 revenue available for bond indebtedness was \$0. TRA’s cash available to meet bond indebtedness as of June 30, 2017 totaled \$6,016. Our opinion on the basic financial statements was not affected by this item.

Other Matters

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 - 19; Schedule of Revenues, Expenditures and Changes in Fund Balances (Budget and Actual) on page 65; Schedule of Proportionate Share of the Net Pension Liability for PERS on page 67; Schedule of Contributions for PERS on page 67; Schedule of Changes in Total Pension Liability for the Firemen’s Disability and Pension Plan on page 70; Schedule of Funding Progress for the Firemen’s Disability and Pension Plan on page 70; Schedule of Contributions for the Firemen’s Disability and Pension Plan on page 70; and Schedule of Funding Progress for Other Post-Employment Benefits Other Than Pensions (OPEB) on page 72 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 (GASB), 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 Schedule of Combined Proprietary Funds; are fairly stated in all material respects **in relation to** the financial statements as a whole. No Supplementary Information is included for the Two Rivers Authority.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2018, on our consideration of City of Hardin's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing City of Hardin's internal control over financial reporting and compliance.

Tripp & Associates

Billings, Montana
June 29, 2018

City of Hardin
Big Horn County
Hardin, Montana

STATEMENT OF NET POSITION
As of June 30, 2017

| | Primary Government | | | Component Unit |
|---|----------------------------|-----------------------------|-----------------------|-------------------------|
| | Governmental Activities | Business-Type Activities | Total Primary Gov. | Two Rivers Authority |
| ASSETS: | | | | |
| Current Assets: | | | | |
| Cash & Investments | \$ 1,894,572 | \$ 983,589 | \$ 2,878,161 | \$ 38 |
| Taxes/Assessments Receivable | 3,451,539 | 275,444 | 3,726,983 | - |
| Accounts Receivable | - | 155,695 | 160,790 | - |
| Other Receivables | 5,095 | 34,533 | 149,832 | - |
| Inventories | 115,299 | 78,726 | 194,025 | - |
| Total Current Assets | 5,466,506 | 1,527,987 | 6,994,492 | 38 |
| Non-Current Assets: | | | | |
| Restricted Cash & Investments | 715,698 | 3,808,610 | 4,524,308 | 6,016 |
| Land Held for Resale | 146,378 | - | 146,378 | - |
| Land/Rights of Way/Construction in Progress | 589,037 | 463,193 | 1,052,230 | 257,377 |
| Other Capital Assets (Net) | 15,315,995 | 11,046,782 | 26,362,777 | 16,142,129 |
| Total Non-Current Assets | 16,767,108 | 15,318,585 | 32,085,693 | 16,405,523 |
| Total Assets | 22,233,614 | 16,846,572 | 39,080,186 | 16,405,561 |
| DEFERRED OUTFLOWS OF RESOURCES: | | | | |
| Deferred Outflows - Pensions | 90,449 | 140,045 | 230,494 | - |
| LIABILITIES: | | | | |
| Current Liabilities: | | | | |
| Accounts Payable | 79,054 | 63,038 | 142,092 | 26,684 |
| Due to Others | 50 | - | 50 | - |
| Deferred Payroll | - | - | - | 162,530 |
| Compensated Absences | 15,803 | 26,529 | 42,331 | 4,068 |
| Deposits Payable | 3,208 | 58,840 | 62,048 | - |
| Revenues Collected in Advance (prepaid taps for easement) | - | 40,622 | 40,622 | - |
| Other Current Liabilities | 10,967 | 14,359 | 25,327 | - |
| Advance Funding - Bondholder Loans (operating) | - | - | - | 870,376 |
| Accrued Bond Interest Payable | 966,377 | - | 966,377 | 16,320,213 |
| Current Revenue Bonds Payable | 2,105,000 | 127,000 | 2,232,000 | 8,185,000 |
| Total Current Liabilities | 3,180,459 | 330,388 | 3,510,847 | 25,568,871 |
| Non-Current Liabilities: | | | | |
| Compensated Absences | 47,408 | 79,586 | 126,994 | - |
| Closure /Post-Closure Care Costs | - | 1,103,657 | 1,103,657 | - |
| Total OPEB Liability (implicit rate subsidy) | 64,555 | 114,766 | 179,321 | - |
| Revenue Bonds Payable | 18,815,000 | 2,080,000 | 20,895,000 | 18,830,000 |
| Net Pension Liability | 541,078 | 837,763 | 1,378,841 | - |
| Total Non-Current Liabilities | 19,468,041 | 4,215,772 | 23,683,813 | 18,830,000 |
| Total Liabilities | 22,648,500 | 4,546,160 | 27,194,660 | 44,398,871 |
| DEFERRED INFLOWS OF RESOURCES: | | | | |
| Deferred Inflows - Pensions | 22,615 | 35,015 | 57,630 | - |
| NET POSITION: | | | | |
| Net Investment in Capital Assets | (5,981,345) | 9,302,975 | 3,321,630 | (26,929,689) |
| Restricted - Debt Service | 634,841 | 307,560 | 942,401 | - |
| Restricted - Other | 3,876,975 | 2,524,451 | 6,401,426 | - |
| Unrestricted | 1,122,477 | 270,456 | 1,392,933 | (1,063,620) |
| Total Net Position | \$ (347,052) | \$ 12,405,442 | \$ 12,058,390 | \$ (27,993,310) |

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

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017

| 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 | |
| GOVERNMENTAL ACTIVITIES | | | | | | | | |
| General Government | \$ 499,513 | \$ 75,613 | \$ 4,109 | \$ - | \$ (419,792) | | \$ (419,792) | |
| Public Safety | 586,998 | 25 | 7,518 | - | (579,455) | | (579,455) | |
| Public Works | 945,245 | 478,535 | 48,267 | 150,885 | (267,558) | | (267,558) | |
| Public Health | 43,363 | - | 451 | - | (42,912) | | (42,912) | |
| Culture & Recreation | 134,674 | - | 414 | - | (134,260) | | (134,260) | |
| Housing & Community Development | 97,418 | - | 20 | 13,451 | (83,947) | | (83,947) | |
| Accrued Interest | 435,941 | - | - | - | (435,941) | | (435,941) | |
| Interest on Long-Term Debt | 890,439 | - | - | - | (890,439) | | (890,439) | |
| Miscellaneous | 11,611 | - | - | - | (11,611) | | (11,611) | |
| Total Governmental Activities | <u>3,645,202</u> | <u>554,173</u> | <u>60,779</u> | <u>164,336</u> | <u>(2,865,914)</u> | | <u>(2,865,914)</u> | |
| BUSINESS-TYPE ACTIVITIES | | | | | | | | |
| Water | 842,218 | 771,648 | - | 91,531 | - | 20,961 | 20,961 | |
| Sewer | 669,713 | 661,939 | - | 96,176 | - | 88,402 | 88,402 | |
| Landfill | 1,014,595 | 1,043,840 | - | - | - | 29,245 | 29,245 | |
| Total Business-Type Activities: | <u>2,526,526</u> | <u>2,477,426</u> | <u>-</u> | <u>187,708</u> | <u>-</u> | <u>138,608</u> | <u>138,608</u> | |
| TOTAL PRIMARY GOVERNMENT | <u>6,171,729</u> | <u>3,031,599</u> | <u>60,779</u> | <u>352,044</u> | <u>(2,865,914)</u> | <u>138,608</u> | <u>(2,727,307)</u> | |
| COMPONENT UNITS | | | | | | | | |
| Two Rivers Trade Port Authority | <u>2,532,023</u> | <u>4,377</u> | <u>-</u> | <u>-</u> | | | <u>(2,527,646)</u> | |
| GENERAL REVENUES: | | | | | | | | |
| Taxes/Assessments | | | | | \$ 1,514,388 | \$ - | \$ 1,514,388 | \$ - |
| Licenses and Permits | | | | | 48,255 | - | 48,255 | - |
| Intergovernmental Revenue | | | | | 746,337 | 15,536 | 761,873 | - |
| Investment Earnings | | | | | 17,119 | 15,957 | 33,076 | - |
| Gain on a Capital Asset | | | | | - | 1,000 | 1,000 | - |
| Other | | | | | 18,580 | 15,098 | 33,678 | - |
| Total General Revenues | | | | | <u>2,344,679</u> | <u>47,591</u> | <u>2,392,270</u> | <u>-</u> |
| CHANGE IN NET POSITION | | | | | (521,236) | 186,198 | (335,037) | (2,527,646) |
| Net Position Beginning of the Year | | | | | 174,183 | 12,219,244 | 12,393,427 | (25,465,664) |
| Net Position End of the Year | | | | | <u>\$ (347,052)</u> | <u>\$ 12,405,442</u> | <u>\$ 12,058,390</u> | <u>\$ (27,993,310)</u> |

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

BALANCE SHEET
 GOVERNMENTAL FUNDS
 As of June 30, 2017

| | -----MAJOR----- | | | | | Other | Total |
|---|-----------------|----------------------|-----------------------|--------------------------|--------------------------|---------------------|--------------|
| | General Fund | Street Mtce. Fund | TIFD Debt Svc Fund | SID 120 Debt Svc Fund | SID 121 Debt Svc Fund | Government Funds | |
| ASSETS: | | | | | | | |
| Cash and Investments | \$ 679,559 | \$ 292,058 | \$ - | \$ - | \$ 1 | \$ 922,953 | \$ 1,894,572 |
| Taxes/Assessments Receivable | 151,924 | 66,418 | 1,449,449 | 1,165,633 | 419,346 | 198,770 | 3,451,539 |
| Due From Other Funds | 1,015,715 | - | - | - | - | 551,900 | 1,567,615 |
| Interest Receivable | 2,524 | 638 | - | - | - | 1,933 | 5,095 |
| Inventories | 3,103 | 112,196 | - | - | - | - | 115,299 |
| Total Current Assets | 1,852,825 | 471,311 | 1,449,449 | 1,165,633 | 419,347 | 1,675,557 | 7,034,121 |
| Restricted Cash & Investments | 3,208 | - | 653,722 | - | - | 58,768 | 715,698 |
| Land Held for Resale | - | - | - | - | - | 146,378 | 146,378 |
| Total Assets | 1,856,033 | 471,311 | 2,103,170 | 1,165,633 | 419,347 | 1,880,703 | 7,896,197 |
| LIABILITIES: | | | | | | | |
| Accounts Payable | 42,972 | 4,859 | 18,880 | - | - | 12,343 | 79,054 |
| Payable to Other Funds | - | - | - | 1,143,792 | 417,118 | 6,706 | 1,567,615 |
| Other Current Liabilities | 5,750 | 4,177 | - | - | - | 1,040 | 10,967 |
| Due to Others | 50 | - | - | - | - | - | 50 |
| Deposits Payable | 3,208 | - | - | - | - | - | 3,208 |
| Total Liabilities | 51,980 | 9,036 | 18,880 | 1,143,792 | 417,118 | 20,089 | 1,660,895 |
| DEFERRED INFLOWS OF RESOURCES: | | | | | | | |
| Deferred Inflows - Property Tax Revenue | 151,924 | 66,418 | 1,449,449 | 1,165,633 | 419,346 | 198,770 | 3,451,539 |
| FUND BALANCES: | | | | | | | |
| Nonspendable: | | | | | | | |
| Inventory | 3,103 | 112,196 | - | - | - | - | 115,299 |
| Land Held for Resale | - | - | - | - | - | 146,378 | 146,378 |
| Interfund Loans | 1,015,715 | - | - | - | - | 551,900 | 1,567,615 |
| Restricted: | | | | | | | |
| General Government | - | - | - | - | - | 17,669 | 17,669 |
| Debt Service | - | - | 634,841 | - | - | - | 634,841 |
| Public Works | - | 283,661 | - | - | - | 278,994 | 562,655 |
| Housing & Comm. Development | - | - | - | - | - | 24,828 | 24,828 |
| Capital Projects/Acquisition | - | - | - | - | - | 118,768 | 118,768 |
| Committed: | | | | | | | |
| General Government | - | - | - | - | - | 49,708 | 49,708 |
| Public Works | - | - | - | - | - | 49,708 | 49,708 |
| Assigned: | | | | | | | |
| Public Safety | 16,532 | - | - | - | - | - | 16,532 |
| Public Works | - | - | - | - | - | 266,365 | 266,365 |
| Culture & Recreation | - | - | - | - | - | 2,499 | 2,499 |
| Housing & Comm. Development | 80,000 | - | - | - | - | - | 80,000 |
| Capital Asset Acquisition | - | - | - | - | - | 161,592 | 161,592 |
| Unassigned: | 536,780 | - | - | (1,143,792) | (417,117) | (6,568) | (1,030,696) |
| Total Fund Balances | 1,652,129 | 395,857 | 634,841 | (1,143,792) | (417,117) | 1,661,844 | 2,783,763 |
| Total Liab., Deferred Inflows & Fund Bal. | \$ 1,856,034 | \$ 471,311 | \$ 2,103,170 | \$ 1,165,633 | \$ 419,347 | \$ 1,880,703 | \$ 7,896,197 |

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, 2017

| | | | |
|--|--------------------|----|------------------|
| Total fund balances - Governmental Funds | | \$ | 2,783,763 |
| Capital Assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds | | | |
| Costs of Assets | 19,308,886 | | |
| Less Accumulated Depreciation | <u>(3,403,854)</u> | | 15,905,032 |
| 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 | | | 90,449 |
| Less liabilities not reported in the governmental funds | | | |
| Compensated Absences | (63,211) | | |
| Other Post-Employment Benefits (OPEB) | (64,555) | | |
| Accrued Interest Payable | (966,377) | | |
| Bonds Payable | (20,920,000) | | |
| Net Pension Liability - PERS | <u>(541,078)</u> | | (22,555,221) |
| Less Deferred Inflows of Resources not reported in the governmental funds | | | |
| Deferred Inflows of Resources Associated with Pensions - PERS | | | (22,615) |
| Plus Deferred Inflows of Resources due to Taxes Receivable that are not reported on the <i>Statement of Net Position</i> | | | <u>3,451,539</u> |
| Net Position - Governmental Activities | | \$ | <u>(347,052)</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, 2017

| | 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 |
| REVENUES: | | | | | | | |
| Taxes/Assessments | \$ 454,532 | \$ 262,529 | \$ 900,023 | \$ 39,336 | \$ 48,284 | \$ 267,751 | \$ 1,972,455 |
| Investment Income | 3,611 | 1,093 | 9,038 | - | - | 3,377 | 17,119 |
| Licenses & Permits | 47,605 | 650 | - | - | - | - | 48,255 |
| Fines & Forfeitures | 66,437 | - | - | - | - | 8,043 | 74,480 |
| Miscellaneous | 139,646 | 7 | - | - | - | - | 139,652 |
| Intergovernmental Rev | 682,692 | - | 253 | - | - | 157,400 | 840,346 |
| Charges for Services | <u>1,539</u> | <u>4,619</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>3,630</u> | <u>9,788</u> |
| Total Revenues | 1,396,061 | 268,898 | 909,314 | 39,336 | 48,284 | 440,202 | 3,102,095 |
| EXPENDITURES: | | | | | | | |
| General Government | 418,097 | - | - | - | - | 67,402 | 485,499 |
| Public Safety | 530,218 | - | - | - | - | 25,310 | 555,528 |
| Public Works | 22,595 | 311,379 | - | - | - | 271,367 | 605,341 |
| Public Health | 30,452 | - | - | - | - | 12,681 | 43,134 |
| Culture & Recreation | 111,542 | - | - | - | - | 4,959 | 116,501 |
| Housing & Comm Develop | - | - | - | - | - | 310 | 310 |
| Total Current Expenditures | <u>1,112,905</u> | <u>311,379</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>382,029</u> | <u>1,806,313</u> |
| Current Capital Outlays | 173,978 | 742 | - | - | - | 26,193 | 200,913 |
| Debt Service | - | - | <u>890,439</u> | - | - | - | <u>890,439</u> |
| Total Expenditures | 1,286,882 | 312,121 | 890,439 | - | - | 408,222 | 2,897,665 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | 109,179 | (43,223) | 18,875 | 39,336 | 48,284 | 31,980 | 204,431 |
| OTHER FINANCING SOURCES (USES) | | | | | | | |
| Sale of Capital Assets | 5,200 | - | - | - | - | - | 5,200 |
| Fund Transfers In | - | 25,518 | - | - | - | 50,000 | 75,518 |
| Fund Transfers (Out) | (25,518) | - | - | - | - | (50,000) | (75,518) |
| NET CHANGES IN FUND BALANCES | 88,861 | (17,705) | 18,875 | 39,336 | 48,284 | 31,980 | 209,631 |
| FUND BALANCES: | | | | | | | |
| Beginning 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> |
| Prior Period Adjustments | - | - | - | - | - | - | - |
| End of the Year | <u>\$ 1,652,129</u> | <u>\$ 395,857</u> | <u>\$ 634,841</u> | <u>\$ (1,143,792)</u> | <u>\$ (417,117)</u> | <u>\$ 1,661,844</u> | <u>\$ 2,783,763</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, 2017

| | | | |
|--|----------------|----|------------------|
| Total Net Change in Fund Balances - Governmental Funds | | \$ | 209,631 |
| 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 | | | 11,837 |
| In the Statement of Activities, the loss or gain on the sale or disposal of capital assets is recognized. The fund financial statements only recognize the proceeds from the sale of these assets: | | | |
| Gain (loss) on the Disposal of Capital Assets | (11,607) | | |
| Proceeds from the Sale of Capital Assets | <u>(5,200)</u> | | (16,807) |
| 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) | | | (435,941) |
| 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 | | | (486,521) |
| Increase (Decrease) in Deferred Outflows of Resources - PERS | 59,102 | | |
| (Increase) Decrease in Net Pension Liability - PERS | (116,585) | | |
| (Increase) Decrease in Deferred Inflows of Resources - PERS | <u>61,886</u> | | 4,402 |
| (Increase) Decrease in Compensated Absence Liability | | | (8,749) |
| Expenditures reported in the governmental funds not included in the <i>Statement of Activities</i> : | | | |
| Current Capital Outlays | | | <u>200,913</u> |
| Change in net position reported on the Statement of Activities - Governmental activities | | \$ | <u>(521,236)</u> |

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

STATEMENT OF FUND NET POSITION
PROPRIETARY FUNDS
As of June 30, 2017

| | Major Enterprise Water | Major Enterprise Sewer | Major Enterprise Solid Waste | Total Enterprise Funds |
|---|------------------------------|------------------------------|------------------------------------|------------------------------|
| ASSETS: | | | | |
| Current Assets: | | | | |
| Cash & Cash Equivalents | \$ 271,022 | \$ 294,018 | \$ 418,549 | \$ 983,589 |
| Assessments Receivable | 1,244 | 1,501 | 272,698 | 275,444 |
| Accounts Receivable | 53,228 | 53,791 | 48,675 | 155,695 |
| Other Receivables | 17,401 | 13,151 | 3,982 | 34,533 |
| Inventories | <u>44,079</u> | <u>28,183</u> | <u>6,464</u> | <u>78,726</u> |
| Total Current Assets | 386,974 | 390,644 | 750,368 | 1,527,987 |
| Non-Current Assets: | | | | |
| Restricted Cash & Investments | 1,375,155 | 770,927 | 1,662,529 | 3,808,610 |
| 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 | 37,643 | 9,494 | 2,119,841 | 2,166,979 |
| Infrastructure (Utility Systems) | 7,228,073 | 8,266,732 | - | 15,494,805 |
| Less: Accumulated Depreciation | <u>(3,670,305)</u> | <u>(2,799,615)</u> | <u>(2,325,629)</u> | <u>(8,795,549)</u> |
| Total Non-Current Assets | <u>5,091,757</u> | <u>6,268,825</u> | <u>3,958,002</u> | <u>15,318,584</u> |
| Total Assets | 5,478,731 | 6,659,469 | 4,708,370 | 16,846,570 |
| DEFERRED OUTFLOWS OF RESOURCES: | | | | |
| Deferred Outflow of Resources - Pensions | 47,458 | 36,473 | 56,114 | 140,045 |
| LIABILITIES: | | | | |
| Current Liabilities: | | | | |
| Accounts Payable | 29,413 | 16,063 | 17,563 | 63,038 |
| Other Accrued Payables | 5,059 | 4,296 | 5,005 | 14,359 |
| Customer Deposits | 54,140 | - | 4,700 | 58,840 |
| Revenues Collected in Advance (prepaid taps for easement) | 13,841 | 26,781 | - | 40,622 |
| Compensated Absences | 9,533 | 6,230 | 10,765 | 26,529 |
| Revenue Bonds Payable | <u>5,000</u> | <u>82,000</u> | <u>40,000</u> | <u>127,000</u> |
| Total Current Liabilities | 116,986 | 135,370 | 78,032 | 330,388 |
| Non-Current Liabilities: | | | | |
| Compensated Absences | 28,600 | 18,691 | 32,294 | 79,586 |
| Revenue Bonds Payable | 179,000 | 1,333,000 | 568,000 | 2,080,000 |
| Closure Postclosure Care Costs | - | - | 1,103,657 | 1,103,657 |
| Net Pension Liability | 283,901 | 218,185 | 335,678 | 837,763 |
| Total OPEB Liability (implicit rate subsidy) | <u>35,864</u> | <u>30,485</u> | <u>48,417</u> | <u>114,766</u> |
| Total Non-Current Liabilities | <u>527,365</u> | <u>1,600,361</u> | <u>2,088,046</u> | <u>4,215,772</u> |
| Total Liabilities | 644,350 | 1,735,731 | 2,166,078 | 4,546,160 |
| DEFERRED INFLOWS OF RESOURCES: | | | | |
| Deferred Inflows - Pensions | 11,866 | 9,119 | 14,030 | 35,015 |
| NET POSITION: | | | | |
| Net Investment in Capital Assets | 3,532,602 | 4,082,898 | 1,687,473 | 9,302,975 |
| Restricted - Debt Service | 16,050 | 196,591 | 94,919 | 307,560 |
| Restricted - Replacement & Depreciation | 1,201,806 | 449,513 | 645,150 | 2,296,470 |
| Restricted - Capital Projects | 103,158 | 124,823 | - | 227,981 |
| Unrestricted | <u>16,356</u> | <u>97,267</u> | <u>156,833</u> | <u>270,456</u> |
| Total Net Position | <u>4,869,973</u> | <u>4,951,092</u> | <u>2,584,375</u> | <u>12,405,442</u> |

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, 2017

| | Major Enterprise Water | Major Enterprise Sewer | Major Enterprise Solid Waste | Total Enterprise Funds |
|---|------------------------------|------------------------------|------------------------------------|------------------------------|
| OPERATING REVENUES: | | | | |
| Charges for Services | \$ 771,609 | \$ 661,865 | \$ 1,043,539 | \$ 2,477,013 |
| Special Assessments | 40 | 74 | 301 | 414 |
| Miscellaneous Revenues | <u>9,830</u> | <u>49,955</u> | <u>90</u> | <u>59,876</u> |
| Total Operating Revenues | 781,479 | 711,894 | 1,043,930 | 2,537,302 |
| OPERATING EXPENSES: | | | | |
| Personnel Services - Salaries | 341,389 | 256,375 | 394,552 | 992,316 |
| Fixed Charges (Insurance) | 15,640 | 13,577 | 113,091 | 142,307 |
| Other Purchased Services | 106,334 | 114,778 | 122,155 | 343,267 |
| Supplies & Materials | 137,223 | 75,309 | 124,828 | 337,360 |
| Depreciation | <u>235,887</u> | <u>175,333</u> | <u>244,940</u> | <u>656,160</u> |
| Total Operating Expenses | 836,473 | 635,371 | 999,565 | 2,471,409 |
| OPERATING INCOME (LOSS) | (54,995) | 76,523 | 44,365 | 65,893 |
| NON-OPERATING REVENUE (EXPENSES) | | | | |
| Interest | 6,490 | 4,270 | 5,197 | 15,957 |
| Intergovernmental Revenue | 5,265 | 4,046 | 6,225 | 15,536 |
| Gain on Sale of Capital Assets | - | 1,000 | - | 1,000 |
| Capital contributions | 81,871 | 61,058 | - | 142,928 |
| Debt Service Interest Expense | <u>(5,745)</u> | <u>(34,343)</u> | <u>(15,030)</u> | <u>(55,118)</u> |
| Total Non-operating Revenue (Expenses) | 87,880 | 36,031 | (3,608) | 120,303 |
| CHANGE IN NET POSITION | 32,886 | 112,554 | 40,756 | 186,196 |
| NET POSITION, BEGINNING | <u>4,837,087</u> | <u>4,838,538</u> | <u>2,543,619</u> | <u>12,219,244</u> |
| NET POSITION, ENDING | <u>\$ 4,869,973</u> | <u>\$ 4,951,092</u> | <u>\$ 2,584,375</u> | <u>\$ 12,405,440</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, 2017

| | Major Enterprise Water | Major Enterprise Sewer | Major Enterprise Solid Waste | Total Enterprise Funds |
|---|------------------------------|------------------------------|------------------------------------|------------------------------|
| CASH FLOWS FROM OPERATIONS: | | | | |
| Cash Received From Customers | \$ 774,682 | \$ 699,934 | \$ 991,400 | \$ 2,466,016 |
| Cash Paid to Employees (Salaries & Benefits) | (355,956) | (272,852) | (422,960) | (1,051,768) |
| Supplies & Materials | (256,902) | (191,377) | (289,342) | (737,621) |
| Net Cash Provided (Used) by Operating Activities | 161,824 | 235,705 | 279,098 | 676,626 |
| CASH FLOWS FROM NONCAPITAL ACTIVITIES: | | | | |
| Subsidies from Taxes and Other Governments (State Portion of Pensions) | 5,265 | 4,046 | 6,225 | 15,536 |
| Net Cash Provided (Used) by NonCapital Activities | 5,265 | 4,046 | 6,225 | 15,536 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | |
| Interest Earnings | 6,490 | 4,020 | 4,746 | 15,256 |
| Net Cash Provided (Used) by Investing Activities | 6,490 | 4,020 | 4,746 | 15,256 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | | | |
| Principal on Bonds | (10,000) | (161,000) | (80,000) | (251,000) |
| Capital Contributions | 81,871 | 61,058 | - | 142,929 |
| Interest and Agent Fees Paid on Bonds | (5,745) | (34,343) | (15,030) | (55,118) |
| Proceeds from the Sale of Capital Assets | - | 1,000 | - | 1,000 |
| Acquisition of Capital Assets | (185,942) | (62,542) | (488) | (248,971) |
| Net Cash Provided (Used) by Capital and Related Financial Activities | (119,816) | (195,827) | (95,518) | (411,160) |
| NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS | 53,763 | 47,945 | 194,551 | 296,258 |
| CASH & CASH EQUIVALENTS - JULY 1, 2016 | 1,592,414 | 1,017,001 | 1,886,526 | 4,495,941 |
| CASH & INVESTMENTS - JUNE 30, 2017 | \$ 1,646,177 | \$ 1,064,946 | \$ 2,081,077 | \$ 4,792,199 |
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES: | | | | |
| Operating Income (Loss) | (54,995) | 76,523 | 44,365 | 65,893 |
| Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities: | | | | |
| (Increase)Decrease in Inventory | (14,860) | 2,870 | 14,324 | 2,333 |
| (Increase)Decrease in Assessments Receivable | 13,413 | 6,968 | (54,993) | (34,612) |
| (Increase)Decrease in Accounts & Other Receivables | (22,939) | (18,928) | 2,463 | (39,404) |
| (Increase)Decrease in Customer Deposits | 2,730 | - | - | 2,730 |
| Increase(Decrease) in Accounts Payable | 17,155 | 9,417 | (8,969) | 17,602 |
| Increase(Decrease) in Accrued Payables | (9,750) | (7,243) | (13,874) | (30,867) |
| Increase(Decrease) in Compensated Absences | (135) | 407 | (5,315) | (5,044) |
| Increase(Decrease) in Landfill Closure and Post-Closure Liability | - | - | 65,377 | 65,377 |
| Pension Expense | (633) | (5,846) | (3,444) | (9,923) |
| Other | (4,049) | (3,795) | (5,775) | (13,619) |
| Depreciation Expense | 235,887 | 175,333 | 244,940 | 656,160 |
| Total Adjustments | 216,818 | 159,182 | 234,733 | 610,733 |
| Net Cash Provided by Operating Activities | \$ 161,824 | \$ 235,705 | \$ 279,098 | \$ 676,626 |

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

As of June 30, 2017

| | <u>Agency</u> <u>Funds</u> |
|---------------------------------|-------------------------------|
| ASSETS: | |
| Cash & Cash Equivalents | \$ 189,117 |
| Accounts Receivable | 3,528 |
| Other Assets | <u>408</u> |
| Total Assets | 193,053 |
| LIABILITIES: | |
| Warrants Payable | 3,522 |
| Accounts Payable | 3,591 |
| Due to Others | 58,640 |
| Net Pension Liability | <u>127,300</u> |
| Total Liabilities | 193,053 |
| NET POSITION: | |
| Restricted for Pension Benefits | - |
| Held in Trust for Agency | <u>-</u> |
| Total Net Position | <u>\$ -</u> |

NOTE: Agency funds do not report additions and deductions. Therefore, no Statement of Changes in Fiduciary Net Position section is provided.

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A) REPORTING ENTITY

The City is a local government governed by a Mayor and City Council (the Council) elected by the public. 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 Jeffrey S. 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. TRA's revenue bonds were used to build the detention facility and streets, curbs and gutters in the Industrial Park. The detention facility is the only asset with the potential of generating revenue to pay their revenue bonds principal and interest. TRA's revenue bonds are in default. The bond agreements state that the City of Hardin is not responsible for covering the bond requirements in the event of default on the part of TRA.

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 GASB 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 unit 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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

practical measure of economic resources and the operating statement includes all transactions and events that increased or decreased Net Position. Depreciation is charged as an expense against current operations and accumulated depreciation is reported on the *Statement of Net Position*. Internally dedicated resources are reported as general revenues rather than as program revenues.

The *Statement of Activities* reports the expenses of a given function offset by program revenues directly connected with the functional program. Expenses which are not directly related to a function, indirect expenses, are not charges to a function. Program revenues include (1) charges for services such as water, sewer and solid waste management fees, licenses and permits and state shared payments and (2) operating grants that are restricted to a particular functional program. Property taxes and other revenue sources not properly included with program revenue 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 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 inflows of resources 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. The proceeds from the issuance of long-term debt are recognized when received and principal payments on long-term debt are reported as expenditures when paid. 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, Street Maintenance, TIFD Debt Service, SID 120 Debt Service and SID 121 Debt Service as major governmental funds.

General Fund – The General Fund 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Business-Type Funds

Proprietary Funds

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 administration expenses, and depreciation on capital assets. All revenue and expenditures not meeting this definition are reported as non-operating revenues and expenses.

Enterprise funds – These 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.

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.

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 payroll and claims 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 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. The City's Payroll and Claims clearing funds represent in-and-out balances. Therefore, these funds are not included on the Fiduciary Funds Statement.

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 1st Thursday after the 1st 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).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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.

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

E) RESTRICTED CASH & INVESTMENTS

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) INVENTORIES

The primary inventory item of the governmental activities 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.

G) CAPITAL ASSETS

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

| <u>Capital Asset Useful Lives</u> | <u>Governmental</u> | <u>Proprietary</u> | <u>Two Rivers Authority</u> |
|-----------------------------------|---------------------|--------------------|-----------------------------|
| 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 | 3 – 20 years | 5 – 20 years | 6 years |

Primary Government

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

Two Rivers Authority (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.

H) 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

D) 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 earn vacation leave at the rate of 15 days per year during the first 10 years of employment, and at increasing rates thereafter to a maximum of 24 days per year after 20 years of employment. There is no requirement that vacation leave be taken, but the maximum permissible accumulation is the amount earned in the most recent two-year period. At termination, employees are paid for any accumulated vacation leave at the current rate of pay. 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 \$15,803 and it is generally paid out of the General fund. The current portion of the business-type activities compensated absences is \$26,529. Total accrued governmental and business-type liabilities for sick and vacation leave as of June 30, 2017 are \$63,211 and \$106,114 respectively for a total of \$169,325.

J) 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 on the *Statement of Net Position*.

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.

K) 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.

L) 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 on the *Statement of Net Position*. Fund balances attributed to advances between funds, are reported as non-spendable in the loaning fund on the fund Balance Sheet.

M) PROPERTY TAXES/ASSESSMENTS

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

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. As of June 30, 2017, the City has no encumbrances; instead unpaid invoices at year end are reported as Accounts Payable.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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.

P) TAX ABATEMENTS

In fiscal year 2006, the City agreed to abate the property taxes of the Rocky Mountain Power Plant for 10 years in efforts to bring development to the City. Taxes were assessed for fiscal year 2016 forward. There were no provisions for making up the abated taxes. There are no tax abatement agreements in place as of June 30, 2017.

NOTE 2: JOINT VENTURES

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

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

In March of 2010 the City signed a Memorandum of Understanding (MOU) between the City of Hardin and *Two Rivers Authority* (TRA). The MOU states that TRA shall pay 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 2017, the City did not provide any money 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 2017, Two Rivers Authority reported operating costs of \$60,099, (which does not include depreciation or debt service requirements), and revenues of \$4,452. Basic operating costs outpaced revenues by \$55,647. Since fiscal year 2014, bondholders advanced Two Rivers Authority a total of \$870,376 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

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 \$6,016 as of June 30, 2017. 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. Efforts to lease the facility have not generated sufficient monies to address any of the bond principal or interest. 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."*

NOTES TO THE FINANCIAL STATEMENTS (Continued)

C) TWO RIVERS AUTHORITY DETENTION FACILITY LEASE ENDEAVORS

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. Emerald ceased housing inmates and vacated the facility in fiscal year 2016. As of June 30, 2017, bondholders have provided \$870,376 to provide funds for operations while attempts are made to get the detention facility into a fully operational state. These bondholder monies are recorded as “advance funding - bondholder loans.” For the full fiscal year 2017 no inmates were housed at the facility and no agreement have been signed to house inmates at the facility. The insurance policy on the facility was allowed to lapse due to insufficient revenues in December 2016.

NOTE 3: NET POSITION/FUND BALANCES

A) NET POSITION

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

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 | \$15,905,032 | \$11,509,975 | \$ 16,399,508 |
| Unspent Bond Proceeds | 0 | 0 | 6,016 |
| Less Accrued Bond Interest Due | (966,377) | 0 | (16,320,213) |
| Less Bond Principal Due | <u>(20,920,000)</u> | <u>(2,207,000)</u> | <u>(27,015,000)</u> |
| Net Investment in Capital Assets | <u>\$ (5,981,345)</u> | <u>\$ 9,302,975</u> | <u>\$ (26,929,689)</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, 2017, restricted Net Position for governmental activities totaled \$4,810,301, of which \$634,841 was restricted by enabling legislation for the TIFD Bond Debt Service.

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. The City strives to maintain fund balance reserves allowed by State Statutes. However, the City has not formally adopted a stabilization or minimum fund balance policy.

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 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

C) FUND BALANCE CLASSIFICATIONS

Non-Spendable Net Position:

| <u>Fund</u> | <u>Amount</u> | <u>Purpose</u> |
|----------------------------|----------------|----------------------|
| General Fund | \$1,015,715 | Interfund Loans |
| General Fund | 3,103 | Inventories |
| Street Maintenance Fund | 112,196 | Inventories |
| Capital Improvement Fund | 146,378 | Land held for resale |
| Curb & Gutter Fund | 84,094 | Interfund loans |
| Gas Tax Apportionment Fund | 166,774 | Interfund loans |
| Capital Improvement Fund | <u>301,032</u> | Interfund loans |
| Total Non-Spendable | \$1,829,292 | |

Restricted Net Position:

| <u>Fund</u> | <u>Amount</u> | <u>Purpose</u> |
|--------------------------|---------------|---|
| TIFD Fund | \$ 634,841 | Debt Service – Bond Requirements |
| Street Maintenance Fund | 283,661 | Public Works – Special Districts – Street Maintenance |
| Gas Tax Fund | 58,768 | Capital Projects – State Statutes |
| Gas Tax Fund | 195,987 | Public Works – State Statutes |
| Other Governmental Funds | 17,669 | General Government – Mill Levy |
| Other Governmental Funds | 60,000 | Capital Projects/Acquisitions |
| Other Governmental Funds | 83,008 | Public Works – Special Districts - Lights |
| CDBG | <u>24,828</u> | Housing/Community Development – CDBG or 7-6-16 MCA |
| Total Restricted | \$1,358,762 | |

Committed Net Position:

| <u>Fund</u> | <u>Amount</u> | <u>Purpose</u> |
|---------------------|---------------|--------------------|
| Comp Insurance Fund | \$ 16,451 | Public Works |
| Comp Insurance Fund | 16,451 | General Government |
| PERS Fund | 11,509 | Public Works |
| PERS Fund | 11,509 | General Government |
| Health ER Fund | 21,748 | Public Works |
| Health ER Fund | <u>21,748</u> | General Government |
| | \$ 99,416 | |

Assigned Net Position:

| <u>Fund</u> | <u>Amount</u> | <u>Purpose</u> |
|--------------------------|---------------|-------------------------------|
| General Fund | \$ 16,532 | Public Safety |
| General Fund | 80,000 | Housing/Community Development |
| Other Governmental funds | 161,592 | Capital Projects/Acquisitions |
| Other Governmental funds | 266,365 | Public Works |
| Other Governmental funds | <u>2,499</u> | Culture and Recreation |
| Total Assigned | \$ 526,989 | |

Unassigned Net Position:

| <u>Fund</u> | <u>Amount</u> |
|--------------------------|---------------------|
| General Fund | \$ 536,780 |
| SID 120 Fund | (1,143,792) |
| SID 121 | (417,117) |
| Other Governmental funds | <u>(6,568)</u> |
| Total Unassigned | (\$1,030,696) |
| Total Governmental | <u>\$ 2,783,763</u> |

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

The difference of \$3,153,054 between restricted fund balance on the *Balance Sheet - Governmental Funds*, which is illustrated above, and restricted net position on the *Statement of Net Position*, represents Deferred Inflows of Resources associated with taxes receivable in the restricted funds. This difference is attributable to the difference in accounting basis of these two statements as shown below:

| | |
|--|--------------------|
| Restricted Net Position – Statement of Net Position | \$4,511,816 |
| Less Restricted Net Position – Balance Sheet – Governmental Funds | <u>(1,358,762)</u> |
| Deferred Inflows of Resources – Associated with Taxes Receivable on restricted funds | \$3,153,054 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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, 2017. Reported fair values are based on exit prices. At June 30, 2017 the combined **liquid portion of cash and investments** reported by the City totaled \$7,641,088. In addition, the City has 5 lots identified as "**land held for re-sale**" (which are reported as non-current assets) are valued at a total of \$146,378, for total cash and investments of \$7,787,467 as of June 30, 2017. This amount includes \$238,620 in agency funds, of which \$49,502 is in City payroll and claims clearing funds and is not reported on the Statement of Fiduciary Net Position. Restricted cash totaled \$4,524,308, of which \$715,698 belongs to the Governmental activities and \$3,808,610 belongs to the Business-Type activities.

| | | |
|---|---------------------|--------------------------|
| Composition of Cash & Investments | <u>6/30/2017</u> | |
| County Investment Pool | \$ 156,794 | |
| City Investment Pool | 5,976,533 | |
| First Interstate Bank | 917,760 | Landfill Trust |
| US Bank | <u>590,003</u> | TIFD Revenue Bonds Trust |
| Subtotal | \$7,641,089 | |
| Less Cash held in Agency funds | <u>(238,620)</u> | |
| Subtotal Liquid Cash & Investments – Primary Government | \$7,402,469 | |
| Less Restricted Cash & Investments | <u>(4,524,308)</u> | |
| Subtotal Liquid Cash & Investments – Primary Government | 2,878,161 | |
| Land held for resale | <u>146,378</u> | |
| Total Unrestricted Cash & Investments – Primary Gov. | <u>\$3,024,539</u> | |

Two Rivers Authority (a component unit)

Operating cash resources of \$38 are held and managed by the Executive Director. The Bond reserve account of \$6,016 is held and managed by a US Bank Trustee. Cash resources consist primarily of demand accounts and are reported at fair value.

City and Component Unit Cash & Cash Equivalents

| <u>Deposits & Investments</u> | <u>City of Hardin</u> | <u>Component Unit</u> |
|-----------------------------------|-----------------------|-----------------------|
| Demand Accounts, Petty Cash | \$ 500 | \$6,054 |
| Money Markets | 124,143 | 0 |
| Certificates of Deposit | <u>5,556,073</u> | <u>0</u> |
| Total Cash & Cash Equivalents | \$5,680,716 | \$6,054 |

A) COUNTY INVESTMENT POOL

Property taxes and assessments are assessed and collected by the Big Horn County Treasurer. Cash of \$156,794 is held in the **Big Horn County investment pool which** represents revenues collected but not yet distributed to the City as of June 30, 2017. These resources are combined with cash resources of other governmental entities within the 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 3rd St. W. Hardin, MT 59034. Fair values approximate carrying values for investments as of June 30, 2017. 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 ON BEHALF OF THE CITY

Cash of \$1,505,848 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 \$590,003 for the TIFD revenue bonds.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The First Interstate Bank – Polson holds and manages \$917,760 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, 2017 \$5,791,528 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, 2017.

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, 2017, 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 Fair Value Measurements section below includes the percentage of each investment type held at June 30, 2017.

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, 2017, the City had the following liquid investments and their associated maturities:

| Investment Type | Fair Value | Investment Maturity (in Years) | | |
|-----------------------|--------------------|--------------------------------|------------------|-----------------|
| | | Less Than 1 | 1-5 | More Than 5 |
| Repurchase Agreements | \$1,062,234 | \$1,062,234 | \$ 0 | \$ 0 |
| US Treasury Notes | 84,951 | 0 | 84,951 | 0 |
| US Gov. Securities | 798,669 | 101,235 | 652,021 | 45,413 |
| Land Held for Resale | <u>146,378</u> | <u>146,378</u> | <u>0</u> | <u>0</u> |
| Total | <u>\$2,092,232</u> | <u>\$1,309,847</u> | <u>\$736,972</u> | <u>\$45,413</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 |
| Demand Accounts | 14,520 |
| Money Markets | 124,143 |
| CDs | <u>5,556,072</u> |
| Total Cash & Cash Equivalents | \$5,695,235 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

| <u>Investment by Fair Value Level</u> | <u>6/30/2017</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>% of Total</u> |
|--|--------------------|----------------|----------------|----------------|-------------------|
| Repurchase Agreements | \$1,062,234 | \$1,062,234 | \$0 | \$ 0 | 51% |
| U.S. Treasury Notes | 84,951 | 84,951 | 0 | 0 | 4% |
| Federal Home Loan Bank | 285,609 | 285,609 | 0 | 0 | 13% |
| Federal Farm Credit Bank | 96,050 | 96,050 | 0 | 0 | 5% |
| Federal National Mortgage Association | 315,775 | 315,775 | 0 | 0 | 15% |
| Federal National Loan Mortgage Corporation | 101,235 | 101,235 | 0 | 0 | 5% |
| Land held for Resale – 5 City Lots | <u>146,378</u> | <u>0</u> | <u>0</u> | <u>146,378</u> | <u>7%</u> |
| Total Investments by Fair Value | \$2,092,232 | \$1,945,854 | \$0 | \$146,378 | 100% |
| Total Cash & Investments | <u>\$7,787,467</u> | | | | |

G) RESTRICTED CASH & INVESTMENTS

| <u>Fund</u> | <u>City of Hardin</u> | <u>Two Rivers Authority</u> | <u>Description</u> |
|--------------------------|-----------------------|-----------------------------|--|
| General | \$ 3,208 | | Performance Bonds |
| Gas Tax Apportionment | 58,768 | | Capital Equipment Acquisition |
| TIFD – Debt Service | 63,719 | | Debt Service |
| TIFD – Debt Service | 519,511 | | Debt Service |
| TIFD – Debt Service | 70,492 | | Debt Service |
| Water | 54,140 | | Customer Deposits (1yrs P & I) |
| Water | 103,158 | | Capital Assets Construction |
| Water | 16,050 | | Debt Service Payments |
| Water | 1,201,806 | | Capital Projects – Bond Covenants |
| Sewer | 124,823 | | Capital Projects – Bond Covenants |
| Sewer | 196,591 | | Debt Service Payments |
| Sewer | 449,513 | | Capital Projects – Bond/Loan Covenants |
| Solid Waste | 300,000 | | Capital Projects – Bond/Loan Covenants |
| Landfill | 4,700 | | Customer Deposits |
| Landfill | 94,919 | | Debt Service Payments |
| Landfill | 345,150 | | Capital Projects Bond/Loan Covenants |
| Landfill | <u>917,760</u> | | Closure/Post-Closure |
| Total Primary Government | <u>\$ 4,524,308</u> | | |
| Two Rivers Authority | | <u>\$6,016</u> | Bond Requirements |

NOTE 5: TAXES and RECEIVABLES

A) MILL LEVIES

The taxable value of the roll as of January 1, 2016, upon which the levy for the 2017 fiscal year was based, was \$4,704,132 for the City. The tax rates assessed for the year ended June 30, 2017 to finance City operations were as follows:

| <u>Fund</u> | <u>Mills</u> | <u>Fund</u> | <u>Mills</u> |
|-----------------------------------|--------------|-------------------------|---------------|
| General | 134.30 | Permissive Medical | 15.50 |
| PERS-(Employer Contribution) | 8.28 | Comprehensive Insurance | <u>2.85</u> |
| Group Health Insurance | 10.24 | Total Mills | <u>174.27</u> |
| Firemen’s Disability & Retirement | 3.10 | | |

B) TAXES / ASSESSMENTS RECEIVABLE

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

| | Total Taxes | Assessments | Assessments |
|------------------------------------|--------------------|--------------------|--------------------|
| | Taxes | Receivable | Receivable |
| <u>Governmental Funds</u> | <u>Receivable</u> | <u>Receivable</u> | <u>Receivable</u> |
| General | \$ 151,924 | \$ 0 | \$ 151,924 |
| Street Maintenance | 12,869 | 53,549 | 66,418 |
| TIFD | 1,449,449 | 0 | 1,449,449 |
| SID 120 | 0 | 1,165,633 | 1,165,633 |
| SID 121 | 0 | 419,346 | 419,346 |
| Curb & Gutter – Crow Ave SID | 0 | 96,813 | 96,813 |
| Other Governmental Funds | <u>52,403</u> | <u>49,554</u> | <u>101,957</u> |
| Subtotal Governmental Funds | \$1,666,644 | \$1,784,895 | \$3,451,539 |
| Water | 302 | 943 | 1,245 |
| Sewer | 288 | 1,213 | 1,501 |
| Solid Waste | <u>3,807</u> | <u>268,891</u> | <u>272,698</u> |
| Subtotal Proprietary Funds | <u>4,397</u> | <u>271,047</u> | <u>275,444</u> |
| Total Primary Government | <u>\$1,671,042</u> | <u>\$2,055,942</u> | <u>\$3,726,983</u> |
| | | | |
| <u>Fiduciary Funds</u> | | | |
| Fire Department Relief Association | \$ <u>3,528</u> | \$ <u>0</u> | \$ <u>3,528</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 \$32,892 and \$5,548 for SID 120 and SID 121 respectively. The delinquents are reported as due in the subsequent year.

| Fiscal Year | SID 120 | SID 121 | Crow Ave. SID | Total |
|---------------------|--------------------|------------------|------------------|--------------------|
| <u>Ending 6/30:</u> | <u>Principal</u> | <u>Principal</u> | <u>Principal</u> | <u>Principal</u> |
| 2018 | \$ 46,164 | \$ 20,492 | \$ 6,214 | \$ 72,870 |
| 2018 – Delinquents | 32,892 | 5,548 | N/A | 38,440 |
| 2019 | 52,622 | 21,112 | 6,465 | 80,199 |
| 2020 | 55,501 | 21,750 | 6,721 | 83,972 |
| 2021 | 57,178 | 22,407 | 6,997 | 86,582 |
| 2022 | 58,906 | 23,085 | 7,280 | 89,271 |
| 2023 – 2027 | 322,339 | 126,321 | 23,576 | 472,236 |
| 2028 – 2032 | 374,088 | 146,600 | 0 | 520,688 |
| 2033 – 2034 | <u>165,942</u> | <u>32,031</u> | <u>0</u> | <u>197,973</u> |
| Subtotal | <u>\$1,165,633</u> | <u>\$419,346</u> | <u>\$57,253</u> | <u>\$1,642,232</u> |

Totals may not foot or cross foot due to rounding

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 assessments are reported as revenues in the year in which they are received.

SID 121 - This street project was for the installment, construction and replacement of streets, curbs and gutters, sidewalks and driveway approaches and was completed in fiscal year 2013. The City financed this project internally through interfund loans to retain the interest within the City rather than paying interest to a third party. The affected City residents will be billed over a 20-year period at 3%. Prepaid assessments 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, 2017, the outstanding balance on this SID is \$57,253.

Other SIDs - Other assessments are accounted for in the Local Charges for Services and Curb & Gutter funds and are reported as Other SIDs. As of June 30, 2017 other SID assessment's receivable totaled \$39,560.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

D) INTERFUND RECEIVABLES – DUE FROM OTHER FUNDS

| RECEIVING FUND | DUE FROM | | | | | Reason |
|--------------------|--------------------|------------------|-----------------------|--------------------|--------------------|------------------------|
| | SID 120 | SID 121 | Cap. Projects CTEP | Total | Current Portion | |
| General | \$ 755,051 | \$253,958 | \$ 0 | \$1,009,009 | \$52,267 | In-house SID financing |
| General | 0 | 0 | 6,706 | 6,706 | 6,706 | Cover negative cash |
| Curb & Gutter | 61,845 | 22,249 | 0 | 84,094 | 4,364 | In-house SID financing |
| Gas Tax | 114,860 | 51,914 | 0 | 166,774 | 8,709 | In-house SID financing |
| Capital Projects | <u>212,036</u> | <u>88,996</u> | <u>0</u> | <u>301,032</u> | <u>15,687</u> | In-house SID financing |
| Total Governmental | <u>\$1,143,792</u> | <u>\$417,117</u> | <u>\$6,706</u> | <u>\$1,567,615</u> | <u>\$87,733</u> | |

Totals may not foot due to rounding

E) OTHER RECEIVABLES

An allowance for uncollectible accounts was not estimated for the City's accounts receivable in the *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, 2017, governmental and proprietary fund other receivables balances were reported at \$5,095 and \$190,228 respectively and consist of the following components:

| Fund | Accounts Receivable | Interest Receivables | Crawford TAPS | Contracts Receivable | P&I Delinquent Taxes | Total Other Receivables |
|----------------------------|------------------------|-------------------------|------------------|-------------------------|-------------------------|----------------------------|
| General | \$ 0 | \$ 2,524 | \$ 0 | \$ 0 | \$ 0 | \$ 2,524 |
| Street Maintenance | 0 | 638 | 0 | 0 | 0 | 638 |
| Other Governmental Funds | <u>0</u> | <u>1,933</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>1,933</u> |
| Subtotal Governmental | \$ 0 | \$ 5,095 | \$ 0 | \$ 0 | \$ 0 | \$ 5,095 |
| Water | 53,228 | 3,854 | \$ 8,523 | \$ 5,024 | \$ 0 | 70,629 |
| Sewer | 53,791 | 2,687 | 0 | 10,464 | 0 | 66,942 |
| Solid Waste | <u>48,675</u> | <u>2,807</u> | <u>0</u> | <u>0</u> | <u>1,175</u> | <u>52,657</u> |
| Subtotal Proprietary Funds | 155,694 | 9,348 | \$ 8,523 | \$ 15,488 | \$ 1,175 | \$190,228 |
| Total | <u>\$155,694</u> | <u>\$14,443</u> | <u>\$ 8,523</u> | <u>\$ 15,488</u> | <u>\$ 1,175</u> | <u>\$195,323</u> |

NOTE 6: DONATED CAPITAL ASSETS

In fiscal year 2017, a private land developer donated land, road and streets they constructed, and water and sewer lines to the City valued at \$264,001. The land was valued based, per acre, on recent land sales in the area by the Department of Revenue. The value of infrastructure is based on the developer's bid to establish the streets and water and sewer lines. These assets are reflected in the capital assets as shown below:

| Governmental | Amount | Proprietary | Amount |
|---|------------------|---|------------------|
| Governmental - Land (1.71 acres) | \$ 20,562 | Water – Transmission & Distribution (water lines) | \$ 81,870 |
| Governmental – Infrastructure (streets) | <u>100,512</u> | Sewer – Transmission & Distribution (sewer lines) | <u>61,057</u> |
| Total Governmental | <u>\$121,074</u> | Total Proprietary | <u>\$142,927</u> |

NOTE 7: CAPITAL ASSETS – Governmental Activities:

| | Balance July 1, 2016 | Additions | Removals | Balance June 30, 2017 |
|----------------------------|-------------------------|-------------------|--------------------|--------------------------|
| COST Non-Depreciable: | | | | |
| Land | \$ 490,723 | \$ 20,562 | (\$ 0) | \$ 511,285 |
| Rights of Way | 40,622 | 0 | (0) | 40,622 |
| CIP | <u>23,352</u> | <u>13,778</u> | <u>(0)</u> | <u>37,130</u> |
| Total Non-Depreciable | \$ 554,697 | \$ 34,340 | (\$ 0) | \$ 589,037 |
| COST Depreciable: | | | | |
| Land Improvements | \$ 201,301 | \$ 0 | (\$ 0) | \$ 201,301 |
| Buildings | 1,228,459 | 0 | (0) | 1,228,459 |
| Machinery & Equipment | 1,355,517 | 52,596 | (63,143) | 1,344,970 |
| Infrastructure | <u>15,831,142</u> | <u>113,977</u> | <u>(0)</u> | <u>15,945,119</u> |
| Total Depreciable Cost | 18,616,419 | 166,573 | (63,143) | 18,719,849 |
| Total Non-Depreciable Cost | <u>554,697</u> | <u>34,340</u> | <u>(0)</u> | <u>589,037</u> |
| Total COST | <u>\$ 19,171,116</u> | <u>\$ 200,913</u> | <u>(\$ 63,143)</u> | <u>\$19,308,886</u> |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

| | Balance <u>July 1, 2016</u> | <u>Additions</u> | <u>Removals</u> | Balance <u>June 30, 2017</u> |
|----------------------------------|--------------------------------|--------------------|------------------|---------------------------------|
| ACCUMULATED DEPRECIATION: | | | | |
| Land Improvements | (\$ 66,710) | (7,496) | \$ 0 | (\$ 74,206) |
| Buildings | (297,972) | (28,214) | 0 | (326,186) |
| Machinery & Equipment | (924,137) | (46,345) | 46,336 | (924,146) |
| Infrastructure | <u>(1,674,850)</u> | <u>(404,466)</u> | <u>0</u> | <u>(2,079,316)</u> |
| Total Depreciation | <u>(\$ 2,963,669)</u> | <u>(\$486,521)</u> | <u>\$ 46,336</u> | <u>(\$3,403,854)</u> |

Totals may not foot due to rounding

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

| | |
|-----------------------|------------------|
| General Government | \$ 8,583 |
| Public Safety | 31,114 |
| Public Works | 331,575 |
| Culture & Recreation | 18,146 |
| Housing & Development | <u>97,103</u> |
| Total Depreciation | <u>\$486,521</u> |

NOTE 8: CAPITAL ASSETS – Business-Type Activities:

| | Balance <u>July 1, 2016</u> | <u>Additions</u> | <u>Removals</u> | Balance <u>June 30, 2017</u> |
|----------------------------------|--------------------------------|-------------------|-------------------|---------------------------------|
| COST Non-Depreciable: | | | | |
| Land | <u>\$ 463,193</u> | <u>\$ 0</u> | <u>(\$ 0)</u> | <u>\$ 463,193</u> |
| Total Non-Depreciable | \$ 463,193 | \$ 0 | (\$ 0) | \$ 463,193 |
| COST Depreciable: | | | | |
| Land Improvements | \$ 2,040,909 | \$ 0 | (\$ 0) | \$ 2,040,909 |
| Buildings & Improvements | 139,636 | 0 | (0) | 139,636 |
| Machinery & Equipment | 2,129,273 | 37,706 | (0) | 2,166,979 |
| Infrastructure (Utility): | | | | |
| Transmission & Dist. | 8,719,366 | 211,267 | (0) | 8,930,933 |
| Treatment Plant | 6,097,828 | 0 | (14,451) | 6,083,377 |
| General Plant | <u>480,797</u> | <u>0</u> | <u>(0)</u> | <u>480,797</u> |
| Total Depreciable COST | <u>\$19,607,809</u> | <u>\$ 248,973</u> | <u>(\$14,451)</u> | <u>\$ 19,842,331</u> |
| Non-Depreciable COST | <u>463,193</u> | <u>0</u> | <u>(0)</u> | <u>463,193</u> |
| Total COST | <u>\$20,071,002</u> | <u>\$ 248,973</u> | <u>(\$14,451)</u> | <u>\$ 20,305,524</u> |

ACCUMULATED DEPRECIATION

| | | | | |
|----------------------------------|----------------------|--------------------|------------------|----------------------|
| Land Improvements | (\$ 608,490) | (\$ 76,506) | \$ 0 | (\$ 684,996) |
| Buildings & Improvements | (49,476) | (3,478) | 0 | (52,954) |
| Machinery & Equipment | (1,432,479) | (167,319) | 0 | (1,599,798) |
| Infrastructure (Utility): | | | | |
| Transmission & Dist. | (3,156,976) | (186,234) | 0 | (3,343,210) |
| Treatment Plant | (2,497,645) | (215,967) | 14,451 | (2,699,161) |
| General Plant | <u>(408,774)</u> | <u>(6,656)</u> | <u>0</u> | <u>(415,430)</u> |
| Total Depreciation | <u>(\$8,153,841)</u> | <u>(\$656,160)</u> | <u>\$ 14,451</u> | <u>(\$8,795,549)</u> |

Totals may not foot due to rounding

Depreciation was charged to the **proprietary funds** is as follows:

| | |
|----------------------------|------------------|
| Water | \$235,887 |
| Sewer | 175,330 |
| Solid Waste | 74,831 |
| Landfill | <u>170,112</u> |
| Total Depreciation Expense | <u>\$656,160</u> |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 9: CAPITAL ASSETS – Two Rivers Authority (A Component Unit)

| | Balance <u>July 1, 2016</u> | <u>Additions</u> | <u>Removals</u> | Balance <u>June 30, 2017</u> |
|----------------------------------|--------------------------------|--------------------|-----------------|---------------------------------|
| COST Non-Depreciable: | | | | |
| Land | \$ 257,377 | \$ 0 | (\$ 0) | \$ 257,377 |
| Total Non-Depreciable | \$ 257,377 | \$ 0 | (\$ 0) | \$ 257,377 |
| COST Depreciable: | | | | |
| Buildings | \$19,684,930 | \$ 0 | (\$ 0) | \$19,684,930 |
| Intangibles – Logo | 780 | 0 | (0) | 780 |
| Machinery & Equipment | <u>0</u> | <u>175</u> | <u>(0)</u> | <u>175</u> |
| Total Depreciable COST | <u>\$19,685,710</u> | <u>\$ 175</u> | <u>(\$ 0)</u> | <u>\$19,685,885</u> |
| Total COST | <u>\$19,943,087</u> | <u>\$ 175</u> | <u>(\$ 0)</u> | <u>\$19,943,262</u> |
| ACCUMULATED DEPRECIATION: | | | | |
| Buildings | (\$3,149,589) | (\$393,698) | \$ 0 | (\$3,543,287) |
| Intangibles – Logo | <u>(416)</u> | <u>(52)</u> | <u>0</u> | <u>(468)</u> |
| Total Depreciation | <u>(\$3,150,005)</u> | <u>(\$393,750)</u> | <u>\$ 0</u> | <u>(\$3,543,755)</u> |

Totals may not foot due to rounding

NOTE 10: DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources are consumptions of net position by a governmental entity that are applicable to a future reporting period. Deferred Outflows of Resources associated with the employer’s proportionate share of the PERS-DBRP pension plan consists of City contributions to the pension plan since the measurement date of June 30, 2016. The employer contributions made in fiscal year 2017 will be recognized as reductions of the Net Pension Liability in the fiscal year 2018.

For the reporting date of June 30, 2017, the City reported its proportionate share of the Deferred Outflows and Deferred Inflows of Resources related to pensions from the following sources:

| | Proprietary Funds | | | | Total Proprietary | Total Primary Government |
|--|-------------------|----------|----------|-------------|----------------------|--------------------------------|
| | Governmental | Water | Sewer | Solid Waste | | |
| Differences between expected and actual economic experience | \$2,920 | \$1,532 | \$1,177 | \$1,811 | \$4,520 | \$7,440 |
| Difference between projected and actual investment earnings | 50,904 | 26,709 | 20,527 | 31,581 | 78,817 | 129,721 |
| *Employer contributions paid subsequent to the measurement date (FY2017 Contributions) | 36,625 | 19,217 | 14,769 | 22,722 | 56,708 | 93,333 |
| Total | \$90,449 | \$47,458 | \$36,473 | \$56,113 | \$140,045 | \$230,494 |

*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, 2018.

NOTE 11: CURRENT LIABILITIES – Primary Government

| | Accounts Payable | Revenues Collected in Advance | Accrued Payroll Expenses | Performance Bonds |
|---------------------------|---------------------|-------------------------------------|--------------------------------|----------------------|
| Governmental Funds | | | | |
| General | \$ 42,972 | \$ 0 | \$ 5,750 | \$ 3,208 |
| Street Maintenance | 4,859 | 0 | 4,177 | 0 |
| TIFD Debt Service Fund | 18,880 | 0 | 0 | 0 |
| Other Governmental Funds | <u>12,343</u> | <u>0</u> | <u>1,040</u> | <u>0</u> |
| Total Governmental Funds | <u>\$ 79,054</u> | <u>\$ 0</u> | <u>\$10,967</u> | <u>\$ 3,208</u> |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

| | Accounts | Revenues | Accrued | Customer |
|---------------------------------|------------------|--------------------------------|-----------------|-----------------|
| | Payable | Collected | Payroll | Deposits |
| <u>Proprietary Funds</u> | | <u>in Advance</u> ¹ | <u>Expenses</u> | <u>Payable</u> |
| Water | \$ 29,413 | \$13,841 | \$ 5,059 | \$54,140 |
| Sewer | 16,063 | 26,781 | 4,296 | 0 |
| Solid Waste | <u>17,563</u> | <u>0</u> | <u>5,005</u> | <u>4,700</u> |
| Total Proprietary Funds | \$ 63,038 | \$40,622 | \$14,359 | \$58,840 |
| Total Primary Government | <u>\$142,092</u> | <u>\$40,622</u> | <u>\$25,327</u> | <u>\$62,048</u> |

NOTE 12: CURRENT LIABILITIES – Two Rivers Authority (A Component Unit)

A) CURRENT LIABILITIES

| | Deferred | Compensated | Adv. Funding | Accrued | Accrued | Accounts | Total |
|------------------------------------|------------------|-----------------|------------------|---------------------|---------------------|-----------------|---------------------|
| <u>Two Rivers Authority</u> | <u>Payroll</u> | <u>Absences</u> | Bondholder | Bond | Bond | Payable | Current |
| General | <u>\$162,530</u> | <u>\$4,068</u> | <u>Loans</u> | <u>Interest</u> | <u>Principal</u> | <u>\$26,684</u> | <u>Liabilities</u> |
| | | | <u>\$870,376</u> | <u>\$16,320,213</u> | <u>\$16,320,213</u> | | <u>\$25,568,871</u> |

Two Rivers Authority's revenues are not sufficient to meet its current operating costs and liabilities as they become due. Since 2014, bondholders have advanced cash to provide funding for operational costs.

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, 2017 totaled \$162,530.

C) ADVANCE FUNDING BONDHOLDER LOANS

In previous fiscal years, bondholders made 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). Bondholder advances of \$12,049 were made in fiscal year 2017. The advances were made to TRA to cover operating cost. The agreements between TRA and the bondholders provide for repayment of the advance funding loans, without a repayment schedule, prior to servicing the existing bond debt.

NOTE 13: INTERFUND LOANS – Governmental Activities

A) INTERFUND LOANS

| | <u>Total</u> | <u>Due to / Reason</u> |
|--|--------------------|--|
| SID 120 | \$ 755,051 | General – in-house SID financing |
| SID 120 | 61,845 | Curb & Gutter – in-house SID financing |
| SID 120 | 114,860 | Gas Tax – in-house SID financing |
| SID 120 | <u>212,036</u> | Capital project – in-house SID financing |
| Subtotal SID 120 | \$1,143,792 | |
| SID 121 | \$ 253,958 | General – in-house SID financing |
| SID 121 | 22,249 | Curb & Gutter – in-house SID financing |
| SID 121 | 51,915 | Gas Tax – in-house SID financing |
| SID 121 | <u>88,996</u> | Capital project – in-house SID financing |
| Subtotal SID 121 | <u>\$ 417,115</u> | |
| Total SID Interfund Loans | \$1,560,910 | |
| <u>Other Governmental Funds</u> | <u>Amount</u> | <u>Total</u> |
| CTEP | \$ 6,706 | General – to cover negative cash |
| Subtotal Other Governmental funds | <u>\$ 6,706</u> | |
| Total Interfund Loans | <u>\$1,567,615</u> | |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

B) INTERFUND LOANS – SID FUNDING DETAILS

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. These SID interfund loans are also represented in Section A above.

| <u>Fund</u> | <u>Outstanding</u> | <u>Interest Rate</u> | <u>Payment Frequency</u> | <u>Semi-Annual Payments</u> |
|-------------|--------------------|----------------------|--------------------------|-----------------------------|
| SID 120 | \$1,143,792 | 3% | Semi-annually | \$42,773 |
| SID 121 | <u>417,118</u> | 3% | Semi-annually | 18,359 |
| Total | \$1,560,910 | | | |

| <u>Due To:</u> | <u>Due from SID 120</u> | <u>Due from SID 121</u> | <u>Total</u> | <u>Current Portion (SID 120 + 121)</u> |
|-----------------------|-----------------------------|-----------------------------|--------------------|--|
| General | \$ 755,051 | \$253,958 | \$1,009,009 | \$52,267 |
| Curb & Gutter | 61,845 | 22,249 | 84,094 | 4,364 |
| Gas Tax Apportionment | 114,860 | 51,915 | 166,775 | 8,709 |
| Capital Improvements | <u>212,036</u> | <u>88,996</u> | <u>301,032</u> | <u>15,687</u> |
| Total | <u>\$1,143,792</u> | <u>\$417,118</u> | <u>\$1,560,910</u> | <u>\$81,027</u> |

Interfund Loan Repayment Schedule:

| | <u>SID 120</u> | | <u>SID 121</u> | | <u>Total</u> | |
|-----------------|--------------------|------------------|-------------------|------------------|--------------------|------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> |
| Due by June 30: | | | | | | |
| 2018 | \$ 57,215 | \$ 39,942 | \$ 23,812 | \$ 12,261 | \$ 81,027 | \$ 52,203 |
| 2019 | 52,622 | 33,484 | 21,112 | 11,642 | 73,734 | 45,126 |
| 2020 | 55,501 | 30,605 | 21,750 | 11,004 | 77,251 | 41,609 |
| 2021 | 57,178 | 28,928 | 22,407 | 10,346 | 79,585 | 39,274 |
| 2022 | 58,906 | 27,200 | 23,085 | 9,669 | 81,991 | 36,869 |
| 2023-2027 | 322,339 | 108,191 | 126,321 | 37,449 | 448,660 | 145,640 |
| 2028-2032 | 374,088 | 56,443 | 146,600 | 17,169 | 520,688 | 73,612 |
| 2033-2034 | <u>165,943</u> | <u>6,270</u> | <u>32,031</u> | <u>723</u> | <u>197,974</u> | <u>6,993</u> |
| Total | <u>\$1,143,792</u> | <u>\$331,063</u> | <u>\$ 417,118</u> | <u>\$110,263</u> | <u>\$1,560,910</u> | <u>\$441,326</u> |

Due to annual changes to prepayments and delinquents, this schedule is recalculated annually

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> | <u>June 30, 2016 Balance</u> | <u>Payments</u> | <u>New Loans</u> | <u>June 30, 2017 Balance</u> | <u>Due From / Reason</u> |
|--------------------------|----------------------------------|--------------------|----------------------|----------------------------------|--|
| General | \$ 781,018 | (\$ 25,967) | \$ 0 | \$ 755,051 | SID 120 – to fund street construction costs |
| Curb & Gutter | 63,972 | (2,127) | 0 | 61,845 | SID 120 – to fund street construction costs |
| Gas Tax Apportionment | 118,810 | (3,950) | 0 | 114,860 | SID 120 – to fund street construction costs |
| Capital Improvements | <u>219,328</u> | <u>(7,292)</u> | <u>0</u> | <u>212,036</u> | SID 120 – to fund street construction costs |
| Subtotal SID 120 | \$1,183,128 | (\$ 39,336) | \$ 0 | \$1,143,792 | |
| General | \$ 283,356 | (\$ 29,397) | \$ 0 | \$ 253,958 | SID 121 – to fund street construction costs |
| Curb & Gutter | 24,825 | (2,576) | 0 | 22,249 | SID 121 – to fund street construction costs |
| Gas Tax Apportionment | 57,924 | (6,009) | 0 | 51,914 | SID 121 – to fund street construction costs |
| Capital Improvements | <u>99,298</u> | <u>(10,302)</u> | <u>0</u> | <u>88,996</u> | SID 121 – to fund street construction costs |
| Subtotal SID 121 | \$ 465,402 | (\$ 48,284) | \$ 0 | \$ 417,118 | |
| General | \$ 8,690 | (\$ 1,984) | \$ 0 | \$ 6,706 | CTEP - Cover negative cash |
| General | <u>1,860</u> | <u>(1,860)</u> | <u>0</u> | <u>0</u> | Capital Projects - Parks - Cover negative Cash |
| Subtotal General | <u>\$ 10,550</u> | <u>(\$ 3,844)</u> | <u>\$ 0</u> | <u>\$ 6,706</u> | |
| Total Governmental funds | <u>\$1,659,081</u> | <u>(\$ 91,464)</u> | <u>\$ 0</u> | <u>\$1,567,616</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 but are not reflected in the interfund loan balances.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 14: LONG TERM DEBT OBLIGATIONS – Governmental Activities

A) CHANGES IN LONG TERM DEBT

| Governmental Activities: | Balance | | | Balance June 30, 2017 | Due within one year |
|-------------------------------------|---------------------|--------------------|--------------------|--------------------------|------------------------|
| | July 1, 2016 | Additions | Deletions | | |
| TIF District Revenue Bonds | \$20,920,000 | \$ 0 | (\$ 0) | \$20,920,000 | \$2,105,000 |
| TIF District Bonds Accrued Interest | 530,436 | 1,307,500 | (871,559) | 966,377 | 966,377 |
| Compensated Absences | 54,462 | 8,749 | (0) | 63,211 | 15,803 |
| Net Pension Liability | 424,493 | 116,585 | (0) | 541,078 | 0 |
| Total OPEB Liability | <u>64,555</u> | <u>0</u> | <u>(0)</u> | <u>64,555</u> | <u>0</u> |
| Total | <u>\$21,993,946</u> | <u>\$1,432,834</u> | <u>(\$871,559)</u> | <u>\$22,555,221</u> | <u>\$3,087,180</u> |

B) REVENUE BONDS – Governmental

| Governmental Revenue Bonds | Issue | Original | Original | Interest | (10 years) Accreted | Bond | Principal Balance |
|-------------------------------|----------|----------|--------------|----------|------------------------|----------|---------------------|
| | Date | Term | Amount | Rate | Interest | Payments | June 30, 2017 |
| Tax Increment Financing (TIF) | 9/1/2006 | 25 yrs. | \$12,600,953 | 6.25% | \$8,319,047 | \$0 | <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 bonds are secured by a lien on the Tax Increment Financing (TIF) District. Revenue bondholders only receive principal and interest payments if revenues are available from the stated source to pay the scheduled amounts. The City was required to begin making scheduled principal and interest payments in fiscal year 2016. The interest was accreted (added to principal) until fiscal year 2014. The first interest payments were due in fiscal year 2015 and the City paid the scheduled interest amount.

Principal payments were scheduled to begin in fiscal year 2016. However, the City has not made any scheduled principal payments, nor the full scheduled interest amounts. The revenue bonds are considered to be in default because the principal payments have not been paid as scheduled.

Bond Amortization Schedule

| Fiscal Year | Principal | Interest |
|-------------|---------------------|---------------------|
| 2018 | \$ 2,105,000 | \$ 2,273,877 |
| 2019 | 790,000 | 1,307,500 |
| 2020 | 840,000 | 1,307,500 |
| 2021 | 895,000 | 1,307,500 |
| 2022 | 950,000 | 1,307,500 |
| 2023-2027 | 5,715,000 | 6,537,500 |
| 2028-2032 | <u>9,625,000</u> | <u>6,537,500</u> |
| Totals | <u>\$20,920,000</u> | <u>\$20,578,877</u> |

The interest schedule above is presented with the assumption that the bond payments will not be made on time in the future. In the event that the bonds remain in default, the interest payment would remain at \$653,750 for each semi-annual payment period; which was the last full scheduled interest payment made on time.

Accrued Interest

In fiscal year 2016, the City made interest payments of \$777,064 of the scheduled interest amount of \$1,307,500. Because the full interest payment was not made, the next scheduled interest payment becomes the same as the last full amount paid. Therefore, the annual interest amount due remains at the most recent scheduled interest payment that was paid on time. In fiscal year 2017, interest payments of \$871,559 were made. A schedule of accumulated accrued interest is shown below.

| Fiscal Year | Scheduled Interest | Actual Interest Payments | Accumulated Accrued Interest |
|-------------|-----------------------|-----------------------------|---------------------------------|
| 2015 | \$ 653,750 | (\$653,750) | \$ 0 |
| 2016 | 1,307,500 | (777,064) | 530,436 |
| 2017 | 1,307,500 | (871,559) | 966,377 |

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, 2017, there is no arbitrage-rebate liability for the TIFD bonds. As of June 30, 2017, bond proceeds of \$590,003 held in CD's and money markets are in separate accounts owned by the City but held by the Bank Trustee on behalf of the TIFD bondholders.

NOTE 15: LONG TERM DEBT OBLIGATIONS – Business-Type Activities

A) CHANGES IN LONG TERM DEBT

| | Balance July 1, 2016 | Additions | Deletions | Balance June 30, 2017 | Due within one year |
|----------------------------------|-------------------------|------------------|--------------------|--------------------------|------------------------|
| Business-Type Activities: | | | | | |
| OPEB Liability | \$ 114,766 | \$ 0 | (\$ 0) | \$ 114,766 | \$ 0 |
| Revenue Bonds | 2,458,000 | 0 | (251,000) | 2,207,000 | 127,000 |
| Compensated Absences | 111,158 | 0 | (5,044) | 106,114 | 26,529 |
| Net Pension Liability – PERS | 676,785 | 160,978 | (0) | 837,763 | 0 |
| Landfill Closure / Post-closure | 1,038,280 | 65,377 | (0) | 1,103,657 | 0 |
| Total | <u>\$4,398,989</u> | <u>\$226,355</u> | <u>(\$256,044)</u> | <u>\$4,369,300</u> | <u>\$ 153,529</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. Interest includes agent fees.

| Business-Type Bonds: | Issue Date | Term | Interest Rate | Original Amt. | Retired | Balance |
|---------------------------|------------|----------|---------------|--------------------|----------------------|--------------------|
| Water Series 2012B | 11/16/2012 | 20 years | 3.00% | 235,411 | (51,411) | 184,000 |
| Sewer Series 2003 | 6/27/2005 | 20 years | 2.25% | \$1,247,000 | (\$ 499,000) | \$ 748,000 |
| Sewer Series 2010B | 1/15/2010 | 20 years | 0.75% | 359,300 | (129,300) | 230,000 |
| Sewer Series 2010C | 5/11/2010 | 20 years | 3.00% | 557,000 | (120,000) | 437,000 |
| Subtotal Sewer Bonds | | | | 2,163,300 | (748,300) | \$1,415,000 |
| Landfill Series 2009 | 6/19/2009 | 15 years | 2.25% | 1,127,000 | (519,000) | 608,000 |
| Total Business-Type Bonds | | | | <u>\$4,896,101</u> | <u>(\$1,318,711)</u> | <u>\$2,207,000</u> |

| | Water Bonds | | Sewer Bonds | | Landfill Bonds | | Total | |
|-----------|------------------|-----------------|--------------------|------------------|------------------|-----------------|--------------------|------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest |
| 2018 | \$ 5,000 | \$ 2,760 | \$ 82,000 | \$ 15,833 | \$ 40,000 | \$ 6,840 | \$ 127,000 | \$ 25,432 |
| 2019 | 10,000 | 5,295 | 167,000 | 28,927 | 82,000 | 12,319 | 259,000 | 46,541 |
| 2020 | 10,000 | 4,995 | 170,000 | 25,193 | 84,000 | 10,462 | 264,000 | 40,650 |
| 2021 | 10,000 | 4,695 | 175,000 | 21,386 | 86,000 | 8,561 | 271,000 | 34,642 |
| 2022 | 11,000 | 4,395 | 177,000 | 17,467 | 88,000 | 6,615 | 276,000 | 28,478 |
| 2023-2027 | 60,000 | 16,650 | 464,000 | 41,625 | 228,000 | 7,729 | 752,000 | 66,004 |
| 2028-2032 | 70,000 | 7,110 | 180,000 | 7,234 | 0 | 0 | 250,000 | 14,344 |
| 2033 | 8,000 | 120 | 0 | 0 | 0 | 0 | 8,000 | 120 |
| Totals | <u>\$184,000</u> | <u>\$46,020</u> | <u>\$1,415,000</u> | <u>\$157,665</u> | <u>\$608,000</u> | <u>\$52,526</u> | <u>\$2,207,000</u> | <u>\$256,211</u> |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 16: LONG-TERM DEBT OBLIGATIONS – Two Rivers Authority (A Component Unit):

A) CHANGES IN LONG-TERM DEBT

| Two Rivers Authority (A component unit) | Balance | | Payments / | Balance | Due within |
|--|---------------------|--------------------|-----------------|----------------------|---------------------|
| | <u>July 1, 2016</u> | <u>Additions</u> | <u>Removals</u> | <u>June 30, 2017</u> | <u>one year</u> |
| Revenue Bonds | \$27,015,000 | \$ 0 | (\$ 0) | \$27,015,000 | \$ 8,185,000 |
| Accrued Bond Interest | 14,400,188 | 1,920,025 | (0) | 16,320,213 | 16,320,213 |
| Advance Funding Bondholder Loans | 858,327 | 12,049 | (0) | 870,376 | 0 |
| Deferred Payroll | 117,427 | 45,103 | (0) | 162,530 | 162,530 |
| Compensated Absences | <u>5,059</u> | <u>0</u> | <u>(991)</u> | <u>4,068</u> | <u>4,068</u> |
| Total | <u>\$42,396,000</u> | <u>\$1,977,177</u> | <u>(\$ 991)</u> | <u>\$17,357,187</u> | <u>\$24,671,811</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, 2017</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, 2017, seventeen (17) interest payments are in arrears. As long as the bonds remain in default, interest accrues at \$960,013 instead of the scheduled amount shown below.

| | | |
|---------------------|---------------------|---------------------|
| Past Due Portion | \$ 7,110,000 | \$16,320,213 |
| <u>2018 Portion</u> | <u>1,075,000</u> | <u>1,920,025</u> |
| 2018 Total | \$ 8,185,000 | \$18,240,238 |
| 2019 | 1,150,000 | 1,920,025 |
| 2020 | 1,235,000 | 1,920,025 |
| 2021 | 1,325,000 | 1,920,025 |
| 2022 | 1,420,000 | 1,920,025 |
| 2023-2027 | 8,824,000 | 1,920,025 |
| 2028-2029 | <u>4,875,000</u> | <u>960,012</u> |
| Totals | <u>\$27,015,000</u> | <u>\$36,480,475</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 2017. The interest due as of June 30, 2017 is reported as accrued bond interest payable. The facility was not in operation during fiscal year 2017 and is not in operation as of the date of this report.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Revenue Bond Indenture Requirements - TRA

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

- 1) Bond Fund – A sum equal to 1/12th of the principal coming due on the Bonds on the next November 1 (if any) and, beginning November 1, 2007. 1/6th of the interest coming due on the Bonds on the next Interest Payment Date. Moneys in the Bond Fund are to be applied to payments of principal and interest due. The Bond Fund is originally established from the proceeds of the Bonds of \$2,566,590 together with interest earned on the original Reserve fund balance of \$123,695.
- 2) Operation and Maintenance Costs due and payable within one month total \$193,282. Of this amount, deferred payroll is \$162,530 and compensated absences total \$4,068 is the remainder. As of June 30, 2017 the operating account has a balance of \$38 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 \$6,016 balance for fiscal year ended June 30, 2017.
- 4) Any remaining to the Surplus Account. The Surplus account had a \$0 balance for fiscal year ended June 30, 2017.

TRA’s reserve fund which consists of cash remaining from the original bond proceeds plus interest, totaled \$6,016 as of June 30, 2017. TRA’s current Bond Fund requirements for principal are \$8,185,000 and \$18,240,238 for interest for a total of \$26,425,238. TRA is *not in compliance* with the bond covenants as of June 30, 2017. As of the date of this report no formal agreements are in place to provide revenues to cover these debts.

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, 2017 Two Rivers Authority has not met the bond covenants and is considered to be in default on the revenue bonds.

| | | | |
|-----------------------------------|---------------------|---------------------------------|-----------------------|
| Operating Loss | (\$2,527,646) | 2017 Principal and Interest Due | \$26,425,238 |
| Add back Accrued Interest Expense | 1,920,025 | | <u> x 120%</u> |
| Add back Depreciation Expense | <u>393,751</u> | Required Net Revenues | \$31,710,286 |
| Net Revenues | <u>(\$ 213,870)</u> | Actual Net Revenues | <u>(213,870)</u> |
| | | Net Revenue Shortage | <u>(\$31,924,156)</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 bondholders 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 17: 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, 2017 of \$1,103,657 represents the cumulative amount reported to-date based on the available use of 36.96% of the Class II area and 74.71% of the Coal Ash area, which is a combined estimate of 64.85% 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 \$1,288,216 for total costs of \$2,391,873.

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. No major violations were noted.

Closure and Post-Closure Costs

| <u>Closure/Post-Closure Liability</u> | <u>June 30, 2016</u> | <u>Accrual Amount</u> | <u>June 30, 2017</u> |
|---------------------------------------|----------------------|-----------------------|----------------------|
| Class II Cell | \$ 803,416 | \$29,467 | \$ 832,883 |
| Coal Ash Cell | <u>234,864</u> | <u>35,910</u> | <u>270,774</u> |
| Net Change in Landfill Liability | <u>\$1,038,280</u> | <u>\$65,377</u> | <u>\$1,103,657</u> |

The City will recognize the remaining estimated cost of closure and post-closure care of \$1,288,216 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and post-closure in 2017. The City expects to close the Class II area landfill in 24 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:

NOTES TO THE FINANCIAL STATEMENTS (Continued)

| | <u>Closure Costs</u> | <u>Post-Closure Costs</u> | <u>Total Estimated Costs</u> |
|----------|----------------------|---------------------------|------------------------------|
| Class II | \$1,092,971 | \$ 228,304 | \$1,321,275 |
| Coal Ash | <u>979,608</u> | <u>90,990</u> | <u>1,070,598</u> |
| Total | <u>\$2,072,579</u> | <u>\$ 319,294</u> | <u>\$2,391,873</u> |

Class II Area

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.

In February of 2017, 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 24 years; estimated closure in year 2041.

Coal Ash Area

During the 3-year period in which ash was brought to the landfill the City obtained the ownership of 160 acres immediately west of the landfill. The Coal Ash area, which was opened in April of 2009, consists of a 39.8 acre expansion area to dispose of coal ash. The 39.8 acres is constructed on a 160 acre parcel immediately west of the landfill. Based on 80,000 tons/year of ash, the area has a remaining capacity to dispose of the ash for 24 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.

Irrevocable 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, 2017, cash and investments of \$917,760 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 2017 totaled \$65,943.

NOTE 18: 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 – Associated with 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 | \$ 151,924 | Taxes / Assessments Receivable |
| Street Maintenance | 66,418 | Taxes / Assessments Receivable |
| TIFD | 1,449,449 | Taxes / Assessments Receivable |
| SID 120 | 1,165,633 | Taxes / Assessments Receivable |
| SID 121 | 419,346 | Taxes / Assessments Receivable |
| Other Governmental Funds | <u>198,770</u> | Taxes / Assessments Receivable |
| Total Governmental Activities | <u>\$3,451,539</u> | |

C) DEFERRED INFLOWS OF RESOURCES – Associated with Pensions – PERS-DBRP

| Deferred Inflows of Resources | Governmental Activities | Proprietary Funds | | | Total Proprietary | Total Primary Government |
|---|-------------------------|-------------------|---------|-------------|-------------------|--------------------------|
| | | Water | Sewer | Solid Waste | | |
| Differences between expected and actual economic experience | \$1,791 | \$940 | \$722 | \$1,111 | \$2,773 | \$4,564 |
| Changes in proportion & differences between employer contributions and proportionate share of contributions | 20,824 | 10,926 | 8,397 | 12,920 | 32,242 | 53,066 |
| Total | \$22,615 | \$11,865 | \$9,119 | \$14,030 | \$35,015 | \$57,630 |

Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in Pension Expense as follows:

NOTES TO THE FINANCIAL STATEMENTS (Continued)

| For the measurement year ended June 30: | Deferred Outflows of Resources (a) | Deferred Inflows of Resources (b) | Amount recognized in Pension Expense as an increase (decrease) to Pension Expense (a – b) |
|---|------------------------------------|-----------------------------------|---|
| 2017 | \$6,280 | \$0 | \$6,280 |
| 2018 | \$6,280 | \$0 | \$6,280 |
| 2019 | \$73,716 | \$0 | \$73,716 |
| 2020 | \$46,321 | \$0 | \$46,321 |
| 2021 | \$0 | \$0 | \$0 |
| 2022 | \$0 | \$0 | \$0 |
| Thereafter | \$0 | \$0 | \$0 |

NOTE 19: PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS) – DEFINED BENEFIT RETIREMENT PLAN (DBRP)

In accordance with GASB 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 Defined Benefit Retirement Plan (PERS-DBRP). Employers are required to record and report their proportionate share of the collective Net Pension Liability; Pension Expense; and Deferred Outflows and Deferred Inflows of Resources associated with pensions.

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

Not Special Funding

The State of Montana, as the non-employer contributing entity, also paid to PERS-DBRP *coal tax contributions* that are *not* accounted for as special funding.

Net Pension Liability - The employer's proportionate share equals the ratio of the employer's contributions to the sum of all employer and non-employer contributions during the measurement period. The state's proportionate share for a particular employer equals the ratio of contributions for a particular employer to the total state contributions paid. The proportionate shares of the employer's and the state of Montana's NPL for June 30, 2016 are displayed below:

| As of the Measurement Date 6/30/2016 For the Reporting Date 6/30/2017 | Net Pension Liability | Percent of Collective NPL |
|--|-----------------------|---------------------------|
| City Proportionate Share Net Pension Liability | \$1,378,841 | 0.0809% |
| State of Montana Proportionate Share Fiduciary Net Position | \$16,848 | 0.0010% |
| Total Pension Liability | \$1,395,389 | 0.0819% |
| Deferred Outflows of Resources | \$230,494 | |
| Deferred Inflows of Resources | \$57,630 | |
| Pension Expense | \$(3,073) | |

A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

MPERA prepared financial statements using the accrual basis of accounting. The same accrual basis was used by MPERA for the purposes of determining the NPL; Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions; Pension Expense; the Fiduciary Net Position; and Additions to or Deductions from Fiduciary Net Position. Member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Revenues are recognized in the accounting period they are earned and become measurable. Benefit payments and refunds are recognized in the accounting period when due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred. Investments are reported at fair value. MPERA adhered to all accounting principles generally accepted in the United States of America. MPERA applied all applicable pronouncements of the Governmental Accounting Standards Board (GASB).

Stand-Alone Statements – PERS-DBRP

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

B) GENERAL INFORMATION ABOUT THE DEFINED BENEFIT PENSION PLAN

Plan Description – PERS-DBRP

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 and 3, MCA. This plan provides retirement benefits to covered employees o/f the State and 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 choose to remain in the PERS-DBRP or join the PERS-DCRP by filing an irrevocable election. Members may not be participants of both the *defined benefit* and *defined contribution* retirement plans. All new members from the universities also have a third option to join the university system’s Montana University System Retirement Program (MUS-RP).

Summary of Benefits – PERS-DBRP

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.

Eligibility for Benefits

Service Retirement – PERS-DBRP

- 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-DBRP

- 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-DBRP

Benefits fully vest after 5 years of membership service.

Member’s Highest Average Compensation (HAC) – PERS-DBRP

- 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-DBRP

- 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-DBRP

Members hired prior to July 1, 2011:

- Less than 25 years of membership service: 1.785% of HAC per year pf 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

Overview of Contributions - PERS-DBRP

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

| Fiscal Year | Member | | State & Universities | Local Government | | School Districts | |
|-------------|----------------|---------------|----------------------|------------------|--------|------------------|--------|
| | Hired <7/01/11 | Hired >7/1/11 | Employer | Employer | State | Employer | State |
| 2017 | 7.9% | 7.9% | 8.470% | 8.370% | 0.100% | 8.100% | 0.370% |
| 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% |

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 2024. The additional employer contributions including the 0.27% added in 2007 and 2009, will terminate on January 1 following an actuary valuation that shows the amortization period of the 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 Plan Choice Rate (PCR), that directed a portion of employer contributions for DC members to the PERS defined benefit plan are included in the employers reporting. The PCR was paid off effective March 2016 and the contributions previously directed to the PCR are now directed to member accounts.
3. Non Employer Contributions
 - a. Special Funding
 - i. The State contributes 0.1% of members' compensation on behalf of local government entities.
 - ii. The State contributes 0.37% of 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 Severance Tax fund.

Changes in actuarial assumptions and methods - PERS-DBRP

There were no changes in assumptions or other inputs that affected the measurement of the TPL.

Changes in Benefit Terms - PERS-DBRP

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

Changes in Proportionate Share - PERS-DBRP

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 were no changes to the City's situation that may have significant impacts on the proportionate share.

Pension Expense - PERS-DBRP

At June 30, 2016, the City recognized its proportionate share of the PERS' Pension Expense as follows:

| <u>As of the Measurement Date</u> | <u>Pension Expense as of 6/30/2016</u> |
|---|--|
| The City's Proportionate Share | \$(28,643) |
| State of Montana's Proportionate Share associated with the City | 24,158 |
| Grant Revenue - State of Montana Coal Tax for the City | <u>1,412</u> |
| Total | \$(3,073) |

Actuarial Assumptions - PERS-DBRP

The Total Pension Liability (TPL) used to calculate the NPL was determined by taking the results of the June 30, 2015, actuarial valuation and applying standard roll forward procedures to update the TPL to June 30, 2016. There were several significant assumptions and other inputs used to measure the TPL. The actuarial assumptions used in the June 30, 2016, valuation were based on the results of the last actuarial experience study, dated June 2010 for the six year period July 1, 2003 to June 30, 2009. Among those assumptions were as follows:

NOTES TO THE FINANCIAL STATEMENTS (Continued)

- 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)

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.

- 3.0% 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 25 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.

Discount Rate - PERS-DBRP

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 and 0.37% for school districts. In addition, the State contributes coal severance tax and interest money from the General fund. The interest is contributed monthly and the severance tax is contributed quarterly. Based on those assumptions, the System’s fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2117. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL. A municipal bond rate was not incorporated in the discount rate.

Target Allocations - PERS-DBRP

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the Plan. The experience study, performed for the period of fiscal years 2003 through 2009, was outlined in a report dated June 2010 and can be located on the MPERA website. The long-term expected rate of return on pension plan investments was determined by considering information from various sources, including historical rates of return, rate of return assumptions adopted by similar public sector systems, and by using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return for each major asset class included in the target asset allocation as of June 30, 2016, are summarized as follows.

| Asset Class | Target Asset Allocation (a) | Real Rate of Return Arithmetic Basis (b) | Long Term Expected Real Rate of Return (a) x (b) |
|------------------------------|--------------------------------|---|---|
| Cash Equivalents | 2.60% | 4.00% | 0.10% |
| Domestic Equity | 36.0% | 4.55% | 1.64% |
| Foreign Equity | 18.0% | 6.35% | 1.14% |
| Fixed Income | 23.4% | 1.00% | 0.23% |
| Private Equity | 12.0% | 7.75% | 0.93% |
| Real Estate | 8.0% | 4.00% | 0.32% |
| Total | 100.0% | | 4.37% |
| Inflation | | | 3.00% |
| Portfolio Return Expectation | | | 7.37% |

Sensitivity Analysis - PERS-DBRP

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

| As of Measurement Date | 1.0% Decrease 6.75% | Current Discount Rate 7.75% | 1.0% Increase 8.75% |
|------------------------------|------------------------|--------------------------------|------------------------|
| City’s Net Pension Liability | \$2,000,800 | \$1,378,841 | \$843,084 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 20: PUBLIC EMPLOYEES’ RETIREMENT SYSTEM (PERS) – DEFINED CONTRIBUTION RETIREMENT PLAN

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

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

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

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

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

NOTE 22: VOLUNTEER FIREMEN’S DISABILITY and PENSION PLAN

A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Firemen’s Disability and Pension Plan is a single-employer defined benefit plan established under Montana State law, and covers volunteer firefighters serving on the City of Hardin’s volunteer firefighter’s team. Volunteer firemen who serve 20 years with the City are eligible for the plan. No trust has been established. The City holds funds in a separate fund for this pension plan.

The state of Montana, as the non-employer contributing entity, paid additional contributions that qualify as *special funding* to the City of Hardin. The City receives this special funding according to MCA 19-18-512

Net Pension Liability - The City’s share equals the City’s contributions during the measurement period. The State of Montana’s share equals the State’s contributions paid to the City of Hardin on behalf of the Firemen’s Disability and Pension Plan during the fiscal year. The State’s share of the Net Pension Liability is limited to the annual contributions made to the plan. The City’s and State of Montana’s shares of the NPL for June 30, 2017 are displayed below:

| As of the Measurement Date 6/30/2017 For the Reporting Date 6/30/2017 | Net Pension Liability | Percent of Collective NPL |
|--|-----------------------|------------------------------|
| City Share of Net Pension Liability | \$100,217 | .787253% |
| State of Montana’s Share or Fiduciary Net Position | \$27,083 | .212747% |
| Total Pension Liability | \$127,300 | 100.0000% |
| Deferred Outflows of Resources | \$0 | |
| Deferred Inflows of Resources | \$0 | |
| Pension Expense | \$24,600 | |

Stand-Alone Statements - Volunteer Firemen: The plan has no stand-alone statements. The assets and liabilities of the plan are reported in the Statement of Fiduciary Net Position. The plan is administered as a fiduciary fund (Agency fund) of the City of Hardin and referred to as the Firemen’s Relief Association fund. Agency funds do not report revenues and expenditures; instead the “Due to Others” line reflects the effects of all such transactions.

B) GENERAL INFORMATION ABOUT THE PENSION PLAN

Plan Description - Volunteer Firemen: The Volunteer Firemen’s Disability and Pension Plan (the Plan) is a single-employer, defined benefit pension plan that provides retirement services to volunteer firemen serving on the City of Hardin’s volunteer firemen team.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Benefits - Volunteer Firemen: The plan pays a lifetime benefit of \$100 per 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, 2017, the plan covers 23 retirees (18 retirees and 5 surviving spouses) and 20 active firemen. There are no inactive firemen currently eligible for the plan but not yet receiving benefits.

Funding Status of the Plan - Volunteer Firemen: The Firemen’s Relief Association Pension Plan is soundly funded in accordance with the MCA 19-18-503 definition recently adopted by SB0016. In the past, the City contributed dollars (in addition to) the maximum tax levy to help bring this plan into compliance with prior MCA requirements. Now that the plan is soundly funded according to the current MCA requirements, and assets are above the maximum of 5 times the higher of either the current or prior year’s benefit payments, the City has discontinued levying monies for this plan. Transactions in the Firemen’s Relief Association fund for the past five years were as follows:

| | 2017 | 2016 | 2015 | 2014 | 2013 |
|--------------------------------|------------------|------------------|------------------|------------------|------------------|
| Beginning Assets | \$167,032 | \$151,455 | \$135,295 | \$123,463 | \$115,473 |
| City Contributions | 25,810 | 24,810 | 24,815 | 22,872 | 18,908 |
| State Contributions (Required) | 6,975 | 6,437 | 6,146 | 3,908 | 3,807 |
| Tax Assessments | <u>10,037</u> | <u>9,266</u> | <u>9,661</u> | <u>8,559</u> | <u>8,592</u> |
| Total Contributions | 42,822 | 40,513 | 40,622 | 35,339 | 31,307 |
| Interest Additions | <u>686</u> | <u>617</u> | <u>413</u> | <u>486</u> | <u>923</u> |
| Total Additions | 43,508 | 41,130 | 41,035 | 35,825 | 32,230 |
| Benefits Paid | <u>(24,600)</u> | <u>(25,553)</u> | <u>(24,875)</u> | <u>(23,993)</u> | <u>(24,240)</u> |
| Net Additions | 18,908 | 15,577 | 16,160 | 11,832 | 7,990 |
| Ending Assets | <u>\$185,940</u> | <u>\$167,032</u> | <u>\$151,455</u> | <u>\$135,295</u> | <u>\$123,463</u> |

Overview of Contributions - Volunteer Firemen: State law determines the contributions made and the benefits paid. All contributions are from the City and State of Montana; firemen do not contribute to the plan. In February of 2017 MCA amended 19-18-503 with Senate Bill 0016 which now requires each disability and pension fund to be soundly funded. According to SB0016, the fund is “soundly funded” if:

(1) assets in the fund are maintained at a level equal to at least three times but no more than five times of the benefits paid by the fund in the previous or current fiscal year, whichever is greater; or

(2) funding is maintained at a level determined by an actuarial valuation to be sufficient to keep the fund actuarially sound. If the fund contains an amount that is less than the maximum but more than the minimum required to keep the fund soundly funded pursuant to MCA 19-18-503(1)(a), the city council may, if authorized by the voters as provided in MCA 15-10-425, levy an annual tax.

Net Pension Liability - Volunteer Firemen: Fiscal year 2017 is the first year of the reporting requirement for the Firemen’s Relief Association pension. The City calculated the net pension liability using the simple calculation method outlined in MCA 15-10-425 as shown in the table below. The City selected the 5 times benefits calculation as the Pension Liability. No accruals of benefits were made. Therefore, there are no Deferred Outflows or Deferred Inflow of Resources associated with the Firemen’s Relief Association pension. The total pension liability is \$127,300.

| | Benefits Paid | 3 times Benefits | 5 times Benefits |
|--------|---------------|------------------|---|
| FY2017 | \$24,600 | \$73,800 | \$123,000 |
| FY2016 | \$25,460 | \$76,380 | \$127,300 = Highest (The City selected the 5-times benefits as the net pension liability) |

Changes in Benefit Terms - Volunteer Firemen: There have been no changes in benefit terms for at least 10 years.

Sensitivity Analysis: The Net Pension Liability using a multiplier of 1 lower or 1 higher than the current multiplier of 5 is illustrated below:

| | 4 Times Benefits | 5 Times Benefits | 6 Times Benefits |
|------------------------------|------------------|------------------|------------------|
| Firemen’s Relief Association | \$101,840 | \$127,300 | \$152,760 |

Changes in City & State Shares – Volunteer Firemen: Between the measurement date of the collective NPL and the City’s reporting date, there were no changes in proportion that may have an effect on the City’s share of the NPL. There were no changes to the City’s situation that may have significant impacts on the proportionate share.

NOTE 23: 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 result is an OPEB referred to as an “implicit rate subsidy.” The OPEB is considered to be a long-term liability and is recorded on the modified accrual basis of accounting for governmental funds and the accrual basis of accounting for proprietary funds and the Government-wide Statements of Net Position and Activities.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Plan Description - OPEB

The City participates in the Joint Power Trust Group (JPT), a non-profit group health benefit trust which administers a pool of various sized public entities. A retiree who retires with the Public Employees' Retirement System (PERS) is eligible to keep the City's health insurance as a retiree. The retiree is on the same medical plan as the City's active employees. The retired members must pay all premiums without any City assistance. The JPT health insurance program uses the same premiums for active and retired members. 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."

In accordance with Resolution #1996 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. The City has less than 100 plan members and elected to use the "Alternative Measurement Method" to calculate its OPEB liability. The alternative measurement method was used in place of an actuarial valuation. The OPEB plan does not provide a stand-alone financial report. The City pays 80% of the single active employee's health insurance premium. The implicit subsidy is \$774 per member and \$1,539 per member and spouse. The required schedule of funding progress is reported in the Required Supplementary Information section of this report which immediately follows the notes to the financial statements.

Funding Policy - OPEB

The City pays OPEB liabilities on a "pay-as-you-go" basis. The City's OPEB liability is amortized on a level dollar basis annually until the Actuarial Accrued Liability (AAL) is reached. A trust fund for future liabilities has not been established.

Funding status and progress – OPEB

| | <u>June 30, 2017</u> |
|---|----------------------|
| Actuarial Accrued Liability (AAL) | \$179,321 |
| Actuarial value of plan assets | <u>0</u> |
| Unfunded Actuarial Accrued Liability (UAAL) | \$179,321 |
| Funded ratio (actuarial value of plan assets/AAL) | 0% |
| Covered payroll (active plan members) | \$842,595 |
| UAAL as a percentage of covered payroll | 21% |
| Date of latest AAL calculation | June 30, 2016 |
| Measurement Date | June 30, 2016 |

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 OPEB obligation.

| | |
|---|------------------|
| Actuarial Accrued Liability (AAL) | \$179,321 |
| Interest on OPEB obligation | 0 |
| Adjustment to ARC | <u>0</u> |
| Annual OPEB Cost (Expense) | 0 |
| Contribution made | <u>0</u> |
| Increase in OPEB obligation | 0 |
| Net OPEB obligation - beginning of year | <u>179,321</u> |
| Net OPEB obligation - end of year | <u>\$179,321</u> |

Annual OPEB Cost and OPEB Obligation

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

Covered Employees - OPEB

| | <u>Number</u> |
|---|---------------|
| Active Employees | 21 |
| Inactive Employees currently receiving benefit payments | 1 |
| Inactive Employees entitled to but not yet receiving payments | N/A |

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 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

| | |
|---|------------------------------|
| Average age for employees | 46 |
| Average age for retirees | 57.1 |
| Amortization period and basis | 30 years |
| Health care cost rate trend: | 2.966% for the next 10 years |
| Marital status of members was assumed to continue throughout retirement | |

Mortality, Health Insurance Inflation and Turnover Rates

The mortality rates, health insurance inflation, and turnover rates were based on a case study completed for the league of Minnesota cities used in determining OPEB costs using the alternative measurement method.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and the actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Projections of benefits are based on the types of benefits provided under the substantive plan at the time of each valuation, the pattern of sharing of benefit costs between the employer and plan members to that point.

Actuarial calculations reflect a long-term perspective. The City has no actuarial value of assets because the plan is not funded and no Trust has been established.

The City's annual OPEB cost; percentage of annual OPEB cost contributed; and the OPEB obligation at the end of the year are presented below for the *current and two preceding years*. There are no non-employer contributors. Therefore, the City's OPEB liability is reported as the Total OPEB Liability.

| Fiscal Year | OPEB | Percent of OPEB | OPEB |
|------------------------|----------------|-------------------------|-------------------|
| <u>Ending June 30:</u> | <u>Expense</u> | <u>Cost Contributed</u> | <u>Obligation</u> |
| 2015 | \$329,707 | \$0 | \$329,707 |
| 2016 | 179,321 | 0 | 179,321 |
| 2017 | 179,321 | 0 | 179,321 |

The Required Supplementary Information section of this report, immediately following the notes, 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 employer and plan members in the future.

NOTE 24: 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.

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. Information regarding MSPLIP may be obtained by contacting MMIA directly at PO Box 6669, Helena, MT 59604, <https://mmia.net>.

The City has pollution remediation coverage with **Alliant Insurance Services, Inc.** in accordance with GASBS 49.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The City's Employer's Liability Insurance dropped by \$100,000 from the previous year's coverage amount. The TRA's property and liability insurance coverage was allowed to lapse as of December 2016.

NOTE 25: 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 | \$(1,143,792) | Collect tax assessments |
| SID 121 | (417,117) | Collect tax assessments |
| CTEP | <u>(6,568)</u> | Collect federal CTEP reimbursement |
| Total | <u>\$(1,567,477)</u> | |

NOTE 26: NONRECIPROCAL INTERFUND ACTIVITIES

| <u>Fund</u> | <u>Amount</u> | <u>To</u> | <u>Purpose</u> |
|---------------------|-----------------|---------------------|---|
| General | \$25,518 | Street Maintenance | Part of 25% contribution |
| Capital Improvement | <u>50,000</u> | Fire Capital Assets | To separate monies for future fire capital assets |
| Total | <u>\$75,518</u> | | |

NOTE 27: INSURANCE RECOVERIES

Insurance payments of \$11,684 were received in fiscal year 2017 for a wrecked Freightliner truck that was repaired and back in service as of June 30, 2017.

NOTE 28: SUBSEQUENT REPORTABLE EVENTS

Subsequent events were evaluated through the date of this report. Changes in fair value from the measurement date of June 30, 2017 to the date of this report are immaterial.

City of Hardin

On September 28, 2006, the City of Hardin issued its \$12,600,953 Tax Increment Industrial Infrastructure Development Revenue Bonds (Rocky Mountain Power, Inc. Project), Series 2006 (the "Bonds"), payable from the incremental taxable value of a coal-fired electrical generating facility (the "Facility") owned by Rocky Mountain Power, Inc. (the "Company"). None of the interest due on March 1, 2017, September 1, 2017, or March 1, 2018 has been paid, and none of the principal amount of the Bonds due on September 1, 2015, September 1, 2016 or September 1, 2017 has been paid.

The taxable value of the Facility changed significantly as follows:

| | |
|------|-------------|
| 2014 | \$1,471,108 |
| 2015 | \$1,281,520 |
| 2016 | \$1,343,684 |
| 2017 | \$1,113,927 |

In September, 2016, the Company made a payment of taxes due and owing for fiscal year 2015/16 with respect to a portion of the property comprising the Facility in the amount of \$743,953 plus penalties and interest.

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

In a November 17, 2017 newspaper article, Rocky Mountain Power indicated that if the company can't find a buyer for the facility, it could close by the first or second quarter of 2018. The Company is actively seeking buyers. According to a May 30, 2018 newspaper article, the idea of data processing and blockchain interests purchasing this power plant could be an idea worth pursuing. "Additional information with respect to the Bonds is filed on <http://emma.msrb.org/>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Two Rivers Authority

Negotiations have been ongoing with the Bureau of Indian Affairs (BIA) to lease the detention facility. However, as of the date of this report, no formal agreement has been reached.

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 (Budget and Actual)
 MAJOR GOVERNMENTAL SPECIAL REVENUE FUNDS
 For the Fiscal Year Ended June 30, 2017

| | General Fund | | | Street Maintenance Fund | | |
|--|---------------------|-----------------|---------------------|--------------------------------|-----------------|-------------------|
| | Original Budget | Final Budget | Actual | Original Budget | Final Budget | Actual |
| REVENUES: | | | | | | |
| Taxes/Assessments | \$ 489,056 | \$ 489,056 | \$ 454,532 | \$ 267,987 | \$ 267,987 | \$ 262,529 |
| Investment Earnings | 1,000 | 1,000 | 3,611 | 800 | 800 | 1,093 |
| Licenses and Permits | 49,000 | 49,000 | 47,605 | 500 | 500 | 650 |
| Fines and Forfeitures | 70,651 | 70,651 | 66,437 | - | - | - |
| Miscellaneous | 2,000 | 138,155 | 139,646 | - | - | 7 |
| Intergovernmental Revenue | 682,962 | 682,962 | 682,692 | - | - | - |
| Charges for Services | <u>2,300</u> | <u>2,300</u> | <u>1,539</u> | <u>-</u> | <u>3,000</u> | <u>4,619</u> |
| Total Revenues | 1,296,969 | 1,433,124 | 1,396,061 | 269,287 | 272,287 | 268,898 |
| EXPENDITURES: | | | | | | |
| General Government | 518,929 | 518,929 | 419,857 | - | - | - |
| Public Safety | 579,655 | 592,510 | 576,624 | - | - | - |
| Public Works | 130,000 | 252,000 | 145,151 | 385,708 | 385,708 | 311,379 |
| Public Health | 37,872 | 36,872 | 30,452 | - | - | - |
| Culture & Recreation | 160,679 | 160,679 | 111,818 | - | - | - |
| Housing & Community Development | 146,800 | 146,800 | 2,980 | - | - | - |
| Miscellaneous | <u>6,000</u> | <u>6,000</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Expenditures | 1,579,935 | 1,713,790 | 1,286,882 | 385,708 | 385,708 | 311,379 |
| Current Capital Outlay | <u>-</u> | <u>-</u> | <u>-</u> | <u>88,000</u> | <u>88,000</u> | <u>742</u> |
| Total Expenditures | 1,579,935 | 1,713,790 | 1,286,882 | 473,708 | 473,708 | 312,121 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | | | | | | |
| | (282,966) | (280,666) | 109,178 | (204,421) | (201,421) | (43,223) |
| OTHER FINANCING SOURCES/USES | | | | | | |
| Sale of Capital Assets | 5,000 | 5,000 | 5,200 | - | - | - |
| Fund Transfers In | - | - | - | 50,000 | 50,000 | 25,518 |
| Fund Transfers (Out) | <u>(50,000)</u> | <u>(50,000)</u> | <u>(25,518)</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| NET CHANGES IN FUND BALANCES | (327,966) | (325,666) | 88,861 | (154,421) | (151,421) | (17,705) |
| FUND BALANCES: | | | | | | |
| BEGINNING FISCAL YEAR FUND BALANCES | | | <u>1,563,269</u> | | | <u>413,562</u> |
| ENDING FISCAL YEAR FUND BALANCES | | | <u>\$ 1,652,129</u> | | | <u>\$ 395,857</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 TIFD Debt Service, SID 120 Debt Service and SID 121 Debt Service funds are not included in the schedule because they are debt service funds rather than 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) 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.
- (2) Before the later of the first Thursday in September after the first Tuesday, 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.
- (3) 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.
- (4) According to State statutes, the expenditures of a budgeted fund may not legally exceed the adopted budget.
- (5) At the end of a fiscal year, unencumbered appropriations lapse unless specifically obligated by the City.

NOTE 2: BUDGET AMENDMENTS

The City approved budget amendments 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 | \$ 2,300 | \$ 0 | Additional revenues – equipment sold |
| General | 122,000 | 122,000 | Land/Infrastructure contribution |
| General | 11,855 | 11,855 | Fire department equipment/Air compressor |
| General | 0 | 5,000 | Supplies for fire truck repairs |
| General | 0 | (5,000) | To Fire Department for repairs |
| Street Maintenance | 3,000 | 0 | Pit run |
| Police Training Pension | 6,975 | 6,975 | State shared revenue/Retirement contribution |
| SID #121 | <u>30,000</u> | <u>0</u> | Pre-pay |
| Total Governmental Funds | <u>\$ 176,130</u> | <u>\$ 140,830</u> | |
| Water | \$ 15,000 | 0 | Curb stop repairs |
| Water | 21,500 | 0 | Increased revenue |
| Water | 82,000 | 82,000 | Infrastructure contribution |
| Water | 0 | (69,000) | Reallocate to CIP |
| Water | 0 | 69,000 | Reallocate from M&E |
| Sewer | 12,000 | 12,000 | Reimbursement for repairs/increased repairs |
| Sewer | 27,000 | 0 | Increased revenue |
| Sewer | 62,000 | 62,000 | Infrastructure contribution |
| Sewer | <u>1,000</u> | <u>0</u> | Sale of equipment |
| Total Proprietary Funds | <u>\$ 220,500</u> | <u>\$ 156,000</u> | |

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

For the Fiscal Year Ended June 30, 2017

| | PERS | | |
|--|------------------|------------------|------------------|
| | 2017 | 2016 | 2015 |
| City's proportionate share of the Net Pension Liability associated with the City (as a percentage) | 0.0809% | 0.0788% | 0.00884% |
| City's proportionate share of the Net Pension Liability | \$1,378,841 | \$1,101,277 | \$1,100,879 |
| State of Montana's proportionate share of the Net Pension Liability associated with the City | 16,848 | 13,527 | 13,443 |
| Total Pension Liability (TPL) | 1,395,689 | 1,114,805 | 1,114,323 |
| City's covered payroll | 969,627 | 919,407 | 1,005,257 |
| City's proportionate share of the Net Pension Liability (as a percentage of its covered payroll) | 142.20% | 119.781% | 110.22% |
| Plan Fiduciary Net Position (FNP) as a percentage of the Total Pension Liability (TPL) | 74.71% | 78.40% | 79.87% |

The amounts presented above for each fiscal year were determined as of June 30th, 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, 2017

| As of the measurement date 6/30/16 for the reporting period 6/30/17 | PERS | | |
|---|-----------|----------|----------|
| | 2017 | 2016 | 2015 |
| Contractually required contributions | \$93,333 | \$81,047 | \$75,763 |
| Plan Choice Rate Required Contributions | 289 | 901 | 1,452 |
| Contributions in relation to the contractually required contributions | 93,044 | 81,948 | 77,215 |
| Contribution deficiency (excess) | 0 | 0 | 0 |
| City's covered payroll | 1,111,627 | 969,627 | 919,407 |
| Contributions as a percentage of covered payroll | 8.37% | 8.45% | 8.40% |

The amounts presented above for each fiscal year were determined as of June 30th, 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.

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

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.

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 |

**SCHEDULE OF CHANGES IN TOTAL PENSION LIABILITY
 FIREMEN'S DISABILITY & PENSION PLAN
 For the Fiscal Year Ended June 30, 2017**

Fiscal year 2017 is the first year of the requirement to calculate the Total Pension Liability for the Firemen's Disability and Pension Plan.
 Total Pension Liability 2017 \$127,300

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

**SCHEDULE OF FUNDING PROGRESS
 FIREMEN'S DISABILITY & PENSION PLAN
 For the Fiscal Year Ended June 30, 2017**

| | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> |
|----------------------------|------------------|------------------|------------------|------------------|------------------|
| Assets – Beginning of year | \$115,473 | \$123,463 | \$135,295 | \$151,455 | \$167,032 |
| Increase (Decrease) | <u>7,990</u> | <u>11,832</u> | <u>16,160</u> | <u>15,577</u> | <u>18,908</u> |
| Assets – End of year | <u>\$123,463</u> | <u>\$135,295</u> | <u>\$151,455</u> | <u>\$167,032</u> | <u>\$185,940</u> |

**SCHEDULE OF CONTRIBUTIONS
 FIREMEN'S DISABILITY & PENSION PLAN
 For the Fiscal Year Ended June 30, 2017**

| | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> |
|--------------------------------|--------------|--------------|--------------|--------------|---------------|
| City Contributions | \$18,908 | \$22,872 | \$24,815 | \$24,810 | \$25,810 |
| State Contributions (Required) | 3,807 | 3,908 | 6,146 | 6,437 | 6,975 |
| Tax Assessments | <u>8,592</u> | <u>8,559</u> | <u>9,661</u> | <u>9,266</u> | <u>10,037</u> |
| Total Contributions | \$31,307 | \$35,339 | \$40,622 | 40,513 | 42,822 |

Totals may not foot due to rounding

| As of the Measurement Date 6/30/2017 For the Reporting Date 6/30/2017 | Net Pension Liability | Percent of Collective NPL |
|--|-----------------------|------------------------------|
| City Share of Net Pension Liability | \$100,217 | .787253% |
| State of Montana's Share or Fiduciary Net Position | \$27,083 | .212747% |
| Total Pension Liability | \$127,300 | 100.0000% |
| Deferred Outflows of Resources | \$0 | |
| Deferred Inflows of Resources | \$0 | |
| Covered Payroll (All are volunteers) | \$0 | |
| Pension Expense | \$24,600 | |

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

NOTES TO SCHEDULES of FIREMEN'S DISABILITY AND PENSION PLAN

NOTE 1: FIREMEN'S DISABILITY AND PENSION PLAN

Fiscal year 2017 is the first year of the requirement to calculate and report a pension liability for the firemen's pension and trust plan.

No assets are accumulated in a trust that meets the criteria in GASBS No. 72, paragraph 4, to pay related benefits.

No changes in benefit terms have been made in the past 10 years. The number of firemen receiving benefits has not significantly changed in the past year.

**SCHEDULE OF FUNDING PROGRESS for OTHER POST-EMPLOYMENT BENEFITS
OTHER THAN PENSIONS (OPEB)**

For the Fiscal Year Ended June 30, 2017

| 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 valuation and the preceding valuation. The Alternative Measurement Method was used. The table will show the most recent 10 valuations as they become available.

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.

The City recalculated its OPEB Accrued Actuarial Liability (AAL) on June 30, 2016 in accordance with the 3-year recalculation requirement of GASB Statement No. 45.

| 10 Year Schedule | | | |
|-------------------------|-----------------------------|------------------------|---|
| Fiscal Year | Total OPEB Liability | Covered Payroll | Total OPEB as a % of Covered Payroll |
| 2010 | \$66,615 | \$945,200 | 7% |
| 2011 | \$133,230 | \$945,200 | 14% |
| 2012 | \$196,203 | \$945,200 | 21% |
| 2013 | \$241,475 | \$1,293,140 | 19% |
| 2014 | \$285,967 | \$1,293,140 | 22% |
| 2015 | \$329,707 | \$1,293,140 | 25% |
| 2016 | \$179,321 | \$842,595 | 21% |
| 2017 | \$179,321 | \$842,595 | 21% |

The table above will show the most recent 10 year's data as it becomes available.

SCHEDULE OF COMBINED SOLID WASTE FUNDS
BALANCE SHEET - COMBINED SOLID WASTE FUNDS
As of June 30, 2017

| | Proprietary | | |
|---|---------------------|---------------------|---------------------|
| | Garbage | Landfill | Total |
| | Fund | Fund | Solid Waste Fund |
| ASSETS: | | | |
| Current Assets | | | |
| Cash & Cash Equivalents | \$ 194,051 | \$ 224,498 | \$ 418,549 |
| Taxes/Assessments Receivable | 272,698 | - | 272,698 |
| Accounts Receivable | 2,355 | 50,302 | 52,657 |
| Inventories | <u>2,380</u> | <u>4,084</u> | <u>6,464</u> |
| Total Current Assets | 471,484 | 278,884 | 750,368 |
| Noncurrent Assets | | | |
| Restricted Cash & Investments | 300,000 | 1,362,529 | 1,662,529 |
| Land | - | 320,716 | 320,716 |
| Buildings | 20,927 | 118,709 | 139,636 |
| Improvements other than Buildings | - | 2,040,909 | 2,040,909 |
| Machinery & Equipment | 894,860 | 1,224,981 | 2,119,841 |
| Less: Accumulated Depreciation | <u>(623,833)</u> | <u>(1,701,796)</u> | <u>(2,325,629)</u> |
| Total Assets | 1,063,438 | 3,644,932 | 4,708,370 |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred Outflows of Resources - Pensions | 17,166 | 38,947 | 56,114 |
| LIABILITIES: | | | |
| Current Liabilities | | | |
| Accounts Payable | 6,510 | 11,053 | 17,563 |
| Matured Interest on Bonds Payable | - | 40,000 | 40,000 |
| Other Accrued Payables | 1,698 | 3,306 | 5,005 |
| Compensated Absences | 5,775 | 4,990 | 10,765 |
| Deposits Payable | <u>-</u> | <u>4,700</u> | <u>4,700</u> |
| Total Current Liabilities | 13,983 | 64,049 | 78,032 |
| Noncurrent Liabilities | | | |
| Revenue Bonds Payable | - | 568,000 | 568,000 |
| Closure/postclosure Care Costs | - | 1,103,657 | 1,103,657 |
| Net Pension Liability | 102,691 | 232,986 | 335,678 |
| OPEB Liability | 19,725 | 28,692 | 48,417 |
| Compensated Absences | <u>17,324</u> | <u>14,970</u> | <u>32,294</u> |
| Total Noncurrent Liabilities | <u>139,740</u> | <u>1,948,306</u> | <u>2,088,046</u> |
| Total Liabilities | 153,724 | 2,012,355 | 2,166,078 |
| DEFERRED INFLOWS OF RESOURCES: | | | |
| Deferred Inflows - Pensions | <u>4,292</u> | <u>9,738</u> | <u>14,030</u> |
| Total Deferred Inflows of Resources | 4,292 | 9,738 | 14,030 |
| FUND BALANCES / NET POSITION: | | | |
| Net Investment in Capital Assets | 291,954 | 1,395,519 | 1,687,473 |
| Restricted: | | | |
| Debt Service | - | 94,919 | 94,919 |
| Replacement & Depreciation | 300,000 | 345,150 | 645,150 |
| Unrestricted | <u>330,635</u> | <u>(173,802)</u> | <u>156,833</u> |
| Total Fund Balances / Net Position | <u>\$ 922,589</u> | <u>\$ 1,661,786</u> | <u>\$ 2,584,375</u> |
| Total Liabilities, Deferred Inflows & Fund Bal. | <u>\$ 1,080,605</u> | <u>\$ 3,683,879</u> | <u>\$ 4,764,484</u> |

SCHEDULE OF COMBINED SOLID WASTE FUNDS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - COMBINED SOLID WASTE FUNDS
For the Year Ended June 30, 2017

| | Proprietary | | |
|--|-------------------|---------------------|---------------------|
| | Garbage | Landfill | Total |
| | Fund | Fund | Solid Waste Fund |
| REVENUES: | | | |
| Taxes/Assessments | \$ 301 | \$ - | \$ 301 |
| Charges for Services | 379,644 | 663,895 | 1,043,539 |
| Miscellaneous Income | 47 | 43 | 90 |
| Total Revenues | 379,991 | 663,938 | 1,043,930 |
| EXPENDITURES / OPERATING EXPENSES: | | | |
| Personal Services | 131,376 | 263,176 | 394,552 |
| Supplies | 46,816 | 78,011 | 124,828 |
| Purchased Services | 15,101 | 107,053 | 122,155 |
| Fixed Charges | 5,980 | 107,111 | 113,091 |
| Depreciation | 74,830 | 170,110 | 244,940 |
| Total Operating Expenses | 274,103 | 725,462 | 999,565 |
| EXCESS (DEFICIENCY) OF REVENUES | | | |
| OVER EXPENDITURES / OPERATING INCOME (LOSS) | 105,888 | (61,523) | 44,365 |
| OTHER FINANCING SOURCES (USES) / NONOPERATING REVENUES (EXPENSES) | | | |
| Intergovernmental Revenue | 1,904 | 4,321 | 6,225 |
| Interest Revenue | 1,774 | 3,423 | 5,197 |
| Debt Service Interest Expense | - | (15,030) | (15,030) |
| Total Other Financing Sources (Uses)/Nonoperating Rev (Exp) | 3,678 | (7,287) | (3,608) |
| NET CHANGES IN FUND BALANCES/ NET POSITION | | | |
| | 109,566 | (68,810) | 40,756 |
| FUND BALANCES / NET POSITION | | | |
| Beginning of the Year | 813,023 | 1,730,596 | 2,543,619 |
| End of the Year | <u>\$ 922,589</u> | <u>\$ 1,661,786</u> | <u>\$ 2,584,375</u> |

Tripp & Associates
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 the **City of Hardin** as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise City of Hardin's basic financial statements, and have issued our report thereon dated June 29, 2018.

We were engaged to audit the financial statements of the aggregate discretely presented **component unit** as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the component unit's basic financial statements and have issued our report thereon dated June 29, 2018. 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 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 to be material weaknesses; items 2017-005 and 2017-006.

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 as items 2017-001, 2017-002, 2017-003 and 2017-004.

City of Hardin's & Two Rivers Authority's Response to Findings

City of Hardin's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. The City's and Two Rivers Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Tripp & Associates

Tripp & **A**ssociates
Billings, Montana
June 29, 2018

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

CITY OF HARDIN

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

Condition: This finding was *not in compliance with MCA*. The Fireman’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.
Current Status: This is not a finding for fiscal year 2017.

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

Condition: This finding was 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.
Recommendation: The auditor recommended that the City verify that the Mills reported on the AFR represent the proper year.
Current Status: This is not a finding for fiscal year 2017.

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

Condition: This finding was that the City of Hardin was *not in compliance* with its Tax Increment Financing District revenue bond agreement concerning bond principal and interest payments.
Recommendation: The financial statements of The City of Hardin properly reflect that the City is not in compliance with the TIFD revenue bond requirements. The auditor recommended 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.
Current Status: This is still a finding for fiscal year 2017. It is reported as finding number 2017-001.

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):

Condition: This finding was that TRA was *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.
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 2017. It is reported as finding number 2017-003.

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

Condition: This finding was that TRA was *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.
Recommendation: The auditor recommended that TRA pay all accrued payroll expenses and keep up to date with payroll expenses as they occur in compliance with Montana wage and hour laws. 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.
Current Status: This is still a finding for fiscal year 2017. It is reported as finding number 2017-004.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (CONTINUED)

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

Condition: This finding was a *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 and bondholder representatives 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.

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

Current Status: This is still a finding for fiscal year 2017. It is reported as finding number 2017-005.

FINDING NUMBER 2016-007 – TWO RIVERS AUTHORITY – INSUFFICIENT SUPPORTING DOCUMENTATION (Repeat finding 2015-007):

Condition: This finding was a *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.

Recommendation: The auditor recommended 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.

Current Status: This is still a finding for fiscal year 2017. It is reported as finding number 2017-006.

FINDING NUMBER 2016-008 – TWO RIVERS AUTHORITY – ASSETS NOT REPORTED (Repeat finding 2015-008):

Condition: This finding was a *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.

Recommendation: The auditor recommended 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.

Current Status: This is not a finding for fiscal year 2017.

SCHEDULE OF FINDINGS

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, 2017 and a *disclaimer of opinion* on the discretely presented component unit's financial statements.

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 2017-001 – REVENUE BONDS REQUIREMENTS NOT MET (Repeat finding 2016-003):

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 the revenue bond agreement concerning the Tax Increment Financing (TIF) District bond principal and interest payments.

Context: No principal payments have been made since 9/1/2015 when a partial payment of \$99,942 was made. Principal payments in arrears total \$1,360,000. Accrued interest in arrears as of June 30, 2017 totaled \$966,377.

Effect: The rating of the financial health of the City of Hardin has been downgraded by this default. The City will have difficulty obtaining loans or obtaining bonds for future projects while these revenue bonds remain in default.

Cause: Revenues assessed to meet the TIF District revenue bond were insufficient to meet the bond principal and interest payments as they become due. The primary business in the TIF District filed for bankruptcy and has not made its scheduled tax payments on time. The taxable value of the plant within the TIF District 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 TIF District 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.

FINDING NUMBER 2017-002 – FIREMEN'S PENSION LIABILITY NOT PROPERLY REPORTED:

Criteria: GASB Statement No 73 requires that the City calculate and report the Firemen's Relief association's pension liability and associated accounts in the same manner as pensions that fall under GASB 68. However, the recently amended MCA 19-18-503 requires that the pension liability is calculated using a realistic multiplier and allows for a simple calculation of the pension liability based on current and prior year benefit payments.

Condition: The City did not report a pension liability for the Firemen's Relief Association using either an actuary or the simple calculation method outlined by MCA 19-18-503. The City is *not in compliance* with the GASB 73 requirement that an actuarial calculate the Firemen's Relief Association pension liability. The City is *not in compliance* with MCA19-18-503 concerning the calculation of the pension liability for the Firemen's Relief Association because the City did not report the pension liability.

Context: The Firemen's Relief Association Fund's cash is sufficient to cover the pension liability calculated at 5 times the prior year's benefits, but no pension liability was reported on the City's Annual Financial Report (AFR) for the Firemen's Relief Association.

Effect: The AFR presented for audit differs from the audit report because the City did not report a pension liability for the Firemen's Relief Association, but the audit report reports the pension liability calculated but not reported by the City.

Cause: Confusion as to whether the City was required to comply with GASB 73 when Montana legislation adopted a new MCA law stating that an alternative measurement method was available.

Recommendation: We recommend that the City report the calculated pension liability for the Firemen's Relief Association on the AFR.

SCHEDULE OF FINDINGS (Continued)

TWO RIVERS AUTHORITY

FINDING NUMBER 2017-003 – TWO RIVERS AUTHORITY (a component unit) REVENUE BOND REQUIREMENTS: (Repeat Finding 2010-002; 2011-002; 2012-002; 2013-001; 2014-001; 2015-002, 2016-004):

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 \$26,425,238 which is the principal of \$8,185,000 and interest of \$18,240,238 that is due within a year. The bond covenants require an Operation and Maintenance reserve of approximately \$10,000. The bond covenants require an Operating Reserve /Repair / Contingency Account equal to \$300,000.

Condition: The Two Rivers Authority is *not in compliance* with the bond covenants 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, 2017, the reserve account totaled \$6,016 and the operating cash account totaled \$38. Current liabilities, other than bond requirements totaled \$193,282. Bondholder advances totaled \$870,376.

Effect: The Two Rivers Authority has not been able to 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 rather than to TRA to cover operating costs. The detention facility was not open in fiscal year 2017. Operating revenues were insufficient to cover current liabilities and 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.

FINDING NUMBER 2017-004 – TWO RIVERS AUTHORITY – PAYROLL in ARREARS: (Repeat finding 2014-005; 2015-003, 2016-005):

Criteria: Montana Wage and Hour laws require that employees are paid according to the payroll schedule selected by the company. According to Wage and Hour laws, executives must be paid at least annually.

Condition: TRA is *not in compliance* with Montana Wage and Hour laws concerning payment of employees.

Context: 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 2017. As of June 30, 2017, the Deferred Payroll liability totaled \$117,427. This amount does not include vacations payable of \$5,059.

Effect: A salaried employee is accruing wages. The accrual of wages is not in compliance with Wage and Hour laws.

Cause: TRA has not had sufficient revenues to cover its operating expenses, including payroll since 2013.

Recommendation: We recommend that the salary agreement with the Executive Director be modified to comply with Wage and Hour laws because TRA does not have sufficient revenues to pay this employee the salary that is being accrued.

FINDING NUMBER 2017-005 – TWO RIVERS AUTHORITY – INSUFFICIENT MANAGEMENT REPRESENTATION (Repeat finding 2015-006, 2016-006):

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. Two Rivers Authority's management does not have first-hand knowledge of transactions made by the US Bank trustee that are reported on TRA's financial statements. A bondholder representative and 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.

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 US Bank totaling \$34,550, legal fees totaling \$64,087 and insurance & utility fees totaling \$50,089 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.

SCHEDULE OF FINDINGS (Continued)

Cause: A bondholder representative and the US Bank Trustee controls the bank transactions 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*. The US Bank Trustee withdrew trustee fees without the Board's or the Executive Director's knowledge. US Bank personnel and the bondholder's representative are not part of TRA's management team. Two Rivers Authority's Board and management are not involved in the day-to-day 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. Two Rivers Authority's Board and management are not directly involved in the negotiations with the BIA to lease the detention facility.

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

FINDING NUMBER 2017-006 – TWO RIVERS AUTHORITY – INSUFFICIENT SUPPORTING DOCUMENTATION
(Repeat finding since 2015-007, 2016-007):

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 expenditures of \$148,726 was not provided as audit evidence.

Context: Two Rivers Authority's Board and management were unable to provide the supporting evidence of the trustee fee 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: A bondholder representative and the US Bank Trustee controlled trustee fee, legal, insurance and utility transactions. A bondholder representative and 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.

Recommendation: We recommend that the bondholder representative and US Bank Trustee allow TRA board and management to participate in the initiation of transactions reported on Two Rivers Authority's bank statements. Invoices should be submitted for Board approval prior to the transaction appearing on the bank statement as a done deal.

THE CITY OF HARDIN

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CORRECTIVE ACTION PLAN for
AUDIT - FISCAL YEAR 2017

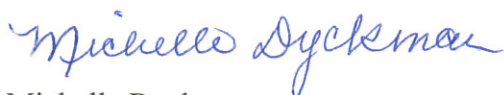
FINDING NUMBER 2017-001 – REVENUE BONDS REQUIREMENTS NOT MET
(Repeat finding 2016-003):

The City will continue to look into all available alternatives for meeting the revenue bond requirements. This will include working with businesses looking into establishing a presence in the Tax Increment District. The City will continue to accrue a liability for principal and interest payments missed.

FINDING NUMBER 2017-002 – FIREMEN’S PENSION LIABILITY
NOT PROPERLY REPORTED:

The City will calculate and report the pension liability for the Firemen’s Relief Association on the AFR using the calculation in MCA 19-18-503.

Respectfully Submitted,



Michelle Dyckman
Finance Officer-City Clerk

copy: file



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Corrective Action Plan – Two Rivers Authority

FINDING NUMBER 2017-003 – TWO RIVERS AUTHORITY (a component unit) REVENUE BOND REQUIREMENTS:

(Repeat Finding 2010-002; 2011-002; 2012-002; 2013-001; 2014-001; 2015-002, 2016-004):

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 June 2018, Two Rivers Authority is in discussions with the Bureau of Indian Affairs regarding a lease of the Facility.

FINDING NUMBER 2017-004 – TWO RIVERS AUTHORITY – PAYROLL in ARREARS: (Repeat finding 2014-005; 2015-003, 2016-005):

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 2017-005 – TWO RIVERS AUTHORITY – INSUFFICIENT MANAGEMENT REPRESENTATION (Repeat finding 2015-006, 2016-006):

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 2017-006 – TWO RIVERS AUTHORITY – INSUFFICIENT SUPPORTING DOCUMENTATION

(Repeat finding 2015-007, 2016-007):

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.