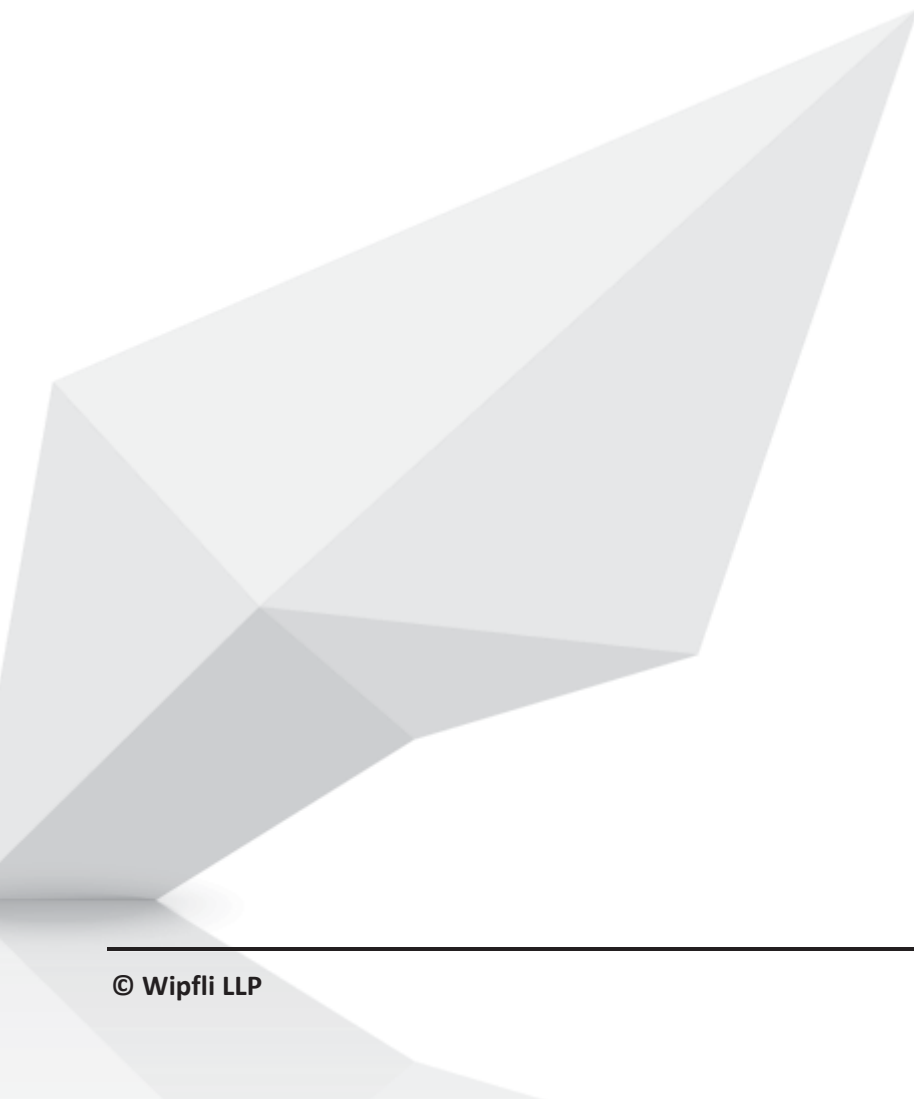


# City of Hardin, Montana

Financial Statements and  
Independent Auditor's Report

Year Ended June 30, 2019



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## CITY OF HARDIN

June 30, 2019

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## ELECTED OFFICIALS

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For the Year Ended June 30, 2019

### CITY COUNCIL

|                |                    |
|----------------|--------------------|
| Joe Purcell    | Mayor              |
| Tony Maxwell   | City Councilperson |
| Karen Molina   | City Councilperson |
| Riley Ramsey   | City Councilperson |
| Clayton Greer  | City Councilperson |
| Jeremy Krebs   | City Councilperson |
| Harry Kautzman | City Councilperson |

### CITY OFFICIALS

|                  |                             |
|------------------|-----------------------------|
| Jordan Knudsen   | City Attorney               |
| Michelle Dyckman | Finance Director/City Clerk |
| James E. Seykora | City Judge                  |
| Richard Bowler   | City Judge                  |
| Rock Massine     | Public Works Director       |

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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As management of the City of Hardin, Montana (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, 2019. 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 \$10,875,652 (net position). Of this amount, \$3,318,622 is the net investment in capital assets, \$10,801,589 is restricted, and \$(3,544,559) 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 \$106,785 over the prior fiscal year mainly due to the delinquency of principal and interest payments 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 \$3,551,085, an increase of \$574,009 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$741,234, or approximately 43% of the General Fund's total fund balance of \$1,744,008.
- 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 \$821,234 or 72% of total General Fund expenditures.
- The City's total debt increased by \$486,894 during the current fiscal year. Key factors in the change include:
  - o The Tax Increment Revenue Bond's principal balance remained the same and interest payable increased \$912,894.
  - o Payments of principal on revenue bonds for water, wastewater, and landfill were \$426,000 including the pay-off for the water revenue bond.

### 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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

---

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 agency 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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### **Discretely Presented Component Unit –Two Rivers Authority**

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

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

### **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 agency 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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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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 accounts for the revenues and expenditures of the City's street maintenance district. Fees collected from taxpayers are used for the maintenance of the City's streets and right-of-ways within this district.

**TIFD** –The Tax Increment Financing District (TIFD) fund accounts 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 accounts 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 accounts 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-Collection and Landfill funds are charges to customers for sales and services. Proprietary funds are reported using the full-accrual basis of accounting. 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 (wastewater) collection and treatment operations.

**Solid Waste Funds** – Enterprise funds that account for the activities of the City's solid waste system composed of garbage collection services and landfill operations. The City maintains two separate funds (collection and landfill) to account for the activities of these funds. Detailed information regarding each of these funds is included in the Supplementary Information section of this report.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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**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.

**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 other post-employment benefits (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 \$10,875,652 (net position). The total net position decreased by \$106,785 or 1% 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 \$439,499. Total assets of the City increased 1%. Net investment in capital assets decreased \$1,297,318 or 74%. Of this, depreciation was \$1,233,586.

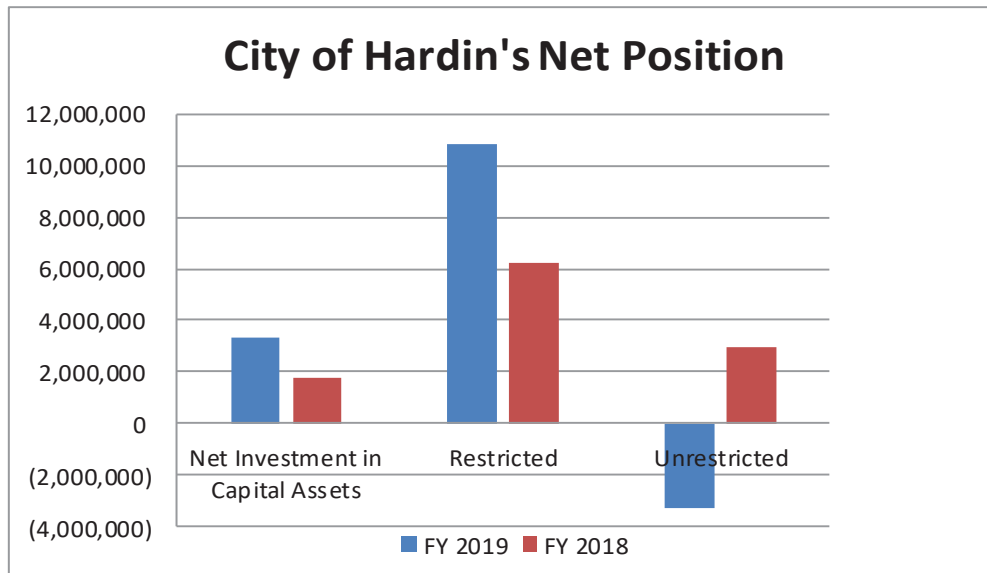
A portion of the City's Net Position, \$3,318,622, constitutes its investment in capital assets (e.g. land, buildings, infrastructure, machinery and equipment); less any related debt used to acquire those assets that is still outstanding. Capital assets are used to provide services to citizens; consequently, 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.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

|                                  | Condensed Statement of Net Position |             |               |            |             |            |
|----------------------------------|-------------------------------------|-------------|---------------|------------|-------------|------------|
|                                  | Governmental Activities             |             | Business-Type |            | Total       |            |
|                                  | 2019                                | 2018        | 2019          | 2018       | 2019        | 2018       |
| <b>ASSETS</b>                    |                                     |             |               |            |             |            |
| Current and other assets         | 7,806,567                           | 7,061,624   | 5,789,207     | 5,228,731  | 13,595,774  | 12,290,355 |
| Capital assets                   | 15,493,701                          | 15,616,395  | 10,269,921    | 10,968,787 | 25,763,622  | 26,585,182 |
| Total assets                     | 23,300,268                          | 22,678,019  | 16,059,128    | 16,197,518 | 39,359,396  | 38,875,537 |
| Deferred outflow of resources    | 115,677                             | 182,428     | 181,027       | 265,422    | 296,704     | 447,850    |
| <b>LIABILITIES</b>               |                                     |             |               |            |             |            |
| Other current liabilities        | 6,697,576                           | 4,960,175   | 513,640       | 341,822    | 7,211,216   | 5,301,997  |
| Noncurrent liabilities           | 17,829,432                          | 18,842,650  | 3,474,574     | 4,182,056  | 21,304,006  | 23,024,706 |
| Total liabilities                | 24,527,008                          | 23,802,825  | 3,988,214     | 4,523,878  | 28,515,222  | 28,326,703 |
| Deferred inflow of resources     | 103,404                             | 5,803       | 161,822       | 8,444      | 265,226     | 14,247     |
| <b>NET POSITION</b>              |                                     |             |               |            |             |            |
| Net investment in capital assets | (5,426,299)                         | (7,264,855) | 8,744,921     | 9,006,648  | 3,318,622   | 1,741,793  |
| Restricted                       | 8,418,197                           | 3,735,222   | 2,383,392     | 2,514,352  | 10,801,589  | 6,249,574  |
| Unrestricted                     | (4,206,365)                         | 2,581,452   | 961,806       | 409,618    | (3,244,559) | 2,991,070  |
| Total net position               | (1,214,467)                         | (948,181)   | 12,090,119    | 11,930,618 | 10,875,652  | 10,982,437 |

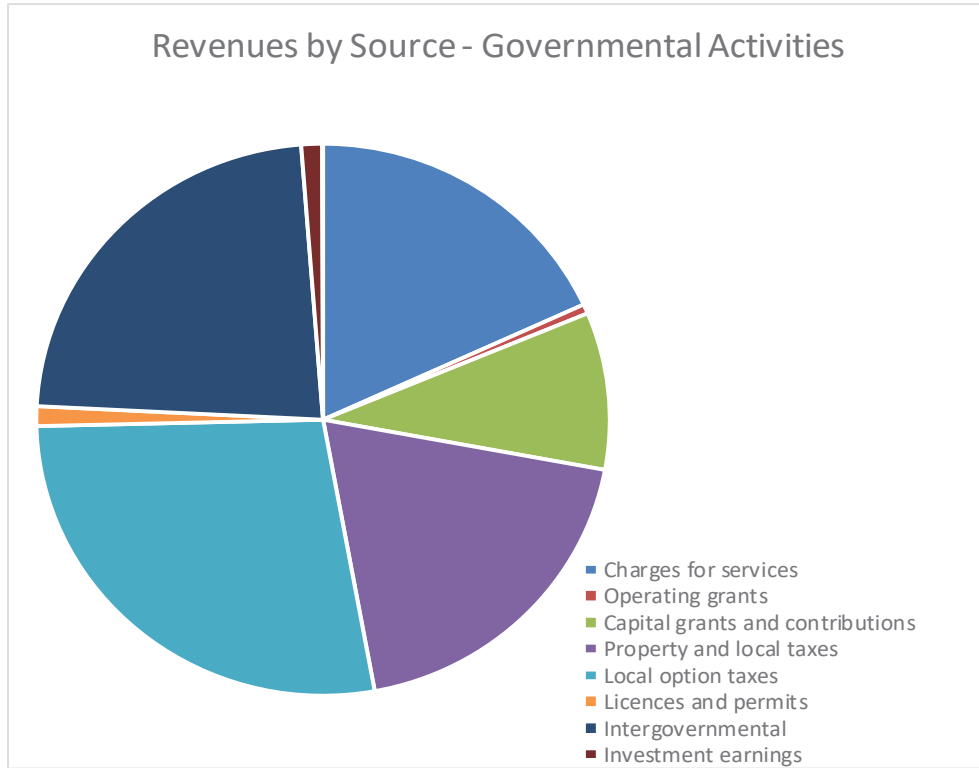
The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$10,875,652 (net position). \$10,801,589 is the restricted portion of the City's net position. The balance of unrestricted net position \$(3,244,559) represents the net position which would be used to meet the government's ongoing obligations to citizens and creditors.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

|                                   | Condensed Statement of Activities |                  |                          |                  |                  |                  |
|-----------------------------------|-----------------------------------|------------------|--------------------------|------------------|------------------|------------------|
|                                   | Governmental Activities           |                  | Business-type Activities |                  | Total            |                  |
|                                   | 2019                              | 2018             | 2019                     | 2018             | 2019             | 2018             |
| <b>REVENUE</b>                    |                                   |                  |                          |                  |                  |                  |
| Program Revenues:                 |                                   |                  |                          |                  |                  |                  |
| Charges for services              | 619,090                           | 549,219          | 2,517,405                | 2,466,048        | 3,136,495        | 3,015,267        |
| Operating grants                  | 18,842                            | 35,734           | 0                        | 15,000           | 18,842           | 50,734           |
| Capital grants and contributions  | 314,286                           | 92,652           | 7,177                    | 357,500          | 321,463          | 450,152          |
| General Revenues:                 |                                   |                  |                          |                  |                  |                  |
| Property and local taxes          | 655,019                           | 617,276          | 0                        | 0                | 655,019          | 617,276          |
| Local option taxes                | 938,617                           | 914,921          | 0                        | 0                | 938,617          | 914,921          |
| Licences and permits              | 39,399                            | 43,332           | 0                        | 0                | 39,399           | 43,332           |
| Intergovernmental                 | 784,445                           | 775,607          | 18,107                   | 15,480           | 802,552          | 791,087          |
| Investment earnings               | (39,933)                          | 16,102           | 56,641                   | 22,334           | 16,708           | 38,436           |
| Other general revenue             | 0                                 | 0                | 2,753                    | 2,776            | 2,753            | 2,776            |
| Gain (loss) on disposal of assets | 1,705                             | 0                | 40,000                   | 0                | 41,705           | 0                |
|                                   | <u>3,331,470</u>                  | <u>3,044,843</u> | <u>2,642,083</u>         | <u>2,879,138</u> | <u>5,973,553</u> | <u>5,923,981</u> |
| Expenses:                         |                                   |                  |                          |                  |                  |                  |
| General government                | 489,228                           | 531,640          | 0                        | 0                | 489,228          | 531,640          |
| Public safety                     | 635,474                           | 612,262          | 0                        | 0                | 635,474          | 612,262          |
| Public works                      | 844,428                           | 887,028          | 0                        | 0                | 844,428          | 887,028          |
| Public health                     | 44,790                            | 49,638           | 0                        | 0                | 44,790           | 49,638           |
| Culture and recreation            | 152,011                           | 141,653          | 0                        | 0                | 152,011          | 141,653          |
| Community development             | 105,043                           | 100,692          | 0                        | 0                | 105,043          | 100,692          |
| Interest on long-term debt        | 1,317,028                         | 1,316,207        | 0                        | 0                | 1,317,028        | 1,316,207        |
| Miscellaneous                     | 9,750                             | 11,141           | 0                        | 0                | 9,750            | 11,141           |
| Water                             | 0                                 | 0                | 801,516                  | 1,014,105        | 801,516          | 1,014,105        |
| Sewer                             | 0                                 | 0                | 656,255                  | 863,232          | 656,255          | 863,232          |
| Storm drain                       | 0                                 | 0                | 0                        | 0                | 0                | 0                |
| Solid waste                       | 0                                 | 0                | 304,318                  | 293,581          | 304,318          | 293,581          |
| Landfill                          | 0                                 | 0                | 720,493                  | 704,414          | 720,493          | 704,414          |
| Total expenses                    | <u>3,597,752</u>                  | <u>3,650,261</u> | <u>2,482,582</u>         | <u>2,875,332</u> | <u>6,080,334</u> | <u>6,525,593</u> |
| Change in net position            | <u>(266,282)</u>                  | <u>(605,418)</u> | <u>159,501</u>           | <u>3,806</u>     | <u>(106,781)</u> | <u>(601,612)</u> |

**Governmental Activities:** During the current fiscal year, total Net Position for governmental activities decreased \$266,282 from the prior fiscal year for an ending balance of (\$1,214,467). Expenditures exceeded revenues by \$266,282.

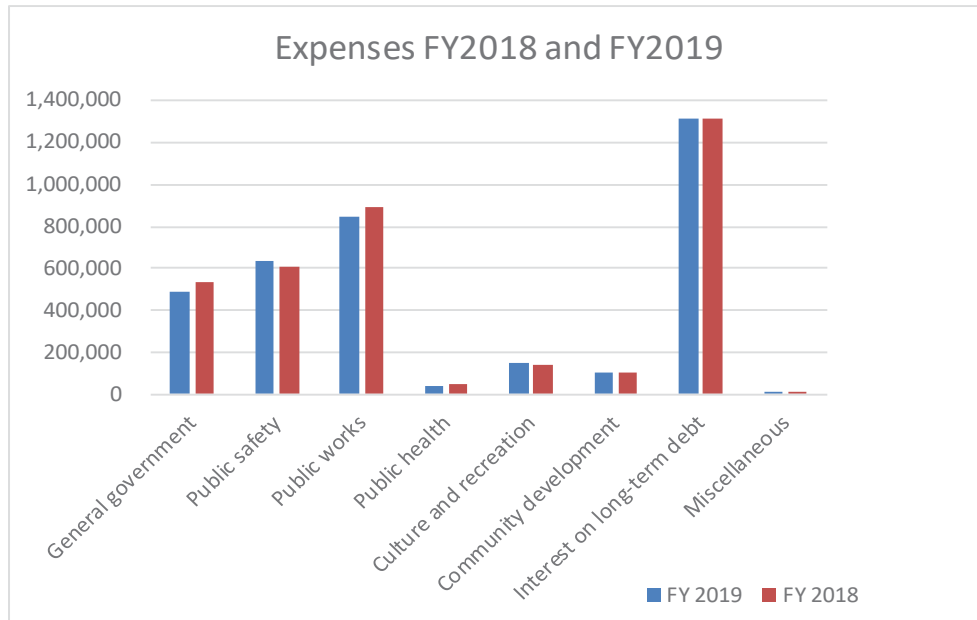


**Revenues:**

- Total Revenues increased \$286,627
- Charges for services increased \$69,871
- Operating Grants and Contributions decreased \$16,892
- Capital Grants and Contributions increased \$221,634
- Property taxes increased \$37,743
- Local option taxes (TIFD) increased \$23,697
- Licenses or permits decreased \$3,933
- Federal or State shared revenues increased \$8,838
- Investment earnings/Fair value decreased \$56,035

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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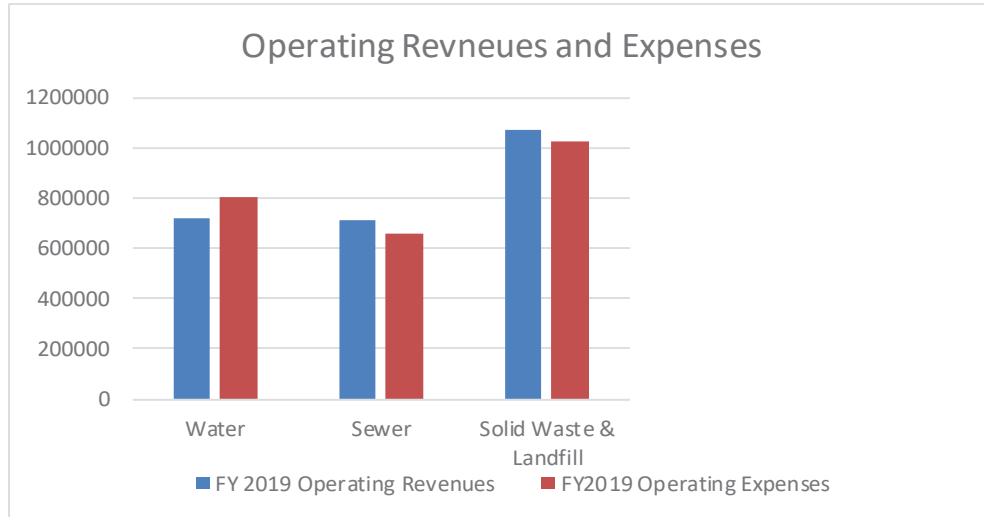
### Expenses:

- Total Governmental expenses decreased \$52,508
- General government expenses decreased \$42,411
- Public Safety expenses increased by \$23,212
- Public Works expenses decreased \$42,600
- Public Health expenses decreased \$4,848
- Culture and recreation (parks) increased \$10,358
- Housing and Community Development increased \$4,350
- Interest on Long-Term Debt increased \$82,799
- Accrued Bond Interest decreased \$81,978
- Miscellaneous expenses decreased \$1,391

**Business-type Activities:** The City's water, sewer, and solid waste activities resulted in an increase in net position of \$159,501. The Water fund's net position decreased \$60,299, while Sewer, Garbage and Landfill all had increases.

### Revenues:

The Water fund saw a decrease because of a rainy spring. The Sewer fund stayed about the same despite a 3% increase in rates. Solid Waste – Collection Services had a 2% rate increase, and Landfill continued to feel the effects of decreased coal ash disposal.



The Water and Sewer Funds completion of the riverbank restoration contributed to decreasing expenses. Solid Waste – Collection is following the CIP to save for future replacements, and the Landfill’s increase in expenses came from increased depreciation; engineering; and closure and post-closure costs.

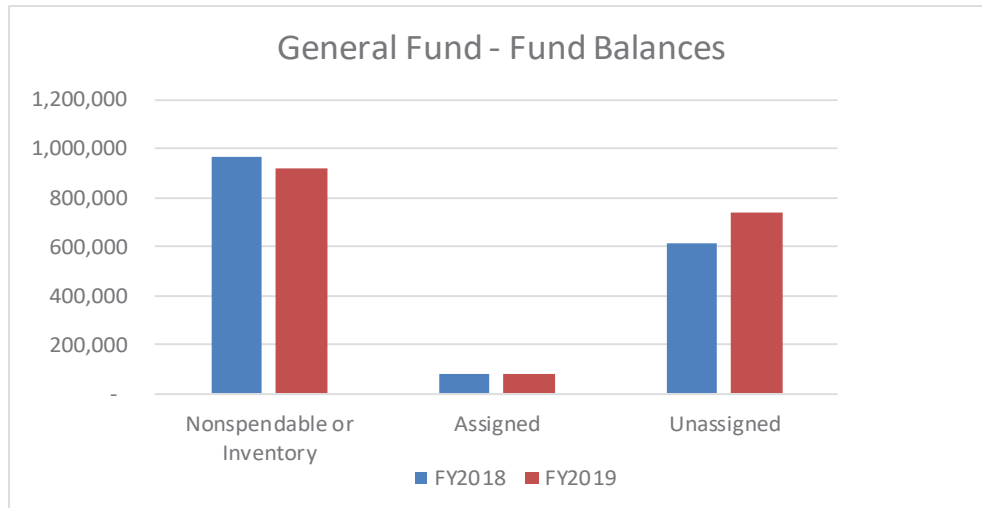
**FINANCIAL ANALYSIS OF THE CITY’S FUNDS**

**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.

As of June 30, the City’s governmental funds reported a combined fund balance of \$3,551,085 an increase of \$574,009 compared to last year. Non-spendable amounts of \$1,533,978 are for interfund loans and inventory. The restricted fund balance of \$2,194,660 is stipulated by constitutional provisions or enabling legislation. \$98,752 is committed by resolution for taxes levied for insurance or employee benefits. \$500,683 is Assigned for various items such as Public Safety, Housing and Community Development, Curb and Gutter and Capital Improvements. As the SIDs (interfund loans) are paid back, the Unassigned fund balances are increasing.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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The City's General Fund is the chief operating fund for governmental activities. At June 30, 2019, the total fund balance was \$1,744,008 which is a \$77,934 increase over the prior year. \$922,774 or 53% 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 \$821,234, or 65% of total General Fund expenditures and net transfers (\$1,254,148).

The **Street Maintenance Fund** had a fund balance of \$516,904. Of this, 21% or \$108,601 represents inventory. The fund balance increased \$113,366 from last year.

The **Tax Increment Finance District** is for debt service of a revenue bond. The fund balance increased \$294,152. Anticipated revenues will not be enough to meet the debt service obligations. Current reserves and taxes are being used to help make the interest payments. More information is available on <http://www.emma.msrb.org> (Electronic Municipal Market Access) for Hardin's Tax Increment Bonds.

**SID 120's** fund balance increased \$51,938 to (\$1,045,210), and **SID 121's** increased \$26,347 to (\$374,260). 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 their assessments.

### **General Fund Budgetary Highlights:**

Actual revenues of \$1,331,381 were \$10,714 less than anticipated. Actual expenditures (other than transfers or loans) in the General Fund were \$1,144,994. Overall expenditures and transfers were \$476,038 less than anticipated. Storm drainage maintenance and construction was \$74,772 less than budgeted, Parks were \$40,150 less. \$130,000 has been aside for loans and lighting district development in the Industrial Park. \$109,153 was transferred to Street Maintenance or set aside for Capital Projects.

### **CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets:** The City's capital assets for its governmental and business-type activities as of June 30, 2019 total \$25,763,622 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).

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Capital Assets - Net of Accumulated Depreciation

|                                   | Governmental Activities |                   | Business-Type Activities |                   | Total             |                   |
|-----------------------------------|-------------------------|-------------------|--------------------------|-------------------|-------------------|-------------------|
|                                   | FY 2019                 | FY2018            | FY 2019                  | FY2018            | FY 2019           | FY2018            |
| <b>Non-depreciable assets</b>     |                         |                   |                          |                   |                   |                   |
| Land                              | 553,285                 | 553,285           | 463,193                  | 463,193           | 1,016,478         | 1,016,478         |
| Easements (no land/depreciation)  | 40,622                  | 40,622            | -                        | -                 | 40,622            | 40,622            |
| Construction-in-progress          | 344,022                 | 37,635            | -                        | -                 | 344,022           | 37,635            |
|                                   | <u>937,929</u>          | <u>631,542</u>    | <u>463,193</u>           | <u>463,193</u>    | <u>1,401,122</u>  | <u>1,094,735</u>  |
| <b>Depreciable assets</b>         |                         |                   |                          |                   |                   |                   |
| Buildings/improvements/systems    | 850,873                 | 874,060           | 79,723                   | 83,203            | 930,596           | 957,263           |
| Improvements other than buildings | 161,986                 | 149,579           | 543,534                  | 679,158           | 705,520           | 828,737           |
| Machinery and equipment           | 394,334                 | 414,136           | 936,382                  | 1,099,457         | 1,330,716         | 1,513,593         |
| Infrastructure (general plant)    | 13,148,579              | 13,547,080        | 52,053                   | 58,708            | 13,200,632        | 13,605,788        |
| Treatment plant                   | -                       | -                 | 2,981,943                | 3,184,806         | 2,981,943         | 3,184,806         |
| Transmission and distribution     | -                       | -                 | 5,213,093                | 5,400,258         | 5,213,093         | 5,400,258         |
|                                   | <u>14,555,772</u>       | <u>14,984,855</u> | <u>9,806,728</u>         | <u>10,505,590</u> | <u>24,362,500</u> | <u>25,490,445</u> |
| <b>Total Capital Assets</b>       | <u>15,493,701</u>       | <u>15,616,397</u> | <u>10,269,921</u>        | <u>10,968,783</u> | <u>25,763,622</u> | <u>26,585,180</u> |

Investments in capital assets for Fiscal Year 2019 include the following:

#### Governmental:

|                                    |          |
|------------------------------------|----------|
| Upgraded roofing on City Hall      | \$ 5,200 |
| Replace parking lot                | 21,410   |
| Pick-up (apportioned)              | 20,999   |
| Copier                             | 6,616    |
| Park Equipment                     | 11,542   |
| Sidewalks, curbs and gutters       | 8,955    |
| Terry Avenue street reconstruction | 306,387  |

#### Proprietary:

|                       |           |
|-----------------------|-----------|
| Pick-up (apportioned) | \$ 15,000 |
| VFDs at Water intake  | 15,920    |

#### Outstanding debt:

At the end of the current fiscal year, the City had total debt of \$25,319,144. This is \$486,894 more than the previous year. There is an additional \$912,894 interest payable. 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. They decreased \$426,000 which included a payoff of the Water Revenue bond.

## MANAGEMENT’S DISCUSSION AND ANALYSIS

|                                | Governmental Activities |                   | Business-Type Activities |                  | Total             |                   |
|--------------------------------|-------------------------|-------------------|--------------------------|------------------|-------------------|-------------------|
|                                | FY 2019                 | FY 2018           | FY 2019                  | FY 2018          | FY 2019           | FY 2018           |
| Tax increment revenue bonds    | 20,920,000              | 20,920,000        | -                        | -                | 20,920,000        | 20,920,000        |
| Tax increment interest payable | 2,874,144               | 1,961,250         | -                        | -                | 2,874,144         | 1,961,250         |
| Revenue bonds                  | -                       | -                 | 1,525,000                | 1,951,000        | 1,525,000         | 1,951,000         |
| <b>Total</b>                   | <b>23,794,144</b>       | <b>22,881,250</b> | <b>1,525,000</b>         | <b>1,951,000</b> | <b>25,319,144</b> | <b>24,832,250</b> |

Additional information on long-term debt can be found in the notes of the basic financial statements.

### Interfund Loans:

The City created and financed SID 120 and 121 to provide improved infrastructure in the Wagner and Westlich-Heimat subdivisions. These charts represent receivables and payables within the funds as listed on the Balance Sheet for Governmental Funds:

| INTERFUND ACTIVITIES |                  |                  | INTERFUND ACTIVITIES |           |           |
|----------------------|------------------|------------------|----------------------|-----------|-----------|
| Receivables:         | FY 2019          | FY 2018          | Payables:            | FY 2019   | FY 2018   |
| General Fund         | 920,081          | 968,166          | SID 120              | 1,047,508 | 1,097,148 |
| Curb & Gutter        | 76,632           | 80,691           | SID 121              | 375,177   | 400,607   |
| Gas Apportionment    | 151,828          | 160,035          |                      | 1,422,685 | 1,497,755 |
| Capital Improvements | 274,144          | 288,863          |                      |           |           |
|                      | <u>1,422,685</u> | <u>1,497,755</u> |                      |           |           |

### 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 potentially has found a 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.

### The projects or equipment replacements for the next year include:

- Improvements identified by the I&I study: collection lines
- Fire truck
- Terry Avenue – High School – Chip seal
- Road: chip seal, resurface
- Computer System (8 computers)
- Computer System (2 laptops)
- Mini-Loader
- Loader
- City Hall Parking Lot
- Water intake pump/Reciprocating Air Compressor
- Water Preliminary Engineering Report
- Turbidimeter
- Alum Feeders & Activated Carbon machine
- #55 Mack garbage truck
- Walking Path – Heimat and equipment replacements



## MANAGEMENT'S DISCUSSION AND ANALYSIS

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- John Deere scraper
- Shop Parking Lot – North side
- Various copiers, scanners/faxes

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.



## INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and City Council  
City of Hardin  
Hardin, Montana

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Hardin, Montana, (the "City") as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Except for the matter described in the "Basis for Disclaimer of Opinion on the Aggregate Discretely Presented Component Unit" paragraph, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## Summary of Opinions

| <u>Opinion Unit</u>                           | <u>Type of Opinion</u> |
|---|------------------------|
| Governmental Activities                       | Unmodified             |
| Business-Type Activities                      | Unmodified             |
| Aggregate Discretely Presented Component Unit | Disclaimer             |
| General Fund                                  | Unmodified             |
| Street Maintenance Fund                       | Unmodified             |
| TIFD Debt Service Fund                        | Unmodified             |
| SID #120 Debt Service Fund                    | Unmodified             |
| SID #121 Debt Service Fund                    | Unmodified             |
| Water Utility Fund                            | Unmodified             |
| Sewer Utility Fund                            | Unmodified             |
| Solid Waste Fund                              | Unmodified             |
| Aggregate Remaining Fund Information          | Unmodified             |

### Basis for Disclaimer of Opinion on the Aggregate Discretely Presented Component Unit

The financial statements of 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, liabilities, net position, revenues, and expenditures, respectively, of the City's aggregate discretely presented component unit. Neither the Board nor Management of TRA has first-hand knowledge of transactions that appear on their bank statements prior to the receipt of the bank statements. Support for all transactions could not be provided.

### Disclaimer of Opinion

Because of the significance of the matter described in the "Basis for Disclaimer of Opinion on the Aggregate Discretely Presented Component Unit" 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 unit 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, business-type activities, each major fund, and the aggregate remaining fund information of the City of Hardin, Montana, as of June 30, 2019, 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.

### Emphasis of a Matter

The City of Hardin has not made its Tax Increment Financing District (TIFD) revenue bond principal and interest payment due in fiscal year 2019. 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 as the primary taxpayer in the TIFD is delinquent on their tax payments and market values within the TIFD have been assessed lower than originally planned resulting in lower than expected tax collections. Our opinion was not affected by this item.

The Two Rivers Authority 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, 2019, outstanding bond principal totaled \$27,015,000 of which \$9,335,000 is delinquent. Interest accrues at \$960,012 semi-annually. Delinquent interest reported as accrued interest payable totaled \$20,160,263 as of June 30, 2019. Our disclaimer of opinion on the aggregate discretely presented component unit was not affected by this item.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States require that the management's discussion and analysis, budgetary comparison schedules, schedule of proportionate share of the net pension liability—Montana Public Employees Retirement System, schedule of contributions—Montana Public Employees Retirement System, schedule of changes in total OPEB liability and related ratios—other postemployment benefits, schedule of total pension liability—Fire Department Relief Association Defined Benefit Pension Plan, schedule of changes in total pension liability—Fire Department Relief Association Defined Benefit Pension Plan, schedule of contributions—Fire Department Relief Association Defined Benefit Pension Plan, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, 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 any assurance.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated August 11, 2020, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Wipfli LLP



Billings, Montana  
August 11, 2020

## BASIC FINANCIAL STATEMENTS

### GOVERNMENT-WIDE STATEMENT OF NET POSITION

As of June 30, 2019

|   | Primary Government         |                             |                   | Component                       |
|---|----------------------------|-----------------------------|-------------------|---------------------------------|
|   | Governmental<br>Activities | Business-type<br>Activities | Total             | Unit<br>Two Rivers<br>Authority |
| <b>ASSETS</b>   |                            |                             |                   |                                 |
| Cash and cash equivalents                                 | 2,465,159                  | 2,849,182                   | 5,314,341         | 1,915                           |
| Cash and cash equivalents, restricted                     | 971,304                    | 2,383,392                   | 3,354,696         | 176,221                         |
| Taxes and assessments receivable                          | 4,188,672                  | 267,423                     | 4,456,095         | 0                               |
| Accounts and other receivables                            | 8,398                      | 204,023                     | 212,421           | 0                               |
| Inventories   | 111,294                    | 70,528                      | 181,822           | 0                               |
| Due from other governments                                | 61,740                     | 14,659                      | 76,399            | 0                               |
| Intangible assets   | 0                          | 0                           | 0                 | 208                             |
| Capital assets, not being depreciated                     | 937,929                    | 463,193                     | 1,401,122         | 257,377                         |
| Capital assets, net of accumulated depreciation           | 14,555,772                 | 9,806,728                   | 24,362,500        | 15,354,392                      |
| <b>Total assets</b>                                       | <b>23,300,268</b>          | <b>16,059,128</b>           | <b>39,359,396</b> | <b>15,790,113</b>               |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>                     |                            |                             |                   |                                 |
| Pension contributions and related differences and changes | 115,677                    | 181,027                     | 296,704           | 0                               |
| <b>Total deferred outflows of resources</b>               | <b>115,677</b>             | <b>181,027</b>              | <b>296,704</b>    | <b>0</b>                        |
| <b>LIABILITIES</b>  |                            |                             |                   |                                 |
| Accounts payable  | 52,787                     | 95,798                      | 148,585           | 7,897                           |
| Unearned revenues   | 0                          | 40,622                      | 40,622            | 0                               |
| Accrued payroll liabilities                               | 10,796                     | 15,208                      | 26,004            | 270,803                         |
| Accrued interest payable                                  | 2,874,144                  | 0                           | 2,874,144         | 20,160,263                      |
| Deposits  | 3,225                      | 74,615                      | 77,840            | 0                               |
| Long term liabilities:                                    |                            |                             |                   |                                 |
| Due within one year:                                      |                            |                             |                   |                                 |
| Compensated absences                                      | 21,624                     | 30,397                      | 52,021            | 0                               |
| Bonds payable   | 3,735,000                  | 257,000                     | 3,992,000         | 0                               |
| Due in more than one year:                                |                            |                             |                   |                                 |
| Bonds payable   | 17,185,000                 | 1,268,000                   | 18,453,000        | 16,445,000                      |
| Note payable  | 0                          | 0                           | 0                 | 11,669,932                      |
| Landfill closure cost                                     | 0                          | 1,208,455                   | 1,208,455         | 0                               |
| Compensated absences                                      | 64,872                     | 91,187                      | 156,059           | 0                               |
| Other postemployment benefits                             | 60,267                     | 94,265                      | 154,532           | 0                               |
| Net pension liability                                     | 519,293                    | 812,667                     | 1,331,960         | 0                               |
| <b>Total liabilities</b>                                  | <b>24,527,008</b>          | <b>3,988,214</b>            | <b>28,515,222</b> | <b>48,553,895</b>               |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                      |                            |                             |                   |                                 |
| Pension related differences and changes                   | 103,404                    | 161,822                     | 265,226           | 0                               |
| <b>Total deferred inflows of resources</b>                | <b>103,404</b>             | <b>161,822</b>              | <b>265,226</b>    | <b>0</b>                        |
| <b>NET POSITION</b>                                       |                            |                             |                   |                                 |
| Net investment in capital assets                          | (5,426,299)                | 8,744,921                   | 3,318,622         | (32,663,426)                    |
| Restricted for:   |                            |                             |                   |                                 |
| General government  | 1,221,995                  | 0                           | 1,221,995         | 0                               |
| Public safety   | 534,790                    | 0                           | 534,790           | 0                               |
| Public works  | 1,106,048                  | 0                           | 1,106,048         | 0                               |
| Public health   | 25,102                     | 0                           | 25,102            | 0                               |
| Conservation and natural resources                        | 44,993                     | 0                           | 44,993            | 0                               |
| Housing and community development                         | 18,318                     | 0                           | 18,318            | 0                               |
| Capital projects  | 774,827                    | 0                           | 774,827           | 0                               |
| Debt service  | 4,692,124                  | 2,383,392                   | 7,075,516         | 176,221                         |
| Unrestricted  | (4,206,365)                | 961,806                     | (3,244,559)       | (276,577)                       |
| <b>Total net position</b>                                 | <b>(1,214,467)</b>         | <b>12,090,119</b>           | <b>10,875,652</b> | <b>(32,763,782)</b>             |

The accompanying notes are an integral part of these financial statements

# BASIC FINANCIAL STATEMENTS

## GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2019

|                                   | Program Revenues |                                      |                                    | Primary Government               |                         |                          | Component Unit |
|-----------------------------------|------------------|--------------------------------------|------------------------------------|----------------------------------|-------------------------|--------------------------|----------------|
|                                   | Expenses         | Fees, Fines and Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-Type Activities |                |
| <b>GOVERNMENTAL ACTIVITIES</b>    |                  |                                      |                                    |                                  |                         |                          |                |
| General government                | 503,989          | 13,898                               | 0                                  | 0                                | (490,091)               | 0                        | (490,091)      |
| Public safety                     | 638,040          | 86,111                               | 0                                  | 0                                | (551,929)               | 0                        | (551,929)      |
| Public works                      | 843,663          | 0                                    | 73,474                             | 213,294                          | (556,895)               | 0                        | (556,895)      |
| Public health                     | 47,019           | 0                                    | 0                                  | 0                                | (47,019)                | 0                        | (47,019)       |
| Culture and recreation            | 150,753          | 0                                    | 0                                  | 0                                | (150,753)               | 0                        | (150,753)      |
| Housing and community development | 105,063          | 0                                    | 0                                  | 0                                | (105,063)               | 0                        | (105,063)      |
| Interest on long-term debt        | 1,317,028        | 0                                    | 0                                  | 0                                | (1,317,028)             | 0                        | (1,317,028)    |
| Total governmental activities     | 3,605,555        | 100,009                              | 73,474                             | 213,294                          | (3,218,778)             | 0                        | (3,218,778)    |
| <b>BUSINESS-TYPE ACTIVITIES</b>   |                  |                                      |                                    |                                  |                         |                          |                |
| Water                             | 801,515          | 724,392                              | 0                                  | 0                                | 0                       | (77,123)                 | (77,123)       |
| Sewer                             | 656,255          | 709,893                              | 0                                  | 0                                | 0                       | 53,638                   | 53,638         |
| Solid waste                       | 1,024,813        | 1,073,367                            | 0                                  | 0                                | 0                       | 48,554                   | 48,554         |
| Total business-type activities    | 2,482,583        | 2,507,652                            | 0                                  | 0                                | 0                       | 25,069                   | 25,069         |
| Total Primary Government          | 6,088,138        | 2,607,661                            | 73,474                             | 213,294                          | (3,218,778)             | 25,069                   | (3,193,709)    |
| <b>COMPONENT UNITS</b>            |                  |                                      |                                    |                                  |                         |                          |                |
| Two Rivers Authority              | 2,715,626        | 0                                    | 0                                  | 0                                | 0                       | 0                        | (2,715,626)    |
| <b>General Revenues:</b>          |                  |                                      |                                    |                                  |                         |                          |                |
| Property taxes                    |                  |                                      |                                    |                                  | 1,456,021               | 0                        | 1,456,021      |
| Local taxes                       |                  |                                      |                                    |                                  | 652,502                 | 9,753                    | 662,255        |
| Licenses and permits              |                  |                                      |                                    |                                  | 39,398                  | 0                        | 39,398         |
| Unrestricted investment earnings  |                  |                                      |                                    |                                  | (39,933)                | 56,641                   | 16,708         |
| Miscellaneous                     |                  |                                      |                                    |                                  | 4,195                   | 9,930                    | 14,125         |
| Intergovernmental revenues        |                  |                                      |                                    |                                  | 838,604                 | 18,108                   | 856,712        |
| Insurance recoveries              |                  |                                      |                                    |                                  | 1,705                   | 0                        | 1,705          |
| Gain on sale of capital assets    |                  |                                      |                                    |                                  | 0                       | 40,000                   | 40,000         |
| Total general revenues            |                  |                                      |                                    |                                  | 2,952,492               | 134,432                  | 3,086,924      |
| Change in net position            |                  |                                      |                                    |                                  | (266,286)               | 159,501                  | (106,785)      |
| Net position, beginning of year   |                  |                                      |                                    |                                  | (948,181)               | 11,930,618               | 10,982,437     |
| Net position, end of year         |                  |                                      |                                    |                                  | (1,214,467)             | 12,090,119               | 10,875,652     |

The accompanying notes are an integral part of these financial statements

# BASIC FINANCIAL STATEMENTS

## GOVERNMENTAL FUNDS BALANCE SHEET

As of June 30, 2019

|   | General Fund     | Street<br>Maintenance | TIFD Debt<br>Service | SID #120 Debt<br>Service | SID #121 Debt<br>Service | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|---|------------------|-----------------------|----------------------|--------------------------|--------------------------|--------------------------------|--------------------------------|
| <b>ASSETS</b>   |                  |                       |                      |                          |                          |                                |                                |
| Pooled cash and investments   | 842,935          | 377,536               | 0                    | 0                        | 1                        | 1,244,687                      | 2,465,159                      |
| Cash and cash equivalents, restricted   | 0                | 0                     | 971,304              | 0                        | 0                        | 0                              | 971,304                        |
| Taxes and assessments receivable  | 212,207          | 15                    | 2,279,413            | 0                        | 0                        | 55,683                         | 2,547,318                      |
| Special assessments receivable  | 0                | 83,352                | 0                    | 1,068,173                | 375,401                  | 114,428                        | 1,641,354                      |
| Interest receivable   | 4,222            | 1,241                 | 0                    | 0                        | 0                        | 2,935                          | 8,398                          |
| Due from other funds  | 60,812           | 0                     | 0                    | 0                        | 0                        | 32,976                         | 93,788                         |
| Due from other governments  | 13,671           | 36,473                | 218                  | 2,865                    | 0                        | 8,513                          | 61,740                         |
| Inventory   | 2,693            | 108,601               | 0                    | 0                        | 0                        | 0                              | 111,294                        |
| Advances to other funds   | 859,271          | 0                     | 0                    | 0                        | 0                        | 469,627                        | 1,328,898                      |
| <b>Total assets</b>   | <b>1,995,811</b> | <b>607,218</b>        | <b>3,250,935</b>     | <b>1,071,038</b>         | <b>375,402</b>           | <b>1,928,849</b>               | <b>9,229,253</b>               |
| <b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES<br/>AND FUND BALANCES</b>       |                  |                       |                      |                          |                          |                                |                                |
| <b>Liabilities:</b>   |                  |                       |                      |                          |                          |                                |                                |
| Accounts payable and other current liabilities                                | 30,370           | 2,895                 | 2,385                | 0                        | 0                        | 17,138                         | 52,788                         |
| Advances from other funds   | 0                | 0                     | 0                    | 978,454                  | 350,444                  | 0                              | 1,328,898                      |
| Due to other funds  | 0                | 0                     | 0                    | 69,621                   | 23,817                   | 350                            | 93,788                         |
| Payroll and related payables  | 6,001            | 4,067                 | 0                    | 0                        | 0                        | 728                            | 10,796                         |
| Deposits payable  | 3,225            | 0                     | 0                    | 0                        | 0                        | 0                              | 3,225                          |
| <b>Total liabilities</b>  | <b>39,596</b>    | <b>6,962</b>          | <b>2,385</b>         | <b>1,048,075</b>         | <b>374,261</b>           | <b>18,216</b>                  | <b>1,489,495</b>               |
| <b>Deferred inflows of resources:</b>   |                  |                       |                      |                          |                          |                                |                                |
| Unavailable property tax revenues   | 212,207          | 0                     | 2,279,413            | 0                        | 0                        | 55,683                         | 2,547,303                      |
| Unavailable special assessment tax revenues                                   | 0                | 83,352                | 0                    | 1,068,173                | 375,401                  | 114,444                        | 1,641,370                      |
| <b>Total deferred inflows of resources</b>                                    | <b>212,207</b>   | <b>83,352</b>         | <b>2,279,413</b>     | <b>1,068,173</b>         | <b>375,401</b>           | <b>170,127</b>                 | <b>4,188,673</b>               |
| <b>Fund balances</b>  |                  |                       |                      |                          |                          |                                |                                |
| <b>Nonspendable</b>   |                  |                       |                      |                          |                          |                                |                                |
| Inventories   | 2,693            | 108,601               | 0                    | 0                        | 0                        | 0                              | 111,294                        |
| Proprietary   | 920,081          | 0                     | 0                    | 0                        | 0                        | 502,603                        | 1,422,684                      |
| <b>Restricted</b>   |                  |                       |                      |                          |                          |                                |                                |
| General government  | 0                | 0                     | 0                    | 0                        | 0                        | 66,484                         | 66,484                         |
| Public safety   | 0                | 0                     | 0                    | 0                        | 0                        | 362,946                        | 362,946                        |
| Public works  | 0                | 408,303               | 0                    | 0                        | 0                        | 336,283                        | 744,586                        |
| Public health   | 0                | 0                     | 0                    | 0                        | 0                        | 2,472                          | 2,472                          |
| Culture and recreation  | 0                | 0                     | 0                    | 0                        | 0                        | 32,267                         | 32,267                         |
| Housing and community development   | 0                | 0                     | 0                    | 0                        | 0                        | 16,768                         | 16,768                         |
| Debt service  | 0                | 0                     | 969,137              | 0                        | 0                        | 0                              | 969,137                        |
| Capital projects  | 0                | 0                     | 0                    | 0                        | 0                        | 0                              | 0                              |
| <b>Assigned</b>   |                  |                       |                      |                          |                          |                                |                                |
| Capital projects  | 80,000           | 0                     | 0                    | 0                        | 0                        | 420,683                        | 500,683                        |
| Unassigned  | 741,234          | 0                     | 0                    | (1,045,210)              | (374,260)                | 0                              | (678,236)                      |
| <b>Total fund balances</b>  | <b>1,744,008</b> | <b>516,904</b>        | <b>969,137</b>       | <b>(1,045,210)</b>       | <b>(374,260)</b>         | <b>1,740,506</b>               | <b>3,551,085</b>               |
| <b>Total liabilities, deferred inflows of<br/>resources and fund balances</b> | <b>1,995,811</b> | <b>607,218</b>        | <b>3,250,935</b>     | <b>1,071,038</b>         | <b>375,402</b>           | <b>1,928,849</b>               | <b>9,229,253</b>               |

The accompanying notes are an integral part of these financial statements

## BASIC FINANCIAL STATEMENTS

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### RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION

As of June 30, 2019

|   |                           |
|---|---------------------------|
| Total fund balance, governmental funds  | 3,551,085                 |
| Amounts reported for governmental activities in the statement of net position differ because:   |                           |
| Capital assets used in governmental activities are not current financial resources and therefore are not reported in the fund financial statements. The total cost of capital assets not reported above, net of accumulated depreciation. | 15,493,701                |
| Property taxes receivable were assessed this year, but are not available to meet current obligations, and therefore are unavailable in the funds.   | 4,188,674                 |
| Deferred outflows and inflows of resources are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the statement of net position.         | 12,273                    |
| Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:   |                           |
| Compensated absences  | (86,496)                  |
| Net pension liability   | (519,293)                 |
| Other postemployment benefits   | (60,267)                  |
| Accrued interest payable  | (2,874,144)               |
| Bonds payable   | <u>(20,920,000)</u>       |
| Net position of governmental activities on the statement of net position  | <u><u>(1,214,467)</u></u> |

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The accompanying notes are an integral part of these financial statements



**BASIC FINANCIAL STATEMENTS**

**GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**

For the Year Ended June 30, 2019

|   | General Fund | Street Maintenance | TIFD Debt Service | SID #120 Debt Service | SID #121 Debt Service | Other Governmental Funds | Total Governmental Funds |
|---|--------------|--------------------|-------------------|-----------------------|-----------------------|--------------------------|--------------------------|
| <b>REVENUES</b>                                   |              |                    |                   |                       |                       |                          |                          |
| Taxes and assessments                             | 488,497      | 356,560            | 687,043           | 47,252                | 26,347                | 310,264                  | 1,915,963                |
| Licenses and permits                              | 38,848       | 550                | 0                 | 0                     | 0                     | 0                        | 39,398                   |
| Intergovernmental revenues                        | 707,104      | 0                  | 217               | 0                     | 0                     | 406,480                  | 1,113,801                |
| Charges for services                              | 1,719        | 0                  | 0                 | 0                     | 0                     | 6,935                    | 8,654                    |
| Fines and forfeitures                             | 83,723       | 0                  | 0                 | 0                     | 0                     | 7,632                    | 91,355                   |
| Miscellaneous revenues                            | 4,195        | 0                  | 0                 | 0                     | 0                     | 0                        | 4,195                    |
| Investment and royalty earnings                   | 7,295        | 2,068              | 11,026            | 0                     | 0                     | (60,322)                 | (39,933)                 |
| Total revenues                                    | 1,331,381    | 359,178            | 698,286           | 47,252                | 26,347                | 670,989                  | 3,133,433                |
| <b>EXPENDITURES</b>                               |              |                    |                   |                       |                       |                          |                          |
| Current:  |              |                    |                   |                       |                       |                          |                          |
| General government                                | 409,648      | 0                  | 0                 | 0                     | 0                     | 77,751                   | 487,399                  |
| Public safety                                     | 566,991      | 0                  | 0                 | 0                     | 0                     | 32,285                   | 599,276                  |
| Public works                                      | 5,729        | 257,877            | 0                 | 0                     | 0                     | 240,884                  | 504,490                  |
| Public health                                     | 31,510       | 0                  | 0                 | 0                     | 0                     | 14,776                   | 46,286                   |
| Culture and recreation                            | 124,035      | 0                  | 0                 | 0                     | 0                     | 8,340                    | 132,375                  |
| Housing and community development                 | 5,581        | 0                  | 0                 | 0                     | 0                     | 478                      | 6,059                    |
| Debt service - interest                           | 0            | 0                  | 404,134           | 0                     | 0                     | 0                        | 404,134                  |
| Capital outlay                                    | 1,500        | 0                  | 0                 | 0                     | 0                     | 379,610                  | 381,110                  |
| Total Expenditures                                | 1,144,994    | 257,877            | 404,134           | 0                     | 0                     | 754,124                  | 2,561,129                |
| Excess (deficiency) of revenues over expenditures | 186,387      | 101,301            | 294,152           | 47,252                | 26,347                | (83,135)                 | 574,304                  |
| <b>OTHER FINANCING SOURCES (USES)</b>             |              |                    |                   |                       |                       |                          |                          |
| Insurance recoveries                              | 700          | 1,005              | 0                 | 0                     | 0                     | 0                        | 1,705                    |
| Interfund operating transfers in                  | 0            | 11,060             | 0                 | 4,686                 | 0                     | 95,000                   | 110,746                  |
| Interfund operating transfers out                 | (109,153)    | 0                  | 0                 | 0                     | 0                     | (1,593)                  | (110,746)                |
| Total other financing sources (uses)              | (108,453)    | 12,065             | 0                 | 4,686                 | 0                     | 93,407                   | 1,705                    |
| Net change in fund balances                       | 77,934       | 113,366            | 294,152           | 51,938                | 26,347                | 10,272                   | 574,009                  |
| Fund balances, beginning of year                  | 1,666,074    | 403,538            | 674,985           | (1,097,148)           | (400,607)             | 1,730,234                | 2,977,076                |
| Fund balances, end of year                        | 1,744,008    | 516,904            | 969,137           | (1,045,210)           | (374,260)             | 1,740,506                | 3,551,085                |

The accompanying notes are an integral part of these financial statements

## BASIC FINANCIAL STATEMENTS

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### RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2019

|   |                  |
|---|------------------|
| Total governmental funds change in fund balance   | 574,009          |
| Amounts reported for governmental activities in the statement of activities differ because:   |                  |
| capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives as depreciation expense.   |                  |
| Capital outlays   | 381,110          |
| Depreciation expense  | (503,804)        |
| Accrued interest on long-term debt increases long-term liabilities on the statement of net position but is not reported in the governmental funds.  |                  |
| Accrued interest on TIF Bonds   | (912,894)        |
| Some property taxes will not be collected for several months after the City's fiscal year ends, and therefore are not considered as "available" revenues in the governmental funds, and are instead reported as unearned tax revenues. They are, however, recorded as revenues in the statement of activities.                            |                  |
|   | 192,560          |
| In the statement of activities, certain operating expenses including compensated absences (vacations and sick leave) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially the amounts actually paid). |                  |
| Change in compensated absences  | (24,546)         |
| Pension expense, net of state on behalf payments  | 27,279           |
| Change in net position of governmental activities   | <u>(266,286)</u> |

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The accompanying notes are an integral part of these financial statements

## BASIC FINANCIAL STATEMENTS

### PROPRIETARY FUNDS STATEMENT OF NET POSITION

As of June 30, 2019

|   | Water Utility<br>Fund | Sewer Utility<br>Fund | Solid Waste<br>Fund | Total<br>Proprietary<br>Funds |
|---|-----------------------|-----------------------|---------------------|-------------------------------|
| <b>ASSETS</b>   |                       |                       |                     |                               |
| Current assets:   |                       |                       |                     |                               |
| Pooled cash and investments                               | 1,530,379             | 279,851               | 1,038,952           | 2,849,182                     |
| Cash and cash equivalents, restricted                     | 92,002                | 781,076               | 1,510,314           | 2,383,392                     |
| Taxes and assessments receivable                          | 1,412                 | 1,026                 | 264,985             | 267,423                       |
| Accounts receivables                                      | 58,826                | 58,039                | 61,579              | 178,444                       |
| Other receivables   | 3,786                 | 7,768                 | 0                   | 11,554                        |
| Interest receivable                                       | 5,294                 | 3,738                 | 4,993               | 14,025                        |
| Due from other governments                                | 786                   | 0                     | 13,873              | 14,659                        |
| Inventories   | 40,488                | 18,754                | 11,286              | 70,528                        |
| Total current assets                                      | 1,732,973             | 1,150,252             | 2,905,982           | 5,789,207                     |
| Noncurrent assets:  |                       |                       |                     |                               |
| Land  | 121,191               | 21,286                | 320,716             | 463,193                       |
| Capital asset, net of accumulated depreciation            | 3,154,257             | 5,137,817             | 1,514,654           | 9,806,728                     |
| Total noncurrent assets                                   | 3,275,448             | 5,159,103             | 1,835,370           | 10,269,921                    |
| Total assets  | 5,008,421             | 6,309,355             | 4,741,352           | 16,059,128                    |
| <b>DEFERRED OUTFLOW OF RESOURCES</b>                      |                       |                       |                     |                               |
| Pension contributions and related differences and changes | 59,987                | 51,192                | 69,848              | 181,027                       |
| Total deferred outflow of resources                       | 59,987                | 51,192                | 69,848              | 181,027                       |
| <b>LIABILITIES</b>  |                       |                       |                     |                               |
| Current liabilities:                                      |                       |                       |                     |                               |
| Accounts payable  | 22,036                | 35,970                | 37,792              | 95,798                        |
| Accrued liabilities                                       | 5,964                 | 3,590                 | 5,654               | 15,208                        |
| Unearned revenue  | 13,841                | 26,781                | 0                   | 40,622                        |
| Deposits  | 57,115                | 0                     | 17,500              | 74,615                        |
| Bonds payable   | 0                     | 172,000               | 85,000              | 257,000                       |
| Compensated absences                                      | 10,955                | 7,051                 | 12,391              | 30,397                        |
| Total current liabilities                                 | 109,911               | 245,392               | 158,337             | 513,640                       |
| Noncurrent liabilities:                                   |                       |                       |                     |                               |
| Non-current liabilities                                   |                       |                       |                     |                               |
| Bonds payable   | 0                     | 909,000               | 359,000             | 1,268,000                     |
| Landfill closure cost                                     | 0                     | 0                     | 1,208,455           | 1,208,455                     |
| Net pension liability                                     | 269,294               | 229,811               | 313,562             | 812,667                       |
| Other postemployment benefits                             | 32,452                | 26,270                | 35,543              | 94,265                        |
| Compensated absences                                      | 32,864                | 21,152                | 37,171              | 91,187                        |
| Total noncurrent liabilities                              | 334,610               | 1,186,233             | 1,953,731           | 3,474,574                     |
| Total liabilities   | 444,521               | 1,431,625             | 2,112,068           | 3,988,214                     |
| <b>DEFERRED INFLOW OF RESOURCES</b>                       |                       |                       |                     |                               |
| Pension related differences and changes                   | 53,623                | 45,761                | 62,438              | 161,822                       |
| Total deferred inflow of resources                        | 53,623                | 45,761                | 62,438              | 161,822                       |
| <b>NET POSITION</b>                                       |                       |                       |                     |                               |
| Net investment in capital assets                          | 3,275,448             | 4,078,103             | 1,391,370           | 8,744,921                     |
| Restricted  |                       |                       |                     |                               |
| Debt service  | 92,002                | 781,076               | 1,510,314           | 2,383,392                     |
| Unrestricted  | 1,202,814             | 23,982                | (264,990)           | 961,806                       |
| Total net position  | 4,570,264             | 4,883,161             | 2,636,694           | 12,090,119                    |

The accompanying notes are an integral part of these financial statements

## BASIC FINANCIAL STATEMENTS

### PROPRIETARY FUNDS STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION For the Year Ended June 30, 2019

|   | Water Utility<br>Fund | Sewer Utility<br>Fund | Solid Waste<br>Fund | Total<br>Proprietary<br>Funds |
|---|-----------------------|-----------------------|---------------------|-------------------------------|
| <b>OPERATING REVENUES</b>               |                       |                       |                     |                               |
| Charges for services                    | 724,392               | 709,893               | 1,073,367           | 2,507,652                     |
| Miscellaneous revenues                  | 1,304                 | 8,626                 | 0                   | 9,930                         |
| Special assessments                     | 100                   | 184                   | 9,469               | 9,753                         |
| Total operating revenues                | <u>725,796</u>        | <u>718,703</u>        | <u>1,082,836</u>    | <u>2,527,335</u>              |
| <b>OPERATING EXPENSES</b>               |                       |                       |                     |                               |
| Personnel services                      | 347,413               | 233,756               | 379,657             | 960,826                       |
| Supplies                                | 97,763                | 54,856                | 123,749             | 276,368                       |
| Purchased services                      | 97,345                | 150,239               | 111,179             | 358,763                       |
| Fixed charges                           | 16,786                | 14,770                | 85,264              | 116,820                       |
| Depreciation                            | 240,657               | 175,563               | 313,568             | 729,788                       |
| Total operating expenses                | <u>799,964</u>        | <u>629,184</u>        | <u>1,013,417</u>    | <u>2,442,565</u>              |
| Operating income (loss)                 | (74,168)              | 89,519                | 69,419              | 84,770                        |
| <b>NONOPERATING REVENUES (EXPENSES)</b> |                       |                       |                     |                               |
| Intergovernmental revenues              | 6,000                 | 5,121                 | 6,987               | 18,108                        |
| Investment and royalty earnings         | 9,420                 | 6,275                 | 40,946              | 56,641                        |
| Gain on disposal of capital assets      | 0                     | 0                     | 40,000              | 40,000                        |
| Debt services interest expense          | (1,551)               | (27,071)              | (11,396)            | (40,018)                      |
| Total nonoperating revenues (expenses)  | <u>13,869</u>         | <u>(15,675)</u>       | <u>76,537</u>       | <u>74,731</u>                 |
| Income (loss)                           | (60,299)              | 73,844                | 145,956             | 159,501                       |
| Net position, beginning of year         | <u>4,630,563</u>      | <u>4,809,317</u>      | <u>2,490,738</u>    | <u>11,930,618</u>             |
| Net position, end of year               | <u>4,570,264</u>      | <u>4,883,161</u>      | <u>2,636,694</u>    | <u>12,090,119</u>             |

The accompanying notes are an integral part of these financial statements

## BASIC FINANCIAL STATEMENTS

### PROPRIETARY FUNDS STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2019

|   | Water Utility<br>Fund   | Sewer Utility<br>Fund   | Solid Waste<br>Fund     | Total<br>Proprietary<br>Funds |
|---|-------------------------|-------------------------|-------------------------|-------------------------------|
| <b>CASH FLOWS FROM OPERATIONS</b>                             |                         |                         |                         |                               |
| Cash received from customers                                  | 719,785                 | 714,761                 | 1,120,786               | 2,555,332                     |
| Cash paid to:   |                         |                         |                         |                               |
| Vendors   | (231,844)               | (196,292)               | (233,975)               | (662,111)                     |
| Employees   | (331,689)               | (221,047)               | (365,471)               | (918,207)                     |
| Cash received (paid) for interfund services provided          | 743                     | (443)                   | (300)                   | 0                             |
| Net cash flow from operating activities                       | <u>156,995</u>          | <u>296,979</u>          | <u>521,040</u>          | <u>975,014</u>                |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                   |                         |                         |                         |                               |
| Investment in capital assets                                  | (23,422)                | (7,500)                 | 0                       | (30,922)                      |
| Proceeds from the the sales of capital assets                 | 0                       | 0                       | 40,000                  | 40,000                        |
| Interest received on investments                              | <u>8,906</u>            | <u>5,513</u>            | <u>39,105</u>           | <u>53,524</u>                 |
| Net cash flow from investing activities                       | <u>(14,516)</u>         | <u>(1,987)</u>          | <u>79,105</u>           | <u>62,602</u>                 |
| <b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>       |                         |                         |                         |                               |
| Intergovernmental revenue                                     | <u>0</u>                | <u>15,000</u>           | <u>0</u>                | <u>15,000</u>                 |
| Net cash flow from non capital financing activities           | <u>0</u>                | <u>15,000</u>           | <u>0</u>                | <u>15,000</u>                 |
| <b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>           |                         |                         |                         |                               |
| Principal paid on debt  | (174,000)               | (169,000)               | (83,000)                | (426,000)                     |
| Lenders for interest on debt                                  | <u>(1,551)</u>          | <u>(27,071)</u>         | <u>(11,396)</u>         | <u>(40,018)</u>               |
| Net cash flow from capital financing activities               | <u>(175,551)</u>        | <u>(196,071)</u>        | <u>(94,396)</u>         | <u>(466,018)</u>              |
| Net increase/(decrease) in cash                               | (33,072)                | 113,921                 | 505,749                 | 586,598                       |
| Cash balance, beginning of year                               | <u>1,655,453</u>        | <u>947,006</u>          | <u>2,043,517</u>        | <u>4,645,976</u>              |
| Cash balance, end of year                                     | <u><u>1,622,381</u></u> | <u><u>1,060,927</u></u> | <u><u>2,549,266</u></u> | <u><u>5,232,574</u></u>       |
| Pooled cash and investments                                   | 1,530,379               | 279,851                 | 1,038,952               | 2,849,182                     |
| Cash and cash equivalents, restricted                         | <u>92,002</u>           | <u>781,076</u>          | <u>1,510,314</u>        | <u>2,383,392</u>              |
| Total cash balance, per proprietary statement of net position | <u><u>1,622,381</u></u> | <u><u>1,060,927</u></u> | <u><u>2,549,266</u></u> | <u><u>5,232,574</u></u>       |

#### RECONCILIATION OF OPERATING INCOME TO NET CASH USED BY OPERATING ACTIVITIES

|   |                       |                       |                       |                       |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| Operating income (loss)   | (74,168)              | 89,519                | 69,419                | 84,770                |
| Adjustments to reconcile operating income (loss)<br>to net cash used by operating activities: |                       |                       |                       |                       |
| Depreciation  | 240,657               | 175,563               | 313,568               | 729,788               |
| Pension expense   | 11,572                | 10,358                | 12,268                | 34,198                |
| (Increase) decrease in accounts receivables   | (5,155)               | (3,942)               | 39,023                | 29,926                |
| (Increase) decrease in due from other funds   | 743                   | (443)                 | (300)                 | 0                     |
| (Increase) decrease in due from other governments   | (786)                 | 0                     | (13,873)              | (14,659)              |
| Increase in inventories   | (597)                 | 175                   | (600)                 | (1,022)               |
| Decrease in customer deposits   | (70)                  | 0                     | 12,800                | 12,730                |
| Increase in accounts payable  | (19,353)              | 23,398                | 24,996                | 29,041                |
| Increase in accrued liabilities   | 741                   | 324                   | 186                   | 1,251                 |
| Increase in postclosure liability   | 0                     | 0                     | 61,821                | 61,821                |
| Increase (decrease) in compensated absences payable   | 3,411                 | 2,027                 | 1,732                 | 7,170                 |
| Total adjustments   | <u>231,163</u>        | <u>207,460</u>        | <u>451,621</u>        | <u>890,244</u>        |
| Net cash flow from operating activities   | <u><u>156,995</u></u> | <u><u>296,979</u></u> | <u><u>521,040</u></u> | <u><u>975,014</u></u> |

The accompanying notes are an integral part of these financial statements

# BASIC FINANCIAL STATEMENTS

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## FIDUCIARY FUNDS STATEMENT OF NET POSITION

As of June 30, 2019

|                              | <u>Agency Fund</u> |
|------------------------------|--------------------|
| ASSETS                       |                    |
| Cash                         | 159,594            |
| Accounts receivable          | 2,671              |
| Other receivables            | 506                |
| Due from other funds         | 21                 |
| Total assets                 | <u>162,792</u>     |
| LIABILITIES AND NET POSITION |                    |
| Accounts payable             | 7,298              |
| Due to others                | 34,494             |
| Total pension liability      | <u>121,000</u>     |
| Total liabilities            | <u>162,792</u>     |
| NET POSITION                 |                    |
| Net position held in trust   | <u>0</u>           |
| Total net position           | <u>0</u>           |

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The accompanying notes are an integral part of these financial statements

## BASIC FINANCIAL STATEMENTS

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### NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2019

#### Note A Summary of Significant Accounting Policies

The financial statements of the City of Hardin, Montana (the City) have been prepared in conformity with accounting principles generally accepted in the United States (GAAP) as applied to local governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City's significant accounting policies are described below:

##### 1. 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 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 (TRA). Questions regarding Two Rivers Authority should be directed to Jeff McDowell, Two Rivers Authority, PO Box 324, Hardin, MT 59034-0324.

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 a detention facility and streets, curbs and gutters associated with the detention facility within 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.

## BASIC FINANCIAL STATEMENTS

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### NOTES TO FINANCIAL STATEMENTS – CONTINUED

For the Year Ended June 30, 2019

#### 2. Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the City. For the most part, the effect of material inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given program or function is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program or function. Program revenues include charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not included among program revenues are reported as general revenues.

#### 3. Fund Financial Statements

The City uses funds to report on its financial position and results of its operations. The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Non-major funds by category are summarized into a single column. GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, sets forth criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category) for the determination of major funds.

#### 4. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. Accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, reserves, fund balance/net position, revenues, and expenditures or expenses, as appropriate. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category is then divided into separate fund types as follows:

**Governmental Funds:** Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used; current liabilities are assigned to the fund from which they are paid; and the difference between governmental fund assets and liabilities, the fund equity, is referred to as "fund balance." The measurement focus is on the sources, uses and balance of current financial resources. Governmental fund types are those funds through which most governmental functions typically are financed and consist of the general fund, special revenue funds, debt service funds, and capital projects funds.



## BASIC FINANCIAL STATEMENTS

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### NOTES TO FINANCIAL STATEMENTS – CONTINUED

For the Year Ended June 30, 2019

The following comprise the City's major governmental funds:

**General Fund** is the general operating fund of the City. 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.

**Street Maintenance Fund** is a special revenue fund established to account for resources allocated by law, contractual agreement, or administrative regulations for the specific purpose of upkeep of the City's streets.

**Debt Service Funds** are used to account for the payment of interest and principal on long-term bonded debt other than revenue bonds. Montana Statutes require a single debt service fund be established for each general obligation bond, special assessment bond, judgement levy, and special improvement district revolving debt. The TIFD Debt Service Fund, SID 120 Debt Service Fund, and SID 121 Debt Service fund are each major funds for the year ended June 30, 2019.

**Proprietary Funds:** Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the statement of net position.

The following comprise the City's major proprietary funds:

**Water Utility Fund** is a utility service fund used to account for costs related to the water treatment and water supply of the City and is funded by service charges for the utility service.

**Sewer Utility Fund** is a utility service fund used to account for costs related to the maintenance of the sewer system of the City and is funded by service charges for the utility service.

**Solid Waste Fund** is a utility services fund used to account for costs related to the maintenance of the landfill of the City and is funded by service charges for the utility service.

**Fiduciary Funds:** Fiduciary funds are used to report assets held in a trustee capacity for others and are therefore not available to support City programs. The reporting focus is on net position and changes in net position and are reported using generally accepted accounting principles similar to business in the private sector. The City's fiduciary funds are presented in the statement of fiduciary net position by type (agency). Because by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the City, these funds are not incorporated into the government-wide financial statements.

#### 5. Measurement Focus and Basis of Accounting

The financial statements of the City are prepared in accordance with accounting principles generally accepted in the United States (US GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements.

## BASIC FINANCIAL STATEMENTS

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### NOTES TO FINANCIAL STATEMENTS – CONTINUED

For the Year Ended June 30, 2019

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied, while grants and similar items are recognized as revenue upon grantor eligibility requirements being met. Generally, the effect of material inter-fund activity has been removed.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as 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 liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The City recognizes property taxes as a receivable at the time an enforceable legal claim is established and considers property taxes as available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year. Those revenues susceptible to accrual are property taxes, special assessments, grants, interest revenue and charges for services. Capital asset acquisitions are reported as expenditures in governmental funds and proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The City reports unavailable revenues as deferred inflows of resources and advances from grantors as a liability on its balance sheet - governmental funds. Unavailable revenues arise when potential revenue does not meet both the 'measurable' and 'available' criteria for recognition in the current period. Unavailable revenues also arise when the City receives resources before it has a legal claim to them, as when grant monies are received prior to the occurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to resources, the deferred inflow of resources for unavailable revenue and liability for advances from grantors are removed from the balance sheet and revenue is recognized. Unavailable revenues are not reflected in the government-wide statement of net position as these amounts are recognized under the accrual basis of accounting. Advances from grantors are reflected as a liability on the government-wide statement of net position.

Licenses and permits, fines and forfeitures, charges for sales and services (other than utility), and miscellaneous revenues are generally recorded as revenue when received in cash, because they are generally not measurable until actually received. In the category of use of money and property, property rentals are recorded as revenue when received in cash, but investment earnings are recorded as earned, since they are measurable and available.

## BASIC FINANCIAL STATEMENTS

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### NOTES TO FINANCIAL STATEMENTS – CONTINUED

For the Year Ended June 30, 2019

Amounts reported as program revenues include charges to customers or applicants for goods, services, or privileges provided, operating grants and contributions and capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

#### 6. Cash and Pooled Investments

Except where otherwise required, the City maintains all deposits in bank and investment accounts in the name of the City. These deposits are invested on a short-term basis with interest income being recorded in the general fund, except for interest income allocated to enterprise funds and where specifically required by law to be recorded in other funds. The balance reported in each fund represents an equity interest in the commingled pool of cash, which is under the management of the City Clerk. The provisions of Governmental Accounting Standards Board (GASB) Statement No. 79 *Certain External Investment Pools and Pool Participants*, require governmental entities, including governmental external investment pools, to report certain investments at fair value in the balance sheet and recognize the corresponding change in the fair value of investments in the year in which the change occurred. In accordance with GASB Statement No. 79, the City has stated investments at cost, which approximates the fair value.

Cash and investments may include cash and cash items; demand, time, savings and fiscal agent deposits; investments in the short-term investment pools; direct obligations of the United States Government and securities issued by agencies of the United States; repurchase agreements; and registered warrants.

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.

#### 7. Property Taxes Receivable

Property taxes are recognized as a receivable at the time an enforceable legal claim is established. This is determined to occur when the budget is certified. The current taxes receivable represents the levy based on the assessed valuations as of January 1 for all real property located in the City. Taxes are normally billed in October and payable in two installments on November 30 and May 31.

Delinquent real property taxes attach as a lien on the property as of January 1. Personal property taxes are assessed and billed throughout the year, with a significant portion generally billed in May, June, and July. Personal property taxes are based upon levies set during August of the prior year. These taxes become delinquent thirty days after billing. Delinquent personal property taxes may become a lien on the property of the owner of the personal property. Property taxes receivable at June 30, 2019, consist primarily of delinquent property taxes from prior years' levies and are offset by deferred inflows of resources in the fund financial statements. The City does not record an allowance for uncollectible taxes because it is considered to be immaterial.

## BASIC FINANCIAL STATEMENTS

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### NOTES TO FINANCIAL STATEMENTS – CONTINUED

For the Year Ended June 30, 2019

#### 8. Proprietary Fund Receivables

The proprietary fund assessments receivable and other receivables represents the amount of user charges for solid waste, water, and sewer services due from the residents of the City. No allowance for estimated uncollectible accounts is maintained for the solid waste, water, or sewer receivables, as the uncollectible amount is not considered to be material. There were no write-offs for the proprietary fund receivables for the year ended June 30, 2019.

#### 9. Capital Assets

Capital assets, including land, buildings, improvements, and equipment, are reported in the government-wide financial statements. Governmental capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an initial useful life of one year or greater. TRA capital assets have an initial, individual cost of more than \$1,000. Such assets are recorded at historical cost if purchased or constructed. If no historical records exist, capital assets are recorded at estimated historical cost. Donated capital assets are recorded at estimated fair value at the date of donation. Interest incurred during construction is not capitalized.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Buildings, improvements, and equipment are depreciated using the straight-line method of depreciation over the following estimated useful lives, in years:

| <u>Assets:</u>                    | <u>Governmental</u> | <u>Proprietary</u> | <u>TRA</u> |
|-----------------------------------|---------------------|--------------------|------------|
| Infrastructure                    | 5 – 50              | 5 – 50             | ---        |
| Buildings                         | 10 – 50             | 40 – 50            | 50         |
| Improvements other than buildings | 20 – 40             | 10 – 37            | ---        |
| Equipment and machinery           | 3 – 20              | 5 – 20             | 6          |
| Intangibles - logo                | ---                 | ---                | 15         |

#### 10. Inventories

In governmental funds, the cost of inventory is recorded as expenditure when incurred. Inventories are accounted for using the purchases method. The year-end value of inventory is recorded as an asset. Because the asset is not available for other discretionary expenditures, it is recorded as a nonspendable fund balance. Under the purchases method, the change in inventory from year to year is recorded as a change in the beginning fund balance. At the government-wide level, the inventory must be reported on the consumption method; thus, there is a reconciling item for inventory change between reporting levels. Inventory value is determined by using the average cost method. The difference in valuation methods of inventories at June 30, 2019, was not, however, considered material and no reconciliation was recorded.

## **BASIC FINANCIAL STATEMENTS**

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### **NOTES TO FINANCIAL STATEMENTS – CONTINUED**

For the Year Ended June 30, 2019

#### **11. City Court Fines**

The City does not record receivables for fines imposed by the City Court but records fines as revenue when collected.

#### **12. Pensions**

For purposes of measuring the net pension liability and pension expense, information about the fiduciary net position of the State of Montana's Public Employee Retirement System and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

#### **13. Deferred Outflows 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, deferred outflows of resources, represents an expenditure of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenditures) until that time. The City has only one type of item, which arises only under the accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, pension contributions and related differences and changes, is reported in the government-wide and proprietary funds statements of net position. This amount is deferred and recognized as an outflow of resources in the period that the amounts are recognized by the plan.

#### **14. Deferred Inflows of Resources**

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, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has one such item, which relates to the difference between projected and actual investment returns on the funds invested in the Montana's Public Employee Retirement System and is reported in the government-wide statement and proprietary funds statements of net position. The amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

#### **15. Interfund Transactions**

Transactions among City funds that would be treated as revenues and expenditures or expenses if they involved organizations external to City government are accounted for as revenues and expenditures or expenses in the funds involved.

Transactions which constitute reimbursements to a fund for expenditures initially made from it which are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the reimbursed fund.

## BASIC FINANCIAL STATEMENTS

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### NOTES TO FINANCIAL STATEMENTS – CONTINUED

For the Year Ended June 30, 2019

Transactions, which constitute the transfer of resources from a fund receiving revenues to a fund through which the revenues are to be expended, are separately reported in the respective fund's operating statements.

Activities between funds that are representative of lending/borrowing arrangements at the end of the fiscal year are referred to as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

#### 16. Warrants Payable

The City pays its claims by issuing a warrant ordering the City Treasurer to pay for the warrant upon presentation. Warrants issued but not presented for payment are deducted from cash and amounted to \$27,115 at June 30, 2019.

#### 17. Compensated Absences

City employees accumulate vacation and sick leave for later use or for payment upon termination, death, or retirement. City employees earn vacation leave at the rate of 15 days per year during the first 10 years of employment, and at increasing rates thereafter to a maximum of 24 days per year after 20 years of employment. There is no requirement that vacation leave be taken, but the maximum permissible accumulation is the amount earned in the most recent two-year period. 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 activities portion expected to be paid within one year is \$21,624 and it is generally paid out of the General Fund. The current portion of the business-type activities' compensated absences is \$30,397. Total accrued governmental activities and business-type activities' liabilities for sick and vacation leave as of June 30, 2019, are \$86,496 and \$121,584 respectively for a total of \$208,080.

#### 18. Long-Term Obligations

Long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable, available financial resources are reported as a fund liability of a governmental fund. The entire portion of such obligations is reported in the government-wide financial statements.

## BASIC FINANCIAL STATEMENTS

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### NOTES TO FINANCIAL STATEMENTS – CONTINUED

For the Year Ended June 30, 2019

#### 19. Fund Balances

The Governmental Accounting Standards Board (GASB) has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes.

In the governmental fund financial statements, fund balances are reported in five classifications:

**Nonspendable:** Amounts that cannot be spent because they are either (1) not in spendable form (e.g. inventories and prepaid amounts) or (2) legally or contractually required to be maintained intact (e.g. the corpus or principal of a permanent fund).

**Restricted:** Amounts that can only be spent for the specific purposes stipulated by constitution, external resource providers or through enabling legislation.

**Committed:** Amounts that can be used only for the specific purposes determined by a resolution (formal action) of the Board of City Commissioners (the City's highest level of decision-making authority) and does not lapse at year end.

**Assigned:** Amounts intended to be used by the government for specific purposes, under the direction of the City Clerk and Recorder by authority granted by the Board of City Commissioners, but do not meet the criteria to be classified as restricted or committed.

**Unassigned:** The residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed or assigned.

It is the City's policy, for purposes of fund balance classification, when restricted, committed, assigned or unassigned funds are available, expenditures will first be made from restricted, then from committed, then from assigned and lastly from unassigned fund balances.

#### 20. Net Position

Net position represents the residual of assets plus deferred outflows less liabilities and deferred inflows. Net investment in capital assets represents net position in the form of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The City's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

## BASIC FINANCIAL STATEMENTS

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### NOTES TO FINANCIAL STATEMENTS – CONTINUED

For the Year Ended June 30, 2019

#### 21. Operating Income – Proprietary Funds

The proprietary funds statement of revenues, expenses and changes in net position includes operating income. Changes in net position which are excluded from operating income include interest income and intergovernmental revenues.

#### 22. Cash and Cash Equivalents – Proprietary Funds

For purposes of reporting the proprietary funds statement of cash flows, the City considers all cash accounts, which are not subject to withdrawal restrictions or penalties, and all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

#### 23. Management Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires the City to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported revenues and expenditures during the reporting period. Actual results could vary from the estimates that were used.

### Note B Cash and Investments

The provisions of Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, require governmental entities including governmental external investment pools, to report certain investments at fair value in the balance sheet and recognize the corresponding change in fair value of investments in the year in which the change occurred. In accordance with GASB Statement No. 72, the City has stated investments at net asset value fair value of pooled investments as is determined annually and is based on year-end market prices.

The composition of cash and investments on June 30, 2019, was as follows:

|  |                           |
|--|---------------------------|
| <b>Unrestricted cash and cash equivalents</b>    | <b>Primary Government</b> |
| Cash on hand                                     | 425                       |
| Demand deposits                                  | 850,077                   |
| Certificates of deposit                          | 4,463,839                 |
| Total unrestricted cash and cash equivalents     | <u>5,314,341</u>          |
| <b>Restricted cash and cash equivalents</b>      | <b>Primary Government</b> |
| Cash in banks:                                   |                           |
| General restriction                              | 174,017                   |
| Reserved for future payment                      | 292,623                   |
| Reserved for construction/research & development | 942,359                   |
| Customer deposits                                | 74,615                    |
| Revenue fund and proceeds                        | 797,287                   |
| Landfill Trusts                                  | 1,073,795                 |
| Total restricted cash and cash equivalents       | <u>3,354,696</u>          |



## BASIC FINANCIAL STATEMENTS

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### NOTES TO FINANCIAL STATEMENTS – CONTINUED

For the Year Ended June 30, 2019

#### 1. Custodial Credit Risk – Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City 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.

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 law. As of June 30, 2019, none of the City's deposits were exposed to custodial credit risk because all deposits were either FDIC insured or collateralized.

#### 2. 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, 2019, none of the City's investments were exposed to custodial credit risk because all investments were FDIC insured or collateralized.

#### Note C Property Taxes

The City's real property tax is levied on the assessed value listed as of January 1 for all real property located within the City. Assessed values are established by the Montana Department of Revenue based on market value base. A reevaluation of all property is required to be completed on a periodic basis. Taxable value is defined by a State statute as a fixed percentage of assessed value. The City is permitted by State statutes to levy taxes up to certain fixed limits for various purposes. The tax levies for the year ended June 30, 2019, were within the legal limits.

The tax levies for the fiscal year ending June 30, 2019, were based on the taxable values of \$3,506,113 as of January 1, 2018. All property taxes are recognized in compliance with GASB Interpretation "Property Tax Revenue Recognition in Government Funds," which states that such revenue is recorded when it becomes measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

## BASIC FINANCIAL STATEMENTS

### NOTES TO FINANCIAL STATEMENTS – CONTINUED

For the Year Ended June 30, 2019

#### Note D Capital Assets

Capital asset balances and activity for the year ended June 30, 2019, were as follows:

|  | Balance<br>June 30, 2018 | Additions      | Deletions        | Balance<br>June 30, 2019 |
|--|--------------------------|----------------|------------------|--------------------------|
| <b>Governmental Activities</b>                     |                          |                |                  |                          |
| <i>Capital assets not being depreciated</i>        |                          |                |                  |                          |
| Land   | 553,285                  | 0              | 0                | 553,285                  |
| Easements (no land & no depreciation)              | 40,622                   | 0              | 0                | 40,622                   |
| Construction in progress                           | 37,635                   | 306,387        | 0                | 344,022                  |
| Total capital assets not being depreciated         | <u>631,542</u>           | <u>306,387</u> | <u>0</u>         | <u>937,929</u>           |
| <i>Capital assets being depreciated</i>            |                          |                |                  |                          |
| Building & improvements                            | 1,228,459                | 5,200          | 0                | 1,233,659                |
| Improvements other than buildings                  | 204,857                  | 21,410         | 0                | 226,267                  |
| Machinery & equipment                              | 1,356,689                | 39,158         | 0                | 1,395,847                |
| Infrastructure                                     | 16,033,047               | 8,955          | 0                | 16,042,002               |
| Total capital assets being depreciated             | <u>18,823,052</u>        | <u>74,723</u>  | <u>0</u>         | <u>18,897,775</u>        |
| Less accumulated depreciation                      | <u>3,838,199</u>         | <u>503,804</u> | <u>0</u>         | <u>4,342,003</u>         |
| Total capital assets being depreciated, net        | <u>14,984,853</u>        |                |                  | <u>14,555,772</u>        |
| Total governmental activities capital assets, net  | 15,616,395               |                |                  | 15,493,701               |
| <b>Business-type Activities</b>                    |                          |                |                  |                          |
| <i>Capital assets not being depreciated</i>        |                          |                |                  |                          |
| Land   | 463,193                  | 0              | 0                | 463,193                  |
| Total capital assets not being depreciated         | <u>463,193</u>           | <u>0</u>       | <u>0</u>         | <u>463,193</u>           |
| <i>Capital assets being depreciated</i>            |                          |                |                  |                          |
| Buildings & systems                                | 139,636                  | 0              | 0                | 139,636                  |
| Improvements other than buildings                  | 1,980,909                | 0              | 0                | 1,980,909                |
| Machinery & equipment                              | 2,850,089                | 15,000         | (324,860)        | 2,540,229                |
| Infrastructure                                     | 480,797                  | 0              | (32,955)         | 447,842                  |
| Treatment Plant                                    | 6,078,417                | 15,922         | 0                | 6,094,339                |
| Transmission & distribution                        | 8,930,633                | 0              | 0                | 8,930,633                |
| Total capital assets being depreciated             | <u>20,460,481</u>        | <u>30,922</u>  | <u>(357,815)</u> | <u>20,133,588</u>        |
| Less accumulated depreciation                      | <u>9,954,887</u>         | <u>729,788</u> | <u>(357,815)</u> | <u>10,326,860</u>        |
| Total capital assets being depreciated, net        | <u>10,505,594</u>        |                |                  | <u>9,806,728</u>         |
| Total business-type activities capital assets, net | <u>10,968,787</u>        |                |                  | <u>10,269,921</u>        |
| Total capital assets, net                          | <u>26,585,182</u>        |                |                  | <u>25,763,622</u>        |

## BASIC FINANCIAL STATEMENTS

### NOTES TO FINANCIAL STATEMENTS – CONTINUED

For the Year Ended June 30, 2019

Depreciation expense was charged as follows:

|                          |                         |
|--------------------------|-------------------------|
| Governmental Activities  |                         |
| General government       | 503,804                 |
|                          | <u>503,804</u>          |
| Business-type Activities |                         |
| Water                    | 240,657                 |
| Sewer                    | 175,563                 |
| Solid waste              | 313,568                 |
|                          | <u>729,788</u>          |
| Total Depreciation       | <u><u>1,233,592</u></u> |

#### Note E Non-Current Liabilities

Non-current liability balances and activity for the year ended June 30, 2019, were as follows:

|                                | Balance           |               |                  | Balance           | Amount Due         |
|--------------------------------|-------------------|---------------|------------------|-------------------|--------------------|
|                                | June 30, 2018     | Additions     | Reductions       | June 30, 2019     | Within<br>One Year |
| Governmental activities        |                   |               |                  |                   |                    |
| Bonds payable                  | 20,920,000        | 0             | 0                | 20,920,000        | 3,735,000          |
| Compensated absences payable   | 61,950            | 24,546        | 0                | 86,496            | 21,624             |
| Other post-employment benefits | 60,267            | 0             | 0                | 60,267            | 0                  |
| Net pension liability          | 710,921           | 0             | (191,628)        | 519,293           | 0                  |
| Total governmental activities  | <u>21,753,138</u> | <u>24,546</u> | <u>(191,628)</u> | <u>21,586,056</u> | <u>3,756,624</u>   |
| Business-type activities       |                   |               |                  |                   |                    |
| Bonds payable                  | 1,951,000         | 0             | (426,000)        | 1,525,000         | 257,000            |
| Compensated absences payable   | 114,414           | 7,170         | 0                | 121,584           | 30,397             |
| Other post-employment benefits | 94,265            | 0             | 0                | 94,265            | 0                  |
| Net pension liability          | 1,034,347         | 0             | (221,680)        | 812,667           | 0                  |
| Total business-type activities | <u>3,194,026</u>  | <u>7,170</u>  | <u>(647,680)</u> | <u>2,553,516</u>  | <u>287,397</u>     |

The current portion of other post-employment benefits has not been separately stated due to the indeterminate nature of the liability.

## BASIC FINANCIAL STATEMENTS

### NOTES TO FINANCIAL STATEMENTS – CONTINUED

For the Year Ended June 30, 2019

Special assessment bonds payable at June 30, 2019, are comprised of the following:

| Purpose                  | Origination Date | Interest Rate | Bond Term | Maturity Date | Bond Amounts | Annual Payment | Balance June 30, 2019 |
|--------------------------|------------------|---------------|-----------|---------------|--------------|----------------|-----------------------|
| Series 2006 Revenue Bond | 9/1/2006         | 6.250%        | 25 years  | 9/1/2031      | 12,600,953   | Varies         | 20,920,000            |
|                          |                  |               |           |               |              |                | <u>20,920,000</u>     |

The City issues revenue bonds where the City pledges income derived from the acquired or constructed assets to pay debt service. Revenue bonds outstanding at June 30, 2019, are comprised of the following:

| Purpose                         | Origination Date | Interest Rate | Bond Term | Maturity Date | Bond Amounts | Annual Payment | Balance June 30, 2018 |
|---------------------------------|------------------|---------------|-----------|---------------|--------------|----------------|-----------------------|
| Sewer Series 2003               | 6/27/2005        | 2.25%         | 20 years  | 7/1/2023      | 1,247,000    | Varies         | 509,000               |
| Sewer Series 2010B              | 1/15/2010        | 0.75%         | 20 years  | 1/1/2030      | 359,300      | Varies         | 194,000               |
| Sewer Series 2010C              | 5/11/2010        | 3.00%         | 20 years  | 1/1/2030      | 557,000      | Varies         | 378,000               |
| Landfill Series 2009 (Coal Ash) | 6/19/2009        | 2.25%         | 15 years  | 7/1/2024      | 1,127,000    | Varies         | 444,000               |
|                                 |                  |               |           |               |              |                | <u>1,525,000</u>      |

The revenue bonds are collateralized by the revenues of the sewer and landfill systems and the various special funds established by the bond ordinances. The ordinances provide that the revenues of the systems are to be used first to pay operating and maintenance expenses of the systems and second to establish and maintain the revenue bond funds. Any remaining revenues may then be used for any lawful purpose.

Revenue bond resolutions include various restrictive covenants. The more significant covenants 1) require that cash be restricted and reserved for operations, construction, debt service, and replacement and depreciation; 2) maintenance of casualty and liability insurance on the financed property; and 3) require specific and timely reporting of financial information to bond holders and the registrar.

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 operates a 116MW coal-fired electric generation station and related facilities. The City was required to begin making scheduled principal and interest payments on March 1, 2015. The bonds are secured by a lien on the Tax Increment Financing (TIF) District until paid. The City has not received sufficient revenues to pay the full amount of interest as it comes due, nor any of the principal amounts. **The TIF revenue bonds are considered to be in default because the principal and full interest payments have not been paid as scheduled.** Interest expense continues to accrue on the unpaid balance. Accrued interest on revenue bonds totals \$2,874,144 as of June 30, 2019.

The terms of the revenue bonds and any breach of the terms of the bonds do not constitute or give rise to a pecuniary liability of the City or a charge against the general credit or taxing powers of the City. As of June 30, 2019, the aggregate amount of conduit debt obligation outstanding was \$2,571,160.

## BASIC FINANCIAL STATEMENTS

### NOTES TO FINANCIAL STATEMENTS – CONTINUED

For the Year Ended June 30, 2019

Annual debt service principal and interest payment requirements to maturity are as follows:

| Year Ending<br>June 30, | Governmental Activities |                   |                       | Business-Type Activities |               |                       |
|-------------------------|-------------------------|-------------------|-----------------------|--------------------------|---------------|-----------------------|
|                         | Principal               | Interest          | Total<br>Requirements | Principal                | Interest      | Total<br>Requirements |
| 2020                    | 3,735,000               | 3,974,457         | 7,709,457             | 257,000                  | 20,100        | 277,100               |
| 2021                    | 895,000                 | 1,046,094         | 1,941,094             | 263,000                  | 16,716        | 279,716               |
| 2022                    | 950,000                 | 988,437           | 1,938,437             | 269,000                  | 13,266        | 282,266               |
| 2023                    | 1,010,000               | 927,188           | 1,937,188             | 274,000                  | 9,723         | 283,723               |
| 2024                    | 1,070,000               | 862,187           | 1,932,187             | 145,000                  | 6,533         | 151,533               |
| 2025-2029               | 6,450,000               | 3,184,375         | 9,634,375             | 286,000                  | 15,289        | 301,289               |
| 2030-2034               | 6,810,000               | 769,062           | 7,579,062             | 31,000                   | 248           | 31,248                |
|                         | <u>20,920,000</u>       | <u>11,751,800</u> | <u>32,671,800</u>     | <u>1,525,000</u>         | <u>81,875</u> | <u>1,606,875</u>      |

#### Note F Landfill Closure and Post-Closure Care Costs

State and federal laws and regulations require that the City 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, 2019, of \$1,208,455 represents the cumulative amount reported to-date based on the remaining available use of 34% of the Class II area and 71% of the Coal Ash area consisting of two coal ash cells, for a combined estimate of 61% 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 \$1,240,683 for total estimated costs of \$2,449,138. The City will recognize the remaining estimated cost of closure and post-closure care costs as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and post-closure in 2019 dollars.

| Closure and Post-Closure Liability | June 30, 2018    | Current Accrual | June 30, 2019    |
|------------------------------------|------------------|-----------------|------------------|
| Class II Cell                      | 859,737          | 28,807          | 888,544          |
| Coal Ash Cell                      | 286,897          | 33,014          | 319,911          |
| Net change in landfill liability   | <u>1,146,634</u> | <u>61,821</u>   | <u>1,208,455</u> |

The City expects to close the Class II area landfill in 24 years and the Coal Ash area in 26 years.

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, 2019, restricted cash and investments of \$1,073,795 are held for these purposes and are reported in the statement of net position. Future inflations costs are expected to be paid from annual earnings and contributions.

## BASIC FINANCIAL STATEMENTS

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### NOTES TO FINANCIAL STATEMENTS – CONTINUED

For the Year Ended June 30, 2019

#### Note G Interfund Transactions

Interfund transfers for the year ended June 30, 2019, were made up of the following amounts:

|                          | <u>Transfers In</u> | <u>Transfers Out</u> |
|--------------------------|---------------------|----------------------|
| General fund             | 0                   | 109,153              |
| Street maintenance       | 11,060              | 0                    |
| Curb and gutter          | 0                   | 253                  |
| Gas tax                  | 0                   | 471                  |
| SID #120                 | 4,686               | 0                    |
| Capital improvements     | 35,000              | 869                  |
| Fire department          | 50,000              | 0                    |
| Parks - capital projects | 10,000              | 0                    |
|                          | <u>110,746</u>      | <u>110,746</u>       |

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

#### Note H Employee Benefit Plans

##### 1. Public Employee's Retirement System (PERS):

###### 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 net pension liability (NPL); deferred outflows of resources and deferred inflows of resources related to pensions; pension expense; the fiduciary net position; and, additions to or deductions from fiduciary net position. Member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Revenues are recognized in the accounting period they are earned and become measurable. Benefit payments and refunds are recognized in the accounting period in which they are due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred. Investments are reported at fair value. MPERA adhered to all accounting principles generally accepted by the United States of America. MPERA applied all applicable pronouncements of the Governmental Accounting Standards Board (GASB).

### NOTES TO FINANCIAL STATEMENTS – CONTINUED

For the Year Ended June 30, 2019

#### b. General Information about the Pension Plan

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

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).

*Benefits provided:* The PERS-DBRP provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service, and highest average compensation (HAC). Member rights are vested after five years of service.

#### Eligibility for benefit

Service retirement:

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

#### Early Retirement

Early retirement, actuarially reduced:

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

### NOTES TO FINANCIAL STATEMENTS – CONTINUED

For the Year Ended June 30, 2019

#### **Second Retirement**

Requires returning to PERS-covered employer or PERS service:

- Retired before January 1, 2016, and accumulate less than two years additional service credit or retire on or after January 1, 2016, and accumulate less than five years additional service credit:
  - A refund of member's contributions plus return interest (currently 0.77%, effective July 1, 2017)
  - No service credit for second employment;
  - Start the same benefit amount the month following termination; and
  - Guaranteed Annual Benefit Adjustment (GABA) starts again in the January immediately following the second retirement
- Retired before January 1, 2016, and accumulate at least two years of additional service credit:
  - A recalculated retirement benefit based on provisions in effect after the initial retirement; and
  - GABA starts on the recalculated benefit in the January after receiving the new benefit for 12 months.
- Retired on or after January 1, 2016, and accumulate five or more years of service credit:
  - The same retirement as prior to the return to service;
  - A second retirement benefit as prior to the second period of service based on laws in effect upon the rehire date; and
  - GABA starts on both benefits in the January after receiving the original and the new benefit for 12 months.

#### **Member's highest average compensation (HAC)**

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

#### **Compensation Cap**

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

#### **Monthly benefit formula**

Members hired prior to July 1, 2011:

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

Members hired on or after July 1, 2011:

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



## BASIC FINANCIAL STATEMENTS

### NOTES TO FINANCIAL STATEMENTS – CONTINUED

For the Year Ended June 30, 2019

#### Guaranteed Annual Benefit Adjustment (GABA)

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

- 3.0% for members hired prior to July 1, 2007
- 1.5% for members hired between July 1, 2007 and July 30, 2013
- Members hired on or after July 1, 2013
  - 1.5% each year PERS is funded at or above 90%
  - 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and,
  - 0% whenever the amortization period for PERS is 40 years or more.

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

*Special Funding:* The state of Montana, as the non-employer contributing entity, paid to the Plan, additional contributions that qualify as *special funding*. Those employers who received *special funding* are all participating employers.

*Not Special Funding:* Per Montana law, state agencies and universities paid their own additional contributions. The employer paid contributions are *not* accounted for as special funding for state agencies and universities but are reported as employer contributions.

Member and employer contribution rates are shown in the table below.

| Fiscal Year | Member           |                  | State &<br>Universities<br>Employer | Local Governments |        | School Districts |        |
|-------------|------------------|------------------|-------------------------------------|-------------------|--------|------------------|--------|
|             | Hired<br><7/1/11 | Hired<br>>7/1/11 |                                     | Employer          | State  | Employer         | State  |
| 2019        | 7.900%           | 7.900%           | 8.670%                              | 8.570%            | 0.100% | 8.300%           | 0.370% |
| 2018        | 7.900%           | 7.900%           | 8.570%                              | 8.470%            | 0.100% | 8.200%           | 0.370% |
| 2017        | 7.900%           | 7.900%           | 8.470%                              | 8.370%            | 0.100% | 8.100%           | 0.370% |
| 2016        | 7.900%           | 7.900%           | 8.370%                              | 8.270%            | 0.100% | 8.000%           | 0.370% |
| 2015        | 7.900%           | 7.900%           | 8.270%                              | 8.170%            | 0.100% | 7.900%           | 0.370% |
| 2014        | 7.900%           | 7.900%           | 8.170%                              | 8.070%            | 0.100% | 7.800%           | 0.370% |
| 2012-2013   | 6.900%           | 7.900%           | 7.170%                              | 7.070%            | 0.100% | 6.800%           | 0.370% |
| 2010-2011   | 6.900%           |                  | 7.170%                              | 7.070%            | 0.100% | 6.800%           | 0.370% |
| 2008-2009   | 6.900%           |                  | 7.035%                              | 6.935%            | 0.100% | 6.800%           | 0.235% |
| 2000-2007   | 6.900%           |                  | 6.900%                              | 6.800%            | 0.100% | 6.800%           | 0.100% |

- 1) Members' contributions to the system of 7.9% are temporary and will be decreased to 6.9% on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and additional member contribution rates.

## BASIC FINANCIAL STATEMENTS

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### NOTES TO FINANCIAL STATEMENTS – CONTINUED

For the Year Ended June 30, 2019

- 2) Employer contribution to the system:
  - a. Effective July 1, 2014, following the 2013 Legislative Session, PERS-employer contributions increase an additional 0.1% per 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 portion of employer contributions allocated to the PCR are included in the employers reporting. The PCR was paid off effective March 2016 and the contributions previously directed to the PCR are now directed to member accounts.
  
- 3) Non-Employer Contributions
  - a. Special Funding
    - i. The State contributed 0.1% of members' compensation on behalf of local government entities.
    - ii. The State contributed 0.37% of members' compensation on behalf of school district entities.
    - iii. The State contributed a Statutory Appropriation from the General Fund of \$33,454,182.

**c. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

GASB Statement 68 allows a measurement date of up to 12 months before the employer's fiscal year-end can be utilized to determine the Plan's total pension liability (TPL). The basis for the TPL as of June 30, 2018, was determined by taking the results of the June 30, 2017, actuarial valuation and applying standard roll forward procedures. The roll forward procedure uses a calculation that adds the annual normal cost (also called the service cost), subtracts the actual benefit payments and refunds for the plan year, and then applies the expected investment rate of return for the year. The roll forward procedure will include the effects of any assumption changes and legislative changes. The update procedures are in conformity with Actuarial Standards of Practice issued by the Actuarial Standards Board.

The TPL minus the fiduciary net position equals the net pension liability (NPL). The proportionate shares of the employer's and the state of Montana's NPL for June 30, 2018 and 2017, are displayed below. 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 the contributions for the particular employer to the total state contributions paid. The employer recorded a liability of \$1,331,960 and the employer's proportionate share was 0.0638 percent.

## BASIC FINANCIAL STATEMENTS

### NOTES TO FINANCIAL STATEMENTS – CONTINUED

For the Year Ended June 30, 2019

| <b>As of measurement date</b>                                    | Net Pension<br>Liability as of<br><u>6/30/2018</u> | Net Pension<br>Liability as of<br><u>6/30/2017</u> | Percent of<br>Collective NPL<br>as of<br><u>6/30/2018</u> | Percent of<br>Collective NPL<br>as of<br><u>6/30/2017</u> | Change in<br>Percent of<br>Collective NPL |
|--|--|--|---|---|---|
| The City's proportionate share                                   | 1,331,960  | 1,745,269  | 0.0638%   | 0.0896%   | -0.0258%                                  |
| State of Montana proportionate share<br>associated with the City | 444,690  | 21,630   | 0.0855%   | 0.1102%   | -0.0247%                                  |
| <b>Total</b>   | <u><u>1,776,650</u></u>                            | <u><u>1,766,899</u></u>                            | <u><u>0.1493%</u></u>                                     | <u><u>0.1998%</u></u>                                     | <u><u>-0.0505%</u></u>                    |

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

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

*Changes in proportionate share:* There were no changes between the measurement date of the collective NPL and the employer's reporting date that are expected to have a significant effect on the employer's proportionate share of the collective NPL.

*Pension Expense:* At June 30, 2018, the employer recognized \$71,127 for its proportionate share of the Plan's pension expense and recognized grant revenue of \$29,678 for the state of Montana proportionate share of the pension expense associated with the employer. Additionally, the employer recognized grant revenue of \$0 from the State Statutory Appropriation from the General Fund.

| <b>As of measurement date</b>   | <u>Pension Expense as of 6/30/2018</u> |
|---|--|
| The City's proportionate share  | 71,127                                 |
| The City grant revenue - state of Montana proportionate<br>share for the City | 29,678                                 |
| The City grant revenue - state of Montana state<br>appropriation for the City | 0                                      |
| <b>Total</b>  | <u><u>100,805</u></u>                  |

## BASIC FINANCIAL STATEMENTS

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### NOTES TO FINANCIAL STATEMENTS – CONTINUED

For the Year Ended June 30, 2019

*Recognition of Deferred Inflows and Outflows:* At June 30, 2018, the employer reported its proportionate share of the Plan's deferred outflows of resources and deferred inflows of resources from the following sources:

|   | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------|-------------------------------|
| Expected vs. actual experience  | 101,287                        | 0                             |
| Projected investment earnings vs actual investment earnings   | 0                              | 20,685                        |
| Changes in assumptions  | 113,263                        | 0                             |
| Changes in proportion and differences between City contributions and proportionate share of contributions | 0                              | 244,541                       |
| City contributions subsequent to the measurement date   | 82,154                         | 0                             |
| <b>Total</b>  | <b>296,704</b>                 | <b>265,226</b>                |

Other amounts reported as deferred outflows and inflows of resources related to pensions are recognized in the employer's pension expense as follows:

| For the measurement year ended June 30: | Recognition of Deferred Outflows and Deferred Inflows in future years as an increase or (decrease) in pension expense |
|---|---|
| 2019                                    | 50,696  |
| 2020                                    | 21,256  |
| 2021                                    | (114,129)   |
| 2022                                    | (8,499)   |
| 2023                                    | 0   |
| Thereafter                              | 0   |

## BASIC FINANCIAL STATEMENTS

### NOTES TO FINANCIAL STATEMENTS – CONTINUED

For the Year Ended June 30, 2019

*Actuarial Assumptions:* The total pension liability in the June 30, 2018, actuarial valuation was determined using the following actuarial assumptions.

|   |   |
|---|---|
| Investment return (net of admin)  | 7.65%   |
| Admin expense as % of payroll   | 0.26%   |
| General wage growth *   | 3.50%   |
| * includes inflation at   | 2.75%   |
| Merit increases   | 0% to 6.3%  |
| Post retirement benefits  |   |
| 1. Guaranteed Annual Benefit Adjustment (GABA) each January   |   |
| • 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. |   |
| •Members hired prior to July 1, 2007  | 3.00%   |
| •Members hired between July 1, 2007 & June 30, 2013   | 1.50%   |
| •Members hired on or after July 1, 2013   |   |
| •For each year PERS is funded at or above 90%   | 1.50%   |
| •The 1.5% is reduced by 0.1% for each 2.0% PERS is funded below 90%   |   |
| •0% whenever the amortization period for PERS is 40 years or more   | 0%  |
| Mortality:  |   |
| • Contributing members, service retired members & beneficiaries   | RP-2000 Combined Employee and Annuitant Mortality Tables projected to 2020 with scale BB, set back one year for males |
| • Disabled members  | RP-2000 Combined Mortality Tables, with no projections  |

The most recent experience study, performed for the period covering fiscal years 2011 through 2016, is outlined in a report dated May 5, 2017, and can be located on the MPERA website. The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the Plan. Several factors are considered in evaluating the long-term rate of return assumption 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 by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2018, are summarized in the table below.

## BASIC FINANCIAL STATEMENTS

### NOTES TO FINANCIAL STATEMENTS – CONTINUED

For the Year Ended June 30, 2019

| Asset Class      | Target Asset Allocation | Long term Expected Real<br>Rate of Return |
|------------------|-------------------------|---|
|                  |                         | Arithmetic Basis                          |
| Cash Equivalents | 2.60%                   | 4.00%                                     |
| Domestic Equity  | 36.00%                  | 4.55%                                     |
| Foreign Equity   | 18.00%                  | 6.35%                                     |
| Fixed Income     | 23.40%                  | 1.00%                                     |
| Private Equity   | 12.00%                  | 7.75%                                     |
| Real Estate      | 8.00%                   | 4.00%                                     |
| Total            | 100.00%                 |   |

*Discount Rate:* The discount rate used to measure the TPL was 7.65%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities would be made based on the Board's funding policy, which established the contractually required rates under the Montana Code Annotated. The state contributed 0.10% of the salaries paid by local governments and 0.37% paid by school districts. In addition, the state contributed a statutory appropriation from the general fund. Based on those assumptions, the Plan's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2121. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL. A municipal bond rate was not incorporated in the discount rate.

*Sensitivity of the proportionate share of the net pension liability to changes in the discount rate:* The following presents the employer's sensitivity of the NPL to the discount rate in the table below. A small change in the discount rate can create a significant change in the liability. The NPL was calculated using the discount rate of 7.65%, 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<br>(6.65%) | Current Discount<br>Rate | 1.0% Increase<br>(8.65%) |
|----------------------------------|--------------------------|--------------------------|--------------------------|
| The City's net pension liability | 1,926,321                | 1,331,960                | 843,893                  |

#### d. PERS Disclosure for the Defined Contribution Plan

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

## BASIC FINANCIAL STATEMENTS

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### NOTES TO FINANCIAL STATEMENTS – CONTINUED

For the Year Ended June 30, 2019

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 state 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, 2018, 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 316 employers that have participants in the PERS-DCRP totaled \$746,144.

*Pension plan fiduciary net position:* The stand-alone 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 both are available on the MPERA website at <http://mpera.mt.gov/index.shtml>.

#### **Note I Fire Department Relief Association (FDRA) Defined Benefit Retirement Plan**

##### **a. Summary of Significant Accounting Policies**

The Fire Department Relief Association plan is a single-employer defined benefit plan. The Association was formed according to State law MCA 19-18-102. The assets of the Firemen's Disability and Pension Fund are not in a trust or an equivalent arrangement. The accumulated assets do not offset the liabilities of the pension and disability plan per GASB 73. The City recognizes the total pension liability (TPL) as its pension liability. Assets and liabilities of the plan are reported in a separate fiduciary fund which is reported as a fiduciary (agency) fund on the statement of fiduciary net position. The plan is administered by the City on a pay-as-you-go basis. Therefore, there are no deferred outflows or deferred inflows of resources to report. The plan has no stand-alone statements.

## BASIC FINANCIAL STATEMENTS

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### NOTES TO FINANCIAL STATEMENTS – CONTINUED

For the Year Ended June 30, 2019

#### Plan Description - FDRA

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. The use of the Firemen's Disability and Pension Fund is outlined in MCA 19-18-203 and payments can be made for the following:

- 1) Service pension to a volunteer firefighter who, by reason of service has become entitled to a service pension;
- 2) A pension to a member who has become permanently maimed or disabled;
- 3) A benefit or allowance to a member who has suffered a permanent disabling injury;
- 4) A benefit or allowance to a member who has contracted a permanent disabling sickness;
- 5) Benefits to the surviving spouse of a deceased member.

#### Summary of Benefits - FDRA

A member of a pure volunteer fire department who is at least 50 years old and has served 20 years or more as an active member of the fire department is entitled to benefits. Pensions to a surviving spouse of a deceased volunteer firefighter may not exceed the amount provided for a service pension for a volunteer firefighter under MC 19-18-602(3). The plan pays a lifetime monthly benefit of \$100 to eligible retired volunteer firemen; Surviving spouses receive 50% of the member benefits. The plan does not contain cost of living adjustment provisions. As of June 30, 2019, the plan pays benefits to 21 retirees (17 retirees and 4 surviving spouses). For fiscal year 2019 there are 21 active volunteer firemen. There are no inactive firemen currently eligible for the plan but not yet receiving benefits.

#### Changes in Benefit Terms - FDRA

No changes in benefit terms have been made since the previous measurement date.

Contributions to the fund are outlined in MCA 19-18-501 and include:

- 1) All bequests, fees, gifts, emoluments, donations or money from other sources given or paid to the fund, except as otherwise designated by the donor;
- 2) The proceeds of the tax levy provided for in MCA 19-18-504;
- 3) All money received from the State of Montana, including those payments provided for in MCA 19-18-512; and
- 4) All interest and other income earned from the investment of the fund assets.

The State of Montana contributes 1½ mills of the total taxable value of the city, to the Firemen's Relief Association Fund according to MCA 19-18-512. However, the State contributions do not constitute a proportionate share of plan. The State is not required to contribute more than the stated 1½ mills of the total taxable value of the City. Therefore, the City carries the full burden of the pension liability.



## BASIC FINANCIAL STATEMENTS

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### NOTES TO FINANCIAL STATEMENTS – CONTINUED

For the Year Ended June 30, 2019

**b. General Information about the Plan**

Definition of Soundly Funded - FDRA

State law determines the contributions made and the benefits paid. According to MCA 19-18-503, the firefighter's fund is soundly funded if assets in the fund are maintained at a level equal to at least three times but no more than five times the benefits paid by the fund in the previous or current fiscal year or funding is maintained at a level determined by an actuarial valuation to be sufficient to keep the fund actuarially sound. The plan is soundly funded according to the MCA definition of soundly funded.

Whenever the fund contains an amount that is less than the minimum required to keep the fund soundly funded, the city council shall, subject to MCA Section 15-10-420, levy an annual tax on the taxable value of all taxable property within the city.

Total Pension Liability Calculation - FDRA

At June 30, 2019, the City recorded a total pension liability of \$121,000. The pension liability was measured as of June 30, 2019, using the simple calculation method outlined in MCA 15-10-425 and 19-18-503. The simple calculation method is derived from benefit payments using either a factor of either three or five times the higher of the current and previous year's benefit payments. The City elected to use a factor of five times the higher of the two most recent year's benefit payments.

Changes in Assumptions and Other Inputs - FDRA

There were no changes in assumptions since the previous measurement date.

Pension Expense - FDRA

At June 30, 2019, the City recognized a Pension Expense of (\$12,383) because the benefits paid decreased from the previous measurement.

Sensitivity Analysis – FDRA

A multiplier was used rather than a discount rate tied to a municipal bond or other interest rate. The multiplier used to measure the total pension liability was five times the higher of the current or prior year benefits paid. The following table represents the TPL calculated using the current multiplier as well as what the TPL would be if it were calculated using a multiplier that is one lower and one higher than the current multiplier.

| <b>Multiplier:</b>      | <u>-1 Decrease</u><br><u>4x Benefits</u> | <u>Current</u><br><u>5x Benefits</u> | <u>+1 Increase</u><br><u>6x Benefits</u> |
|-------------------------|--|--------------------------------------|--|
| Total pension liability | 96,800                                   | 121,000                              | 145,200                                  |

### NOTES TO FINANCIAL STATEMENTS – CONTINUED

For the Year Ended June 30, 2019

#### **Note J            457(b) Deferred Compensation Retirement Plan**

The City provides a 457(b) tax-advantaged, deferred-compensation retirement plan that employees may contribute into. The City provides the plan and the employee may elect to defer their compensation into it as either ROTH contributions or contributions on a pre-tax basis. The plan operates similarly to a 401(k) or 403(b) plan. The key difference is that unlike a 401(k) plan, there is no 10% penalty for withdrawals before the age of 59½ (although the withdrawal is subject to ordinary income tax). Employee contributions are made by salary reductions. There is no monetary participation by the City. The record-keeper for the plan is the State of Montana through the Montana Public Employee Retirement Administration (MPERA). Further information about the plan may be obtained by visiting the MPERA website <http://mpera.mt.gov/.shtml>.

#### **Note K            Risk Management**

The City faces a number of risks of loss including damage to and loss of property and contents, employee torts, professional liability (i.e., errors and omissions), environmental damage, workers' compensation (i.e., employee injuries, and 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 (JPT) which is administered by EBMS. JPT Administration may be reached at PO Box 81647, Billings, MT 59108-1647 or 866-886-8612.

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

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. MSPLIP is administered by Western States Insurance Program. Information regarding MSPLIP may be obtained by contacting MSPLIP directly at 1200 North Montana Ave. PO Box 5207, Helena, MT 59604.

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

The City's employer's liability Insurance did not change materially from the prior year. The TRA's property and liability insurance coverage was allowed to lapse as of December 2016.

Levels of insurance have not changed materially from the prior year and settlements have not exceeded insurance coverage limits during the current or each of the two previous years.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**  
For the Year Ended June 30, 2019

**Note L Other Postemployment Benefits (OPEB)**

**a. Plan Administration**

The OPEB plan is a single-employer defined benefits plan administered by the City. In accordance with MCA (2-18-704) the City allows its retiring employees with at least twenty years of service prior to the retirement date, who have participated in the City’s health insurance plan for at least one year immediately prior to retiring, the option to continue participation in the City’s group health insurance plan until the retiree becomes eligible for Medicare coverage. This option creates a defined benefit other post-employment benefits plan (OPEB) since retirees are typically older than the average age of active plan participants and therefore receive the benefit of lower insurance rates. This benefit is referred to as the “implicit rate subsidy.” Eligible retirees are required to pay the full monthly health insurance premiums without any City assistance in a timely manner, as determined by the City and the plan administrator to remain on the plan. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75. The City covers OPEB costs when they come due, on a pay-as-you-go basis. The OPEB plan does not provide a stand-alone financial report. Because the City has fewer than 100 employees (active and inactive) that are provided with OPEB through the plan, the City qualifies to use the alternative measurement method for calculating the OPEB liability. The alternative measurement method was used in place of an actuarial valuation. The OPEB liability was recalculated as of June 30, 2018, in accordance with the two-year recalculation requirement of GASB 75.

**b. Plan Membership**

As of July 1, 2017, (the most recent analysis date) plan membership consisted of the following:

|   | Participant Count |
|---|-------------------|
| Active members  | 19                |
| Inactive members currently receiving benefits                 | 1                 |
| Inactive members entitled to, but not yet receiving, benefits | 0                 |
| Total   | <b>20</b>         |

## BASIC FINANCIAL STATEMENTS

### NOTES TO FINANCIAL STATEMENTS – CONTINUED

For the Year Ended June 30, 2019

#### c. Total OPEB Liability

|                                      | Fiscal Year Ending<br>June 30, 2018 |
|--------------------------------------|-------------------------------------|
| Total OPEB Liability - June 30, 2018 | 154,532                             |
| Service cost                         | 118,195                             |
| Interest                             | 5,380                               |
| Benefit payments                     | <u>(123,575)</u>                    |
| Net change in total OPEB liability   | <u>-</u>                            |
| Total OPEB Liability - End of Year   | <u><u>154,532</u></u>               |

The Total OPEB Liability of the City at June 30, 2019, is projected to be \$154,532.

There are no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75, so the Net Fiduciary Position is \$0 and the net OPEB liability would be equal to the total OPEB liability.

#### d. Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the total OPEB liability, calculated using the current healthcare cost trend rate of 5.0%, as well as the total OPEB liability calculated using a healthcare cost trend rate that is 1-percentage point lower (4.0%) or 1-percentage point higher (6.0%) than the current rate:

|                      | 1.0% Decrease<br>(4.0%) | Healthcare Cost<br>Trend Rate<br>(5.0%) | 1.0%<br>Increase<br>(6.0%) |
|----------------------|-------------------------|---|----------------------------|
| Total OPEB Liability | 132,725                 | 154,532                                 | 177,514                    |

#### e. Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability, calculated using the current discount rate of 3.0%, as well as the total OPEB liability calculated using a discount rate that is 1-percentage point lower (2.0%) or 1-percentage point higher (4.0%) than the current rate:

|                      | 1.0% Decrease<br>(2.0%) | Discount Rate<br>(3.0%) | 1.0%<br>Increase<br>(4.0%) |
|----------------------|-------------------------|-------------------------|----------------------------|
| Total OPEB Liability | 159,357                 | 154,532                 | 150,500                    |

#### f. Deferred Inflows and Outflows of Resources

There were no deferred outflows of resources or deferred inflows of resources related to OPEB because there were no differences between expected and actual experience, and changes in assumptions performed under the alternative measurement method.

## BASIC FINANCIAL STATEMENTS

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### NOTES TO FINANCIAL STATEMENTS – CONTINUED

For the Year Ended June 30, 2019

#### g. Actuarial Assumptions

- Average age of retirement: 61.7 years
- Expected retirement age: 61.7 years
- Turnover rate: 9.6%
- Discount rate: 3.0%
- Municipal bond rate used: National, 20-year bond rate as of August 2018
- Average salary increase: 3.0%
- Healthcare cost trend rate: 5.0% increase over the next 10 years
  
- The percentage of employees expected to remain on the health plan after retirement was estimated to be 5.0%.
- The mortality assumption is based on a 2006 case study completed for the League of Minnesota Cities.
- Marital and dependency status at the measurement date was assumed to continue throughout retirement.

#### Note M Subsequent Events

The City has performed an analysis of the activities and transactions subsequent to June 30, 2019, to determine the need for any adjustments to and/or disclosure within the audited financial statements for the year ended June 30, 2019. Management has performed this analysis through August 11, 2020, the date of these financial statements were available to be issued. The following subsequent events occurred since June 30, 2019.

On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus as a “pandemic”. First identified in late 2019 and known now as COVID-19, the outbreak has impacted thousands of individuals worldwide. In response, many countries have implemented measures to combat the outbreak which have impacted global business operations. As of the date of issuance of the financial statements, the City’s operations have not been significantly impacted, however, the City continues to monitor the situation. While the City’s results of operations, cash flows and financial condition could be negatively impacted, the extent of the impact cannot be reasonably estimated at this time.

On January 14, 2020, the City announced its intent to develop and establish a city police department. The primary goals of which include better police coverage of the City, reduced reliance on the policing contract with Big Horn County, and increased City Code enforcement, among others. The City is planning to hire a police chief plus other full-time and part-time officers, as well as fund equipment and a station location. Dispatch and jail services will remain with Big Horn County. As of August 11, 2020, the date of these financials, the City has not completed the establishment of the Police Commission or the Police Department.

**REQUIRED SUPPLEMENTARY INFORMATION**



## REQUIRED SUPPLEMENTARY INFORMATION

### BUDGETARY COMPARISON SCHEDULES

For the Year Ended June 30, 2019

|  | Original<br>Budgeted<br>Amounts | General Fund                 |                   |           |
|--|---------------------------------|------------------------------|-------------------|-----------|
|  |                                 | Final<br>Budgeted<br>Amounts | Actual<br>Amounts | Variance  |
| <b>REVENUES</b>                        |                                 |                              |                   |           |
| Taxes and assessments                  | 503,029                         | 503,029                      | 488,497           | (14,532)  |
| Licenses and permits                   | 45,500                          | 45,500                       | 38,848            | (6,652)   |
| Intergovernmental revenues             | 708,755                         | 697,755                      | 707,104           | 9,349     |
| Charges for services                   | 1,200                           | 1,200                        | 1,719             | 519       |
| Fines and forfeitures                  | 75,861                          | 75,861                       | 83,723            | 7,862     |
| Miscellaneous revenues                 | 3,150                           | 3,150                        | 4,195             | 1,045     |
| Investment and royalty earnings        | 4,600                           | 4,600                        | 7,295             | 2,695     |
| Total revenues                         | 1,342,095                       | 1,331,095                    | 1,331,381         | 286       |
| Budget reappropriations                | 379,091                         | 399,091                      | 0                 | (399,091) |
| Total revenues and reappropriations    | 1,721,186                       | 1,730,186                    | 1,331,381         | (398,805) |
| <b>EXPENDITURES</b>                    |                                 |                              |                   |           |
| Current:                               |                                 |                              |                   |           |
| General government                     | 554,189                         | 546,189                      | 409,648           | (136,541) |
| Public safety                          | 599,044                         | 608,044                      | 566,991           | (41,053)  |
| Public works                           | 80,000                          | 80,000                       | 5,729             | (74,271)  |
| Public health                          | 38,868                          | 38,868                       | 31,510            | (7,358)   |
| Culture and recreation                 | 164,185                         | 164,185                      | 124,035           | (40,150)  |
| Housing and community development      | 131,900                         | 139,900                      | 5,581             | (134,319) |
| Miscellaneous                          | 6,000                           | 6,000                        | 0                 | (6,000)   |
| Capital outlay                         | 2,000                           | 2,000                        | 1,500             | (500)     |
| Total expenditures                     | 1,576,186                       | 1,585,186                    | 1,144,994         | (440,192) |
| Excess of revenues over expenditures   | 145,000                         | 145,000                      | 186,387           | 41,387    |
| <b>OTHER FINANCING SOURCES (USES)</b>  |                                 |                              |                   |           |
| Insurance recovery                     | 0                               | 0                            | 700               | (700)     |
| Interfund operating transfers out      | (145,000)                       | (145,000)                    | (109,153)         | (35,847)  |
| Total other financing sources and uses | (145,000)                       | (145,000)                    | (108,453)         | (36,547)  |
| Net change in fund balance             | 0                               | 0                            | 77,934            | 77,934    |
| Fund balance, beginning of year        |                                 |                              | 1,666,074         |           |
| Fund balance, end of year              |                                 |                              | 1,744,008         |           |

See independent auditor's report.

## REQUIRED SUPPLEMENTARY INFORMATION

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### BUDGETARY COMPARISON SCHEDULES - CONTINUED

For the Year Ended June 30, 2019

|   | Street Maintenance                        |                   |           |
|---|---|-------------------|-----------|
|   | Original and<br>Final Budgeted<br>Amounts | Actual<br>Amounts | Variance  |
| REVENUES  |   |                   |           |
| Taxes and assessments                             | 313,585                                   | 356,560           | 42,975    |
| Licenses and permits                              | 500                                       | 550               | 50        |
| Investment and royalty earnings                   | 800                                       | 2,068             | 1,268     |
| Total revenues                                    | 314,885                                   | 359,178           | 44,293    |
| Budget reappropriations                           | 75,765                                    | 0                 | (75,765)  |
| Total revenues and reappropriations               | 390,650                                   | 359,178           | (31,472)  |
| EXPENDITURES                                      |   |                   |           |
| Current:  |   |                   |           |
| Public works                                      | 440,650                                   | 257,877           | (182,773) |
| Total expenditures                                | 440,650                                   | 257,877           | (182,773) |
| Excess (deficiency) of revenues over expenditures | (50,000)                                  | 101,301           | 151,301   |
| OTHER FINANCING SOURCES (USES)                    |   |                   |           |
| Insurance recovery                                | 0   | 1,005             | (1,005)   |
| Interfund operating transfers in                  | 50,000                                    | 11,060            | 38,940    |
| Total other financing sources and uses            | 50,000                                    | 12,065            | 37,935    |
| Net change in fund balance                        | 0   | 113,366           | 113,366   |
| Fund balance, beginning of year                   |   | 403,538           |           |
| Fund balance, end of year                         |   | 516,904           |           |

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See independent auditor's report.



## REQUIRED SUPPLEMENTARY INFORMATION

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### NOTES TO BUDGETARY COMPARISON SCHEDULES

For the year ended June 30, 2019

#### **Note A      Budgeted Funds**

The City adopts an annual budget for all of its funds in accordance with Title 7, Chapter 6, Part 40 of the Montana Code Annotated. Statute requires the adoption of a preliminary budget, public hearings on the preliminary budget and the final adoption of the budget by the later of the first Thursday after the first Tuesday of 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 of obligations to the amount of the final budget as adopted or as amended. Budget transfers and amendments are authorized by law, and in some instances, may require further public hearings. Any budget amendments providing for additional appropriations must identify the fund reserves, unanticipated revenue, or previously unbudgeted revenue that will fund the appropriations.

Appropriations are created by fund, function, and activity and may further be detailed by department. Expenditure limitations imposed by law extend to the department level which is identified as the legal level of budgetary control.

#### **Note B      Budgetary Basis**

The City's budgets are prepared on the budget basis (modified accrual basis, including encumbrances, of which the City has none) of accounting, which results in accounting for certain transactions on a basis other than generally accepted accounting principles (modified accrual). The City's accounting records are maintained on the basis of cash receipts and disbursements during the year. At year-end, certain adjustments are made to the City's accounting records to reflect the basis of accounting described above. Reported budget amounts represent the originally adopted budget and the final budget, which includes amendments. Total fund expenditures may not legally exceed the budgeted expenditures. The budget lapses at the end of each year. Results of operations, on the budget basis of accounting, are presented for the general fund and major special revenue funds with legally adopted annual budgets, to provide a meaningful comparison of actual results with the budget.

## REQUIRED SUPPLEMENTARY INFORMATION

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### SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY – MONTANA PUBLIC EMPLOYEES RETIREMENT SYSTEM

For the year ended June 30, 2019

| As of measurement date   | 2018      | 2017      | 2016      | 2015      | 2014      |
|--|-----------|-----------|-----------|-----------|-----------|
| City's proportion of net pension liability (percentage)                    | 0.0638%   | 0.0896%   | 0.0809%   | 0.0788%   | 0.0884%   |
| City's net pension liability (amount)                                      | 1,331,960 | 1,745,269 | 1,378,841 | 1,101,277 | 1,100,879 |
| State of Montana's net pension liability (amount)                          | 444,690   | 21,631    | 16,848    | 13,527    | 13,443    |
| Total  | 1,776,650 | 1,766,899 | 1,395,689 | 1,114,805 | 1,114,323 |
| City's covered payroll   | 1,065,674 | 1,111,627 | 969,627   | 919,407   | 1,005,257 |
| City's proportionate share as a percent of covered payroll                 | 124.99%   | 157.00%   | 142.20%   | 119.78%   | 111.22%   |
| Plan fiduciary net position as a percentage of the total pension liability | 73.47%    | 73.75%    | 74.71%    | 78.40%    | 79.87%    |

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

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See independent auditor's report.

## REQUIRED SUPPLEMENTARY INFORMATION

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### SCHEDULE OF CONTRIBUTIONS – MONTANA PUBLIC EMPLOYEES RETIREMENT SYSTEM

For the year ended June 30, 2019

| As of most recent FYE (reporting date)                                | 2019    | 2018      | 2017      | 2016    | 2015    |
|---|---------|-----------|-----------|---------|---------|
| Contractually required DB contributions                               | 82,842  | 88,894    | 93,044    | 81,047  | 75,763  |
| Plan choice rate required contributions                               | 0       | 0         | 0         | 901     | 1,452   |
| Contributions in relation to the contractually required contributions | 82,842  | 88,894    | 93,044    | 81,948  | 77,215  |
| Contribution deficiency (excess)                                      | 0       | 0         | 0         | 0       | 0       |
| City's covered payroll  | 949,190 | 1,065,674 | 1,111,627 | 969,627 | 919,407 |
| Contributions as a percentage of covered payroll                      | 8.73%   | 8.34%     | 8.37%     | 8.45%   | 8.40%   |

The amounts presented for each fiscal year were determined as of June 30, the most recent fiscal year end. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

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See independent auditor's report.

## REQUIRED SUPPLEMENTARY INFORMATION

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### NOTES TO REQUIRED SUPPLEMENTAL INFORMATION – MONTANA PUBLIC EMPLOYEES RETIREMENT SYSTEM

For the year ended June 30, 2019

#### Changes of Benefit Terms:

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

#### 2017:

##### Working Retiree Limitations- for PERS

Effective July 1, 2017, if a PERS retiree returns as an independent contractor to what would otherwise be PERS-covered employment, general contractor overhead costs are excluded from PERS working retiree limitations.

#### Refunds

1. Terminating members eligible to retire may, in lieu of receiving a monthly retirement benefit, refund their accumulated contributions in a lump sum.
2. Terminating members with accumulated contributions between \$200 and \$1,000 who wish to rollover their refund must do so within 90 days of termination of service.
3. Trusts, estates, and charitable organizations listed as beneficiaries are entitled to receive only a lump-sum payment.

#### Interest credited to member accounts

Effective July 1, 2017, the interest rate credited to member accounts increased from 0.25% to 0.77%.

#### Lump-sum payouts

Effective July 1, 2017, lump-sum payouts in all systems are limited to the member's accumulated contributions rate than the present value of the member's benefit.

#### Disabled PERS Defined Contribution (DC) Members

PERS members hired after July 1, 2011, have a normal retirement age of 65. PERS DC members hired after July 1, 2011, who became disabled were previously only eligible for a disability benefit until age 65. Effective July 1, 2017, these individuals will be eligible for a disability benefit until they reach 70, thus ensuring the same 5-year time period available to PERS DC disabled members hired prior to July 1, 2011, who have a normal retirement age of 60 and are eligible for a disability benefit until age 65.

## REQUIRED SUPPLEMENTARY INFORMATION

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### NOTES TO REQUIRED SUPPLEMENTAL INFORMATION – MONTANA PUBLIC EMPLOYEES RETIREMENT SYSTEM - CONTINUED

For the year ended June 30, 2019

#### Changes in Actuarial Assumptions and Methods

##### Method and assumptions used in calculation of actuarially determined contributions

The following actuarial assumptions were adopted from the June 2016 Experience Study:

|                               |   |
|-------------------------------|---|
| General wage growth*          | 3.50%   |
| Investment rate of return*    | 7.65%   |
| *Includes inflation at        | 2.75%   |
| Merit salary increases        | 0.00% to 6.30%  |
| Asset valuation method        | 4-year smoothed market  |
| Actuarial cost method         | Entry age normal  |
| Amortization method           | Level percentage of payroll, open   |
| Remaining amortization period | 30 years  |
| Mortality (Healthy members)   | For males and females: RP 2000 Combined Employee and Annuitant Mortality table projected to 2020 using scale BB, males set back 1 year. |
| Mortality (Disabled members)  | For males and females: RP 2000 Combined Mortality table, with no projections  |
| Admin expense as % of payroll | 0.26%   |

Administrative expenses are recognized by an additional amount added to the normal cost contribution rate for the System. This amount varies from year to year based on the prior year's actual administrative expenses.

**REQUIRED SUPPLEMENTARY INFORMATION**

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**SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS – OTHER POSTEMPLOYMENT BENEFITS**

For the year ended June 30, 2019

|  | <u>Fiscal Year Ending<br/>June 30, 2018</u> |
|--|---|
| Total OPEB Liability - June 30, 2018                                 | 154,532                                     |
| Service cost   | 118,195                                     |
| Interest   | 5,380                                       |
| Benefit payments   | <u>(123,575)</u>                            |
| Net change in total OPEB liability                                   | -   |
| Total OPEB Liability - End of Year                                   | <u><u>154,532</u></u>                       |
| Covered-employee payroll   | 834,588                                     |
| Total OPEB liability as a percentage of the covered-employee payroll | 18.52%                                      |

Governmental Accounting Standards Board Statement 75 requires this information to be provided for 10 years. Because this is the first year of implementation, the full 10 years are not available.

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See independent auditor's report.

**REQUIRED SUPPLEMENTARY INFORMATION**

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**SCHEDULE OF TOTAL PENSION LIABILITY – FIRE DEPARTMENT RELIEF ASSOCIATION DEFINED BENEFIT PENSION PLAN**

For the year ended June 30, 2019

| <b>As of reporting date</b>  | <b>2019</b> | <b>2018</b> | <b>2017</b> |
|--|-------------|-------------|-------------|
| City's total pension liability   | 121,000     | 123,000     | 127,300     |
| City's covered payroll, if applicable<br>(all are volunteers)          | N/A         | N/A         | N/A         |
| Total liability (as a percentage of<br>covered payroll), if applicable | N/A         | N/A         | N/A         |

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

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See independent auditor's report.

**REQUIRED SUPPLEMENTARY INFORMATION**

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**SCHEDULE OF CHANGES IN TOTAL PENSION LIABILITY – FIRE DEPARTMENT RELIEF ASSOCIATION DEFINED BENEFIT PENSION PLAN**

For the year ended June 30, 2019

| <b>As of reporting date</b>   | <b>2019</b> | <b>2018</b> | <b>2017</b> |
|---|-------------|-------------|-------------|
| Total pension liability - beginning   | 123,000     | 127,300     | -           |
| Service cost  | 19,661      | 19,481      | 24,600      |
| Interest on total pension liability   | 889         | 819         | 686         |
| Difference between expected and actual experience in measurement of total pension liability | -           | (400)       | -           |
| Benefit payments  | (22,550)    | (24,200)    | (24,600)    |
| Other changes - revenue   | -           | -           | 126,614     |
| Net change in total pension liability   | (2,000)     | (4,300)     | 127,300     |
| Total pension liability - ending  | 121,000     | 123,000     | 127,300     |

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

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See independent auditor's report.



**REQUIRED SUPPLEMENTARY INFORMATION**

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**SCHEDULE OF CONTRIBUTIONS – FIRE DEPARTMENT RELIEF ASSOCIATION DEFINED BENEFIT PENSION PLAN**

For the year ended June 30, 2019

| <b>As of reporting date</b> | <b>2019</b>  | <b>2018</b>  | <b>2017</b>   |
|-----------------------------|--------------|--------------|---------------|
| City contributions          | -            | -            | 25,810        |
| State contributions         | 7,271        | 7,224        | 6,975         |
| Allocated taxes             | 284          | 675          | 10,037        |
| <b>Total contributions</b>  | <b>7,555</b> | <b>7,899</b> | <b>42,822</b> |

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

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See independent auditor's report.

## REQUIRED SUPPLEMENTARY INFORMATION

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### NOTES TO REQUIRED SUPPLEMENTAL INFORMATION – FIRE DEPARTMENT RELIEF ASSOCIATION PENSION PLAN

For the year ended June 30, 2019

The Fire Department Relief Association pension plan (the Plan) is reported according to GASB 73 which was effective in fiscal year 2017.

#### **No Trust Arrangement**

The assets of the Fire Department Relief Association are not in a trust or equivalent arrangement. Although, those assets are expected to be used to pay plan costs, those assets will not be used to offset the liabilities of the pension plan.

#### **Changes in Benefit Terms**

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.

#### **Contributions**

According to MCA 19-18-512, the State of Montana contributions are limited to 1 ½ mills of the total taxable value of the city. Although MCA specifies that the State will provide funds to the volunteer firemen's fund, it does not state that these monies are a portion of the pension plan. Therefore, the State does not have a shared portion of the pension liability. The City is solely responsible for meeting plan costs. Annual contributions to the plan are at the discretion of the City rather than by an established schedule.

**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***

The Honorable Mayor and City Council  
City of Hardin  
Hardin, Montana

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Hardin, Montana (the “City”), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated August 11, 2020, which includes a disclaimer of opinion on the aggregate discretely presented component unit due to not being able to obtain sufficient appropriate audit evidence for financial statement amounts.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City’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 City’s internal control. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control.

Our consideration of internal control was for the limited purpose described in the preceding 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 have not been identified. However, as described in the accompanying schedule of findings and responses, we did identify certain deficiencies in internal control that we consider to be material weaknesses and a significant deficiency.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2019-004 and 2019-005 as material weaknesses.

*A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as item 2019-006 to be a significant deficiency.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2019-001, 2019-002, and 2019-003.

## City of Hardin, Montana's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## Purpose of this Report

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

Wipfli LLP

A handwritten signature in cursive script that reads "Wipfli LLP".

Billings, Montana  
August 11, 2020

# SCHEDULE OF FINDINGS AND RESPONSES

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For the Year Ended June 30, 2019

## Section I - Summary of Auditor's Results

### Financial Statements

Type of auditor's report issued.

|   |            |
|---|------------|
| Governmental Activities                       | Unmodified |
| Business-Type Activities                      | Unmodified |
| Aggregate Discretely Presented Component Unit | Disclaimer |
| General Fund                                  | Unmodified |
| Street Maintenance Fund                       | Unmodified |
| TIFD Debt Service Fund                        | Unmodified |
| SID #120 Debt Service Fund                    | Unmodified |
| SID #121 Debt Service Fund                    | Unmodified |
| Water Utility Fund                            | Unmodified |
| Sewer Utility Fund                            | Unmodified |
| Solid Waste Fund                              | Unmodified |
| Aggregate Remaining Fund Information          | Unmodified |

Internal control over financial reporting:

|  |                  |     |                 |    |
|--|------------------|-----|-----------------|----|
| Material weaknesses identified?  | <u>    X    </u> | Yes | <u>        </u> | No |
| Significant deficiencies identified that are not considered to be material weaknesses? | <u>    X    </u> | Yes | <u>        </u> | No |
| Noncompliance material to financial statements noted?                                  | <u>    X    </u> | Yes | <u>        </u> | No |

## SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED

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For the Year Ended June 30, 2019

### Section II - Financial Statement Findings

#### 2019-001 Revenue Bonds Requirements Not Met

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

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

Context: No principal payments have been made. Principal payments in arrears total \$2,895,000. Accrued interest in arrears as of June 30, 2019, totaled \$2,874,144. However, partial interest payments have been made.

Effect: The rating of the financial health of the City of Hardin could be downgraded by this default. The City could 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 be-come due. The primary business in the TIF District filed for bankruptcy, which reduced the taxable value of the entire TIF district 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 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.

Auditee Response: The City will continue to look into all available alternatives for meeting the revenue bond requirements. This will include working with businesses considering a presence in the Industrial Park. The City will continue to accrue a liability for principal and interest payment not paid. The City will also continue to remit taxes collected for the Tax Increment Financing District (TIFD) to the trustee to pay what amounts can be paid. This totaled \$3,009,606 through June 30, 2019. An additional \$1,135,803 was paid in FY 2020.

## SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED

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For the Year Ended June 30, 2019

### 2019-002 Two Rivers Authority Revenue Bond Requirements

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 \$5,234,531 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 \$29,495,263 which is the principal of \$9,335,000 and interest of \$20,160,263 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: TRA 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, 2019, the reserve account totaled \$1,915 and the operating cash account totaled \$176,221. Current liabilities, other than bond requirements totaled \$278,700.

Effect: TRA has not been able to raise or obtain sufficient cash to meet its current liabilities as they come due.

Cause: Since its inception in 2007 TRA has had difficulties keeping the detention facility fully housed and open. Operating cash and revenues are 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 according to the bond covenants.

Auditee Response: Two Rivers Authority is aware of the compliance issues. As has been noted previously, it is the considered opinion of Two Rivers Authority that the reasons for the underutilization of the facility and consequential effect on cash flow are entirely political. Certain political jurisdictions refused to recognize and accept the feasibility of housing inmates in the facility, causing the situation to persist for several years. These factors beyond the control of Two Rivers Authority and the erstwhile Operator severely hindered efforts to fully utilize the facility. Two Rivers Authority is uncertain as to what "corrective action plan" it could have implemented other than continue its effort to bring the detention facility into operation and generate sufficient cash flow to service the debt requirements. As has been noted elsewhere, certain political factors beyond the control of Two Rivers Authority hindered its efforts to achieve this goal. Two Rivers Authority pursued all possible remedies to this situation. As of June 2018, Two Rivers Authority was in discussions with the Bureau of Indian Affairs regarding a lease of the facility. The lease was concluded in December 2018 and as of April 2019 the BIA had assumed operational control of the facility. As of June 2020, the operating fund had accrued a balance of approximately \$600,000 from BIA lease payments. The BIA lease payments, however, are insufficient to meet the annual debt-service requirements.

## SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED

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For the Year Ended June 30, 2019

### 2019-003 Two Rivers Authority Payroll in Arrears

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. Payroll continues to accrue rather than being paid.

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/accrued payroll liability. The deferred/accrued payroll liability increased by \$52,103 in fiscal year 2019. As of June 30, 2019, the deferred/accrued payroll liability totaled \$266,735. This amount does not include vacations payable of \$4,068.

Effect: A salaried employee is accruing wages rather than being paid. This 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 hours/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.

Auditee Response: Two Rivers Authority is cognizant of the accrued payroll issue. As Two Rivers Authority effectively has no current funds and has no independent source of funding, it is uncertain how to implement a prior 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.



## SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED

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For the Year Ended June 30, 2019

### 2019-004 Two Rivers Authority Insufficient Management Representation

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

Condition: Material weakness in internal controls over assets, liabilities, revenues and expenditures. TRA'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. TRA's financial statements were prepared from excerpts of bank statements in TRA's name rather than from actual supporting documents of these transactions.

Context: Operating expenses totaling \$64,647 reported on TRA's bank accounts were made without the knowledge or approved by the Board. The supporting documentation of these transactions was not provided as audit evidence.

Effect: The Board and management are unable to accept responsibility for transactions of which they do not have first-hand knowledge resulting in a Disclaimer of audit opinion.

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 from TRA bank accounts 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 transactions incurred by the bondholder representative and the US Bank Trustee. These transactions are reported on TRA's financial statements because they are run through bank accounts in TRA's name. TRA's Board and management are not directly involved in the negotiations with the BIA to lease the detention facility from TRA.

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 TRA's management to employ proper internal controls over agreements and trans-actions in accounts bearing their name.

Auditee Response: The process for receiving and disbursing detention facility revenue was established under the Indenture and through the Operating and Management Agreement with Emerald Correctional Management at the direction of and to the apparent satisfaction of the bondholders and the trustee. Two Rivers Authority is also satisfied with this arrangement, as it does not have the staff resources to involve itself in the day-to-day financial activity of the detention facility. The lease arrangement concluded with the Bureau of Indian Affairs in December 2018 has a similar structure. Initial payment transactions from BIA under this arrangement were recorded by US Bank in May 2019.

## SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED

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For the Year Ended June 30, 2019

### 2019-005 Two Rivers Authority Insufficient Supporting Documentation

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

Condition: Material weakness in internal controls over revenues and expenditures. Supporting documentation of reported revenues and expenditures were unable to be provided as audit evidence.

Context: TRA'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. TRA'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 TRA's bank statements. Invoices should be submitted for Board approval prior to the transaction appearing on the bank statement as a done deal.

Auditee Response: The process for receiving and disbursing detention facility revenue was established under the Indenture and through the Operating and Management Agreement with Emerald Correctional Management at the direction of and to the apparent satisfaction of the bondholders and the trustee. Two Rivers Authority is also satisfied with this arrangement, as it does not have the staff resources to involve itself in the day-to-day financial activity of the detention facility. The lease arrangement concluded with the Bureau of Indian Affairs in December 2018 has a similar structure. Initial payment transactions from BIA under this arrangement were recorded by US Bank in May 2019.

## SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED

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For the Year Ended June 30, 2019

### 2019-006 Two Rivers Authority Lack of Segregation of Duties

Criteria: An ideal system of internal control utilizes a segregation of duties so that no one individual handles a transaction from its inception to its completion.

Condition: This finding is a significant deficiency in internal controls due to a limited number of office personnel; TRA does not have adequate internal accounting controls due to a lack of segregation of duties.

Context: TRA has an Executive Director who performs the accounting functions of the entity. The bondholders make transactions without the knowledge or approval of the Board. The Board does not adequately review and oversee the transactions booked in the accounting program in order to mitigate the lack of sufficient staff for adequate segregation of duties.

Cause: The condition occurred due to the limited number of personnel available.

Effects: Inadequate segregation of duties increases the risk that errors, misstatements, misrepresentations, and fraud may occur and not be detected by the entity.

Recommendation: We recommend that TRA continue to examine the economic feasibility of hiring additional staff or hiring an accountant to review the transactions and financial statements and look for other ways to strengthen internal controls in this area such as Board involvement.

Auditee Response: Two Rivers Authority is uncertain as to what "corrective action plan" it can implement to address this finding, as it has been deprived for several years of the funding necessary to hire additional accounting personnel.

## **SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED**

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For the Year Ended June 30, 2019

### **Section III – Auditees Summary Schedule of Prior Audit Findings**

2018-001 Restated as 2019-001

2018-002 Implemented

2018-003 Restated as 2019-002

2018-004 Restated as 2019-003

2018-005 Restated as 2019-004

2018-006 Restated as 2019-005

2018-007 Restated as 2019-006

2018-008 Implemented

2018-009 Implemented