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

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

**ORGANIZATION**
Fiscal Year Ended June 30, 2018

| | |
|---|---|
| Joe Purcell | Mayor |

**CITY COUNCIL**

| | |
|---|---|
| Kenny Kepp | Council Member |
| Karen Molina | Council Member |
| Clayton Greer | Council Member |
| Harry Kautzman | Council Member |
| Darren Zent | Council Member |
| Jeremy Krebs | Council Member |

**OFFICIALS**

| | |
|---|---|
| Michelle Dyckman | Finance Officer/City Clerk |
| James Seykora | City Judge |
| Richard Bowler | City Judge |
| Jordan Knudsen | City Attorney |
| Rock Massine | Interim Superintendent of Public Works |

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

Fiscal Year Ended June 30, 2018

**BOARD**

| | |
|---|---|
| Jon D. Matovich | President |
| Bill Joseph | Member |

**OFFICIALS**

| | |
|---|---|
| Jeffrey S. McDowell | Executive Director |

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, 2018. 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 $10,982,437 (*net position*). Of this amount, $1,741,793 is the Net Investment in Capital Assets, $6,249,574 is Restricted, and $2,991,070 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 $601,614 over the prior fiscal year mainly due to the delinquency of a principal payment due on the Tax Increment Revenue Bond.
- At the close of the current fiscal year, the City's governmental funds reported combined fund balances of $2,977,075, an increase of $235,313 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was $615,012, or approximately 37% of the General Fund's total fund balance of $1,666,074.
- 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 $695,012 or 56% of total General Fund expenditures.
- The City's total debt increased by $738,873 during the current fiscal year. Key factors in the change include:
    - The Tax Increment Revenue Bond's principal balance remained the same and interest payable increased $994,873.
    - Payments of principal on revenue bonds for water, wastewater, and landfill was $256,000.

## OVERVIEW OF THE FINANCIAL STATEMENTS

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

**Government-wide Financial Statements:**

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The government-wide financial statements include the Statement of Net Position and the Statement of Activities. These statements report financial information for the City as a whole except for the fiduciary funds. The Fire Department Relief Association (FDRA) is reported in the fiduciary fund financial statements.

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

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

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

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

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

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

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

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

**Fund Financial Statements**

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

**Governmental Funds**

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

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

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

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

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

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

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

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

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

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

**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 $10,982,437 (net position). The total net position decreased by $601,614 or 5% 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 $1,088,658. Total assets of the City increased 1%. Net investment in capital assets decreased $1,080,708 or 62%. Of this, depreciation was $1,194,273.

A portion of the City's Net Position, $1,741,793 or 16%, constitutes its investment in capital assets (e.g. land, buildings, infrastructure, machinery and equipment); less any related debt used to acquire those assets that is still outstanding. Capital assets are used to provide services to citizens; consequently, they are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt would need to be provided from other sources, since the capital assets themselves cannot be liquidated to pay these liabilities.

**CITY of HARDIN 's Net Position**

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|---|---|---|---|---|---|
| | FY 2018 | FY 2017 | FY 2018 | FY 2017 | FY 2018 | FY 2017 |
| Current and other Assets | 6,205,440 | 5,470,795 | 1,672,419 | 1,548,488 | 7,877,859 | 7,019,282 |
| Restricted Cash | 755,656 | 715,698 | 3,556,311 | 3,808,610 | 4,311,967 | 4,524,308 |
| Land held for Resale | 100,528 | 146,378 | - | - | 100,528 | 146,378 |
| Capital assets | 15,616,395 | 15,905,032 | 10,968,787 | 11,010,844 | 26,585,182 | 26,915,876 |
| Total Assets | 22,678,019 | 22,237,903 | 16,197,517 | 16,367,942 | 38,875,535 | 38,605,845 |
| Total Deferred Outflows of Resources | 182,428 | 90,449 | 265,422 | 140,045 | 447,851 | 230,494 |
| Long-term Liabilities outstanding | 18,842,650 | 19,468,042 | 4,182,056 | 4,215,772 | 23,024,706 | 23,683,814 |
| Other Liabilities | 4,960,175 | 3,180,460 | 341,822 | 330,388 | 5,301,996 | 3,510,848 |
| Total Liabilities | 23,802,825 | 22,648,502 | 4,523,878 | 4,546,160 | 28,326,702 | 27,194,661 |
| Total Deferred Inflows of Resources | 5,803 | 22,615 | 8,444 | 35,015 | 14,247 | 57,630 |
| Net Position: | | | | | | |
| Net Investment in Capital Assets | (7,264,855) | (5,981,345) | 9,006,648 | 8,803,846 | 1,741,793 | 2,822,501 |
| Restricted | 3,735,223 | 4,511,816 | 2,514,352 | 2,832,011 | 6,249,574 | 7,343,827 |
| Unrestricted | 2,581,452 | 1,126,767 | 409,618 | 290,957 | 2,991,070 | 1,417,724 |
| Total Net Position | (948,181) | (342,763) | 11,930,618 | 11,926,814 | 10,982,437 | 11,584,052 |

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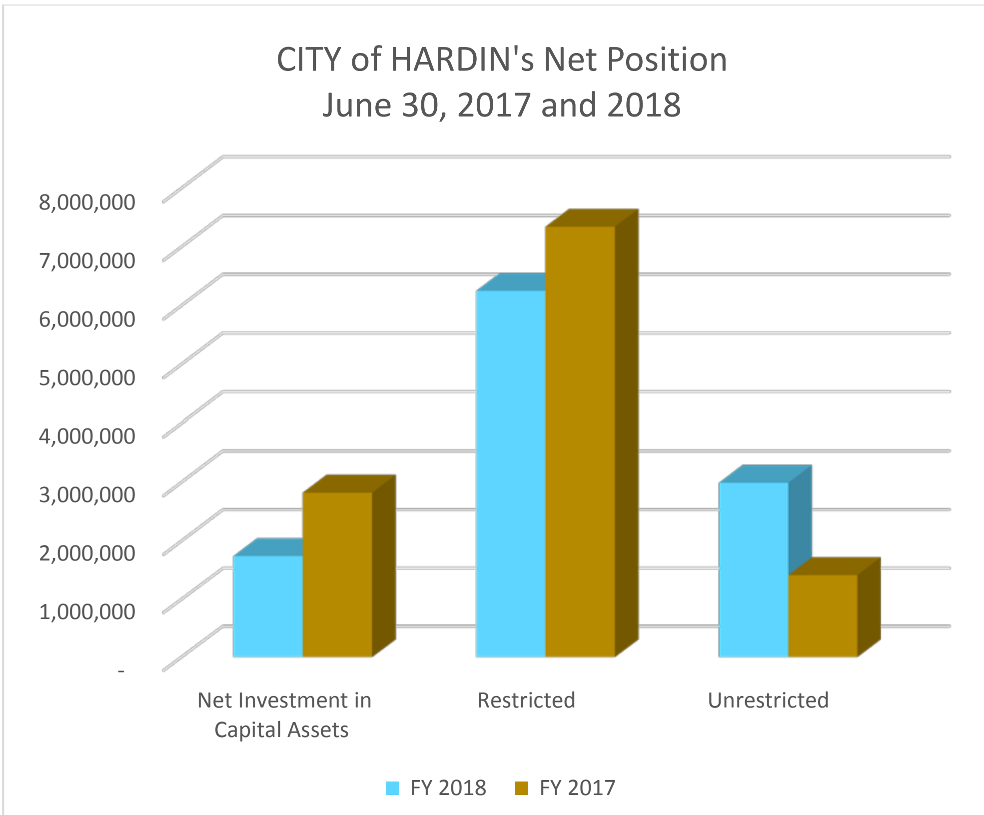
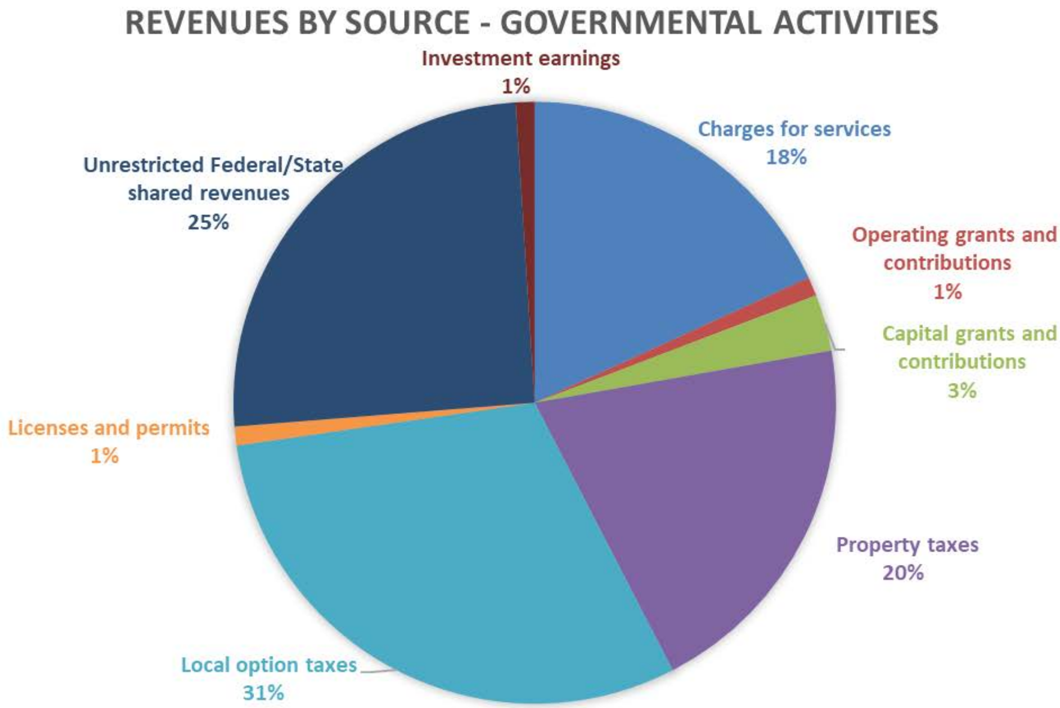
The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by $10,982,437 (*net position*). $6,249,574 or 57% is the Restricted portion of the City's net position. This represents resources that are subject to external restrictions on how they may be used. The balance of unrestricted net position $2,991,070 represents the net position which would be used to meet the government's ongoing obligations to citizens and creditors.



**CITY of HARDIN's Changes in Net Position**

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|---|---|---|---|---|---|
| | FY 2018 | FY 2017 | FY 2018 | FY 2017 | FY 2018 | FY 2017 |
| **Revenues** | | | | | | |
| *Program revenues* | | | | | | |
| Charges for services | 549,219 | 554,173 | 2,466,048 | 2,477,426 | 3,015,267 | 3,031,599 |
| Operating grants and contributions | 35,734 | 60,779 | 15,000 | | 50,734 | 60,779 |
| Capital grants and contributions | 92,652 | 164,336 | 357,500 | 187,706 | 450,152 | 352,042 |
| Property taxes | 617,276 | 554,015 | | | 617,276 | 554,015 |
| Local option taxes | 914,921 | 960,376 | | | 914,921 | 960,376 |
| Licenses and permits | 43,332 | 48,255 | | | 43,332 | 48,255 |
| Unrestricted Federal/State shared revenues | 775,607 | 746,337 | 15,480 | 15,536 | 791,087 | 761,873 |
| Investment earnings | 16,102 | 17,119 | 22,334 | 15,957 | 38,437 | 33,076 |
| Miscellaneous | | 18,580 | 2,776 | 15,098 | 2,776 | 33,678 |
| **Total revenues** | **3,044,843** | **3,123,970** | **2,879,138** | **2,712,723** | **5,923,981** | **5,836,693** |
| **Program expenses** | | | | | | |
| General government | 531,640 | 499,511 | | | 531,640 | 499,510.75 |
| Public safety | 612,262 | 586,998 | | | 612,262 | 586,998 |
| Public works | 887,028 | 945,245 | | | 887,028 | 945,245 |
| Public health | 49,638 | 43,363 | | | 49,638 | 43,363 |
| Culture and recreation | 141,653 | 134,674 | | | 141,653 | 134,674 |
| Housing/Community Dev | 100,692 | 97,424 | | | 100,692 | 97,424 |
| Cons of Natural Resources | | | | | | |
| Interest on Long-Term Debt | 321,334 | 890,439 | | | 321,334 | 890,439 |
| Accrued Bond Interest | 994,873 | 435,941 | | | 994,873 | 435,941 |
| Miscellaneous | 11,141 | 11,611 | | | 11,141 | 11,611 |
| Water | | | 1,014,105 | 842,218 | 1,014,105 | 842,218 |
| Sewer | | | 863,232 | 669,713 | 863,232 | 669,713 |
| Solid Waste | | | 293,581 | 274,103 | 293,581 | 274,103 |
| Landfill | | | 704,414 | 740,492 | 704,414 | 740,492 |
| **Total expenses** | **3,650,260** | **3,645,207** | **2,875,332** | **2,526,526** | **6,525,593** | **6,171,733** |
| Increase (decrease) in net position before transfers | (605,417) | (521,237) | 3,805 | 186,196 | (601,612) | (335,040) |
| Transfers | | | | | | - |
| **Increase (decrease) in net position** | **(605,417)** | **(521,237)** | **3,805** | **186,196** | **(601,612)** | **(335,040)** |
| **Net Position - beginning** | (347,053) | 174,183 | 12,405,440 | 12,219,244 | 12,058,387 | 12,393,427 |
| Prior Period Adjustment | 4,289 | | (478,628) | - | (474,339) | - |
| **Net Position - ending** | (948,181) | (347,053) | 11,930,618 | 12,405,440 | 10,982,436 | 12,058,387 |

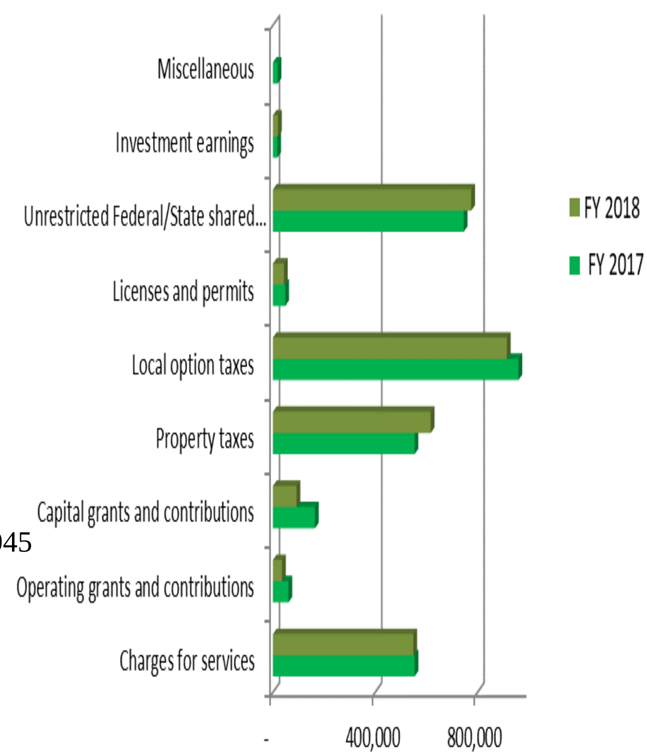
**Governmental Activities**: During the current fiscal year, total Net Position for governmental activities decreased $605,417 from the prior fiscal year for an ending balance of ($948,181). Expenditures exceeded revenues by $605,417.




Note: Local option taxes are for the TIFD

## Governmental Activities:

**Revenues FY 2017 and 2018**

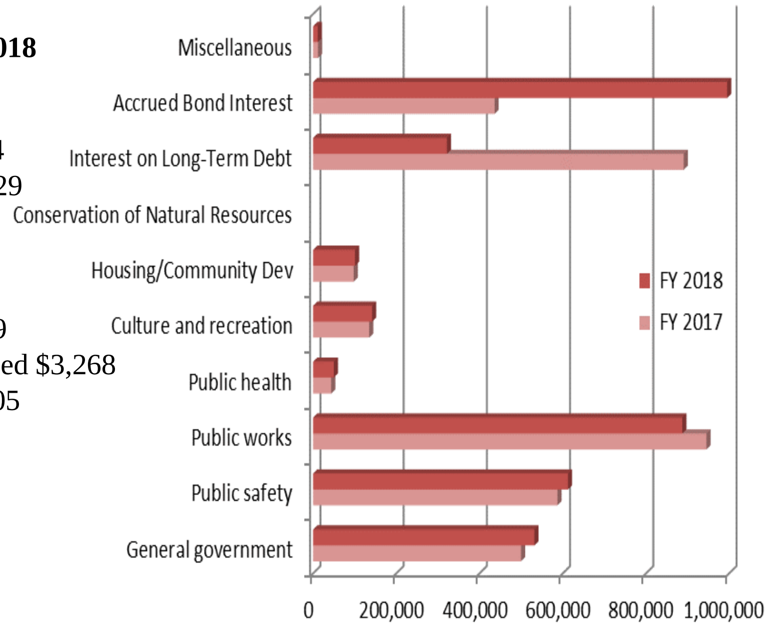



**Revenues:**

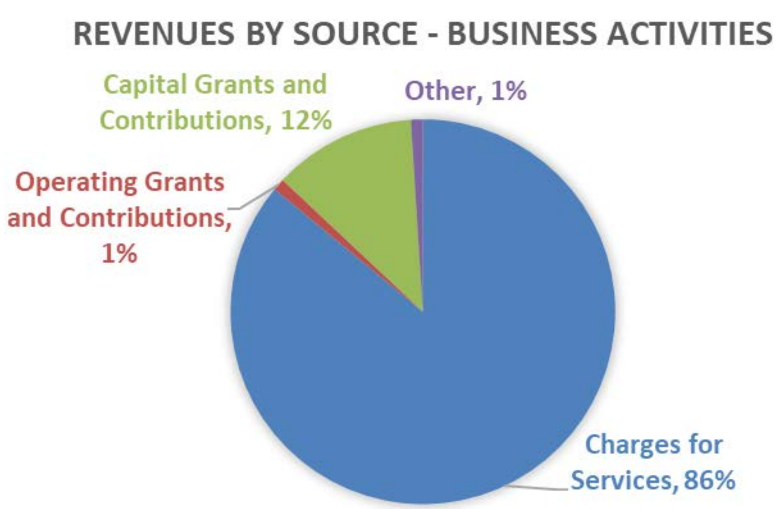
- Total Revenues decreased $79,126
- Miscellaneous revenues decreased $18,580
- Investment earnings increased $2,833
- Federal or State shared revenues increased $29,270
- Licenses or permits decreased $4,923
- Local option taxes (TIFD) decreased $45,455
- Property taxes increased $63,262
- Capital Grants and Contributions decreased $71,685
- Operating Grants and Contributions decreased $25,045
- Charges for services decreased $4,954

**Expenses FY 2017 and 2018**

**Expenses:**
- Total Governmental expenses increased $5,054
- General government expenses increased $32,129
- Public Safety expenses increased by $25,264
- Public Works expenses decreased $58,217
- Public Health expenses increased $6,275
- Culture and recreation (parks) increased $6,979
- Housing and Community Development increased $3,268
- Interest on Long-Term Debt decreased $569,105
- Accrued Bond Interest increased $558,931
- Miscellaneous expenses decreased $470



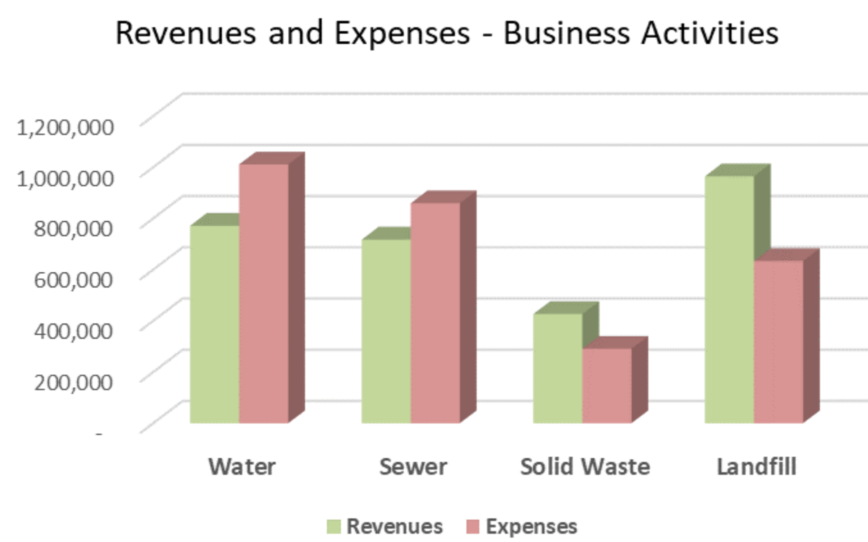

**<u>Business-type Activities:</u>** The City's water, sewer, and solid waste activities resulted in an increase in net position of $3,805. There were prior period adjustments due to recalculating OPEB and correcting depreciation on the Landfill coal ash cell totaling ($478,628). Rates were increased 2% for Water and Sewer systems, and the river bank restoration project cost $222,776. Solid Waste collection rates were increased for commercial users to match residential users, and most Landfill rates increased 10%. The Landfill purchased a compactor for $678,550 with the help of a Coal Board grant in the amount of $357,500.



| | FY 18 Operating Revenues | FY 17 Operating Revenues | Increase/ (Decrease) |
|---|---|---|---|
| Water | 758,106 | 781,479 | (23,373) |
| Sewer | 693,056 | 711,894 | (18,838) |
| Solid Waste | 421,211 | 379,991 | 41,220 |
| Landfill | 596,451 | 663,938 | (67,487) |
| TOTAL | 2,468,824 | 2,537,302 | (68,478) |

Revenues:
The Water fund saw a decrease because of development and repairs made in the prior year. The Sewer fund also benefited from new development in the previous year. Solid Waste – Collection Services had a rate increase, and Landfill continued to feel the effects of decreased coal ash disposal.

**Proprietary Funds**



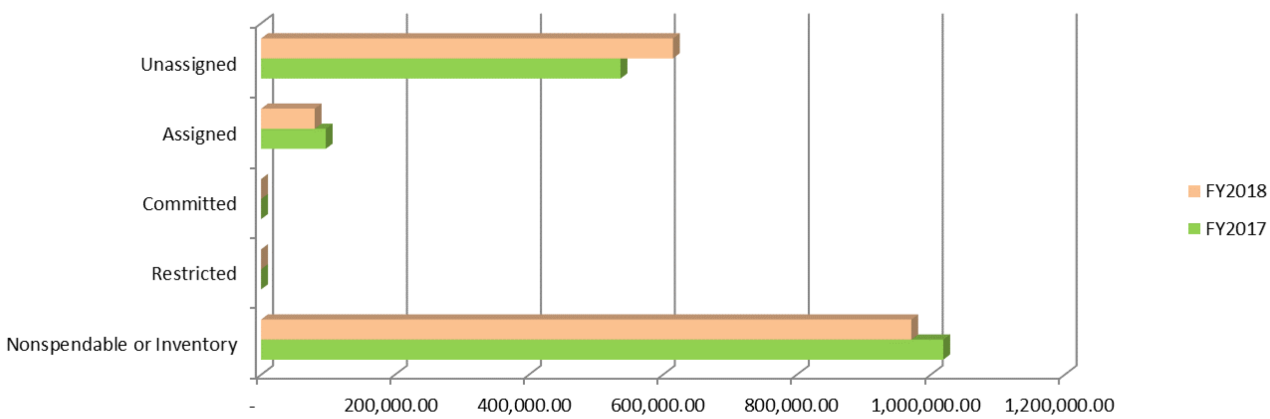

Additional expenses in the Water and Sewer Funds include river bank restoration as well as the Sewer Fund's repairing instead of replacing the Vac Con truck. Planning for future upgrades also added to the Sewer Fund's expenditures. Solid Waste – Collection is following the CIP to save for future replacements, and the Landfill benefited from the Coal Board Grant to replace a compactor.

### 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 $2,977,075, an increase of $235,313 compared to last year. Non-spendable amounts of $1,713,425 are for interfund loans, inventory, and land that is held for resale. The restricted fund balance of $1,373,168 is stipulated by constitutional provisions or enabling legislation. $112,459 is Committed by resolution for taxes levied for insurance or employee benefits. $660,766 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.

**General Fund**
Components of Fund Balance
June 30, 2017 and 2018




The City's **General Fund** is the chief operating fund for governmental activities. At June 30, 2018 the total fund balance was $1,666,074 which is a $13,944 increase over the prior year. $971,061 or 58% 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 $695,012, or 53% of total General Fund expenditures and net transfers ($1,305,598).

**Other Governmental Funds**
Components of Fund Balance
June 30, 2017 and 2018


The **Street Maintenance Fund** had a fund balance of $403,538. Of this, 28% or $112,246 represents inventory. The fund balance increased $7,681 from last year.

The **Tax Increment Finance District** is for debt service of a revenue bond. The fund balance increased $40,143. 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 $46,643 to ($1,097,148), and **SID 121**'s increased $16,510 to ($400,607). 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.

**Proprietary Funds:**
The City maintains separate proprietary funds for Water; Sewer; and Solid Waste which consists of Collection (Garbage) and Landfill activities. These funds provide the same type of information as the government-wide financial statements, only in more detail.

There was an overall increase in unrestricted net position for the proprietary funds of $118,660. The Water and Sewer funds saw decreases in their unrestricted net positions, while Solid Waste – Collection and Landfill had increases.

## General Fund Budgetary Highlights:

Actual revenues of $1,319,543 were $79 less than anticipated. Actual expenditures (other than transfers or loans) in the General Fund were $1,249,325. Overall expenditures and transfers were $328,967 less than anticipated. Storm drainage maintenance and construction was $46,773 less than budgeted, Parks were $43,804 less, and other general government departments were $103,780 less than budgeted. $130,000 has been aside for loans and lighting district development in the Industrial Park. $66,939 was transferred to Street Maintenance or set aside in Capital Projects for a fire truck.

## CAPITAL ASSET AND DEBT ADMINISTRATION

**Capital Assets:** The City's capital assets for its governmental and business-type activities as of June 30, 2018 total $26,585,180 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).

**Capital Assets**
Net of Accumulated Depreciation

| | Governmental Activities | | Business-Type Activities | | TOTAL | |
|---|---|---|---|---|---|---|
| | FY 2018 | FY 2017 | FY 2018 | FY 2017 | FY 2018 | FY 2017 |
| Non-depreciable Assets | | | | | | |
| Land | $ 553,285 | $ 511,285 | $ 463,193 | $ 463,193 | $ 1,016,478 | $ 974,478 |
| Easements (no land/depreciation) | $ 40,622 | $ 40,622 | | | $ 40,622 | $ 40,622 |
| Construction-in-progress | $ 37,635 | $ 37,130 | $ - | $ - | $ 37,635 | $ 37,130 |
| | $ 631,542 | $ 589,037 | $ 463,193 | $ 463,193 | $ 1,094,735 | $ 1,052,230 |
| Depreciable assets (Net) | | | | | | |
| Buildings/improvements/systems | $ 874,060 | $ 902,273 | $ 83,201 | $ 86,682 | $ 957,261 | $ 988,955 |
| Improvements other than buildings | $ 149,580 | $ 127,095 | $ 679,158 | $ 856,784 | $ 828,738 | $ 983,879 |
| Machinery and equipment | $ 414,135 | $ 420,824 | $ 1,099,456 | $ 567,181 | $ 1,513,591 | $ 988,005 |
| Infrastructure (General Plant) | $13,547,079 | $13,865,803 | $ 58,711 | $ 65,367 | $13,605,790 | $13,931,170 |
| Treatment Plant | | | $ 3,184,810 | $ 3,384,216 | $ 3,184,810 | $ 3,384,216 |
| Transmission & Distribution | | | $ 5,400,254 | $ 5,587,420 | $ 5,400,254 | $ 5,587,420 |
| | $14,984,854 | $15,315,995 | $10,505,590 | $10,547,651 | $25,490,444 | $25,863,645 |
| **TOTAL CAPITAL ASSETS** | $15,616,396 | $15,905,032 | $10,968,783 | $11,010,844 | $26,585,180 | $26,915,876 |

Investments in capital assets for Fiscal Year 2018 include the following:

| | |
|---|---|
| Governmental: | |
| Computer replacements | $ 13,574 |
| Pressure Washer (apportioned) | 3,041 |
| Fire Truck (for wildland fires-donation by the DNRC) | 30,000 |
| Storm Drain construction | 78,988 |
| Welcome Signs (completion) | 1,255 |
| Sidewalks, curbs and gutters | 8,940 |
| Terry Avenue street reconstruction | 37,635 |
| Proprietary: | |
| Pressure Washer (apportioned) | $ 4,561 |
| Water Plant equipment | 12,996 |

| | |
|---|---|
| Waste Water Plant cistern | 7,500 |
| Landfill compactor | 678,550 |

**Outstanding debt:**

At the end of the current fiscal year, the City had total bonded debt outstanding of $22,871,000. This is $256,000 less than the previous year. There is an additional $994,873 interest payable. Conversion of the TIFD's (Tax Increment Finance District) bonds was in September, 2014 and the first interest payment was made in March, 2015. As of the date of this report, no principal payments have been made on the TIFD revenue bond. Revenue bonds in the proprietary funds are current.

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|---|---|---|---|---|---|
| | FYE 2018 | FYE 2017 | FYE 2018 | FYE 2017 | FYE 2018 | FYE 2017 |
| Tax Increment Revenue Bonds | $20,920,000 | $20,920,000 | | | $20,920,000 | $20,920,000 |
| Tax Increment Interest Payable | $ 1,961,250 | $ 966,377 | | | $ 1,961,250 | $ 966,377 |
| Revenue Bonds | | | $ 1,951,000 | $ 2,207,000 | $ 1,951,000 | $ 2,207,000 |
| **Total** | $22,881,250 | $21,886,377 | $ 1,951,000 | $ 2,207,000 | $24,832,250 | $24,093,377 |

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

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

| Receivables | FYE 2018 | FYE 2017 |
|---|---|---|
| General Fund | $ 968,166 | $ 1,009,009 |
| Curb & Gutter | $ 80,691 | $ 84,094 |
| Gas Apportionment | $ 160,035 | $ 166,774 |
| Capital Improvements | $ 288,863 | $ 301,032 |
| | $ 1,497,756 | $ 1,560,909 |

| Payables | FYE 2018 | FYE 2017 |
|---|---|---|
| General Fund | $ - | $ - |
| SID 120 | $ 1,097,148 | $ 1,143,792 |
| SID 121 | $ 400,607 | $ 417,118 |
| | $ 1,497,756 | $ 1,560,909 |

## 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:**

Completion of Terry Avenue street restoration
Redo parking lots
Firetruck (structural fires)
Playground equipment
Replace roof on City Hall
Replace alum feeders, turbidimeter and VFDs
Replace a garbage truck
Replace backhoe
Replace pickup
Replace computers and copier
Chip seal streets
Replace loader
Upgrade Wastewater plant

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

## REQUESTS FOR INFORMATION

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

**T**ripp & **A**ssociates
1645 Avenue D, Suite E
Billings, Montana 59102
Phone: 406-248-5150
Email: tripp.cpa@gmail.com

INDEPENDENT AUDITOR'S REPORT

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

**Report on the Financial Statements**
We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information of City of Hardin as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

We were engaged to audit the financial statements of the aggregate discretely presented component units as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the component unit's basic financial statements listed in the table of contents.

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

**Auditor's Responsibility**
Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Hardin in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Because of the matter described in the basis for disclaimer of opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion of the discretely presented component unit.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Hardin.

**Summary of Opinions**

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

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

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

**Unmodified Opinions**
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Hardin as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of a Matter**
As discussed in Note 1 to the financial statements, in fiscal year 2018, the City adopted new accounting guidance, GASB Statement 75 *Accounting and Financial Reporting for Postemployment Benefits other than Pensions* and GASB 85 *Omnibus 2017.* Beginning balances were affected by $24,790 as a result of the implementation of GASB 75. Our opinion is not modified with respect to this matter.

The ***City of Hardin*** has made its Tax Increment Financing District (TIFD) revenue bond principal and interest payments due in fiscal year 2018. Interest accrues at $653,750 semi-annually. The City does not expect to meet current or future TIFD principal and interest payments as they become due for the following reasons.
1) The primary taxpayer in the TIFD is delinquent on their tax payments.
2) A dramatic drop in the market value of property within the TIF District caused lower taxes to be assessed than originally planned.
3) The resulting taxable valuation decrease of the real and personal property in the TIFD means the prospects of returning the tax assessments to the planned amount will not occur any time soon.
Our opinion on the basic financial statements was not affected by this item.

The ***Two Rivers Authority*** (TRA) has not made interest payments on its revenue bonds since November 2008. TRA has never made a principal payment on their revenue bonds. As of June 30, 2018, outstanding bond principal totaled $27,015,000 of which $8,185,000 is delinquent. Interest accrues at $960,012 annually. Delinquent interest reported as accrued interest payable totaled $18,240,238 as of June 30, 2018. TRA's fiscal year 2018 revenue available for bond indebtedness was $0. TRA's cash available to meet bond indebtedness as of June 30, 2018 totaled $2,060. Our opinion on the aggregate discretely presented component units was not affected by this item.

**Other Matters**
*Required Supplementary Information*
Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* (MD&A); *Schedule of Revenues, Expenditures and Changes in Fund Balances (Budget and Actual)*; *Schedule of Proportionate Share of the Net Pension Liability* for PERS; *Schedule of Contributions* for PERS, *Schedule of Total Pension Liability* for the Fire Department Relief Association (FDRA) Defined Benefit Pension Plan; *Schedule of Changes in Total Pension Liability* for the FDRA; *Schedule of Contributions* for the FDRA; and *Schedule of Changes in Total OPEB Liability* be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide assurance.

*Other Information*
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Hardin's basic financial statement. The *Schedule of Net Position – Combined Proprietary Funds* and the *Schedule of Revenues, Expenses and Changes in Fund Net Positon – Combined Proprietary Funds* are presented for purposes of additional analysis and are not a required part to the basic financial statements. The *Schedule of Net Position – Combined Proprietary Funds* and the *Schedule of Revenues, Expenses and Changes in Fund Net Positon – Combined Proprietary Funds* are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the *Schedule of Net Position – Combined Proprietary Funds* and the *Schedule of Revenues, Expenses and Changes in Fund Net Positon*

– *Combined Proprietary Funds*; are fairly stated in all material respects **in relation to** the financial statements as a whole. No Supplementary Information is included for the Two Rivers Authority.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated July 1, 2019, on our consideration of City of Hardin's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing City of Hardin's internal control over financial reporting and compliance.

*Tripp & Associates*

Billings, Montana
July 1, 2019

# STATEMENT OF NET POSITION

As of June 30, 2018

| | Primary Government | | | Component Unit |
|---|---|---|---|---|
| | Governmental Activities | Business-Type Activities | Total Primary Gov. | Two Rivers Authority |
| **ASSETS:** | | | | |
| **Current Assets:** | | | | |
| Cash & Investments | $ 2,081,869 | $ 1,089,665 | $ 3,171,534 | $ 1 |
| Taxes/Assessments Receivable | 3,996,112 | 284,933 | 4,281,044 | - |
| Accounts Receivable | - | 180,345 | 180,345 | 885 |
| Accrued Interest Receivable | 11,409 | 10,908 | 22,316 | - |
| Contracts Receivable | - | 13,540 | 13,540 | - |
| Other Receivables | - | 8,523 | 8,523 | - |
| Due From Other Governments | 909 | 15,000 | 15,909 | - |
| Inventories | 115,141 | 69,505 | 184,647 | - |
| Total Current Assets | 6,205,440 | 1,672,419 | 7,877,859 | 886 |
| **Non-Current Assets:** | | | | |
| Restricted Cash & Investments | 755,656 | 3,556,311 | 4,311,967 | 1,174 |
| Land Held for Resale | 100,528 | - | 100,528 | - |
| Land/Rights of Way/Construction in Progress | 631,542 | 463,193 | 1,094,735 | 257,377 |
| Other Capital Assets (Net) | 14,984,853 | 10,505,594 | 25,490,447 | 15,748,364 |
| Total Non-Current Assets | 16,472,579 | 14,525,098 | 30,997,677 | 16,006,916 |
| **Total Assets** | 22,678,019 | 16,197,517 | 38,875,536 | 16,007,802 |
| **DEFERRED OUTFLOWS OF RESOURCES:** | | | | |
| Deferred Outflows - Pensions | 182,428 | 265,422 | 447,851 | - |
| **LIABILITIES:** | | | | |
| **Current Liabilities:** | | | | |
| Accounts Payable | 46,873 | 55,618 | 102,491 | 31,878 |
| Accrued Payroll Payable | - | - | - | 214,632 |
| Compensated Absences | 15,487 | 28,603 | 44,090 | 4,068 |
| Deposits Payable | 3,215 | 61,885 | 65,100 | - |
| Contracts Payable | - | 11,139 | 11,139 | - |
| Revenues Collected in Advance | 27,518 | 40,622 | 68,140 | - |
| Other Current Liabilities | 10,831 | 13,955 | 24,786 | - |
| Advance Funding - Bondholder Loans | - | - | - | 873,432 |
| Accrued Bond Interest Payable | 1,961,250 | - | 1,961,250 | 18,240,238 |
| Current Portion of Revenue Bonds Payable | 2,895,000 | 130,000 | 3,025,000 | 9,335,000 |
| Total Current Liabilities | 4,960,175 | 341,822 | 5,301,996 | 28,699,248 |
| **Non-Current Liabilities:** | | | | |
| Compensated Absences | 46,462 | 85,809 | 132,271 | - |
| Closure /Post-Closure Care Costs | - | 1,146,634 | 1,146,634 | - |
| Total OPEB Liability (implicit rate subsidy) | 60,267 | 94,265 | 154,532 | - |
| Revenue Bonds Payable | 18,025,000 | 1,821,000 | 19,846,000 | 17,680,000 |
| Net Pension Liability | 710,921 | 1,034,348 | 1,745,269 | - |
| Total Non-Current Liabilities | 18,842,650 | 4,182,056 | 23,024,706 | 17,680,000 |
| Total Liabilities | 23,802,825 | 4,523,878 | 28,326,702 | 46,379,248 |
| **DEFERRED INFLOWS OF RESOURCES:** | | | | |
| Deferred Inflows - Pensions | 5,803 | 8,444 | 14,247 | - |
| **NET POSITION:** | | | | |
| Net Investment in Capital Assets | (7,264,855) | 9,006,648 | 1,741,793 | (29,249,496) |
| Restricted for Debt Service | 2,688,842 | 308,673 | 2,997,515 | - |
| Restricted by Bond Requirements for Construction | - | 227,981 | 227,981 | - |
| Restricted for Other (Non-spendable = $215,669) | 1,046,381 | 1,977,698 | 3,024,078 | - |
| Unrestricted | 2,581,452 | 409,618 | 2,991,070 | (1,121,950) |
| Total Net Position | $ (948,181) | $ 11,930,618 | $ 10,982,437 | $ (30,371,446) |

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

City of Hardin
Big Horn County
Hardin, Montana

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2018

| Functions/Programs | Expenses | Program Revenues: Charges for Services, Fines & Forfeitures | Program Revenues: Operating Grants & Contributions | Program Revenues: Capital Grants & Contributions | Net (Expense) Revenues and Changes in Net Position – Primary Government: Governmental Activities | Primary Government: Business-Type Activities | Primary Government: Total Primary Gov | Component Unit: Two Rivers Trade Port Authority |
|---|---|---|---|---|---|---|---|---|
| **GOVERNMENTAL ACTIVITIES** | | | | | | | | |
| General Government | $ 531,640 | $ 92,466 | $ 4,815 | $ - | $ (434,360) | | $ (434,360) | |
| Public Safety | 612,262 | 68 | 7,828 | 30,000 | (574,366) | | (574,366) | |
| Public Works | 887,028 | 456,685 | 22,133 | 56,084 | (352,126) | | (352,126) | |
| Public Health | 49,638 | - | 455 | - | (49,183) | | (49,183) | |
| Culture & Recreation | 141,653 | - | 492 | - | (141,161) | | (141,161) | |
| Housing & Community Development | 100,691 | - | 11 | 6,568 | (94,112) | | (94,112) | |
| Accrued Interest | 994,873 | | - | - | (994,873) | | (994,873) | |
| Bond Interest Paid | 321,334 | - | - | - | (321,334) | | (321,334) | |
| Loss on Capital Assets | 11,141 | - | - | - | (11,141) | - | - | |
| Total Governmental Activities | 3,650,259 | 549,219 | 35,734 | 92,652 | (2,972,655) | - | (2,961,514) | |
| **BUSINESS-TYPE ACTIVITIES** | | | | | | | | |
| Water | 1,014,105 | 757,991 | - | - | - | (256,114) | (256,114) | |
| Sewer | 863,232 | 690,593 | 15,000 | - | - | (157,639) | (157,639) | |
| Landfill | 997,995 | 1,017,465 | - | 357,500 | - | 376,969 | 376,969 | |
| Total Business-Type Activities: | 2,875,332 | 2,466,048 | 15,000 | 357,500 | - | (36,784) | (36,784) | |
| **TOTAL PRIMARY GOVERNMENT** | 6,525,592 | 3,015,267 | 50,734 | 450,152 | (2,972,655) | (36,784) | (3,009,439) | |
| **COMPONENT UNITS** | | | | | | | | |
| Two Rivers Trade Port Authority | 2,379,178 | - | 3,709 | - | | | | (2,375,469) |

| | Governmental Activities | Business-Type Activities | Total Primary Gov | Two Rivers Trade Port Authority |
|---|---|---|---|---|
| **GENERAL REVENUES:** | | | | |
| Taxes/Assessments | $ 617,276 | $ - | $ 617,276 | $ - |
| Local Option Taxes & Assessments | 914,921 | - | 914,921 | |
| Licenses and Permits | 43,332 | - | 43,332 | - |
| Intergovernmental Revenue | 775,607 | 15,480 | 791,087 | - |
| Investment Earnings | 16,100 | 22,334 | 38,435 | - |
| Gain on a Capital Asset | - | - | - | - |
| Miscellaneous | - | 2,776 | 2,776 | - |
| Total General Revenues | 2,367,237 | 40,590 | 2,407,827 | - |
| **CHANGE IN NET POSITION** | (605,418) | 3,806 | (601,612) | (2,375,469) |
| Net Position Beginning of the Year | (347,052) | 12,405,442 | 12,058,390 | (27,993,310) |
| Prior Period Adjustments | 4,289 | (478,628) | (474,339) | (2,667) |
| Restated Beginning Net Position | (342,763) | 11,926,814 | 11,584,051 | (27,995,977) |
| Net Position End of the Year | $ (948,181) | $ 11,930,618 | $ 10,982,437 | $ (30,371,446) |

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

City of Hardin
Big Horn County
Hardin, Montana

BALANCE SHEET
GOVERNMENTAL FUNDS
As of June 30, 2018

| | MAJOR | | | | | Other | |
|---|---|---|---|---|---|---|---|
| | General Fund | Street Mtce. Fund | TIFD Debt Svc Fund | SID 120 Debt Svc Fund | SID 121 Debt Svc Fund | Government Funds | Total |
| **ASSETS:** | | | | | | | |
| Cash and Investments | $ 725,034 | $ 293,049 | $ - | $ - | $ 1 | $ 1,063,785 | $ 2,081,869 |
| Taxes/Assessments Receivable | 194,133 | 87,893 | 2,013,857 | 1,117,506 | 405,219 | 177,503 | 3,996,112 |
| Due From Other Funds | 968,166 | - | - | - | - | 529,589 | 1,497,756 |
| Due From Other Governments | 525 | - | - | - | - | 384 | 909 |
| Accrued Interest Receivable | 3,355 | 5,555 | - | - | - | 2,499 | 11,409 |
| Inventories | 2,895 | 112,246 | - | - | - | - | 115,141 |
| Total Current Assets | 1,894,108 | 498,744 | 2,013,857 | 1,117,506 | 405,220 | 1,773,761 | 7,703,196 |
| Restricted Cash & Investments | 3,215 | - | 675,184 | - | - | 77,257 | 755,656 |
| Land Held for Resale | - | - | - | - | - | 100,528 | 100,528 |
| Total Assets | 1,897,323 | 498,744 | 2,689,041 | 1,117,506 | 405,220 | 1,951,546 | 8,559,380 |
| **LIABILITIES:** | | | | | | | |
| Accounts Payable | 28,009 | 3,241 | 200 | - | - | 15,424 | 46,873 |
| Payable to Other Funds (Governemental) | - | - | - | 1,097,148 | 400,607 | - | 1,497,756 |
| Revenues Collected in Advance | - | - | - | - | - | 27,518 | 27,518 |
| Other Current Liabilities | 5,893 | 4,072 | - | - | - | 866 | 10,831 |
| Deposits Payable | 3,215 | - | - | - | - | - | 3,215 |
| Total Liabilities | 37,117 | 7,313 | 200 | 1,097,148 | 400,607 | 43,808 | 1,586,193 |
| **DEFERRED INFLOWS OF RESOURCES:** | | | | | | | |
| Deferred Inflows - Property Tax Revenue | 194,133 | 87,893 | 2,013,857 | 1,117,506 | 405,219 | 177,503 | 3,996,112 |
| **FUND BALANCES:** | | | | | | | |
| Nonspendable: | | | | | | | |
| Inventory | 2,895 | 112,246 | - | - | - | - | 115,141 |
| Land held for resale | - | - | - | - | - | 100,528 | 100,528 |
| Interfund Loans | 968,166 | - | - | - | - | 529,589 | 1,497,756 |
| Restricted: | | | | | | | |
| General Government | - | - | - | - | - | 3,361 | 3,361 |
| Debt Service | - | - | 674,985 | - | - | - | 674,985 |
| Public Works | - | 291,292 | - | - | - | 301,326 | 592,618 |
| Housing & Comm. Development | - | | - | - | - | 24,948 | 24,948 |
| Capital Acquisitions | - | - | - | - | - | 77,257 | 77,257 |
| Committed: | | | | | | | |
| General Government | - | - | - | - | - | 56,329 | 56,329 |
| Public Works | - | - | - | - | - | 56,130 | 56,130 |
| Assigned: | | | | | | | |
| Public Works | - | - | - | - | - | 279,622 | 279,622 |
| Housing & Community Development | 80,000 | - | - | - | - | - | 80,000 |
| Capital Acquisitions | - | - | - | - | - | 301,144 | 301,144 |
| Unassigned: | 615,012 | - | - | (1,097,148) | (400,607) | (0) | (882,743) |
| Total Fund Balances | 1,666,074 | 403,538 | 674,985 | (1,097,148) | (400,607) | 1,730,234 | 2,977,075 |
| Total Liab., Deferred Inflows & Fund Bal. | $ 1,897,323 | $ 498,744 | $ 2,689,041 | $ 1,117,506 | $ 405,220 | $ 1,951,546 | $ 8,559,380 |

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

City of Hardin
Big Horn County
Hardin, Montana

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
As of June 30, 2018

| | | |
|---|---|---|
| Total fund balances - Governmental Funds | | $ 2,977,075 |
| | | |
| Capital Assets used in governmental activites are not financial resources | | |
| and therefore are not reported in the governmental funds: | | |
| Cost of Assets | 19,454,594 | |
| Less Accumulated Depreciation | (3,838,199) | 15,616,395 |
| | | |
| Deferred Outflows of Resources are not attributable to any particular fund | | |
| and therefore are not reported in the governmenatl funds5/28/2019 | | |
| Deferred Outflows of Resources - Associated with Pensions - PERS | | 182,428 |
| | | |
| Less liabilities not reported in the governmental funds: | | |
| Compensated Absences | (61,950) | |
| Other Post-Employment Benefits (OPEB) Liability | (60,267) | |
| Accrued Interest Payable | (1,961,250) | |
| Bonds Payable | (20,920,000) | |
| Net Pension Liability - PERS | (710,921) | (23,714,388) |
| | | |
| Less Deferred Inflows of Resources not reported in the governmental funds: | | |
| Deferred Inflows of Resources Associated with Pensions - PERS | | (5,803) |
| | | |
| Plus Deferred Inflows of Resources due to Taxes Receivable that are not reported on the *Statement of Net Position:* | | 3,996,112 |
| | | |
| Net Position - Governmental Activities | | $ (948,181) |

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

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2018

| | MAJOR | | | | | Other | Total |
|---|---|---|---|---|---|---|---|
| | General Fund | Street Mtce. Fund | TIFD Debt Svc Fund | SID 120 Debt Svc Fund | SID 121 Debt Svc Fund | Government Funds | Governmental Funds |
| **REVENUES:** | | | | | | | |
| Taxes/Assessments | $ 451,023 | $ 262,782 | $ 352,136 | $ 46,643 | $ 16,510 | $ 293,532 | $ 1,422,627 |
| Investment Income | 5,290 | 1,438 | 9,124 | - | - | 249 | 16,102 |
| Licenses & Permits | 42,832 | 500 | - | - | - | - | 43,332 |
| Fines & Forfeitures | 82,048 | - | - | - | - | 7,858 | 89,907 |
| Miscellaneous | 31,936 | 114 | - | - | - | - | 32,050 |
| Intergovernmental Revenue | 704,931 | - | 217 | - | - | 158,205 | 863,353 |
| Charges for Services | 1,482 | 7,039 | - | - | - | 13,739 | 22,260 |
| Total Revenues | 1,319,543 | 271,874 | 361,477 | 46,643 | 16,510 | 473,584 | 2,489,632 |
| **EXPENDITURES:** | | | | | | | |
| General Government | 421,863 | - | - | - | - | 66,344 | 488,207 |
| Public Safety | 548,103 | - | - | - | - | 26,309 | 574,412 |
| Public Works | 6,240 | 279,231 | - | - | - | 241,911 | 527,382 |
| Public Health | 31,740 | - | - | - | - | 14,142 | 45,882 |
| Culture & Recreation | 114,594 | - | - | - | - | 7,002 | 121,596 |
| Housing & Community Development | 1,827 | - | - | - | - | 246 | 2,073 |
| Total Current Expenditures | 1,124,368 | 279,231 | - | - | - | 355,953 | 1,759,552 |
| Current Capital Outlays | 124,957 | 1,901 | - | - | - | 46,575 | 173,433 |
| Debt Service | - | - | 321,334 | - | - | - | 321,334 |
| Total Expenditures | 1,249,325 | 281,132 | 321,334 | - | - | 402,528 | 2,254,319 |
| **EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES** | 70,218 | (9,258) | 40,143 | 46,643 | 16,510 | 71,056 | 235,313 |
| **OTHER FINANCING SOURCES (USES)** | | | | | | | |
| Fund Transfers In | 10,665 | 16,939 | - | - | - | 50,000 | 77,605 |
| Fund Transfers (Out) | (66,939) | - | - | - | - | (10,665) | (77,605) |
| **NET CHANGES IN FUND BALANCES** | 13,944 | 7,681 | 40,143 | 46,643 | 16,510 | 110,391 | 235,313 |
| **FUND BALANCES:** | | | | | | | |
| Beginning of the Year | 1,652,129 | 395,857 | 634,841 | (1,143,792) | (417,117) | 1,661,844 | 2,783,763 |
| Prior Period Adj. - Cap. Asset Reclassified | - | - | - | - | - | (42,000) | (42,000) |
| End of the Year | $ 1,666,074 | $ 403,538 | $ 674,985 | $ (1,097,148) | $ (400,607) | $ 1,730,234 | $ 2,977,075 |

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

City of Hardin
Big Horn County
Hardin, Montana

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2018

| | | |
|---|---|---|
| Total Net Change in Fund Balances - Governmental Funds | | $ 235,313 |
| Amounts reported for govenmental activities in the statement of activities are different because: | | |
| Revenues reported in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds: | | |
| Increase (Decrease) in Taxes/Assessements Receivable | | 544,572 |
| In the Stement of Activities, the loss or gain on the sale or disposal of capital assets isrecognized The fund financial statements only recognize the proceeds from the sale of these assets | | |
| Gain (loss) on the Disposal of Capital Assets | | (11,140) |
| Less accrued interest on long-term debt. Accrued interest increases long-term liabilities on the *Statement of Net Position* but is not reported in the governmental funds: | | |
| Accrued Interest on TIF Bonds (Increase in past due portion) | | (994,873) |
| Expenses in the statement of activities that do not require the use of current financial resources are not included in the governmental funds: | | |
| Depreciation Expense | | (492,930) |
| Increase (Decrease) in Deferred Outflows of Resources - PERS | 91,979 | |
| (Increase) Decrease in Net Pension Liability - PERS | (169,843) | |
| (Increase) Decrease in Deferred Inflows of Resources - PERS | 16,811 | (61,053) |
| (Increase) Decrease in Compensated Absence Liability | | 1,259 |
| Expenditures reported in the governmental funds not included in the *Statement of Activities* | | |
| Current Capital Outlays | | 173,433 |
| Change in net position reported on the Statement of Activities - Governmental activities | | $ (605,418) |

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

City of Hardin
Big Horn County
Hardin, Montana

STATEMENT OF FUND NET POSITION
PROPRIETARY FUNDS
As of June 30, 2018

| | Major Enterprise Water | Major Enterprise Sewer | Major Enterprise Solid Waste | Total Enterprise Funds |
|---|---|---|---|---|
| **ASSETS:** | | | | |
| **Current Assets:** | | | | |
| Cash & Cash Equivalents | $ 276,525 | $ 173,416 | $ 639,724 | $ 1,089,665 |
| Assessments Receivable | 2,353 | 797 | 281,783 | 284,933 |
| Accounts Receivable | 43,581 | 52,964 | 83,799 | 180,345 |
| Interest Receivable | 4,780 | 2,976 | 3,152 | 10,908 |
| Contracts Receivable | 4,411 | 9,129 | - | 13,540 |
| Other Receivables | 8,523 | - | - | 8,523 |
| Due From Other Funds | 743 | - | - | 743 |
| Due From Other Governments | - | 15,000 | - | 15,000 |
| Inventories | 39,891 | 18,929 | 10,686 | 69,505 |
| Total Current Assets | 380,807 | 273,210 | 1,019,144 | 1,673,162 |
| **Non-Current Assets:** | | | | |
| Restricted Cash & Cash Equivalents | 1,378,928 | 773,590 | 1,403,793 | 3,556,311 |
| Capital Assets: | | | | |
| Land | 121,191 | 21,286 | 320,716 | 463,193 |
| Improvements other than Buildings | - | - | 1,980,909 | 1,980,909 |
| Buildings | - | - | 139,636 | 139,636 |
| Machinery & Equipment | 38,024 | 10,635 | 2,801,432 | 2,850,091 |
| Infrastructure (Utility Systems) | 7,232,452 | 8,257,393 | - | 15,489,845 |
| Less: Accumulated Depreciation | (3,898,983) | (2,962,148) | (3,093,755) | (9,954,886) |
| Total Non-Current Assets | 4,871,611 | 6,100,756 | 3,552,731 | 14,525,098 |
| Total Assets | 5,252,418 | 6,373,966 | 4,571,876 | 16,198,260 |
| **DEFERRED OUTFLOWS OF RESOURCES:** | | | | |
| Deferred Outflow of Resources - Pensions | 87,872 | 74,823 | 102,728 | 265,422 |
| **LIABILITIES:** | | | | |
| **Current Liabilities:** | | | | |
| Accounts Payable | 30,250 | 12,572 | 12,796 | 55,618 |
| Contracts Payable | 11,139 | - | - | 11,139 |
| Customer Deposits | 57,185 | - | 4,700 | 61,885 |
| Payable to Other Funds | - | 443 | 300 | 743 |
| Revenues Collected in Advance (prepaid taps for easement) | 13,841 | 26,781 | - | 40,622 |
| Other Accrued Payables | 5,223 | 3,265 | 5,467 | 13,955 |
| Compensated Absences | 10,102 | 6,544 | 11,957 | 28,603 |
| Current Portion of Revenue Bonds Payable | 5,000 | 84,000 | 41,000 | 130,000 |
| Total Current Liabilities | 132,739 | 133,606 | 76,220 | 342,565 |
| **Non-Current Liabilities:** | | | | |
| Compensated Absences | 30,306 | 19,632 | 35,871 | 85,809 |
| Revenue Bonds Payable | 169,000 | 1,166,000 | 486,000 | 1,821,000 |
| Closure Postclosure Care Costs | - | - | 1,146,634 | 1,146,634 |
| Net Pension Liability | 342,434 | 291,584 | 400,329 | 1,034,348 |
| Total OPEB Liability (implicit rate subsidy) | 32,452 | 26,270 | 35,543 | 94,265 |
| Total Non-Current Liabilities | 574,192 | 1,503,486 | 2,104,378 | 4,182,056 |
| Total Liabilities | 706,931 | 1,637,092 | 2,180,598 | 4,524,621 |
| **DEFERRED INFLOWS OF RESOURCES:** | | | | |
| Deferred Inflows - Pensions | 2,795 | 2,380 | 3,268 | 8,444 |
| **NET POSITION:** | | | | |
| Net Investment in Capital Assets | 3,307,544 | 4,077,166 | 1,621,938 | 9,006,648 |
| Restricted - Debt Service | 16,050 | 197,704 | 94,919 | 308,673 |
| Restricted - Replacement & Depreciation | 1,202,534 | 451,063 | 324,100 | 1,977,698 |
| Restricted - Capital Projects | 103,158 | 124,823 | - | 227,981 |
| Unrestricted | 1,276 | (41,439) | 449,781 | 409,618 |
| Total Net Position | 4,630,563 | 4,809,317 | 2,490,738 | 11,930,618 |

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2018

| | Major Enterprise Water | Major Enterprise Sewer | Major Enterprise Solid Waste | Total Enterprise Funds |
|---|---|---|---|---|
| **OPERATING REVENUES:** | | | | |
| Charges for Services | $ 757,875 | $ 690,379 | $ 1,013,774 | $ 2,462,028 |
| Special Assessments | 116 | 214 | 3,691 | 4,021 |
| Miscellaneous Revenues | 115 | 2,463 | 198 | 2,776 |
| Total Operating Revenues | 758,106 | 693,056 | 1,017,663 | 2,468,824 |
| **OPERATING EXPENSES:** | | | | |
| Personnel Services - Salaries | 346,852 | 312,669 | 401,534 | 1,061,055 |
| Fixed Charges (Insurance) | 18,650 | 15,185 | 67,106 | 100,940 |
| Other Purchased Services | 274,954 | 211,749 | 91,063 | 577,766 |
| Supplies & Materials | 130,909 | 113,500 | 96,066 | 340,474 |
| Depreciation | 237,295 | 175,050 | 288,997 | 701,342 |
| Total Operating Expenses | 1,008,660 | 828,152 | 944,765 | 2,781,578 |
| **OPERATING INCOME (LOSS)** | (250,554) | (135,097) | 72,897 | (312,753) |
| **NON-OPERATING REVENUE (EXPENSES)** | | | | |
| Interest Received | 8,052 | 4,823 | 9,459 | 22,334 |
| Intergovernmental Revenue | 5,125 | 19,364 | 363,491 | 387,980 |
| Loss on Capital Assets | - | (4,322) | (40,000) | (44,322) |
| Debt Service Interest Expense | (5,445) | (30,758) | (13,230) | (49,433) |
| Total Non-operating Revenue (Expenses) | 7,732 | (10,893) | 319,720 | 316,559 |
| **CHANGE IN NET POSITION** | (242,822) | (145,990) | 392,617 | 3,806 |
| NET POSITION, BEGINNING | 4,869,973 | 4,951,092 | 2,584,375 | 12,405,440 |
| Prior Period Adjustments | 3,412 | 4,215 | (486,255) | (478,628) |
| NET POSITION, ENDING | $ 4,630,563 | $ 4,809,317 | $ 2,490,738 | $ 11,930,618 |

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

City of Hardin
Big Horn County
Hardin, Montana

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2018

| | Major Enterprise Water | Major Enterprise Sewer | Major Enterprise Solid Waste | Total Enterprise Funds |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATIONS:** | | | | |
| Cash Received From Customers | $ 769,376 | $ 695,633 | $ 974,283 | $ 2,439,293 |
| Cash Paid to Employees (Salaries & Benefits) | (330,403) | (278,740) | (383,499) | (992,642) |
| Supplies & Materials | (419,323) | (335,700) | (219,783) | (974,807) |
| Net Cash Provided (Used) by Operating Activities | 19,650 | 81,193 | 371,001 | 471,844 |
| **CASH FLOWS FROM NONCAPITAL ACTIVITIES:** | | | | |
| Transfers from (to) Other Funds | (743) | 443 | 300 | - |
| Subsidies from Taxes and Other Governments (State Portion of Pensions) | 5,125 | 4,364 | 5,991 | 15,480 |
| Net Cash Provided (Used) by NonCapital Activities | 4,382 | 4,807 | 6,291 | 15,480 |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | | | |
| Interest Earnings | 14,066 | 458 | 3,468 | 17,992 |
| Net Cash Provided (Used) by Investing Activities | 14,066 | 458 | 3,468 | 17,992 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:** | | | | |
| Principal on Bonds | (10,000) | (165,000) | (81,000) | (256,000) |
| Acquisitions of Capital Assets | (13,376) | (8,640) | (681,591) | (703,607) |
| Interest and Agent Fees Paid on Bonds | (5,445) | (30,758) | (13,230) | (49,433) |
| State Capital Grants | - | - | 357,500 | 357,500 |
| Net Cash Provided (Used) by Capital and Related Financial Activities | (28,821) | (204,398) | (418,321) | (651,540) |
| NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS | 9,276 | (117,940) | (37,560) | (146,223) |
| CASH & CASH EQUIVALENTS - JULY 1, 2017 | 1,646,177 | 1,064,946 | 2,081,077 | 4,792,199 |
| Prior Period Adjustment | | | | |
| CASH & INVESTMENTS - JUNE 30, 2018 | $ 1,655,453 | $ 947,006 | $ 2,043,517 | $ 4,645,976 |
| **RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:** | | | | |
| Operating Income (Loss) | (250,554) | (135,097) | 72,897 | (312,753) |
| Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities: | | | | |
| (Increase)Decrease in Inventory | 4,188 | 9,254 | (4,222) | 9,221 |
| (Increase)Decrease in Assessments Receivable | (1,109) | 705 | (9,085) | (9,489) |
| (Increase)Decrease in Accounts Receivable | 9,647 | 827 | (35,124) | (24,650) |
| (Increase)Decrease in Other Receivables | (313) | 1,046 | 829 | 1,563 |
| Increase (Decrease) in Customer Deposits | 3,045 | - | - | 3,045 |
| Increase(Decrease) in Accounts Payable | 837 | (3,490) | (4,767) | (7,420) |
| Increase(Decrease) in Accrued Payables | 164 | (1,031) | 463 | (404) |
| Increase(Decrease) in Compensated Absences | 2,274 | 1,255 | 4,769 | 8,298 |
| Increase(Decrease) in Landfill Closure and Post-Closure Liability | - | - | 42,977 | 42,977 |
| Pension Expense | 14,174 | 32,674 | 13,267 | 60,115 |
| Depreciation Expense | 237,295 | 175,050 | 288,997 | 701,342 |
| Total Adjustments | 270,204 | 216,290 | 298,104 | 784,598 |
| Net Cash Provided by Operating Activities | $ 19,650 | $ 81,193 | $ 371,001 | $ 471,844 |
| **NONCASH INVESTING, CAPITAL and FINANCING ACTIVITIES** | | | | |
| Loss on Capital Assets | $ - | $ (4,322) | $ (40,000) | $ (44,322) |

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

STATEMENT OF FIDUCIARY NET POSITION

As of June 30, 2018

| | Agency Funds |
|---|---|
| **ASSETS:** | |
| Cash & Cash Equivalents | $ 173,771 |
| Accounts Receivable | 2,913 |
| Other Assets | 482 |
| Total Assets | 177,166 |
| **LIABILITIES:** | |
| Warrants Payable | 3,761 |
| Accounts Payable | 3,528 |
| Total Pension Liability | 123,000 |
| Due to Others | 46,877 |
| Total Liabilities | 177,166 |
| **NET POSITION:** | |
| Restricted for Pension Benefits | - |
| Held in Trust for Agency | - |
| Total Net Position | $ - |

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

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

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A) REPORTING ENTITY

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

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

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

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

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

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

**Government-Wide Financial Statements**
The government-wide financial statements include the *Statement of Net Position* and the *Statement of Activities*. These statements report financial information for the City as a whole, and it component unit except for the fiduciary funds.

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

The *Statement of Activities* reports the expenses of a given function offset by program revenues directly connected with the functional program. Expenses which are not directly related to a function, indirect expenses, are not charges to a function. Program revenues include (1) charges for services such as water, sewer and solid waste management fees, licenses and permits and state shared payments and (2) operating grants that are restricted to a particular functional program. Property taxes and other revenue sources not properly included with program revenue are reported as general revenues.

**Fund Financial Statements**
Fund financial statements provide information for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide statements. Major individual governmental funds and major individual enterprise funds are reported in separate columns in the fund financial statements. Each fund financial statements reports combined columns for non-major governmental funds, proprietary funds and fiduciary funds. Since the resources in the fiduciary funds cannot be used for City operations, they are not included in the government-wide statements.

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

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

GASB Statement No. 34 requires that the General fund be reported as a major fund. All other governmental funds that exceed 10% of total governmental fund assets, liabilities, revenues, or expenditures are reported as major funds. The City reports the following major governmental funds:

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

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

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

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

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

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

*Enterprise funds* – These proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water, Sewer, and Solid Waste Funds are charges to customers for sales and services. The City reports the following major enterprise funds:

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

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

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

**Fiduciary Funds**
Fiduciary funds are reported using the economic resources measurement focus and accrual basis of accounting. These funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organization, other governments, and/or other funds. These may include (a) expendable trust funds, (b) nonexpendable trust funds, (c) pension trust funds and (d) agency funds. Revenues are recognized when earned and expenses and benefits are recognized when the related liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized in the year for which they are levied while contributions and grants are recognized when grantor eligibility requirements are met.

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

C) BUDGETS

The City adopts an annual budget for all of its funds in accordance with MCA 7-6-4000. MCA requires the adoption of a preliminary budget, public hearings on the preliminary budget and the final adoption of the budget by the later of the 1st Thursday after the 1st Tuesday in September or within 30 calendar days of the receipt of the certified taxable valuations from the Department of Revenue. The city must also submit a copy of the final budget to the Department of Administration by the later of October 1 or 60 days after the receipt of taxable values from the Department of Revenue.

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

D) CASH AND INVESTMENTS

Montana Code Annotated (MCA) 7-6-200 allows cities to invest public money not necessary for immediate use in U.S. government, i.e., treasury bills, notes, bonds; certain U.S. treasury obligations; U.S. government security money market fund if investments consist of those listed above; time or savings deposits with a bank, savings and loan association, or credit union which is FDIC, FSLIC, or NCUA insured and are located in the state; or in repurchase agreements and registered warrants as authorized by MCA, or Montana Board of Investments Short Term Investment Pool (STIP). Interest earned on the pooled investments is distributed to each contributing entity and fund on a pro rata basis. The City's cash includes amounts in demand deposits, as well as short-term investments as authorized by State statutes.

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

The City considers cash on hand, demand accounts, savings, money markets, repurchase agreements, CD's, and short-term investments with original maturities of three months or less when purchased, to be cash equivalents. For purposes of the *Statement of Cash Flows*, the enterprise funds consider all cash (including restricted cash) to be cash equivalents. The City considers cash held in Fiduciary Funds to be cash equivalents and are reported at fair value. Income from pooled cash and investments is allocated to individual funds based on each fund's month-end proportionate share of the pool investment earnings.

E) RESTRICTED CASH & INVESTMENTS

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

F) INVENTORIES

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

G) CAPITAL ASSETS

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

| Capital Asset Useful Lives | **Governmental** | **Proprietary** | **Two Rivers Authority** |
|---|---|---|---|
| Infrastructures | 5 – 50 years | 5 – 50 years | ----- |
| Improvements other than Buildings | 20 – 40 years | 10 – 37 years | ----- |
| Intangibles – Logo | ----- | ----- | 15 years |
| Buildings & Improvements | 10 – 50 years | 40 – 50 years | 50 years |
| Machinery and Equipment | 3 – 20 years | 5 – 20 years | 6 years |

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

**Two Rivers Authority (TRA) – A Component Unit**
TRA's assets are capitalized at historical cost or estimated historical cost. TRA considers capital assets to be those resulting expenditures which have an initial, individual cost of more than $1,000, have an estimated useful life in excess of one year or are titled. Gifts or contributions of capital assets are recorded at fair market value when received. The costs of normal maintenance and repairs are charged to operations as incurred. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable. Depreciation is recorded on a straight-line basis over the useful lives of the assets. TRA reports its fiscal year financial statements as of June 30 each year.

H) DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

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

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

I) COMPENSATED ABSENCES

City employees accumulate vacation and sick leave for later use or for payment upon termination, death, or retirement. The City reports compensated absences on the Termination Payment Method.

City employees accumulate vacation and sick leave for later use or for payment upon termination, death, or retirement. City employees earn vacation leave at the rate of 15 days per year during the first 10 years of employment, and at increasing rates thereafter to a maximum of 24 days per year after 20 years of employment. There is no requirement that vacation leave be taken, but the maximum permissible accumulation is the amount earned in the most recent two-year period. 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 $15,487 and it is generally paid out of the General Fund. The current portion of the business-type activities' compensated absences is $28,603. Total accrued governmental activities and business-type activities' liabilities for sick and vacation leave as of June 30, 2018 are $61,950 and $114,412 respectively for a total of $176,362.

J) LONG-TERM OBLIGATIONS

Long-term debt and other long-term obligations are reported as liabilities in the government-wide, and proprietary and component unit financial statements on the *Statement of Net Position*.

In the fund financial statements, governmental fund types recognize bond premiums and discounts as well as bond issuance costs, during the current period. The face amount of debt issued is reported as an "Other Financing Source." Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as "Other Financing Uses." Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

K) ESTIMATES

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

L) INTERFUND TRANSACTIONS

Interfund transactions between governmental funds are reflected as transfers. Interfund loans are reported as receivables and payables as appropriate, and are referred to as either "due to/from other funds" and are subject to elimination upon consolidation of funds on the *Statement of Net Position*. Fund balances attributed to advances between funds, are reported as non-spendable in the loaning fund on the fund Balance Sheet.

M) LOCAL CHARGES FOR SERVICES FUND

According to MCA 17-2-302, a local government may maintain a cash balance in a Local Charges for Services Fund up to twice the fund's appropriation. As of June 30, 2018, the Local Charges for Services Fund has a cash balance of $30,306. The fiscal years 2018 and 2019 budgets for this fund are $29,500. The City is in compliance with MCA regarding the allowable cash balance in this fund.

N) PROPERTY TAXES/ASSESSMENTS

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

The City collects any prepaid assessments directly. The City collects Street Improvement District (SID) assessments for SID 120 and SID 121 through the county tax rolls. SID assessments are reported as assessments revenue in the current year. The advantage for the residents to pay their assessments as soon as possible is the reduction in interest.

O) TAX ABATEMENTS

In fiscal year 2006, the City agreed to abate the property taxes of the Rocky Mountain Power Plant for 10 years in efforts to bring development to the City. Taxes were assessed for fiscal year 2016 forward. There were no provisions for making up the abated taxes. No other governments have tax abatement agreements that affect the City of Hardin or TRA. As of June 30, 2018, there are no tax abatement agreements in place that affect the City of Hardin or TRA.

P) ENCUMBRANCES

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded to carryover a portion of an applicable appropriation, is utilized for budgetary control purposes. Encumbrances are not the equivalent of expenditures, and accordingly, amounts assigned for encumbrances at the governmental fund level indicate that portion of the fund balance segregated for expenditure upon vendor performance. As of June 30, 2018, there are no encumbrances; instead unpaid invoices at year end are reported as Accounts Payable.

Q) IMPLEMENTATION OF NEW GASB STATEMENTS AND PRONOUNCEMENTS

In fiscal year 2018, the City implemented GASB 75 *Accounting and Financial Reporting for Postemployment Benefits other than Pensions.* A prior period adjustment of $24,790 was reported for the implementation of this statement.

In fiscal year 2019, the City implemented GASB 85 *Omnibus 2017*, which affects the revenue recognition of on-behalf payments. According to GASB 85 on-behalf payments should be recognized for the reporting period in funds using the current financial resources measurement focus (Governmental funds). The State Coal Board made payments to PERS defined benefit pension fund on be-half of the City of Hardin of $24,966 in fiscal year 2017 and $28,647 in fiscal year 2018. The difference between the revenue for these two years was not reported because it was determined to be immaterial.

R) BOND INDENTURE REQUIREMENTS

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

**NOTE 2: COMPONENT UNIT – TWO RIVERS AUTHORITY (TRA)**

The Two Rivers Authority (TRA) is a component unit of the City of Hardin. GASB 61 defines component units as legally separate organizations for which the elected officials of the agency are financially accountable. Component units can be other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading due to the close relations and financial integration with the primary government.

In March of 2010 the City signed a Memorandum of Understanding (MOU) between the City of Hardin and ***Two Rivers Authority*** (TRA). The MOU states that TRA shall pay all necessary payments to the bondholders from proceeds received from the operation of the detention facility. All proceeds received from the operation of the Detention Center in excess of payments to bondholders shall be paid to the City. The City agreed to provide funding to TRA as necessary and approved by City Council. The provisions of the agreement are to be reviewed at least every two years. The City did not provide any funds to TRA for its operations in fiscal year 2018.

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

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

**Two Rivers Authority Operations**
In fiscal year 2018, Two Rivers Authority reported operating costs of $65,389, which does not include depreciation or debt service requirements, and revenues of $3,663. These operating costs outpaced revenues by $61,680. Since fiscal year 2017, bondholders advanced Two Rivers Authority a total of 873,432 to cover short term revenue shortages. Payroll accruals include current year amounts that were underpaid. In prior years, the Trustee (US Bank) authorized bond reserves to cover for operating and maintenance costs. According to the bond agreement, this is not proper use of reserve funds. However, the major bondholders agreed that the current use of reserves suits the needs of the bondholders.

**Two Rivers Authority and the US Bank Trustee**
In June 2010, a portion of the TRA revenue bond proceeds of $727,510 was deposited in an US Bank reserve account. The purpose of this account was to be used explicitly for the repayment of debt. When it became apparent that revenues were insufficient to meet the bond covenant requirements, the US Bank Trustee refused to release funds from the US Bank reserve account for TRA's day-to-day operations. Since then, some of the reserve account monies have been used for day-to-day operations and the account balance has dropped to $1,174 as of June 30, 2018. The reserve account was never intended to be used for day-to-day operations of the facility.

**Defaults and Remedies**
The Series 2006 bonds have been in default since 2008. The bondholders and a US Bank Trustee control the transactions of TRA. Neither TRA's Board nor the Executive Director have been involved in, approved, nor received copies of supporting documentation for the transactions of TRA. TRA's financial statements were prepared by taking excerpts from bank statements in Two Rivers Authority's name for transactions.

According to the terms of the Series 2006 Bonds, the Mortgage, Defaults and Remedies page 24: *"If one or more events of default have occurred and are continuing, the Trustee at its election may, to the extent permitted by law, (i) foreclose the lien of the Mortgage (the series 2006 revenue bonds) on the Mortgaged Property (the detention facility) and sell the Project (the detention facility) at public auction, (ii) enter and take possession of the Mortgaged Property or any part thereof and exclusion of the Issuer (Two Rivers Authority) from possession of the Mortgaged Property, (iii) lease, sell or operate the Mortgaged Property or any part thereof for the account of the Issuer, (iv) apply to a court of competent jurisdiction for the appointment of a receiver, of (v) exercise any remedies available to a secured party under the Uniform Commercial Code."*

**Detention Facility Lease Endeavors**
In May of 2014, Two Rivers Authority (TRA) executed start-up and operational agreements with Emerald Correctional Management LLC (Emerald) in order to bring the Two Rivers Regional Detention Facility into use. Emerald ceased housing inmates and vacated the facility in fiscal year 2016. As of June 30, 2018, bondholders have provided a total of $873,432 to provide funds for select operations while attempts are made to get the detention facility into a fully operational state. These bondholder monies are recorded as "advance funding - bondholder loans." For the full fiscal years of 2017 and 2018 no inmates were housed at the facility. As of June 30, 2018, no agreements were signed to house inmates at the facility. The insurance policy on the facility was allowed to lapse due to insufficient revenues in December 2016.

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

A) NET POSITION

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

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

| | Governmental | Business-Type | Two Rivers Authority |
|---|---|---|---|
| Capital Assets, Net | $15,616,395 | $ 10,968,787 | $ 16,005,742 |
| Less Contracts Payable | ( 0) | ( 11,139) | ( 0) |
| Less Accrued Bond Interest Due | ( 1,961,250) | ( 0) | ( 18,240,238) |
| Less Bond Principal Due | (20,920,000) | ( 1,951,000) | ( 27,015,000) |
| Net Investment in Capital Assets | $(7,264,855) | $ 9,006,648 | $(29,249,496) |

R*estricted Net Position* – This category reports the portion of Net Position that is subject to constraints either by creditors (such as debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. At June 30, 2018, restricted Net Position for governmental activities totaled $1,644,109 of which $674,985 was restricted by enabling legislation for the TIFD.

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

When both restricted and unrestricted resources are available for use, it is the City's policy to use the restricted funds first. The City strives to maintain fund balance reserves. However, the City has not adopted any stabilization or minimum fund balance policies.

B) FUND BALANCE POLICY

**Fund Statements – Fund Balances**
In the fund financial statements, governmental funds report fund balance as Nonspendable, Restricted, Committed, Assigned or Unassigned based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the funds can be spent.

**Nonspendable** – Amounts that cannot be spent because they are in a nonspendable form or because they are legally or contractually required to maintained intact i.e., inventory, amounts due from other funds, or endowment corpus.
**Restricted** – Amounts that can be spent only for specific purposes stipulated by external resource providers, constitutionally, or through enabling legislation i.e., tax levies.
**Committed** – Amounts that can be used only for specific purposes determined by the City Council resolution to establish, modify and rescind; and do not lapse at year end.
**Assigned** – Amounts intended for specific purposes by the Finance Officer and/or Mayor who have been delegated authority by the City Council to assign such amounts. This fund balance classification also reflects any funds assigned for capital projects.
**Unassigned** – All amounts not included in other spendable classifications. Funds with negative fund balances are reported in this category.

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

C) FUND BALANCE CLASSIFICATIONS

**Non-Spendable Net Position:**

| Fund | Amount | Purpose |
|---|---|---|
| General Fund | $ 968,166 | Interfund Loans |
| General Fund | 2,895 | Inventories |
| Street Maintenance Fund | 112,246 | Inventories |
| Capital Improvement Fund | 100,528 | Land held for resale |
| Curb & Gutter Fund | 80,691 | Interfund loans |
| Gas Tax Apportionment Fund | 160,035 | Interfund loans |
| Capital Improvement Fund | 288,863 | Interfund loans |
| Total Non-Spendable | $ 1,713,424 | |

**Restricted Net Position:**

| Fund | Amount | Purpose |
|---|---|---|
| TIFD Fund | $ 674,985 | Debt Service – Bond Requirements |
| Street Maintenance Fund | 291,292 | Public Works – Special Districts – Street Maintenance |
| Gas Tax Fund | 219,429 | Public Works – State Statutes |
| Gas Tax Fund | 77,257 | Capital Projects – State Statutes |
| Other Governmental Funds | 81,897 | Public Works – Special Districts - Lights |
| Other Governmental Funds | 3,361 | General Government – Mill Levy |
| CDBG | 24,948 | Housing/Community Development – CDBG or 7-6-16 MCA |
| Total Restricted | $ 1,373,169 | |

**Committed Net Position:**

| Fund | Amount | Purpose |
|---|---|---|
| Comp Insurance Fund | $ 19,346 | General Government |
| PERS Fund | 14,646 | General Government |
| Health ER Fund | 22,337 | General Government |
| Comp Insurance Fund | 19,346 | Public Works |
| PERS Fund | 14,447 | Public Works |
| Health ER Fund | 22,337 | Public Works |
| Total Committed | $ 112,459 | |

**Assigned Net Position:**

| Fund | Amount | Purpose |
|---|---|---|
| General Fund | $ 80,000 | Housing/Community Development |
| Other Governmental funds | 301,144 | Capital Acquisitions |
| Other Governmental funds | 279,622 | Public Works |
| Total Assigned | $ 660,766 | |

**Unassigned Net Position:**

| Fund | Amount |
|---|---|
| General Fund | $ 615,012 |
| SID 120 Fund | ( 1,097,148) |
| SID 121 | ( 400,607) |
| Total Unassigned | ( 882,743) |
| Total Governmental Funds | $ 2,977,075 |

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

The difference of $348,196 between restricted fund balance on the *Balance Sheet - Governmental Funds*, which is illustrated above, and restricted net position on the *Statement of Net Position,* includes $215,669 of nonspendable items (inventory and land held for resale) because they are not in a spendable form, and deferred inflows of resources due to taxes receivable in the restricted funds of $2,146,385. These differences are attributable to the difference in accounting basis of these two statements as illustrated as follows.

**Restricted Net Position - Other**

| | |
|---|---|
| Restricted Net Position – Balance Sheet – Governmental Funds | $1,373,168 |
| Deferred Inflows of Resources – Associated with Taxes Receivable on restricted funds | 2,146,385 |
| Non-Spendable Net Position – Balance Sheet – Governmental Funds (Inventory) | 115,141 |
| Non-Spendable Net Position – Balance Sheet – Governmental Funds (Land held for resale) | 100,528 |
| Restricted Net Position – Statement of Net Position | $3,735,222 |

## NOTE 4: CASH AND INVESTMENTS

**Primary Government**

The majority of the City's cash resources are held and managed by the City Finance Officer. The Big Horn County holds cash of $184,272 collected from taxes but not distributed to the City by June 30, 2018. US Bank holds and manages $586,695 in trust for TIFD Revenue Bond payments. First Interstate Bank – Polson holds and manages $980,074 in trust for landfill closure and post-closure care costs. The trust amounts are reported in the City's total cash because the accounts are in the City's name. However, the City has no control over the investments held and managed in these trust accounts. In addition, the City has 6 lots identified as ***"land held for re-sale"*** which are reported as non-current asset, are valued at a combined total of $100,528.

As of June 30, 2018, cash and investments of the primary government totaled $7,838,935 which includes land held for resale of $100,528 and $254,906 in agency funds. Of this amount, restricted cash totaled $4,311,967. Payroll and Claims Clearing agency funds cash totaled $81,135 which is not reported on the Statement of Fiduciary Net Position because these funds are held purely for outstanding warrants and checks.

| **Composition of Cash & Investments** | **Primary Government** |
|---|---|
| County Investment Pool | $ 184,272 |
| City Investment Pool | 5,987,366 |
| First Interstate Bank (Landfill Trust) | 980,074 |
| US Bank (TIF District Revenue Bonds Trust) | 586,695 |
| Subtotal Liquid Cash & Investments | $7,738,407 |
| Plus Land held for re-sale | 100,528 |
| Subtotal Cash & Investments | 7,838,935 |
| Less Cash held in Agency funds | ( 254,906) |
| Less Restricted Cash & Investments | ( 4,311,967) |
| Less Land held for re-sale | ( 100,528) |
| Total Unrestricted Cash & Investments – Primary Gov. | $3,171,534 |

**Two Rivers Authority (a component unit)**
Operating cash resources of $886 are held and managed by the Executive Director. The Bond reserve account of $1,174 is held and managed by a US Bank Trustee. Deposits consist primarily of demand accounts and are reported at fair value.

**City and Component Unit Cash & Cash Equivalents**

| Cash & Cash Equivalents | City of Hardin | Two Rivers Authority |
|---|---|---|
| Demand Accounts, Petty Cash | $ 14,110 | $2,060 |
| Money Markets | 203,430 | 0 |
| Certificates of Deposit | 5,580,894 | 0 |
| Total Cash & Cash Equivalents | $5,798,434 | $2,060 |

A) BIG HORN COUNTY INVESTMENT POOL

Property taxes and assessments are assessed and collected by the Big Horn County Treasurer. Cash of $184,272 is held in the ***Big Horn County investment pool which*** represents revenues collected but not yet distributed to the City as of June 30, 2018. These resources are combined with cash resources of other governmental entities within county to form a pool of cash and investments. The County does not issue separate financial statements on the investment pool. The external investment pool is audited as part of Big Horn County's financial statements. The County investment pool is not registered with or monitored by the Securities and Exchange Commission (SEC) or subject to other regulatory oversight. The County provides monthly statements to the City. During the year, the County Treasurer obtained collateral pledge agreements that are legally binding guarantees to support the values of shares.

State statute requires that United State government securities or agencies be held as collateral to secure deposits of public funds in excess of Federal Deposit Insurance Corporation (FDIC) insurance. The City does not own specific identifiable investment securities in the Big Horn County investment pool. Therefore, the City's portion of the pool is not subject to categorization. Information regarding investment risk, collateral, security, and fair values for Big Horn County investment pool deposits and investments is available from the Big Horn County Treasurer's office, 121 3rd St. W. Hardin, MT 59034. Fair values approximate carrying values for investments as of June 30, 2018. Investments within the Big Horn County investment pool are not subject to forced sales because the presence of other participants in the pool provides additional stability.

B) CITY OF HARDIN INVESTMENT POOL

The City's cash and investment pool is held and managed by the City Finance Officer. Deposits of pooled cash consists primarily of demand accounts, money markets and CDs. Fair value investments are Level 1 investments consisting primarily of repurchase agreements and US Government Securities and are valued using the market approach meaning that investments are measured using quoted market prices.

C) CASH HELD and MANAGED BY BANK TRUSTEES ON BEHALF OF THE CITY

Cash of $1,566,769 is held and managed by Bank Trustees for the TIFD revenue bonds and the landfill trust. These amounts are reported in the City's total cash because the accounts are in the City's name. The US Bank holds and manages $586,695 for the TIFD revenue bonds. The First Interstate Bank – Polson holds and manages $980,074 in trust for the Landfill closure and post-closure care costs. The City has no control over the monies held by these bank trustees.

D) CREDIT RISK

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

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, 2018, none of the City's deposits were exposed to custodial credit risk because all deposits were either FDIC insured or collateralized.

*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, 2018, investments totaling $1,060,715 were uninsured and uncollateralized. However, the full amount was held in US government securities. Therefore, none of the City's investments was exposed to custodial credit risk because all were either FDIC insured, collateralized or held in US Government Securities.

*Concentration of Credit Risk:* The City places no limit on the amount that may be invested in any one issuer. The table later in this section illustrates the percentage of each investment type held at June 30, 2018.

*Interest Rate Risk – Investments:* Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Interest rate risk is minimized by compliance with State law which limits local governments to certain investment types. Additionally, under State law, an investment may not have a maturity date exceeding 5 years, except when the investment is used in an escrow account for an advance refunding of an outstanding bond issue, or for investments of local government group self-insurance programs. As of June 30, 2018, the City held the following liquid investments and their associated maturities:

| | | Investment Maturity (in Years) | | |
|---|---|---|---|---|
| Investment Type | Fair Value | Less Than 1 | 1-5 Years | More Than 5 |
| Repurchase Agreements | $1,076,633 | $1,076,633 | $ 0 | $ 0 |
| US Treasury Notes | 188,794 | 49,961 | 138,833 | 0 |
| US Gov. Securities | 674,546 | 272,097 | 402,449 | 0 |
| Land Held for Resale | 100,528 | 100,528 | 0 | 0 |
| Total | $2,040,501 | $1,499,219 | $541,282 | $ 0 |

E) FAIR VALUE MEASUREMENTS

The City categorized its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy, as follows, is based on the valuation inputs used to measure fair value. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs. The fair value of "land held for resale" is a Level 3 input, based on previous sales of land similar to these City lots, which has not occurred for many years.

**Level 1 Inputs** – Quoted prices in active markets for identical assets; these investments are valued using *prices quoted in active markets.*
**Level 2 Inputs** – Significant other observable inputs.
**Level 3 Inputs** – Significant unobservable inputs; these investments are valued using *last available broker estimate.*

| | Fair Value |
|---|---|
| Cash on Hand (petty cash) | $ 500 |
| Demand Accounts | 13,610 |
| U.S. Government Money Markets | 203,430 |
| CDs (Staggered for FDIC coverage) | 5,580,894 |
| Total Cash & Cash Equivalents | $5,798,434 |

| Investment by Fair Value Level | 6/30/2018 | Level 1 | Level 2 | Level 3 | % of Total |
|---|---|---|---|---|---|
| Repurchase Agreements | $1,076,633 | $1,076,633 | $0 | $ 0 | 14% |
| U.S. Treasury Notes | 188,794 | 188,794 | 0 | 0 | 2% |
| Federal Home Loan Bank | 283,316 | 283,316 | 0 | 0 | 4% |
| Federal Farm Credit Bank | 93,996 | 93,996 | 0 | 0 | 1% |
| Federal National Mortgage Association | 188,848 | 188,848 | 0 | 0 | 2% |
| Federal National Loan Mortgage Corporation | 108,386 | 108,386 | 0 | 0 | 1% |
| Land held for Resale – 5 City Lots | 100,528 | 0 | 0 | 100,528 | 1% |
| Total Investments by Fair Value | $2,040,501 | $1,939,973 | $0 | $100,528 | 25% |
| Total Cash (from above) | 5,798,434 | 5,798,434 | 0 | 0 | 75% |
| Total City Cash & Investments | $7,838,935 | $7,738,407 | $0 | $100,528 | 100% |
| Component Unit – TRA (Demand Accounts) | $ 2,060 | $ 2,060 | $0 | $ 0 | 100% |

F) RESTRICTED CASH & INVESTMENTS

| **Fund** | **City of Hardin** | **Two Rivers Authority** | **Description** |
|---|---|---|---|
| General | $ 3,215 | | Performance Bonds |
| Gas Tax Apportionment | 77,257 | | Capital Equipment Acquisition |
| TIFD – Debt Service | 175,184 | | Debt Service |
| TIFD – Debt Service | 500,000 | | Debt Svc. – Bond Proceeds - CDs mature 9/2019 |
| Subtotal Governmental Funds | 755,656 | | |
| Proprietary Funds | | | |
| Water | 57,185 | | Customer Deposits |
| Water | 103,159 | | Capital Assets Construction |
| Water | 16,050 | | Debt Service Payments |
| Water | 1,202,534 | | Capital Projects – Bond Covenants |
| Subtotal Water Fund | 1,378,928 | | |
| Sewer | 451,063 | | Capital Projects – Bond Covenants |
| Sewer | 197,704 | | Debt Service Payments |
| Sewer | 124,823 | | Capital Projects – Bond/Loan Covenants |
| Subtotal Sewer Fund | 773,590 | | |
| Solid Waste | 300,000 | | Capital Projects – Bond/Loan Covenants |
| Landfill | 4,700 | | Customer Deposits |
| Landfill | 94,919 | | Debt Service Payments |
| Landfill | 24,100 | | Capital Projects Bond/Loan Covenants |
| Landfill | 980,074 | | Closure/Post-Closure Care Costs |
| Subtotal Solid Waste & Landfill Fund | 1,403,793 | | |
| Subtotal Proprietary Funds | 3,556,311 | | |
| Total Primary Government | $ 4,311,967 | | |
| Two Rivers Authority | | $1,174 | Bond Requirements |

**NOTE 5: TAXES and RECEIVABLES**

A) MILL LEVIES

The taxable value of the tax roll as of January 1, 2017, upon which the levy for the 2018 fiscal year was based, was $3,505,154 after deducting the TIFD of $1,311,146. The tax rates assessed for the year ended June 30, 2018 to finance City operations were as follows:

| Fund | Mills |
|---|---|
| General | 127.98 |
| PERS-(Employer Contribution) | 7.71 |
| Group Health Insurance | 9.54 |
| Permissive Medical | 15.50 |
| Comprehensive Insurance | 2.65 |
| Total Mills | 163.38 |

B) TAXES / ASSESSMENTS RECEIVABLE

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

| **Governmental Funds** | Taxes Receivable | Assessments Receivable | Total Taxes & Assessments Receivable | |
|---|---|---|---|---|
| SID 120 | $ 0 | $1,117,506 | $1,117,506 | Taxes Rec. – Interest on delinquents |
| SID 121 | 0 | 405,219 | 405,219 | Taxes Rec. – Interest on delinquents |
| Curb & Gutter – Crow Ave SID | 0 | 51,039 | 51,039 | |
| Subtotal SIDs | 0 | 1,573,764 | 1,573,764 | |
| General Fund | 194,133 | 0 | 194,133 | |
| TIFD Fund | 2,013,857 | 0 | 2,013,857 | |
| Curb & Gutter Fund – Other | 0 | 32,802 | 32,802 | |
| Street Maintenance Fund | 11,021 | 76,872 | 87,893 | |
| Other Governmental Funds | 52,594 | 41,069 | 93,663 | |
| Total Governmental Funds | $2,271,605 | $1,724,507 | $3,996,112 | |

| **Proprietary Funds** | Taxes Receivable | Assessments Receivable | Total Taxes & Assessments Receivable |
|---|---|---|---|
| Water Fund | $ 0 | $ 2,353 | $ 2,353 |
| Sewer Fund | 0 | 797 | 797 |
| Solid Waste Fund | 0 | 281,783 | 281,783 |
| Total Proprietary Funds | $ 0 | $ 284,933 | $ 284,933 |
| Total Primary Government | $2,271,605 | $2,009,440 | $4,281,044 |

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

C) SPECIAL IMPROVEMENT DISTRICTS (SIDs) ASSESSMENTS RECEIVABLE

The assessments receivable amounts reported in the above section include the following major SID assessments. The following table illustrates the expected payments from residents for these projects. Delinquent assessments were $30,929 and $12,913 for SID 120 and SID 121 respectively. The delinquents are reported as due in the subsequent year.

| Fiscal Year Ending 6/30: | SID 120 Principal | SID 121 Principal | Crow Ave. SID Principal | Total Principal |
|---|---|---|---|---|
| 2019 | $ 52,622 | $ 21,112 | $ 6,465 | $ 80,199 |
| 2019 – Delinquents (P&I) | 30,929 | 12,913 | 0 | 43,842 |
| 2020 | 55,501 | 21,750 | 6,721 | 83,972 |
| 2021 | 57,178 | 22,407 | 6,997 | 86,582 |
| 2022 | 58,906 | 22,085 | 7,282 | 88,273 |
| 2023 | 60,687 | 23,782 | 7,574 | 92,043 |
| 2024 – 2028 | 332,082 | 130,139 | 16,000 | 478,221 |
| 2029 – 2033 | 385,395 | 151,031 | 0 | 536,426 |
| 2034 | 84,206 | 0 | 0 | 84,206 |
| Subtotal | $1,117,506 | $405,219 | $51,039 | $1,573,764 |

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

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

**SID 120** - In 2013, a street improvement project was financed internally through interfund loans to retain the interest within the City rather than paying interest to third parties. Beginning in fiscal year 2015, the affected City residents were billed over a 20-year period at 3%. Delinquent SID assessments are reported with current taxes receivable. Prepaid assessments are reported as revenues in the year in which they are received.

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

**Crow Avenue SID** - This street project was for the installment, construction, reconstruction and replacements of curbs and gutters, sidewalks and driveway approaches, and was completed in fiscal year 2013. This project was paid from the Curb & Gutter fund. Assessments receivable and tracking of resident balances for the Crow Avenue SID is accounted for in the Curb & Gutter fund. The City covered a large portion of this improvement and assessed the residents the balance of $88,250 over 12 years rather than 20 years (at 4% rather than 3%) due to the higher portion covered by the City for this project. As of June 30, 2018, the outstanding balance on this SID is $51,039.

**Other SIDs -** Other assessments are accounted for in the Local Charges for Services and Curb & Gutter funds and are reported as Other SIDs. Other SID assessment's receivable totaled $36,854 as of June 30, 2018.

D) DUE FROM OTHER GOVERNMENTS

| Fund | Amount | Due From / Reason |
|---|---|---|
| General | $ 525 | State of Montana – 4th Quarter license fees |
| PERS ER Contributions | 384 | State of Montana – PERS - Refund |
| Subtotal Governmental Funds | 909 | |
| Sewer | 15,000 | State of Montana – TSEP Grant |
| Total Primary Government | $15,909 | |

E) ACCOUNTS RECEIVABLE

Accounts receivables represent customer balances for utilities provided to businesses and residents within the city limits by the City. An allowance for uncollectible accounts was not estimated because delinquent customer's services are shut-off until payment is received and delinquent accounts are placed on the property tax rolls.

F) INTERFUND LOANS – DUE FROM/DUE TO OTHER FUNDS

| **Governmental Funds** | -------- DUE FROM ------- | | | |
|---|---|---|---|---|
| Receiving Fund | SID 120 | SID 121 | Total | Reason |
| General | $ 724,261 | $243,906 | $ 968,166 | In-house SID financing |
| Curb & Gutter | 59,323 | 21,368 | 80,691 | In-house SID financing |
| Gas Tax | 110,176 | 49,860 | 160,036 | In-house SID financing |
| Capital Projects | 203,389 | 85,474 | 288,863 | In-house SID financing |
| Total Governmental | $1,097,149 | $400,608 | $1,497,756 | |
| Current Portion | $ 63,193 | $ 28,414 | $ 91,607 | |

| **Proprietary Funds** | | | |
|---|---|---|---|
| Receiving Fund | Sewer | Landfill | Total |
| Water | $443 | $300 | $743 |

G) OTHER RECEIVABLES

An allowance for uncollectible accounts was not estimated for the City's accounts receivable in the ***proprietary funds*** because any uncollected accounts are placed on the tax rolls as assessments and the customer's services are shut off until payment is received. As of June 30, 2018, governmental and proprietary fund other receivables balances were reported at $5,095 and $190,228 respectively and consist of the following components:

| Fund | Accrued Interest Receivable | Crawford TAPS | Contracts Receivable | Total Other Receivables |
|---|---|---|---|---|
| General | $ 3,355 | $ 0 | $ 0 | $ 3,355 |
| Street Maintenance | 5,555 | 0 | 0 | 5,555 |
| Other Governmental Funds | 2,499 | 0 | 0 | 2,499 |
| Subtotal Governmental | $11,409 | $ 0 | $ 0 | $11,409 |
| Water | 4,780 | $8,523 | $ 4,411 | 17,714 |
| Sewer | 2,976 | 0 | 9,129 | 12,105 |
| Solid Waste | 3,152 | 0 | 0 | 3,152 |
| Subtotal Proprietary Funds | 10,908 | $8,523 | $ 13,540 | $32,971 |
| Total Primary Government | $22,316 | $8,523 | $ 13,540 | $44,380 |

**NOTE 6: CAPITAL ASSETS – Governmental Activities:**

| ***Governmental Activities*** | Balance July 1, 2017 | Additions | Removals | Transfers | Balance June 30, 2018 |
|---|---|---|---|---|---|
| COST Non-Depreciable: | | | | | |
| Land | $ 511,285 | $ 42,000 | $ 0 | $ 0 | $ 553,285 |
| Rights of Way | 40,622 | 0 | 0 | 0 | 40,622 |
| CIP | 37,130 | 37,635 | 0 | (37,130) | 37,635 |
| Total Non-Depreciable | $ 589,037 | $ 79,635 | $ 0 | (37,130) | $ 631,542 |
| COST Depreciable: | | | | | |
| Land Improvements | $ 201,301 | $ 1,255 | ($34,829) | $37,130 | $ 204,857 |
| Buildings | 1,228,459 | 0 | 0 | 0 | 1,228,459 |
| Machinery & Equipment | 1,344,970 | 46,615 | ( 34,896) | 0 | 1,356,689 |
| Infrastructure | 15,945,119 | 87,928 | 0 | 0 | 16,033,047 |
| Total Depreciable Cost | 18,719,849 | 135,798 | ( 69,725) | $37,130 | $18,823,052 |
| Total Non-Depreciable Cost | 589,037 | 79,635 | 0 | (37,130) | 631,542 |
| Total COST | $19,308,886 | $215,433 | ($69,725) | $ 0 | $19,454,594 |
| Accumulated Depreciation: | | | | | |
| Land Improvements | ($ 74,206) | ($ 7,542) | $ 26,470 | $ 0 | ($ 55,278) |
| Buildings | ( 326,186) | ( 28,214) | 0 | 0 | ( 354,400) |
| Machinery & Equipment | ( 924,146) | ( 50,522) | 32,115 | 0 | ( 942,553) |
| Infrastructure | ( 2,079,316) | ( 406,652) | 0 | 0 | ( 2,485,968) |
| Total Depreciation | ($3,403,854) | ($492,930) | $ 58,585 | $ 0 | ($3,838,199) |

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

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

| | | | |
|---|---|---|---|
| General Government | $ 10,746 | Culture & Recreation | $ 16,753 |
| Public Safety | 33,081 | Housing & Development | 98,542 |
| Public Works | 333,808 | Total Depreciation | $492,930 |

**Land reclassified**

In 2018, the City Council decided to keep a parcel of land, consisting of 5 lots, previously reported as Investment – Land Held for Resale for a park and community events place. This parcel of land, originally valued at $42,000 was moved from Investments – Land Held for Resale to capital assets of governmental activities. Because neither of these assets is reported in the governmental funds no adjustments to net position were required for this change in asset classification.

**NOTE 7: CAPITAL ASSETS – Business-Type Activities:**

| ***Business-Type Activities*** | Balance | | | | Balance |
|---|---|---|---|---|---|
| COST Non-Depreciable: | July 1, 2017 | Additions | Removals | Adjustments | June 30, 2018 |
| Land | $ 463,193 | $ 0 | $ 0 | $ 0 | $ 463,193 |
| Total Non-Depreciable | $ 463,193 | $ 0 | $ 0 | 0 | $ 463,193 |
| COST Depreciable: | | | | | |
| Land Improvements | $ 2,040,909 | $ 0 | ($60,000) | $ 0 | $ 1,980,909 |
| Buildings & Improvements | 139,636 | 0 | 0 | 0 | 139,636 |
| Machinery & Equipment | 2,166,979 | 683,110 | 0 | 0 | 2,850,089 |
| Infrastructure (Utility): | | | | | |
| Transmission & Dist. | 8,930,933 | 0 | 0 | 0 | 8,930,633 |
| Treatment Plant | 6,083,377 | 20,496 | ( 25,456) | 0 | 6,078,417 |
| General Plant | 480,797 | 0 | 0 | 0 | 480,797 |
| Total Depreciable COST | $19,842,331 | $ 703,606 | ($85,456) | $ 0 | $20,460,481 |
| Non-Depreciable COST | 463,193 | 0 | 0 | 0 | 463,193 |
| Total COST | $20,305,524 | $ 703,606 | ($85,456) | $ 0 | $20,923,674 |
| Accumulated Depreciation: | | | | | |
| Land Improvements | ($ 684,996) | ($137,622) | $ 20,000 | ($499,129) | ($1,301,747) |
| Buildings & Improvements | ( 52,954) | ( 3,481) | 0 | 0 | ( 56,435) |
| Machinery & Equipment | ( 1,599,798) | ( 150,835) | 0 | 0 | ( 1,750,633) |
| Infrastructure (Utilities): | | | | | |
| Transmission & Dist. | ( 3,343,210) | ( 187,168) | 0 | 0 | ($3,530,378) |
| Treatment Plant | ( 2,699,161) | ( 215,581) | 21,134 | 0 | ( 2,893,608) |
| General Plant | ( 415,430) | ( 6,656) | 0 | 0 | ( 422,086) |
| Total Depreciation | ($8,795,549) | ($701,343) | $ 41,134 | ($499,129) | ($9,954,887) |

*Totals may not foot due to rounding*

Current year depreciation was charged to the **proprietary funds** is as follows:

| | Current | Adjustment | Total Current Depreciation Including Adjustments |
|---|---|---|---|
| Water | $237,296 | $ 0 | $ 237,296 |
| Sewer | 175,048 | 0 | 175,048 |
| Solid Waste | 74,839 | 0 | 74,839 |
| Landfill | 214,160 | 499,129 | 713,289 |
| Total Depreciation Expense | $701,343 | $499,129 | $1,200,472 |

**Capital Assets Adjustment:** A prior period adjustment was recognized for prior years' depreciation of $499,219 due to the redetermination of the lifetime of the coal cell in the Landfill Fund.

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

| ***Two Rivers Authority*** | Balance | | | Balance |
|---|---|---|---|---|
| COST Non-Depreciable: | July 1, 2017 | Additions | Removals | June 30, 2018 |
| Land | $ 257,377 | $ 0 | ($ 0) | $ 257,377 |
| Total Non-Depreciable | $ 257,377 | $ 0 | ($ 0) | $ 257,377 |
| COST Depreciable: | | | | |
| Buildings | $19,684,930 | $ 0 | ($ 0) | $19,684,930 |
| Intangibles – Logo | 780 | 0 | ( 0) | 780 |
| Machinery & Equipment | 175 | 0 | ( 0) | 175 |
| Total Depreciable COST | $19,685,885 | $ 0 | ($ 0) | $19,685,885 |
| Total COST | $19,943,262 | $ 0 | ($ 0) | $19,943,262 |
| Accumulated Depreciation: | | | | |
| Buildings | ($3,543,287) | ($393,713) | $ 0 | ($3,937,000) |
| Intangibles – Logo | ( 468) | ( 52) | 0 | ( 520) |
| Total Depreciation | ($3,543,755) | ($393,765) | $ 0 | ($3,937,520) |

**NOTE 9: DEFERRED OUTFLOWS/INFLOWS OF RESOURCES (NET) – PENSIONS**

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

As of the measurement date of June 30, 2017, for the reporting date of June 30, 2018, the City reported its proportionate share of Public Employees Retirement System (PERS) defined benefit retirement plan's Deferred Outflows and Deferred Inflows of Resources from the sources. Deferred Inflows of Resources are reported with (credit) balances. Deferred Outflows of Resources associated with the employer's proportionate share of the PERS-DBRP pension plan adjusted for City contributions to the pension plan since the measurement date of June 30, 2017.

| As of the Measurement Date | | Proprietary Funds | | | | |
|---|---|---|---|---|---|---|
| Deferred Outflows & Inflows of Resources – PERS (Net) | **Governmental Activities** | **Water** | **Sewer** | **Solid Waste** | **Total Proprietary Funds** | **Total Primary Government** |
| Expected vs. Actual Experience | $16,478 | $7,938 | $6,758 | $9,279 | $23,975 | $40,453 |
| Projected Investment Earnings vs. Actual Investment Earnings | (4,774) | (2,300) | (1,958) | (2,689) | (6,947) | (11,721) |
| Changes in assumptions | 97,175 | 46,807 | 39,857 | 54,721 | 141,385 | 238,560 |
| Changes in Proportion & Differences Between Employer Contributions and Proportionate Share of Contributions | 31,599 | 15,220 | 12,960 | 17,794 | 45,974 | 77,573 |
| *Employer Contributions Subsequent to the Measurement Date | 36,147 | 17,411 | 14,826 | 20,355 | 52,592 | 88,739 |
| Total | $176,625 | $85,076 | $72,443 | $99,460 | $256,979 | $433,604 |

*Amounts reported as Deferred Outflows of Resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2019.

Other amounts reported as deferred outflows and deferred inflows of resources related to pensions are recognized in 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) to Pension Expense (Net) |
|---|---|
| 2018 | $64,880 |
| 2019 | $177,651 |
| 2020 | $139,482 |
| 2021 | $(37,147) |
| 2022 | $0 |
| Thereafter | $0 |

The chart above begins with 2018 not 2019 due to the current measurement date of June 30, 2017 which is the reporting date of June 30, 2018.

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

| Governmental Funds | Accounts Payable | Accrued Payroll Expenses | Customer Deposits Payable | Contracts Payable | Revenues Collected In Advance | Revenues Collected In Advance Source |
|---|---|---|---|---|---|---|
| General | $ 28,009 | $ 5,893 | $ 3,215 | $ 0 | $ 0 | |
| Street Maintenance | 3,241 | 4,072 | 0 | 0 | 0 | |
| Other Governmental Funds | 15,623 | 866 | 0 | 0 | 27,518 | High School Street Project |
| Total Governmental Funds | $ 46,873 | $10,831 | $ 3,215 | $ 0 | $27,518 | |
| **Proprietary Funds** | | | | | | |
| Water | $ 30,250 | $ 5,223 | $57,185 | $11,139 | $13,841 | Prepaid Water Taps |
| Sewer | 12,572 | 3,265 | 0 | 0 | 26,781 | Prepaid Water Taps |
| Solid Waste | 3,757 | 2,038 | 0 | 0 | 0 | |
| Landfill | 9,039 | 3,429 | 4,700 | 0 | 0 | |
| Total Proprietary Funds | $ 55,618 | $13,955 | $61,885 | $11,139 | $40,622 | |
| Total Primary Government | $102,491 | $24,786 | $65,100 | $11,139 | $68,140 | |

Revenues collected in advance reported in the Water and Sewer funds represent prepaid water and sewer taps provided by the City to a land developer in exchange for land easements.

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

A) CURRENT LIABILITIES

| Two Rivers Authority | Deferred Payroll | Compensated Absences | Adv. Funding Bondholder Loans | Accrued Bond Interest | Accrued Bond Principal | Accounts Payable | Total Current Liabilities |
|---|---|---|---|---|---|---|---|
| General | $214,632 | $4,068 | $873,432 | $18,240,238 | $9,335,000 | $31,878 | $28,699,248 |

Two Rivers Authority's revenues are not sufficient to meet its current operating costs and liabilities as they become due. Bondholders have advanced cash to provide funding for operations to get the facility up and running.

B) ACCRUED PAYROLL PAYABLE

The Executive Director of Two Rivers Authority has worked since December 9, 2013 without receiving the full amount of his salary due to the unavailability of operating cash to meet payroll. During the process of negotiating with Emerald, the Board verbally agreed to cover the accrued payroll payable when revenues generate sufficient monies to cover these expenses. At the time of the agreement with the Executive Director, the agreement with Emerald appeared to have a chance at meeting this obligation. As of June 30, 2018, accumulated accrued payroll payable that has not been paid since December of 2013 totaled $214,632.

C) ADVANCE FUNDING BONDHOLDER LOANS

Since 2014, bondholders made advances totaling $873,432 to an account held and managed by the US Bank to cover the start-up costs of the detention facility. Initially, the advances were made to TRA to cover professional liability insurance and other costs during the transition of Emerald taking over management of the detention facility. The start-up and operating agreements between TRA and Emerald Correctional Management (Emerald) provide for repayment of the advance funding loans, without a repayment schedule, prior to servicing the existing bond debt. Emerald operations were discontinued in fiscal year 2016 and the facility did not house any inmates in fiscal year 2018. No formal action has been made concerning the repayment of bondholder advances. Bondholder advances of $3,056 were made in fiscal year 2018. The advances were made to cover operating costs. Bondholders have not advanced monies to cover current or accrued payroll expenses.

**NOTE 12: LONG-TERM INTERFUND LOANS – Governmental Activities**

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

| Fund | Outstanding | Interest Rate | Payment Frequency | Semi-Annual Payments |
|---|---|---|---|---|
| SID 120 | $1,097,148 | 3% | Semi-annually | $43,503 |
| SID 121 | 400,607 | 3% | Semi-annually | 16,377 |
| Total | $1,497,755 | | | |

| Due To: | SID 120 | SID 121 | Balance as of June 30, 2018 | Current Portion (SID 120 + 121) |
|---|---|---|---|---|
| General | $ 724,260 | $243,906 | $ 968,166 | $59,015 |
| Curb & Gutter | 59,323 | 21,368 | 80,691 | 4,932 |
| Gas Tax Apportionment | 110,176 | 49,860 | 160,035 | 9,882 |
| Capital Improvements | 203,389 | 85,474 | 288,863 | 17,777 |
| Total | $1,097,148 | $400,607 | $1,497,755 | $91,606 |

| **Repayment schedule** | SID 120 | | SID 121 | | Total | |
|---|---|---|---|---|---|---|
| Due by June 30: | Principal | Interest | Principal | Interest | Principal | Interest |
| 2019 (includes delinquent) | $ 63,193 | $ 33,484 | $ 34,025 | $11,642 | $ 97,218 | $ 45,126 |
| 2020 | 55,501 | 30,605 | 21,750 | 11,004 | 77,251 | 41,609 |
| 2021 | 57,178 | 28,928 | 22,407 | 10,346 | 79,585 | 39,274 |
| 2022 | 58,906 | 27,200 | 23,085 | 9,669 | 81,991 | 36,869 |
| 2023 | 60,687 | 25,419 | 23,783 | 8,972 | 84,470 | 34,391 |
| 2024-2028 | 332,082 | 98,449 | 130,139 | 33,631 | 462,221 | 132,080 |
| 2029-2033 | 385,395 | 45,136 | 145,418 | 12,738 | 530,813 | 57,874 |
| 2034 | 84,206 | 1,900 | 0 | 0 | 84,206 | 1,900 |
| Total | $1,097,148 | $291,121 | $400,607 | $98,002 | $1,497,755 | $389,123 |

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

Delinquent SID assessments are removed from the assessments receivable schedule and put on the tax rolls. At that time they become part of the taxes receivables. However, they remain on the Due to Other Funds repayment schedule. The repayment schedules are recalculated annually to reflect the remaining cash flows. The interest amounts reported above are the scheduled amounts. Interest on delinquent payments continues to accrue until paid. The amount of interest due is calculated and assessed by the County Treasurer when payments are made.

C) CHANGES IN INTERFUND LOANS

| Due To Fund | June 30, 2017 Balance | Payments Made | New Loans | June 30, 2018 Balance | Due From / Reason |
|---|---|---|---|---|---|
| General | $ 755,051 | ($30,791) | $0 | $ 724,260 | SID 120 – to fund street construction costs |
| Curb & Gutter | 61,845 | ( 2,522) | 0 | 59,323 | SID 120 – to fund street construction costs |
| Gas Tax Apportionment | 114,860 | ( 4,684) | 0 | 110,176 | SID 120 – to fund street construction costs |
| Capital Improvements | 212,036 | ( 8,647) | 0 | 203,389 | SID 120 – to fund street construction costs |
| Subtotal **SID 120** | $1,143,792 | ($ 46,644) | $0 | $1,097,148 | |
| General | $ 253,958 | ($ 10,052) | $0 | $ 243,906 | SID 121 – to fund street construction costs |
| Curb & Gutter | 22,249 | ( 881) | 0 | 21,368 | SID 121 – to fund street construction costs |
| Gas Tax Apportionment | 51,914 | ( 2,054) | 0 | 49,860 | SID 121 – to fund street construction costs |
| Capital Improvements | 88,997 | ( 3,524) | 0 | 85,473 | SID 121 – to fund street construction costs |
| Subtotal **SID 121** | $ 417,118 | ($ 16,511) | $0 | $ 400,607 | |

The balances on the SID interfund loans may not match the SID assessments receivable at Note 5B because the interfund loans are repaid as assessments are received. Delinquent resident SIDs are placed on the property tax rolls.

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

A) CHANGES IN LONG TERM DEBT – Governmental Activities

| **Governmental Activities**: | Balance July 1, 2017 | Additions | Decreases | Balance June 30, 2018 | Due within one year |
|---|---|---|---|---|---|
| TIF District Revenue Bonds | $20,920,000 | $ 0 | $( 0) | $20,920,000 | $2,895,000 |
| TIF District Bonds Accrued Interest | 966,377 | 1,307,500 | (312,627) | 1,961,250 | 1,961,250 |
| Compensated Absences | 63,211 | 0 | ( 1,261) | 61,950 | 15,487 |
| Net Pension Liability | 541,078 | 169,843 | ( 0) | 710,921 | 0 |
| Total OPEB Liability | 64,556 | 0 | ( 4,289) | 60,267 | 0 |
| Total | $22,555,222 | $1,477,343 | $(318,177) | $23,714,388 | $4,871,737 |

B) REVENUE BONDS – Governmental Activities

| **Governmental Revenue Bonds** | Issue Date | Original Term | Original Amount | Interest Rate | Accreted Interest | Principal Balance June 30, 2018 |
|---|---|---|---|---|---|---|
| Tax Increment Financing (TIF) | 9/1/2006 | 25 yrs. | $12,600,953 | 6.25% | $8,319,047 | $20,920,000 |

**Tax Increments Financing District (TIF) Revenue Bonds - Governmental Activities**
In September 2006, the City issued $12,600,953 of revenue bonds, with an interest accretion phase of $8,319,047 for total bond principal of $20,920,000, to finance all or a portion of the costs of construction and installation of certain industrial infrastructure projects in relation to Rocky Mountain Power Inc. that operate a 116MW coal-fired electric generation station and related facilities. The City 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. 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.

**Accrued Interest**
Because the full amount of interest was only paid for the first interest payment, the interest amount due is $653,750 semi-annually or $1,307,500 annually. When the full interest payment is not made, the next scheduled interest payment becomes the same as the last full amount paid. Therefore, the annual interest amount due remains at the most recent scheduled interest payment that was paid on time. A schedule of interest payments and accumulated accrued interest is as follows:

| Fiscal Year | Scheduled Interest | Actual Interest Payments Made | Accumulated Accrued Interest |
|---|---|---|---|
| 2015 | $ 653,750 | $(653,750) | $ 0 |
| 2016 | 1,307,500 | (777,064) | 530,436 |
| 2017 | 1,307,500 | (871,559) | 966,377 |
| 2018 | 1,307,500 | (312,627) | 1,961,250 |

**TIF District Bonds Scheduled Amortization Schedule:** Future principal and interest payments are illustrated as follows assuming that the full amount of interest due continues to not be paid on time:

| Fiscal Year | Principal | Interest |
|---|---|---|
| 2019 | $ 2,895,000 | $ 3,268,750 |
| 2020 | 840,000 | 1,307,500 |
| 2021 | 895,000 | 1,307,500 |
| 2022 | 950,000 | 1,307,500 |
| 2023 | 1,010,000 | 1,307,500 |
| 2024-2028 | 6,070,000 | 6,537,500 |
| 2029-2033 | 8,260,000 | 6,537,500 |
| Totals | $20,920,000 | $21,573,750 |

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

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

**Arbitrage-Rebate:** Arbitrage is the profit made from investing of every yielding tax-exempt bond proceeds in higher yielding taxable investments. Arbitrage-rebate payments are required if the City earns more on the investments holding Bond proceeds than the bond yield. Each year, the City is required to have an Arbitrage-Rebate analysis for the TIF Revenue Bonds. As of June 30, 2018, there is no arbitrage-rebate liability for the TIFD bonds. The remaining bond proceeds of $500,000 are held CD's which mature in fiscal year 2020.

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

A) CHANGES IN LONG TERM DEBT – Business-Type Activities

| **Business-Type Activities:** | Balance July 1, 2017 | Additions | Decreases | Balance June 30, 2018 | Due within one year |
|---|---|---|---|---|---|
| OPEB Liability | $ 114,766 | $ 0 | $( 20,501) | $ 94,265 | $ 0 |
| Revenue Bonds | 2,207,000 | 0 | (256,000) | 1,951,000 | 130,000 |
| Compensated Absences | 106,114 | 8,298 | ( 0) | 114,412 | 28,603 |
| Net Pension Liability – PERS | 837,763 | 196,585 | ( 0) | 1,034,348 | 0 |
| Landfill Closure / Post-closure | 1,103,657 | 42,977 | ( 0) | 1,146,634 | 0 |
| Total | $4,369,300 | $247,860 | $(276,501) | $4,340,659 | $158,603 |

B) REVENUE BONDS – Business-Type Activities

Annual requirements to amortize proprietary funds debt are illustrated below. In the following chart, the amounts shown as "Retired" include bond payments and the effects of the refinancing on principal balances.

| Business-Type Bonds: | Issue Date | Term | Interest Rate | Original Amt. | Retired | Balance |
|---|---|---|---|---|---|---|
| Sewer Series 2003 | 6/27/2005 | 20 years | 2.25% | $1,247,000 | $( 617,000) | $ 630,000 |
| Sewer Series 2010B | 1/15/2010 | 20 years | 0.75% | 359,300 | ( 147,300) | 212,000 |
| Sewer Series 2010C | 5/11/2010 | 20 years | 3.00% | 557,000 | ( 149,000) | 408,000 |
| Subtotal Sewer Bonds | | | | 2,163,300 | ( 913,300) | $1,250,000 |
| Landfill Series 2009 (Coal Ash) | 6/19/2009 | 15 years | 2.25% | 1,127,000 | ( 600,000) | 527,000 |
| Water Series 2012B | 11/16/2012 | 20 years | 3.00% | 235,411 | ( 61,411) | 174,000 |
| Total Business-Type Bonds | | | | $3,525,711 | $(1,574,711) | $1,951,000 |

| | Sewer Bonds | | Landfill Bonds | | Water Bonds | | Total | |
|---|---|---|---|---|---|---|---|---|
| | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest |
| 2019 | $ 84,000 | $ 14,003 | $ 41,000 | $ 5,929 | $ 5,000 | $ 2,610 | $ 130,000 | $ 22,542 |
| 2020 | 170,000 | 25,193 | 84,000 | 10,462 | 10,000 | 4,995 | 264,000 | 40,650 |
| 2021 | 175,000 | 21,386 | 86,000 | 8,561 | 10,000 | 4,695 | 271,000 | 34,642 |
| 2022 | 177,000 | 17,468 | 88,000 | 6,615 | 11,000 | 4,395 | 276,000 | 28,478 |
| 2023 | 182,000 | 13,477 | 90,000 | 4,624 | 12,000 | 4,050 | 284,000 | 22,151 |
| 2024-2028 | 340,000 | 31,901 | 138,000 | 3,105 | 61,000 | 14,850 | 539,000 | 49,856 |
| 2029-2033 | 122,000 | 3,480 | 0 | 0 | 65,000 | 4,980 | 187,000 | 8,460 |
| Totals | $1,250,000 | $126,908 | $527,000 | $39,296 | $174,000 | $40,575 | $1,951,000 | $206,779 |

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

A) CHANGES IN LONG-TERM DEBT – Two Rivers Authority

| **Two Rivers Authority (A component unit)** | Balance July 1, 2017 | Additions | Decreases | Balance June 30, 2018 | Due within one year |
|---|---|---|---|---|---|
| Revenue Bonds | $27,015,000 | $ 0 | $ 0 | $27,015,000 | $ 9,335,000 |
| Accrued Bond Interest | 16,320,213 | 1,920,025 | 0 | 18,240,238 | 18,240,238 |
| Advance Funding Bondholder Loans | 870,376 | 3,056 | 0 | 873,432 | 873,432 |
| Deferred Payroll | 162,530 | 52,102 | 0 | 214,632 | 214,632 |
| Compensated Absences | 4,068 | 0 | 0 | 4,068 | 4,068 |
| Total | $44,372,187 | $1,975,183 | $ 0 | $46,347,370 | $28,667,370 |

B) REVENUE BONDS – **Two Rivers Authority**

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

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

**Series 2006 Bond Amortization – TRA:** The series 2006 bonds are special, limited obligations payable solely from project revenues. TRA has no taxing power. According to the bond agreement, the City of Hardin has no obligation of any kind with respect to the Series 2006 bonds issued by Two Rivers Authority. These bonds were issued for the terms and payment schedules indicated as follows:

| Two Rivers Authority | Issue Date | Original Term | Amount | Interest Rate | Retired | Balance June 30, 2018 |
|---|---|---|---|---|---|---|
| Series 2006 | 11/2006 | 20 yrs. | $27,015,000 | 6-7.375% | $ 0 | $27,015,000 |

**Bond Default – TRA**

**TRA's Series 2006 revenue bonds are considered to be in default** because the principal and full interest payments have not been paid as scheduled. The last interest payment of $960,012 was made during fiscal year 2009 from money held in reserves. TRA did not make any bond principal or interest payments in fiscal year 2018. The interest due as of June 30, 2018 is reported as accrued bond interest payable. The facility is not housing inmates as of the date of this report.

**Remedy of Default – TRA**

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

**Scheduled Principal and Interest Payments – TRA**

Debt service requirements to maturity for TRA's principal and interest for all bonded long term obligations are illustrated below. Unpaid interest payments are fixed at the amount of the last payment made of $960,013. As of June 30, 2018, nineteen (19) interest payments are in arrears. As long as the bonds remain in default, interest continues to accrue at $960,013 semi-annually instead of the originally scheduled amount.

| Due for the years ended 6/30: | Principal | Interest |
|---|---|---|
| Past Due Portion | $ 8,185,000 | $18,240,238 |
| 2019 Portion | 1,150,000 | 1,920,025 |
| 2019 Subtotal Current Portion | $ 9,335,000 | $20,160,263 |
| 2020 | 1,235,000 | 1,920,025 |
| 2021 | 1,325,000 | 1,920,025 |
| 2022 | 1,420,000 | 1,920,025 |
| 2023 | 1,525,000 | 1,920,025 |
| 2024-2028 | 12,175,000 | 8,640,112 |
| Totals | $27,015,000 | $36,480,475 |

**Revenue Bond Indenture Requirements – TRA**

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

1) Bond Fund – A sum equal to 1/12th of the principal coming due on the Bonds on the next November 1 (if any) and, beginning November 1, 2007. 1/6th of the interest coming due on the Bonds on the next Interest Payment Date. Moneys in the Bond Fund are to be applied to payments of principal and interest due. The Bond Fund is originally established from the proceeds of the Bonds of $2,566,590 together with interest earned on the original Reserve fund balance of $123,695.

2) Operation and Maintenance Costs due and payable within one month are $250,578. Payroll Payable represents $214,632 and the compensated absences balance of $4,068 is the remainder. As of June 30, 2018 the operating account has a balance of $1 available to cover operating costs and liabilities.

3) An amount equal to $20,000 or such lesser amount as is necessary to cause the balance in the Operating Reserve / Repair / Contingency Account to equal $300,000. The Operating Reserve had a $1,174 balance for fiscal year ended June 30, 2018.

4) Any remaining to the Surplus Account. The Surplus account had a $0 balance for fiscal year ended June 30, 2018.

TRA's reserve fund which consists of cash remaining from the original bond proceeds plus interest, totaled $1,174 as of June 30, 2018. TRA's current Bond Fund requirements for principal are $10,570,000 and $20,160,263 for interest. TRA is **not** in compliance with the bond covenants as of June 30, 2018.

**Revenue Bond Covenants – TRA**
Section 6.02(b) of the Trust Indenture requires Net Revenues as of the end of each fiscal year shall be equal to not less and 120% of the amount necessary to pay principal and interest coming due on the Bonds during such fiscal year. As of June 30, 2018 Two Rivers Authority has not met the bond covenants and is considered to be in default.

| | | | |
|---|---|---|---|
| Operating Loss | ($2,399,136) | 2018 Principal and Interest Due | $18,240,237 |
| Add back Accrued Interest Expense | 1,920,025 | | x 120% |
| Add back Depreciation Expense | 393,765 | Required Net Revenues | $21,888,284 |
| Net Revenues | ($ 85,346) | Actual Net Revenues | (400,739) |
| | | Net Revenue Shortage | ($22,289,023 |

**NOTE 16: LANDFILL CLOSURE AND POSTCLOSURE 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, 2018 of $1,146,634 represents the cumulative amount reported to-date based on the remaining available use of 36% of the Class II area and 74% of the Coal Ash area consisting of two coal ash cells, for a combined estimate of 64% 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 $1,275,855 for total estimated costs of $2,422,489. 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 2018 dollars.

**Closure and Post-Closure Costs**

| Closure/Post-Closure Liability | June 30, 2017 | Accrual Amount | June 30, 2018 |
|---|---|---|---|
| Class II Cell | $ 832,883 | $26,854 | $ 859,737 |
| Coal Ash Cell | 270,774 | 16,123 | 286,897 |
| Net Change in Landfill Liability | $1,103,657 | $42,977 | $1,146,634 |

The City expects to close the Class II area landfill in 25 years, in the year 2043, the Coal Ash Cell I in the year 2024, and the Coal Ash Cell II in 14 years after it opens. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. Total Closure and Post-Closure costs are estimated as follows:

| | Closure Costs | Post-Closure Costs | Total |
|---|---|---|---|
| Class II | $1,106,961 | $231,226 | $1,338,187 |
| Coal Ash Cell I | 992,147 | 92,155 | 1,084,302 |
| Total | $2,099,108 | $323,381 | $2,422,489 |

**Class II Area**
The Class II Area consists of the following two areas:
1) 25.0 acres – the originally licensed area and
2) 20.3 acres – expansion area to the south.

In February of 2018, it was estimated the average that the site receives is approximately 13,000 tons per year of solid waste. Based on the aforementioned estimate the remaining capacity of the Class II area is 25 years; estimated closure in year 2043.

**Coal Ash Area Cells**
The Coal Ash area, which was opened in April of 2009, consists of a 39.8 acre expansion area to dispose of coal ash. The expansion area is made up of two coal ash cells. Based on 70,000 tons/year of ash, the Cell I area has a remaining capacity to dispose of the ash for 4.6 years; estimated closure in year 2024, and Cell II has been approved but not developed. This quantity is the average of the actual quantity that has been brought to the site over the past five years. An illustration of the capacity of the coal ash site is as follows:

| | | | |
|---|---|---|---|
| Cell I | Phase I | 17.6 acres | 4.6 years remaining |
| Cell II | Phase II | 22.2 acres | undeveloped site |
| Total | | 39.8 acres | |

**DEQ Inspection**
The City was notified by the Department of Environmental Quality (DEQ) that even though the solid waste and ash disposal areas are regulated under a single license, the costs relating to closure and post-closure care should be kept separate since the maintenance areas are significantly different. In May of 2018, the DEQ noted one minor violation at the time of inspection. All violations noted in fiscal year 2018 were corrected to the DEQ's satisfaction as of July 11, 2018.

| **Landfill Trend Analysis** | 2018 | 2017 | 2016 |
|---|---|---|---|
| Operating Revenue | $ 596,451 | $663,938 | $699,545 |
| Non-operating Revenue (includes $357,000 Coal Board) | 367,738 | 7,743 | 23,344 |
| Total Revenue | 964,189 | 671,681 | 722,889 |
| Operating Expenses | (619,918) | (725,462) | (782,955) |
| Operating Profit (Deficit) | 344,271 | ( 53,781) | ( 60,066) |
| Debt Service Expense | ( 13,230) | ( 15,030) | ( 16,796) |
| Total Profit (Deficit) | $ 331,041 | $( 68,811) | $( 76,862) |

**Irrevocable Trust Contributions**
The City is required by State and federal laws and regulations to make annual contributions to a trust to finance closure and post-closure care. The City is in compliance with these requirements. As of June 30, 2018, restricted cash and investments of $980,074 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.

However, if annual interest earnings and contributions are inadequate or additional post-closure care requirements are determined (due to changes in technology or applicable laws or regulations) these costs may need to be covered by charges to future landfill users or from future tax assessments. City contributions to the irrevocable trust account in fiscal year 2018 totaled $59,445.

**NOTE 17: DEFERRED INFLOWS OF RESOURCES – PROPERTY TAXES**

Deferred inflows of resources are acquisitions of net position by a governmental entity that are applicable to a future reporting period. Deferred Inflows of Resources associated with property taxes receivable is reported on the Balance Sheet for governmental funds but not the Statement of Net Position due to the differences in accounting methods of these two statements.

| **Governmental Funds** | Amount | Reason |
|---|---|---|
| General | $ 194,133 | Taxes / Assessments Receivable |
| Street Maintenance | 87,893 | Taxes / Assessments Receivable |
| TIFD | 2,013,857 | Taxes / Assessments Receivable |
| SID 120 | 1,117,506 | Taxes / Assessments Receivable |
| SID 121 | 405,219 | Taxes / Assessments Receivable |
| Other Governmental Funds | 177,504 | Taxes / Assessments Receivable |
| Total Governmental Activities | $3,996,112 | |

**NOTE 18: PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS) – DEFINED BENEFIT RETIREMENT PLAN (DBRP)**

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

The Total Pension Liability (TPL) minus the Fiduciary Net Position equals the Net Pension Liability (NPL). GASB 68 allows a measurement date of up to 12 months before the employer's fiscal year-end to be utilized to determine the Plan's TPL. The basis for the TPL as of June 30, 2017, was determined by taking the results of the June 30, 2016, actuarial valuation and applying standard roll forward procedures. The roll forward procedure uses a calculation that adds the annual normal cost (also called the service cost), subtracts the actual benefit payments and refunds for the plan year, and then applies the expected investment rate of return for the year. The update procedures are in conformity with Actuarial Standards of Practice issued by the Actuarial Standards Board.

Special Funding
The State of Montana, as the non-employee contributing entity, paid to the Plan, additional contributions that qualify as *special funding*. Employers who have received *special funding* are counties; cities & towns; school districts & high schools; and other governmental agencies.

Not Special Funding

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

The proportionate share of the employer's and the State of Montana's NPL for the measurement date of June 30, 2017 is 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 a particular employer to the total State contributions paid. The City recorded a liability of $1,745,269 and the employer's proportionate share was 0.0896 percent.

| As of the Measurement Date 6/30/2017 For the Reporting Date 6/30/2018 | Net Pension Liability | Percent of Collective NPL |
|---|---|---|
| City Proportionate Share | $1,745,269 | 0.0896% |
| State of Montana Proportionate Share Associated with the City of Hardin | $21,631 | 0.1102% |
| Total | $1,766,900 | 0.1998% |

***Changes in actuarial assumptions and methods - PERS-DBRP***

Effective July 1, 2017, the following assumption changes were used:

- Lowered the interest rate from 7.75% to 7.65%.
- Lowered the inflation rate from 3.00% to 2.75%.
- Updated non-disabled mortality to the RP-2000 Combined Employee and Annuitant Mortality Table projected to 2020 using scale BB, males set back 1 year.
- Increased rates of withdrawal.
- Lowered the merit component of the total salary increase.
- Lowered the wage base component of the total salary increase from 4.00% to 3.50%.
- Decreased the administrative expense load from 0.27% to 0.26%.

Effective July 1, 2017, the following method changes were used:

- Administrative expenses are recognized by an additional amount added to the normal cost contribution rate for the System. This amount will vary from year to year based on the prior year's actual administrative expenses.
- To be consistent with the wage base growth change, the payroll growth assumption for amortization as a level percent of pay was reduced from 4.00% to 3.50%.

***Changes in Benefit Terms – PERS-DBRP***

Effective July 1, 2017, the following benefit changes were:

- The interest rate credited to member accounts increased from 0.25% to 0.77%.
- Lump sum payouts in all systems are limited to the member's accumulated contributions rather than the present value of the member's benefit.

***Changes in Proportionate Share – PERS-DBRP***

Between the measurement date of the collective NPL and the City's reporting date, there were no changes in proportion that would have an effect on the employer's proportionate share of the collective NPL.

***Pension Expense – PERS-DBRP***

At June 30, 2017 measurement date, the City recognized $194,138 for its proportionate share of the Plan's pension expense and recognized grant revenue of $1,153 for the State of Montana proportionate share of the pension expense associated with the employer. Additionally, the City recognized grant revenue of $24,966 for the Coal Severance Tax fund.

| As of the Measurement Date | Pension Expense as of 6/30/2017 |
|---|---|
| The City's Proportionate Share (less Fiscal Year 2018 Employer Contributions) | $105,688 |
| Employer Grant Revenue - State of Montana's Proportionate Share for the City | 24,966 |
| Employer Grant Revenue – State of Montana Coal Tax for the City | 1,153 |
| Total | $131,807 |

***Plan Description – PERS-DBRP***

The PERS-Defined Benefit Retirement Plan (DBRP), administered by the Montana Public Employee Retirement Administration (MPERA), is a multiple-employer, cost-sharing plan established July 1, 1945, and governed by Title 19, chapters 2 & 3, 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.

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

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

***Summary of Benefits – PERS-DBRP***

***Eligibility for Benefit***
***Service Retirement – PERS-DBRP***

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

***Early Retirement – PERS-DBRP***

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

***Second Retirement*** (requires returning to PERS-covered employer or PERS service)

1) Retire before January 1, 2016 and accumulate less than 2 years additional service credit or retire on or after January 1, 2016 and accumulate less than 5 years additional service credit:
   a. A refund of member's contributions plus return interest (currently .77% effective July 1, 2017)
   b. No service credit for second employment;
   c. Start the same benefit amount the month following termination; and
   d. Guaranteed Annual Benefit Adjustment (GABA) starts again in the January immediately following the second retirement.
2) Retire before January 1, 2016 and accumulate at least 2 years of additional service credit:
   a. A recalculated retirement benefit based on provisions in effect after the initial retirement; and
   b. GABA starts on the recalculated benefit in the January after receiving the new benefit for 12 months.
3) Retire on or after January 1, 2016 and accumulate 5 or more years of service credit:
   a. The same retirement as prior to the return to service;
   b. A second retirement benefit as prior to the second period of service based on laws in effect upon the rehire date; and
   c. GABA starts on both benefits in the January after receiving the original and the new benefit for 12 months.

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

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

- Members hired prior to July 1, 2011 – Highest average compensation during any consecutive 36 months
- Members hired on or after July 1, 2011 – Highest average compensation during any consecutive 60 months

***Compensation Cap – PERS-DBRP***

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

***Monthly Benefit Formula – PERS-DBRP***
<u>Members hired prior to July 1, 2011</u>:

- 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.

<u>Members hired on or after July 1, 2011</u>:

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

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

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

***Overview of Contributions - PERS-DBRP***

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

| | Member | | State & Universities | Local Government | | School Districts | |
|---|---|---|---|---|---|---|---|
| Fiscal Year | Hired <7/01/11 | Hired >7/1/11 | Employer | Employer | State | Employer | State |
| 2018 | 7.9% | 7.9% | 8.570% | 8.470% | 0.100% | 8.200% | 0.370% |
| 2017 | 7.9% | 7.9% | 8.470% | 8.370% | 0.100% | 8.100% | 0.370% |
| 2016 | 7.9% | 7.9% | 8.370% | 8.270% | 0.100% | 8.000% | 0.370% |
| 2015 | 7.9% | 7.9% | 8.270% | 8.170% | 0.100% | 7.900% | 0.370% |
| 2014 | 7.9% | 7.9% | 8.170% | 8.070% | 0.100% | 7.800% | 0.370% |
| 2012-2013 | 6.9% | 7.9% | 7.170% | 7.070% | 0.100% | 6.800% | 0.370% |
| 2010-2011 | 6.9% | | 7.170% | 7.070% | 0.100% | 6.800% | 0.370% |
| 2008-2009 | 6.9% | | 7.035% | 6.935% | 0.100% | 6.800% | 0.235% |
| 2000-2007 | 6.9% | | 6.900% | 6.800% | 0.100% | 6.800% | 0.100% |

1. Member contributions to the system of 7.9% are temporary and will be decreased to 6.9% on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and additional member contribution rates.
2. Employer contributions to the system:
   a. Effective July 1, 2014, following the 2013 Legislative Session, PERS-employer contributions increase an additional 0.1% a year and will continue over 10 years through 2014. The additional employer contributions including the 0.27% added in 2007 and 2009, will terminate on January 1 following an actuary valuation that shows the amortization period of the PERS-DBRP has dropped below 25 years and remains below the 25 years following the reduction of both the additional employer and member contribution rates.
   b. Effective July1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.
3. Non Employer Contributions
   a. Special Funding
      i. The State contributes 0.1% of members' compensation on behalf of local government entities.
      ii. The State contributes 0.37% of member's compensation on behalf of school district entities.
   b. Not Special Funding
      i. The State contributed a portion of Coal Severance Tax income and earnings from the Coal Severance Tax fund.

***Stand-Alone Statements – PERS-DBRP***

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

***Actuarial Assumptions - PERS-DBRP***

The TPL used to calculate the NPL was determined by taking the results of the June 30, 2016, actuarial valuation and applying standard roll forward procedures to update the TPL to June 30, 2017. There were several significant assumptions and other inputs used to measure the TPL. The actuarial assumptions used in the June 30, 2017 valuation were based on the results of the last actuarial experience study, dated May 2017, for the six-year period July 1, 2010 to June 30, 2016. Among those assumptions were the following:

- Investment Return (net of admin expenses) 7.65%
- Admin Expense as a % of Payroll 0.26%
- General Wage Growth 3.50% (includes inflation at 2.75%)
- Merit Increases 0% to 6.3%
- Postretirement Benefit Increases:

  i. **Guaranteed Annual Benefit Adjustment (GABA)**

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

  - 3.0% for members hired ***prior to*** July 1, 2007
  - 1.5% for members hired ***between*** July 1, 2007 and June 30, 2013
  - Members hired ***on or after*** July 1, 2013:

  a. 1.5% for each year PERS is funded at or above 90%;
  b. 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and
  c. 0% whenever the amortization period for PERS is 40 years or more.
- Mortality assumptions among contributing members, service retired members and beneficiaries based on RP2000 Combined Employee and Annuitant Mortality Tables projected to 2020 with scale BB, males set back 1 year.
- Mortality assumptions among disabled retirees are based on RP2000 Combined Employee and Annuitant Mortality Tables with no projections.

***Discount Rate - PERS-DBRP***

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 establishes the contractually required rates under Montana Code Annotated. The State contributed 0.10% of salaries paid by local governments and 0.37% paid by school districts. In addition, the State contributed coal severance tax and interest money from the General fund. The interest was contributed monthly and the severance tax was contributed quarterly. 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.

***Target Allocations - PERS-DBRP***

The long-term expected return on pension plan assets was reviewed as part of the regular experience study prepared for the Plan. The most recent analysis, performed for the period of July 1, 2010 through June 30, 2016, was outlined in a report dated May 2017 and can be located on the MPERA website. The long-term expected rate of return on pension plan investments was determined by considering information from various sources, including historical rates of return, rate of return assumptions adopted by similar public sector systems, and by using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return 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, 2017, are summarized below.

| Asset Class | Target Asset Allocation (a) | Real Rate of Return Arithmetic Basis (b) | Long Term Expected Real Rate of Return (a) x (b) |
|---|---|---|---|
| Cash Equivalents | 2.60% | 4.00% | 0.10% |
| Domestic Equity | 36.0% | 4.55% | 1.64% |
| Foreign Equity | 18.0% | 6.35% | 1.14% |
| Fixed Income | 23.4% | 1.00% | 0.23% |
| Private Equity | 12.0% | 7.75% | 0.93% |
| Real Estate | 8.0% | 4.00% | 0.32% |
| Total | 100.0% | | 4.37% |
| Inflation | | | 2.75% |
| Portfolio Return Expectation | | | 7.12% |

The long-term expected nominal rate of return (in the above chart) of 7.12% is an expected portfolio rate of return provided by the Board of Investments (BOI), which differs from the total long-term assumed rate of return of 7.65% in the experience study. The assumed investment rate is comprised of a 2.75% inflation rate and a real rate of return of 4.90%

***Sensitivity Analysis - PERS-DBRP***

The sensitivity of the NPL to the discount rate is shown below. A small change in the discount rate can create a significant change in the liability. The NPL was calculated using a discount rate of 7.65% 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 6.65% | Current Discount Rate 7.65% | 1.0% Increase 8.65% |
|---|---|---|---|
| City of Hardin's Net Pension Liability | $2,541,835 | $1,745,269 | $1,076,612 |

***Summary of Significant Accounting Policies – PERS-DBRP***

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

## NOTE 19: PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS) – DEFINED CONTRIBUTION RETIREMENT 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 and 3, MCA.

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

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

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

At the plan level for the measurement period ended June 30, 2017, 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 300 employers that have participants in the PERS-DCRP totaled $396,650.

**NOTE 20: FIRE DEPARTMENT RELIEF ASSOCIATION (FDRA) DEFINED BENEFIT RETIREMENT PLAN**

A) SUMMARY OF SIGNIFICANT ACOUNTING POLICIES

The Fire Department Relief Association plan (the 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 Positon.* 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.***

***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, 2018, the plan pays benefits to 21 retirees (17 retirees and 4 surviving spouses). For fiscal year 2018 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.

B) GENERAL INFORMATION ABOUT THE PENSION 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 3 times but no more than 5 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, 2018, the City recorded a Total Pension Liability of $123,000. The Pension Liability was measured as of June 30, 2018 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 3 or 5 times the higher of the current and previous year's benefit payments. The City elected to use a factor of 5 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, 2018, the City recognized a Pension Expense of ($4,300) 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 5 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 1 lower and 1 higher than the current multiplier.

| | 1 Decrease | Current | 1 Increase |
|---|---|---|---|
| Multiplier | 4 x Benefits | 5 x Benefits | 6 x Benefits |
| Total Pension Liability | $98,400 | $123,000 | $147,600 |

***Status of the Firemen's Disability and Pension Fund – FDRA***

The City contributes dollars (in addition to) the maximum tax levy to fund the plan. Beginning asset balances, additions, deductions and ending assets in the Volunteer Firemen's Disability and Pension Fund for the ***past five years*** were as illustrated below. The additions and deductions illustrated below are the cash basis transactions in the Volunteer Firefighter's Disability and Pension **Fund**, rather than to the Total Pension Liability.

| Volunteer Firemen's Fund | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Beginning Assets | $185,940 | $167,032 | $151,455 | $135,295 | $123,463 |
| City Contributions | 0 | 25,810 | 24,810 | 24,815 | 22,872 |
| State Contributions | 7,224 | 6,975 | 6,437 | 6,146 | 3,908 |
| Allocated Taxes | 709 | 10,037 | 9,266 | 9,661 | 8,559 |
| Interest | 204 | 686 | 617 | 413 | 486 |
| Total Additions | 8,137 | 43,508 | 41,130 | 41,035 | 35,825 |
| Benefits Paid | (24,200) | (24,600) | (25,553) | (24,875) | (23,993) |
| Net Additions | (16,063) | 18,908 | 15,577 | 16,160 | 11,832 |
| Ending Assets | $169,877 | $185,940 | $167,032 | $151,455 | $135,295 |

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

GASB Statement 75 "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions"* was implemented in fiscal year 2018. GASB 75 supersedes GASB Statement 45. Under this pronouncement, the long-term cost of retirement health care and obligations for other postemployment benefits must be determined on an actuarial basis and reported similar to pension plans.

***Plan Description - OPEB***

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 2-year recalculation requirement of GASB 75.

***Benefits Terms - OPEB***

The OPEB plan provides healthcare insurance benefits for retirees, eligible spouses and dependents as defined in MCA 2-18-704. The City and plan participants do not contribute to the plan other than by paying insurance premiums.

***Employees Covered by Benefit Terms – OPEB***

As of June 30, 2018, the following employees were covered by the benefit terms:

| | |
|---|---|
| Inactive employees (retirees) or beneficiaries currently receiving benefit payments | 1 |
| Inactive employees entitled to but not yet receiving payments | 0 |
| Active Employees | 19 |
| Total participants | 20 |

***Total OPEB Liability - OPEB***

The City's total OPEB liability is $154,532 and was calculated using the alternative measurement method as of the measurement date of June 30, 2018. The OPEB calculation can be utilized for two years. Therefore, the City expects to report the same total OPEB liability next fiscal year.

***Annual OPEB Cost and OPEB Obligation – OPEB***

The following table shows the components and allocation of the City's OPEB obligation.

| | | | ---------- Proprietary Funds ---------- | | | |
|---|---|---|---|---|---|---|
| | Total OPEB | Governmental | Water | Sewer | Solid Waste | Total Proprietary |
| Beginning Total OPEB Liability | $179,322 | $64,556 | $35,864 | $30,485 | $48,417 | $114,766 |
| Prior Period Adjustment | ( 24,790) | ( 4,289) | ( 3,412) | ( 4,215) | (12,874) | (20,501) |
| Adjusted Beginning OPEB Liability | 154,532 | 60,267 | 32,452 | 26,270 | 35,543 | 94,265 |
| Interest | 5,380 | 1,937 | 1,076 | 915 | 1,452 | 3,443 |
| Service Cost | 118,195 | 42,550 | 23,639 | 20,093 | 31,913 | 75,645 |
| Benefit Payments | (123,575) | (44,487) | (24,715) | (21,008) | (33,365) | (79,088) |
| Net Change in OPEB Liability | ( 0) | ( 0) | ( 0) | ( 0) | ( 0) | ( 0) |
| Ending Total OPEB Liability | $154,532 | $60,267 | $32,452 | $26,270 | $35,543 | $ 94,265 |

***Actuarial Assumptions and Other Inputs - OPEB***

The total OPEB liability as of June 30, 2018 was determined using the following assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified. The rates and assumptions are based on historical data of the City.

- Average age of retirement 61.7
- Expected retirement age. 61.7
- 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%
- The percentage of employees expected to remain on the health plan after retirement was estimated to be 5%.
- Change in discount rate since the prior measurement date. 0%
- Healthcare cost trend rate 5% increase over the next 10 years
- 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.

***Sensitivity of the Total OPEB Liability to Changes in the Discount Rate – OPEB***

The following information present the total OPEB liability reported by the City as well as how that liability would change if the discount rate used to calculate the OPEB liability were decreased or increased by 1 percent:

| | 1% Decrease | Discount Rate | 1% Increase |
|---|---|---|---|
| Discount Rate | (2.00%) | (3.00%) | (4.00%) |
| Total OPEB Liability | $159,357 | $154,532 | $150,500 |

***Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rate – OPEB***

The following table presents the total OPEB liability reported by the City as well as how that liability would change if the healthcare cost rate used in projecting benefit payments were to decrease or increase by 1 percent:

| | 1% Decrease | Trend Rates | 1% Increase |
|---|---|---|---|
| Healthcare Cost Trend Rate | (4.00%) | (5.00%) | (6.00%) |
| Total OPEB Liability | $132,725 | $154,532 | $177,514 |

***OPEB Expense***

No OPEB expense was recognized for the year ended June 30, 2018.

***Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB***

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.

***Changes between the measurement date and the date of this report that are expected to have a significant effect on the OPEB liability – OPEB.*** None

***Changes in assumptions since the prior measurement date – OPEB.*** None

***Changes in benefit terms since prior measurement date – OPEB.***
There are no changes in benefit terms that affected the measurement of the Total OPEB liability since the prior measurement date.

***Changes in discount rate since the prior measurement date – OPEB.*** None

***Difference between expected and actual experience in the measurement of the Total OPEB liability – OPEB.*** None

**NOTE 22: RISK MANAGEMENT**

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

***Employee Health Insurance*** - The City has joined with other cities, towns and counties in Montana and Wyoming to provide health benefit coverage for employees and their dependents through the ***Joint Powers Trust*** (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.

***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.

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

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

**NOTE 24: DEFICIT FUND BALANCES**

The fund deficits shown below resulted from interfund loans to create SID 120 and SID 121. They are expected to be corrected through normal operations by fiscal year 2034 for SID 120 and by fiscal year 2033 for SID 121 as the loans to taxpayers are repaid.

| Fund | Balance | How to Correct |
|---|---|---|
| SID 120 | $(1,097,148) | Collect tax assessments |
| SID 121 | (400,607) | Collect tax assessments |
| Total | $(1,497,755) | |

**NOTE 25: NONRECIPROCAL INTERFUND ACTIVITIES (INTERFUND TRANSFERS)**

| From | Amount | To | Purpose |
|---|---|---|---|
| General Fund | $ 16,939 | Street Maintenance Fund | Part of 25% Portion of General Fund contribution |
| General Fund | 50,000 | Fire Department Fund | Budget Transfer |
| Local Government Studies | 10,666 | General Fund | Residual Equity Transfer – To Close Fund |
| Total Governmental Funds | $ 77,605 | | |
| Proprietary Funds | | | |
| Solid Waste Fund | $ 30,000 | Landfill Fund | Budget Transfer |

**NOTE 26: PRIOR PERIOD ADJUSTMENTS**

**A) Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds:**

| Governmental Funds | Amount | Reason |
|---|---|---|
| Capital Improvements Fund | ($42,000) | Reclassify land held for re-sale as a capital asset. |
| Total Governmental Funds | ($42,000) | |

**B) Statement of Activities**

| Governmental Activities: | Amount | Reason |
|---|---|---|
| Capital Assets | $ 42,000 | Reclassify land held for re-sale as a capital asset. |
| Capital Improvements Fund | (42,000) | Reclassify land held for re-sale as a capital asset. |
| OPEB Liability | 4,289 | Implementation of GASB 75 for OPEB |
| Total Governmental Activities | $ 4,289 | |

| **C) Business-Type Activities – Proprietary Funds** | Amount | Reason |
|---|---|---|
| Business-Type Activities – Water Fund | $ 3,412 | Implementation of GASB 75 for OPEB |
| Business-Type Activities – Sewer Fund | 4,215 | Implementation of GASB 75 for OPEB |
| Business-Type Activities – Solid Waste Fund | 2,726 | Implementation of GASB 75 for OPEB |
| Business-Type Activities – Landfill Fund | 10,148 | Implementation of GASB 75 for OPEB |
| Business-Type Activities – Landfill Fund | ( 499,129) | Capital Asset - Change in lifetime of Coal Ash Cell |
| Total Business-Type Activities | ($478,628) | |
| Total Prior Period Adjustments – Primary Government | $(474,339) | |

**Landfill Fund Capital Assets Adjustment:** A prior period adjustment was recognized for prior years' depreciation of $499,219 due to the redetermination of the lifetime of the coal cell in the Landfill Fund. It was brought to the City's attention that the coal ash landfill site, developed in 2009, actually consisted of two cells with a combined lifetime of 26 years, rather than one large cell. The lifetime of the cell on the capital asset listing was estimated using the entire lifetime of both cells of 26 years rather than its proportionate share of 11.4 years.

**D) Component Unit – Two Rivers Authority**

| | |
|---|---|
| Client edited prior year transactions causing Accounts Payable balances to be improperly eliminated | $21,000 |
| Statement of Net Position did not match Stmt. Of Activities | (23,667) |
| Total Component Unit – Two Rivers Authority | $ 2,667 |

**NOTE 27: SUBSEQUENT REPORTABLE EVENTS**

Subsequent events were evaluated through July 1, 2019, which is the date of this report. Changes in fair value from the measurement date of June 30, 2018 to July 1, 2019, which is the date of this report, are immaterial. The following subsequent events occurred since June 30, 2018.

# City of Hardin

**Land Held for Re-Sale**
Land held for re-sale is listed on the Governmental assets at $100,528. The City sold all of the land held for re-sale during fiscal year 2019 for $35,100 resulting in loss of ($65,428).

**Tax Deed Proceedings**
SID 120 – Delinquent principal and delinquent interest totaled $10,604 as of June 30, 2018 which was written-off in fiscal year 2019. A taxpayer stopped paying taxes on an empty lot in SID 120. The County has initiated tax deed proceedings for the past 2 years without success. The lot is in the Big Horn County's name as of the July 1, 2019.

**Water Revenue Bond**
The City paid off the revenue bond in the Water fund in October of 2018. The principal amount was $174,000 and interest fees were $1,552.

**Industrial Park Events**
Big Horn Data Hub (server farm) is expected to open in July of 2019 in the Industrial Park on Rocky Mountain Power company land. The buildings and improvements belong to the server farm.

**Other Events**
The City agreed to sponsor the Big Horn County Memorial Hospital's $400,000 federal CDBG grant. The City will act as a pass-through entity for the Hospital and will monitor the grant.

Shopko declared bankruptcy and has closed the local store.

# Two Rivers Authority

An agreement has been made between the BIA and Two Rivers Authority for the lease and operation of the detention facility.

Bondholders contributed an additional $46,500 since June 30, 2018 for maintenance and repairs to the detention facility in preparation for the BIA to lease and operate it.

The Board Chairman, Jon D. Matovich resigned from the board on May 24, 2019 leaving only two board members. Another board member has not been appointed from the date of the resignation of Mr. Matovich to the date of this report.

City of Hardin
Big Horn County
Hardin, Montana

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
(Budget and Actual)
MAJOR GOVERNMENTAL SPECIAL REVENUE FUNDS
For the Fiscal Year Ended June 30, 2018

| | General Fund | | | Street Mtce. Fund | | |
|---|---|---|---|---|---|---|
| | Original Budget | Final Budget | Actual | Original Budget | Final Budget | Actual |
| **REVENUES:** | | | | | | |
| Taxes/Assessments | $ 492,590 | $ 492,590 | $ 451,023 | $ 292,478 | $ 292,478 | $ 262,782 |
| Investment Earnings | 3,600 | 3,600 | 5,290 | 800 | 800 | 1,438 |
| Licenses and Permits | 45,500 | 45,500 | 42,832 | 500 | 500 | 500 |
| Fines and Forfeitures | 70,651 | 70,651 | 82,048 | - | - | - |
| Miscellaneous | 2,100 | 2,100 | 31,936 | - | - | 114 |
| Intergovernmental Revenue | 702,881 | 702,881 | 704,931 | - | - | - |
| Charges for Services | 2,300 | 2,300 | 1,482 | - | - | 7,039 |
| Total Revenues | 1,319,622 | 1,319,622 | 1,319,543 | 293,778 | 293,778 | 271,874 |
| **EXPENDITURES:** | | | | | | |
| General Government | 537,204 | 537,204 | 421,863 | - | - | - |
| Public Safety | 576,286 | 576,286 | 548,103 | - | - | - |
| Public Works | 132,000 | 132,000 | 6,240 | 382,712 | 382,712 | 279,231 |
| Public Health | 38,063 | 38,063 | 31,740 | - | - | - |
| Culture & Recreation | 158,778 | 158,778 | 114,594 | - | - | - |
| Housing & Community Development | 146,900 | 146,900 | 1,827 | - | - | - |
| Miscellaneous | 6,000 | 6,000 | - | - | - | - |
| Total Expenditures | 1,595,231 | 1,595,231 | 1,124,368 | 382,712 | 382,712 | 279,231 |
| Current Capital Outlay | - | - | 124,957 | 31,000 | 31,000 | 1,901 |
| Debt Service | - | - | - | - | - | - |
| Total Expenditures | 1,595,231 | 1,595,231 | 1,249,325 | 413,712 | 413,712 | 281,132 |
| **EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES** | (275,609) | (275,609) | 70,218 | (119,934) | (119,934) | (9,258) |
| **OTHER FINANCING SOURCES/USES** | | | | | | |
| Sale of Capital Assets | - | - | - | - | - | - |
| Fund Transfers In | 13,332 | - | 10,665 | 50,000 | 50,000 | 16,939 |
| Fund Transfers (Out) | (50,000) | - | (66,939) | - | - | - |
| **NET CHANGES IN FUND BALANCES** | (312,277) | (275,609) | 13,944 | (69,934) | (69,934) | 7,681 |
| **FUND BALANCES:** | | | | | | |
| BEGINNING FISCAL YEAR FUND BALANCES | | | 1,652,129 | | | 395,857 |
| ENDING FISCAL YEAR FUND BALANCES | | | $ 1,666,074 | | | $ 403,538 |

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

NOTES TO THE BUDGET AND ACTUAL SCHEDULE

**NOTE 1: BUDGETS**

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

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

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

(1) By the first Monday in August, the County Assessor transmits a statement of the assessed valuation and taxable valuation of all property in the City's borders.

(2) Before the later of the first Thursday (after the first Tuesday) in September, or within 30 calendar days of the receipt of the Certified Taxable Valuations from the County Assessor, the City Council must meet to legally adopt the final budget. The final budget for the General Fund is fund total only.

(3) Once adopted, the budget can be amended by subsequent Council action. An increase of the total budget of a given fund requires the adoption of an amended budget in accordance with State statutes.

(4) According to State statutes, the expenditures of a budgeted fund may not legally exceed the adopted budget.

(5) At the end of a fiscal year, unencumbered appropriations lapse unless specifically obligated by the City.

# City Of Hardin

## Schedule of Proportionate Share of the Net Pension Liability - PERS

For the Fiscal Year Ended June 30 Determined as of the Measurement Date

| | PERS | | | |
|---|---|---|---|---|
| As of the ***Measurement*** Date | 2017 | 2016 | 2015 | 2014 |
| Employer's Proportion of the Net Pension Liability (%) | 0.0896% | 0.0809% | 0.0788% | 0.0884% |
| Employer's Net Pension Liability (amount) | 1,745,269 | 1,378,841 | 1,101,277 | 1,100,879 |
| State's Proportion of the Net Pension Liability (amount) | 21,631 | 16,848 | 13,527 | 13,443 |
| Total Pension Liability (TPL) | 1,766,900 | 1,395,689 | 1,114,804 | 1,114,323 |
| Employer's Covered Payroll | 1,111,627 | 969,627 | 919,407 | 1,005,257 |
| Employer's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll | 157.00% | 142.20% | 119.78% | 111.22% |
| Plan Fiduciary Net Position (FNP) as a percentage of the Total Pension Liability (TPL) | 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 displays as they become available.

## Schedule of Contributions - PERS

For the Fiscal Year Ended June 30 Determined for the Reporting Date

| | PERS | | | |
|---|---|---|---|---|
| For the ***Reporting*** Date | 2018 | 2017 | 2016 | 2015 |
| Contractually Required Defined Benefit Contributions | 88,738 | 93,044 | 81,047 | 75,763 |
| Plan Choice Rate Required Contributions | 0 | 0 | 901 | 1,452 |
| Contributions in Relation to the Contractually Required Contributions | 88,738 | 93,044 | 81,948 | 77,215 |
| Contribution Deficiency (Excess) | 0 | 0 | 0 | 0 |
| Employer's Covered Payroll | 1,047,675 | 1,111,627 | 969,627 | 919,407 |
| Contributions as a Percentage of Covered Payroll. | 8.47% | 8.37% | 8.45% | 8.40% |

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 displays as they become available.

NOTE: The years for these two Schedules are different due to the difference between the Measurement Date and the Reporting Date.

NOTES TO SCHEDULES of PROPORTIONATE SHARE of NPL and CONTRIBUTIONS - PERS

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

***Changes in Benefit Terms***
The following changes to the plan provisions were made as identified:

**2015 Legislative Changes:**
General Revisions – House Bill 101, effective January 1, 2016

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

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

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

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

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

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

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

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

Revise DC Funding Laws – House Bill 107, effective July 1, 2015
***Employer Contributions and the Defined Contribution Plan – for PERS and MUS-RP***
The PCR was paid off effective March 2016 and the contributions of 2.37%, 0.47%, and the 1.00% increase previously directed to the PCR are now directed to the Defined Contribution or MUS-RP member's account.

**2017 Legislative Changes:**
General Revisions – House Bill 101, effective July 1, 2017

**Working Retiree Limitations** – for PERS
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.

**Terminating Employers – Recovery of actuary costs** – for PERS
Employers who terminate participation in PERS must pay the actuarial liability associated with that termination. Starting July 1, 2017, the terminating employer must also pay for the cost of the actuarial study used to determine that liability.

**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 lump-sum payment.

**Family Law Orders**

If a Family Law Order (FLO) is silent regarding the apportionment of post-retirement benefit adjustments such as the Guaranteed Annual Benefit Adjustment (GABA), the FLO is presumed to require apportionment of the post-retirement benefit adjustment in the same percentage as the monthly retirement benefit is apportioned.

**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 they reach 65. Effective July 1, 2017, these individuals will be eligible for a disability benefit until they reach 70, thus ensuring the same 5-year period of time 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.

**PERS Statutory Appropriation – House Bill 648, effective July 1, 2017**

Revenue from coal severance taxes and interest income from the coal severance tax permanent fund previously statutorily-appropriated to the PERS defined benefit trust fund will be replaced with the following statutory appropriations:

1. FY2018 - $31.386 million
2. FY2019 - $31.958 million
3. Beginning July 1, 2019 through at least June 30, 2025, 101% of the contribution from the previous year from the general fund to the PERS defined benefit trust fund, as follows:
    a. FY2020 - $32.277 million
    b. FY2021 - $32.6 million
    c. FY2022 - $32.926 million
    d. FY2023 - $33.255 million
    e. FY2024 - $33.588 million
    f. FY2025 - $33.924 million

## Changes in Actuarial Assumptions and Methods:

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

The following Actuarial Assumptions are from the June 30, 2017 actuarial valuation:

| | |
|---|---|
| General Wage Growth | 3.50% Includes inflation at 2.75% |
| Investment Rate of Return | 7.65%, net of pension plan investment expense, and including inflation at 2.75% |
| Merit Salary Increase | 0% to 6.30% |
| Asset Valuation Method | 4-year smoothed market |
| Actuarial Cost Method | Entry Age Normal |
| Amortization Method | Level percentage of payroll, open |
| 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 |
| Admin Expense as a % 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.

# City of Hardin

SCHEDULE OF TOTAL PENSION LIABILITY
**FIRE DEPARTMENT RELIEF ASSOCIATION (FDRA) DEFINED BENEFIT PENSION PLAN**
For the Reporting Date of June 30

| Total Liability as of the Reporting Date June 30, | **2018** | **2017** | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Employer's Total Pension Liability | $123,000 | $127,300 | | | | | | |
| Employer's Covered-Employee Payroll, if applicable (All are volunteers) | N/A | N/A | | | | | | |
| Total Liability (as a percentage of covered-employee payroll), if applicable | N/A | N/A | | | | | | |

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

SCHEDULE OF CHANGES IN TOTAL PENSION LIABILITY
**FIRE DEPARTMENT RELIEF ASSOCIATION (FDRA) DEFINED BENEFIT PENSION PLAN**
For the Reporting Date of June 30

| For the Reporting date of June 30, | **2018** | **2017** | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Total Pension Liability - Beginning | $127,300 | $0 | | | | | | |
| Service Cost | 19,481 | 24,600 | | | | | | |
| Interest on Total Pension Liability | 819 | 686 | | | | | | |
| Difference between expected and actual experience in measurement of TPL | (400) | 0 | | | | | | |
| Benefit Payments | (24,200) | (24,600) | | | | | | |
| Other Changes – Revenue (if individually significant) | 0 | 126,614 | | | | | | |
| Net Change in Total Pension Liability | (4,300) | 127,300 | | | | | | |
| Total Pension Liability - Ending | $123,000 | $127,300 | | | | | | |

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

SCHEDULE OF CONTRIBUTIONS
**FIRE DEPARTMENT RELIEF ASSOCIATION (FDRA) DEFINED BENEFIT PENSION PLAN**
For the Reporting Date June 30,

| For the Reporting Date of June 30, | **2018** | **2017** | | | | | | |
|---|---|---|---|---|---|---|---|---|
| City Contributions | $0 | $25,810 | | | | | | |
| State Contributions | 7,224 | 6,975 | | | | | | |
| Allocated Taxes | 675 | 10,037 | | | | | | |
| Total Contributions | $7,899 | $42,822 | | | | | | |

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

Neither the City nor the State contributions shown above are required pension contributions. The State contributes to the fund as required by MCA 19-18-512 for the use and benefit of the firemen's relief association without specifying whether the funds are part of pension contributions.

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

NOTES TO SCHEDULES of FIRE DEPARTMENT RELIEF ASSOCIATION PENSION PLAN

**NOTE 1: FIRE DEPARTMENT RELIEF ASSOCIATION (FDRA)**

The Fire Department Relief Association pension plan is reported according the 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.

**SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS**
For the Reporting Date of June 30 Each Fiscal Year

| **Total OPEB Liability** | **2018** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| OPEB Liability – Beginning | $179,322 | | | | | | | |
| Prior Period Adjustment | (24,790) | | | | | | | |
| Adjusted OPEB Liability – Beginning | 154,532 | | | | | | | |
| | | | | | | | | |
| Service Cost | 118,195 | | | | | | | |
| Interest on Total OPEB Liability | 5,380 | | | | | | | |
| Change in benefit terms | 0 | | | | | | | |
| Difference between expected and actual experience in the measurement of the Total OPEB Liability | 0 | | | | | | | |
| Changes of assumptions or other inputs | 0 | | | | | | | |
| Benefit Payments | (123,575) | | | | | | | |
| Net Change in Total OPEB Liability | 0 | | | | | | | |
| OPEB Liability – Ending | 154,532 | | | | | | | |
| | | | | | | | | |
| Covered-Employee Payroll | 834,588 | | | | | | | |
| Total OPEB Liability as a Percentage of Covered-Employee Payroll | 18.5% | | | | | | | |

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

## <u>NOTES TO SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY</u>

### NOTE 1: OTHER POST-EMPLOYMENT BENEFITS (OPEB)

The Total OPEB liability is reported because there is no special funding situation. There is no fiduciary proportionate share. There are no contributions to the plan other than insurance premiums. The plan is an implicit rate subsidy only. The plan is funded on a pay-as-you-go basis. The OPEB liability was calculated using the alternative measurement method which is allowed because there are fewer than 100 plan participants. There is no Fiduciary Net Position because there are no plan assets. No Trust has been established that meets the criteria in paragraph 4 of GASB 75.

**Changes in Benefit Terms:**
There were no changes in benefit terms throughout the period illustrated.

**Changes in Assumptions**
There were no changes in assumptions throughout the period illustrated.

STATEMENT OF NET POSITION - COMBINED PROPRIETARY FUNDS
As of June 30, 2018

| | Combined Solid Waste Fund | | |
|---|---|---|---|
| | Solid Waste Fund | Landfill Fund | Total Solid Waste Fund |
| **ASSETS:** | | | |
| **Current Assets** | | | |
| Cash & Cash Equivalents | $ 372,493 | $ 267,231 | $ 639,724 |
| Assessments Receivable | 281,783 | - | 281,783 |
| Accounts Receivable | - | 83,799 | 83,799 |
| Interest Receivable | 1,951 | 1,201 | 3,152 |
| Inventories | 6,692 | 3,994 | 10,686 |
| Total Current Assets | 662,920 | 356,225 | 1,019,144 |
| **Noncurrent Assets** | | | |
| Restricted Cash & Investments | 300,000 | 1,103,793 | 1,403,793 |
| Land | - | 320,716 | 320,716 |
| Buildings | 20,927 | 118,709 | 139,636 |
| Improvements other than Buildings | - | 1,980,909 | 1,980,909 |
| Machinery & Equipment | 896,380 | 1,905,052 | 2,801,432 |
| Less: Accumulated Depreciation | (698,672) | (2,395,083) | (3,093,755) |
| Total Assets | 1,181,555 | 3,390,320 | 4,571,876 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | | |
| Deferred Outflows of Resources - Pensions | 36,197 | 66,531 | 102,728 |
| **LIABILITIES:** | | | |
| **Current Liabilities** | | | |
| Accounts Payable | 3,757 | 9,039 | 12,796 |
| Matured Interest on Bonds Payable | - | 41,000 | 41,000 |
| Customer Deposits | - | 4,700 | 4,700 |
| Payable to Other Funds | - | 300 | 300 |
| Other Accrued Payables | 2,038 | 3,429 | 5,467 |
| Compensated Absences | 6,148 | 5,810 | 11,957 |
| Total Current Liabilities | 11,943 | 64,277 | 76,220 |
| **Noncurrent Liabilities** | | | |
| Compensated Absences | 18,443 | 17,429 | 35,871 |
| Revenue Bonds Payable | - | 486,000 | 486,000 |
| Closure/postclosure Care Costs | - | 1,146,634 | 1,146,634 |
| Net Pension Liability | 141,058 | 259,271 | 400,329 |
| Total OPEB Liability (implicit rate subsidy) | 16,999 | 18,544 | 35,543 |
| Total Noncurrent Liabilities | 176,500 | 1,927,878 | 2,104,378 |
| Total Liabilities | 188,443 | 1,992,155 | 2,180,598 |
| **DEFERRED INFLOWS OF RESOURCES:** | | | |
| Deferred Inflows - Pensions | 1,151 | 2,116 | 3,268 |
| Total Deferred Inflows of Resources | 1,151 | 2,116 | 3,268 |
| **FUND BALANCES / NET POSITION:** | | | |
| Net Investment in Capital Assets | 218,635 | 1,403,303 | 1,621,938 |
| Restricted: | | | |
| Debt Service | - | 94,919 | 94,919 |
| Replacement & Depreciation | 300,000 | 24,100 | 324,100 |
| Unrestricted | 509,522 | (59,741) | 449,781 |
| Total Fund Balances / Net Position | $ 1,028,158 | $ 1,462,580 | $ 2,490,738 |
| Total Liabilities, Deferred Inflows & Fund Bal. | $ 1,217,752 | $ 3,456,852 | $ 4,674,603 |

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN NET POSITION - COMBINED PROPRIETARY FUNDS

For the Year Ended June 30, 2018

| | Proprietary Funds | | |
|---|---|---|---|
| | Solid Waste Fund | Landfill Fund | Total Solid Waste Fund |
| **REVENUES:** | | | |
| Charges for Services | $ 417,423 | $ 596,351 | $ 1,013,774 |
| Special Assessments | 3,691 | - | 3,691 |
| Miscellaneous Income | 98 | 100 | 198 |
| Total Revenues | 421,211 | 596,451 | 1,017,663 |
| **EXPENDITURES / OPERATING EXPENSES:** | | | |
| Personal Services | 162,632 | 238,903 | 401,534 |
| Supplies | 38,000 | 58,065 | 96,066 |
| Purchased Services | 11,729 | 79,334 | 91,063 |
| Fixed Charges | 6,382 | 60,724 | 67,106 |
| Loss on Capital Assets | - | 40,000 | 40,000 |
| Depreciation | 74,839 | 214,158 | 288,997 |
| Total Operating Expenses | 293,581 | 691,184 | 984,765 |
| **EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES / OPERATING INCOME (LOSS)** | 127,630 | (94,733) | 32,897 |
| **OTHER FINANCING SOURCES (USES) / NONOPERATING REVENUES (EXPENSES)** | | | |
| Fund Transfers In | - | 30,000 | 30,000 |
| Fund Transfers (Out) | (30,000) | - | (30,000) |
| Intergovernmental Revenue | 2,111 | 361,380 | 363,491 |
| Interest Revenue | 3,102 | 6,357 | 9,459 |
| Debt Service Interest Expense | - | (13,230) | (13,230) |
| Total Other Financing Sources (Uses)/Nonoperating Rev (Exp) | (24,787) | 384,508 | 359,720 |
| **NET CHANGES IN FUND BALANCES/ NET POSITION** | 102,843 | 289,775 | 392,617 |
| **FUND BALANCES / NET POSITION** | | | |
| Beginning of the Year | 922,589 | 1,661,786 | 2,584,375 |
| Prior Period Adjustments | 2,726 | (488,981) | (486,255) |
| End of the Year | $ 1,028,158 | $ 1,462,580 | $ 2,490,738 |
| End of the Year | $ 1,028,158 | $ 1,462,580 | $ 2,490,738 |

**Tripp & Associates**

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Hardin as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise City of Hardin's basic financial statements, and have issued our report thereon dated July 1, 2019.

We were engaged to audit, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the aggregate discretely presented component unit as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the component unit's basic financial statements and have issued our report thereon dated July 1, 2019. Our report disclaims an opinion on such financial statements because of the lack of audit evidence provided to us to support the majority of the revenues and expenditures reported in the component unit's financial statements; and the lack of board and management participation in the transactions reported in the component unit's financial statements. 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.

**Internal Control over Financial Reporting**

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses to be material weaknesses; items 2018-002, 2018-005, 2018-006, 2018-008 and 2018-009.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Responses to be significant deficiencies; item 2018-007.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether City of Hardin's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2018-001, 2018-003 and 2018-004.

**City of Hardin's Response to Findings**

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

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

*Tripp & Associates*

**T**ripp & **A**ssociates
Billings, Montana
July 1, 2019

# *CITY OF HARDIN*

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

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

**Condition:** This finding was that the City of Hardin was ***not in compliance*** with its Tax Increment Financing District revenue bond agreement concerning bond principal and interest payments.
**Recommendation:** The financial statements of The City of Hardin properly reflect that the City is not in compliance with the TIFD revenue bond requirements. The auditor recommended that the City look into all available alternatives for meeting the revenue bond requirements. We recommend that the City continue to accrue a liability for interest payments missed.
**Current Status:** This is still a finding for fiscal year 2018. It is reported as finding number 2018-001.

**FINDING NUMBER 2017-002 – FIREMEN'S DISABILITY AND PENSION - FIDUCIARY FUND (:**

**Condition:** The City ***is not in compliance*** with the GASB 73 requirement that the Firemen's Pension liability be calculated by an actuary. GASB 73 does not allow for alternative measurement methods. However, the City ***is in compliance with calculating the Firemen's Pension liability according to MCA 19-18-503*** which was issued after GASB 73 by State legislation. Although, the City calculated the Firemen's Disability and Pension according to MCA, it was not reported on the Annual Financial Report.
**Recommendation:** The auditor recommended that the City comply with the GASB 73 requirement to hire an actuary to calculate the Firemen's Pension liability and report the Firemen's Pension liability on the Annual Financial Report (AFR).
**Current Status:** This is not a finding for fiscal year 2018.

# *TWO RIVERS AUTHORITY*

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

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

**Condition:** This finding was that TRA was ***not in compliance*** with the bond agreement concerning bond principal and interest payments, nor in maintaining the proper reserve account balance. Interest payments have not been made since November of 2008. TRA has never made any bond principal payments which were scheduled to begin in November of 2008. The required bond reserves as required by the revenue bond agreement have not been maintained. As of June 30, 2017, the reserve account totaled $6,016 and the operating cash account totaled $38. Current liabilities, other than bond requirements totaled $193,282. Bondholder advances totaled $870,376.
**Recommendation:** The auditor recommended that TRA review all alternatives available to come into compliance with this revenue bond covenant or begin foreclosure proceedings.
**Current Status:** This is still a finding for fiscal year 2018. It is reported as finding number 2018-003.

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

**Condition:** This finding was that TRA was ***not in compliance*** with wage and hour laws. An employee was not paid according to the salary agreement. Instead, the employee was paid a portion of his agreement and the balance was booked as a Deferred Payroll liability. The deferred payroll liability increased by $37,102 in fiscal year 2018. As of June 30, 2017, the Deferred Payroll liability totaled $117,427. This amount does not include vacations payable of $5,059.
**Recommendation:** The auditor recommended that the salary agreement with the Executive Director be modified to comply with Wage and Hour laws because TRA does not have sufficient revenues to pay this employee the salary that is being accrued.
**Current Status:** This is still a finding for fiscal year 2018. It is reported as finding number 2018-004.

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

**Condition:** This finding was a ***material Weakness in internal controls*** over assets, liabilities, revenues and expenditures.

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

**Recommendation:** The auditor recommended that TRA's Board and management work more closely with the US Bank Trustee and the bondholder representative to allow sufficient involvement for Two Rivers Authority's management to employ proper internal controls over the transactions in accounts bearing their name.
**Current Status:** This is still a finding for fiscal year 2018. It is reported as finding number 2018-005.

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

**Condition:** This finding was a ***material weakness in internal controls*** over revenues and expenditures. Supporting documentation of reported expenditures of $148,726 was not provided as audit evidence.
**Recommendation:** The auditor recommended that the US Bank Trustee provides the supporting documentation of transactions reported on Two Rivers Authority's bank statements for Board approval and involvement in the transactions to allow TRA's Board and management to employ proper internal controls over the transactions reported in their financial statements.
**Current Status:** This is still a finding for fiscal year 2018. It is reported as finding number 2018-006.

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SCHEDULE OF FINDINGS AND RESPONSES

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

***Financial Statements:***
The auditor, Tripp & Associates, has issued an *unmodified* opinion on the City of Hardin's financial statements as of and for the year ended June 30, 2018. The auditor, Tripp & Associates, has issued a *disclaimer of opinion* on the component unit, Two Rivers Authority's financial statements as of and for the year ended June 30, 2018.

***Internal Control over financial reporting:***

- Material Weaknesses identified? _X__YES ____ NO
- Significant Deficiencies identified? _X___ YES ____NONE REPORTED
- Noncompliance material to financial statements noted? _X__YES ____NO

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

## *CITY OF HARDIN*

**FINDING NUMBER 2018-001 – REVENUE BONDS REQUIREMENTS NOT MET (Repeat finding 2016-003; 2017-001):**

***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 $2,105,000. Accrued interest in arrears as of June 30, 2018 totaled $1,961,250. 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 become 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 payments accrued. The City will also continue to remit taxes collected for the Tax Increment District (TIFD) to the trustee to pay what amounts can be paid. This totaled $2,615,000 through June 30, 2018. An additional $394,606 was paid in FY 2019.*

**FINDING NUMBER 2018-002 – LANDFILL COAL ASH CELL WITH LIFETIME ERROR:**

***Criteria:*** GAAP requires that adjustments to capital asset estimated lifetimes are made when the circumstances change sufficiently to cause the previous estimated lifetime to be inappropriate.
***Condition:*** This is a ***material weakness*** in internal controls. We believe that it is an isolated instance. The life of the coal ash landfill cell reported on the City's capital asset listing has been depreciated over a 26 year lifetime when it should have been 11.4 years. There are two coal ash cells within the coal ash landfill site with a total life of 26 years. However, only one of the two coal ash cells has been developed as a coal ash landfill. The undeveloped coal ash landfill cell is expected to have a lifetime of 14.3 years once it is developed. At this time the undeveloped coal ash landfill cell sits idle.
***Context:*** It was brought to the City's attention that the coal ash landfill site developed in 2009 consisted of two cells with a combined lifetime of 26 years. The cell listed on the City's capital asset listing was given the lifetime of the entire site of 26 years rather than its proportionate share of 14.3 years. The coal ash landfill site has undeveloped land that is designated and approved for a coal ash cell with an estimated lifetime of 11.4 year.

***Effect***: Depreciation for each year since 2009 has been under-reported by $61,118 for a total depreciation expense of $560,247 that has not been booked in the Landfill Fund. Of this amount, current year depreciation expense was adjusted by $61,118 and depreciation which should have been booked in prior years is reported as a prior period adjustment of $499,129.
***Cause:*** In 2009, when the coal ash landfill cell was developed and placed on the City's books there was a misunderstanding of the fact that there were two cells within the coal ash landfill site.
***Recommendation:*** We recommend that the City increase the current year depreciation by $61,118 for fiscal year 2018 and future years, and book a prior period adjustment of $499,129 for prior year's depreciation not previously reported.
***Auditee Response:*** *The coal ash cell in the landfill will be updated with the correct depreciation calculations as recommended. A prior period adjustment and additional depreciation will be recorded with the completion of this audit.*

*Additionally, the City would like to respond as follows to the findings for Two Rivers Trade Port Authority:*
*The Two Rivers Authority is a Port Authority created under Section 7-14-1101 et seq., MCA. The Two Rivers Authority (TRA), a public body, corporate and politic, is governed by a board of commissioners who are responsible for the day-to-day and the overall management of the Port Authority. Although the City of Hardin created the TRA, TRA is responsible for its own administration, management, and governance as well as for the management, governance, and use of any transportation, storage, or other facility owned by it or under its control. Montana law allows a Port Authority to borrow money, and issue bonds, and the City finds that TRA is responsible for all the obligations in the audit. The City of Hardin has met with the commissioners of TRA and has encouraged them to take action on all the audit findings."*

# *TWO RIVERS AUTHORITY*

**FINDING NUMBER 2018-003 – TWO RIVERS AUTHORITY (a component unit) REVENUE BOND REQUIREMENTS: (Repeat Finding 2010-002; 2011-002; 2012-002; 2013-001; 2014-001; 2015-002, 2016-004; 2017-003):**

***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:*** The Two Rivers Authority is ***not in compliance*** with the bond covenants concerning bond principal and interest payments, nor in maintaining the proper reserve account balance. Interest payments have not been made since November of 2008. TRA has never made any bond principal payments which were scheduled to begin in November of 2008. The required bond reserves as required by the revenue bond agreement have not been maintained. As of June 30, 2018, the reserve account totaled $1,174 and the operating cash account totaled $1. Current liabilities, other than bond requirements totaled $250,579. Bondholder advances totaled $873,432.
***Effect:*** The Two Rivers Authority has not been able to raise or obtain sufficient cash to meet its current liabilities as they come due.
***Cause:*** 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 it 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.*

**FINDING NUMBER 2018-004 – TWO RIVERS AUTHORITY – PAYROLL in ARREARS: (Repeat finding 2014-005; 2015-003, 2016-005; 2017-004):**

***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:*** Two Rivers Authority 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 $52,102 in fiscal year 2018. As of June 30, 2018, the Deferred/Accrued Payroll liability totaled $214,632. 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:*** *The 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.*

**FINDING NUMBER 2018-005 – TWO RIVERS AUTHORITY – INSUFFICIENT MANAGEMENT REPRESENTATION (Repeat finding 2015-006, 2016-006; 2017-005):**

***Criteria:*** Governmental Auditing Standards state that the entity's management is required to have sufficient knowledge of all transactions to provide assurances to the auditor as to the completeness, accuracy, and to accept responsibility for all aspects of the financial statements.
***Condition:*** ***Material Weakness*** in internal controls over assets, liabilities, revenues and expenditures. Two Rivers Authority's management does not have first-hand knowledge of transactions made by the US Bank trustee that are reported on TRA's financial statements. A bondholder representative and US Bank employees are not part of Two Rivers Authority's management team. It is impossible for TRA's management to provide audit assurance or accept responsibility for transactions for which they did not initiate, authorize prior to their occurrence, or obtain supporting documentation. Two Rivers Authority's financial statements were prepared from excerpts of bank statements in TRA's name rather than from actual supporting documents of these transactions.
***Context*:** Operating expenses totaling $65,389 reported on Two Rivers Authority'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 Two Rivers Authority's name. Two River's Authority'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 Two Rivers Authority's management to employ proper internal controls over agreements and transactions in accounts bearing their name.
***Auditee Response:*** *The process for receiving and disbursing Detention Facility revenue was established under the Indenture and through the Operating and Management Agreement with Emerald Correctional Management at the direction of and to the apparent satisfaction of the Bondholders and the Trustee. Two Rivers Authority is also satisfied with this arrangement, as it does not have the staff resources to involve itself in the day-to-day financial activity of the Detention Facility. 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.*

**FINDING NUMBER 2018-006 – TWO RIVERS AUTHORITY – INSUFFICIENT SUPPORTING DOCUMENTATION (Repeat finding since 2015-007, 2016-007; 2017-006):**

***Criteria:*** Governmental Auditing Standards requires that proper supporting documentation of transactions is maintained and provided as audit evidence.
***Condition:*** ***Material weakness*** in internal controls over revenues and expenditures. Supporting documentation of reported expenditures of $8,056 was not provided as audit evidence. $3,000 of the expenses represented payments to the executive director for janitorial services. The executive director continued to accrue payroll and received the $3,000 as a contract employee.
***Context:*** Two Rivers Authority's Board and management were unable to provide the supporting evidence of the trustee fee expenses because they have never approved these transactions nor received copies of the supporting documentation.
***Effect:*** The revenue and expenditure transactions mentioned above were not verifiable. The auditors were unable to determine whether the transactions were proper and reported in the proper period.
***Cause:*** A bondholder representative and the US Bank Trustee controlled trustee fee, legal, insurance and utility transactions. A bondholder representative and US Bank personnel are not part of TRA's management team. Two Rivers Authority's Board and management are not involved in these transactions prior to them appearing on the bank statements. TRA does not receive copies of the supporting documentation of these transactions.
***Recommendation:*** We recommend that the bondholder representative and US Bank Trustee allow TRA board and management to participate in the initiation of transactions reported on Two Rivers Authority's bank statements. Invoices should be submitted for Board approval prior to the transaction appearing on the bank statement as a done deal.

***Auditee Response:*** *The process for receiving and disbursing Detention Facility revenue was established under the Indenture and through the Operating and Management Agreement with Emerald Correctional Management at the direction of and to the apparent satisfaction of the Bondholders and the Trustee. Two Rivers Authority is also satisfied with this arrangement, as it does not have the staff resources to involve itself in the day-to-day financial activity of the Detention Facility. The terms of the Indenture require Two Rivers Authority to provide the Trustee with an annual audited financial statement. As such, it seems incumbent on the Trustee to be more forthcoming with certain financial details, at least to the degree of identifying and making available statements relating to the "advance funding" accounts. As for the payment to the executive director, it was basically a pass-through payment from the Bondholders for services specific to maintenance of the Detention Facility and outside the general scope of his economic-development responsibilities and job description. Further, Two Rivers Authority is unable to identify the balance of $5,056 and was never asked to provide any documentation. It has determined that QuickBooks occasionally records entries erratically, which may be the cause of the discrepancy.*

**FINDING NUMBER 2018-007 – 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 that 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.*

**FINDING NUMBER 2018-008 – TWO RIVERS AUTHORITY – BACKDATED ENTRIES INTO THE PRIOR FISCAL YEAR:**

***Criteria:*** GAAP requires that ending balances from the prior year match the beginning balances in the current year.
***Condition:*** This is a ***material weakness*** in internal controls over monitoring and reviewing of the accounting function. Entries reducing the Accounts Payable balance by a total of $21,000 were made in January of 2018 and were backdated to April of 2017.
***Context:*** Two transactions booked in fiscal year 2017 were edited in January of 2018 zeroing out the Accounts Payable balance. A MDU invoice for $20,814 was found to have been paid by the bondholders without going through the accounting program. An USA Communications invoice for $186 was paid by the Executive Director out of pocket without booking a payable to the Executive Director.
***Effect:*** The backdating of these two entries caused the prior year net position and fund balance to be increased by $21,000. Making changes to the prior year ending account balances without auditor knowledge is grounds for a disclaimer of opinion.
***Cause:*** Lack of accounting expertise by the Executive Director and lack of oversight by the Board.
***Recommendation:*** The books should continue to be CLOSED as of June 30 each year. No changes to transactions should be made that were booked in a prior year, that's what closed means. Instead, journal entries should be made in the current year to bring the accounts to the expected balance. We recommend that TRA stop editing transactions; instead, new transactions should be booked to bring the account balance into the proper balance. If a prior year balance should be adjusted, TRA should discuss the situation with the auditor prior to booking it.
***Auditee Response*:** *It has come to the attention of Two Rivers Authority that the QuickBooks accounting software occasionally demonstrates certain idiosyncrasies in recording entries and generating reports. The variance noted was brought to the attention of Two Rivers Authority by the City Finance Officer. After a certain amount of laborious investigation, Two Rivers Authority determined that certain accounts payable had been either entered incorrectly or reported incorrectly to FYE 2018 from FYE 2017. An adjustment was made and noted on pp. 13-14 of the City's report re: statement of net position and statement of activities in coordination with the City Finance Officer.*

**FINDING NUMBER 2018-009 – TWO RIVERS AUTHORITY – FINANCIAL STATEMENTS IMPROPERLY REPORTED:**

***Criteria:*** GAAP requires that the financial statements are properly reported.
***Condition:*** A ***material weakness*** in monitoring the accounting function and reviewing the financial statements exists. The Net Position section of the Statement of Net Position contained miscalculations. The Net Position amount reported on the Statement of Net Position did not match the Net Position amount on the Statement of Activities.
***Effect:*** On the *Statement of Net Position:* Net Investment in Capital Assets was over-reported by $2,061, Unrestricted Net Position was over-reported by $21,607, and Total Net Position was over-reported by $23,668. On the *Statement of Activities*: Expenses, Change in Net Position, and Total Net Position were under-reported by $23,668. The AFR preparer (City of Hardin) reported a Prior Period Adjustment of $21,000 to force the *Statement of Net Position* and *Statement of Activities* to balance. The prior period adjustment was due to the items noted in finding 2018-007 above.

***Cause:*** TRA presented a financial statement to the AFR preparer in an excel spreadsheet (with hard entered data rather than spreadsheet calculated data) rather than a financial report directly from QuickBooks accounting software. The Accounts Payable balance was reported as $8,211 rather than $31,878 shown in the QuickBooks balance sheet as of June 30, 2018. It appears that changes were made to TRA account balances after presenting the data to the AFR presenter.

***Recommendation:*** We recommend that TRA present a copy of the Balance Sheet and Profit and Loss report (directly from QuickBooks) to the AFR preparer (City of Hardin) rather than financial reports exported into Excel. At the time that the financial statements are presented to the AFR preparer, the books should be CLOSED and no further entries should be made without the knowledge of the AFR preparer.

***Auditee Response:*** *As noted in the response to Finding 2018-008 above, it has come to the attention of Two Rivers Authority that the Quickbooks accounting software occasionally demonstrates certain idiosyncrasies in recording entries and generating reports. The variance noted was brought to the attention of Two Rivers Authority by the City Finance Officer. After a certain amount of laborious investigation, Two Rivers Authority determined that certain accounts payable had been either entered incorrectly or reported incorrectly to FYE 2018 from FYE 2017. An adjustment was made and noted on pp. 13-14 of the City's report re: statement of net position and statement of activities in coordination with the City Finance Officer. The two amounts subsequently came into balance.*

MAYOR
Joe Purcell

The City of
HARDIN
Montana

PUBLIC WORKS DIRECTOR
Rock Massine

FINANCE OFFICER/CITY CLERK
Michelle Dyckman

## Corrective Action Plan

**FINDING NUMBER 2018-001 – REVENUE BONDS REQUIREMENTS NOT MET (Repeat finding 2016-003; 2017-001):**

***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.
***Corrective Action Plan***:

Corrective Measures: 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 $2,615,000 through June 30, 2018. An additional $394,606 was paid in FY 2019.

Responsible party: The Finance Officer will continue to submit tax revenues to the trustee of the bond, ensuring compliance with remitting tax revenues.

Anticipated Completion Date: That is uncertain at this time. The major industry in the TIFD is delinquent on their taxes. With a server farm (data hub) scheduled to come on-line at any time, this should increase tax revenues. It is unknown if those revenues will offset the decrease in value suffered by the lowered valuation of the primary TIFD taxpayer.

**FINDING NUMBER 2018-002 – LANDFILL COAL ASH CELL WITH LIFETIME ERROR:**

***Condition:*** This is a ***material weakness*** in internal controls. We believe that it is an isolated instance. The life of the coal ash landfill cell reported on the City's capital asset listing has been depreciated over a 26 year lifetime when it should have been 11.4 years. There are two coal ash cells within the coal ash landfill site with a total life of 26 years. However, only one of the two coal ash cells has been developed as a coal ash landfill. The undeveloped coal ash landfill cell is expected to have a lifetime of 11.3 years once it is developed. At this time, the undeveloped coal ash landfill cell sits idle.
***Corrective Action Plan***:

Corrective Measures: The coal ash cell in the landfill will be updated with the correct depreciation calculations as recommended.

Responsible party: The Finance Officer will ensure that the asset and depreciation schedule is updated and reported correctly.

Anticipated Completion Date: A prior period adjustment and additional depreciation will be recorded with the completion of this audit.

Respectfully submitted,

Michelle Dyckman, Finance Officer/City Clerk

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# Two Rivers Authority

## Corrective Action Plan

FINDING NUMBER 2018-003 – TWO RIVERS AUTHORITY (a component unit) REVENUE BOND REQUIREMENTS:
(Repeat Finding 2010-002; 2011-002; 2012-002; 2013-001; 2014-001; 2015-002, 2016-004; 2017-003):

Condition: The Two Rivers Authority is not in compliance with the bond covenants concerning bond principal and interest payments, nor in maintaining the proper reserve account balance. Interest payments have not been made since November of 2008. TRA has never made any bond principal payments which were scheduled to begin in November of 2008. The required bond reserves as required by the revenue bond agreement have not been maintained. As of June 30, 2018, the reserve account totaled $1,174 and the operating cash account totaled $1. Current liabilities, other than bond requirements totaled $250,579. Bondholder advances totaled $873,432.

*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 it 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.*

FINDING NUMBER 2018-004 – TWO RIVERS AUTHORITY – PAYROLL in ARREARS:
(Repeat finding 2014-005; 2015-003, 2016-005; 2017-004):

Condition: Two Rivers Authority is not in compliance with Montana Wage and Hour laws concerning payment of employees. Payroll continues to accrue rather than being paid.

*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.*

FINDING NUMBER 2018-005 – TWO RIVERS AUTHORITY – INSUFFICIENT MANAGEMENT REPRESENTATION
(Repeat finding 2015-006, 2016-006; 2017-005):

Condition: Material Weakness in internal controls over assets, liabilities, revenues and expenditures. Two Rivers Authority's management does not have first-hand knowledge of transactions made by the US Bank trustee that are reported on TRA's financial statements. A bondholder representative and US Bank employees are not part of Two Rivers Authority's management team. It is impossible for TRA's management to provide audit assurance or accept responsibility for transactions for which they did not initiate, authorize prior to their occurrence, or obtain supporting documentation.

*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.*

FINDING NUMBER 2018-006 – TWO RIVERS AUTHORITY – INSUFFICIENT SUPPORTING DOCUMENTATION (Repeat finding since 2015-007, 2016-007; 2017-006):

Condition: Material weakness in internal controls over revenues and expenditures. Supporting documentation of reported expenditures of $8,056 was not provided as audit evidence. $3,000 of the expenses represented payments to the executive director for janitorial services. The executive director continued to accrue payroll and received the $3,000 as a contract employee.

*Auditee Response:*

*The process for receiving and disbursing Detention Facility revenue was established under the Indenture and through the Operating and Management Agreement with Emerald Correctional Management at the direction of and to the apparent satisfaction of the Bondholders and the Trustee. Two Rivers Authority is also satisfied with this arrangement, as it does not have the staff resources to involve itself in the day-to-day financial activity of the Detention Facility. The terms of the Indenture require Two Rivers Authority to provide the Trustee with an annual audited financial statement. As such, it seems incumbent on the Trustee to be more forthcoming with certain financial details, at least to the degree of identifying and making available statements relating to the "advance funding" accounts. As for the payment to the executive director, it was basically a pass-through payment from the Bondholders for services specific to maintenance of the Detention Facility and outside the general scope of his economic-development responsibilities and job description. Further, Two Rivers Authority is unable to identify the balance of $5,056 and was never asked to provide any documentation. It has determined that Quickbooks occasionally records entries erratically, which may be the cause of the discrepancy.*

FINDING NUMBER 2018-007 – TWO RIVERS AUTHORITY – LACK OF SEGREGATION OF DUTIES:

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.

*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.*

FINDING NUMBER 2018-008 – TWO RIVERS AUTHORITY – BACKDATED ENTRIES INTO THE PRIOR FISCAL YEAR:

Condition: This is a material weakness in internal controls over monitoring and reviewing of the accounting function. Entries reducing the Accounts Payable balance by a total of $21,000 were made in January of 2018 and were backdated to April of 2017.

*Auditee Response:*

*It has come to the attention of Two Rivers Authority that the Quickbooks accounting software occasionally demonstrates certain idiosyncrasies in recording entries and generating reports. The variance noted was brought to the attention of Two Rivers Authority by the City Finance Officer. After a certain amount of laborious investigation, Two Rivers Authority determined that certain accounts payable had been either entered incorrectly or reported incorrectly to FYE 2018 from FYE 2017. An adjustment was made and noted on pp. 13-14 of the City's report re: statement of net position and statement of activities in coordination with the City Finance Officer.*

FINDING NUMBER 2018-009 – TWO RIVERS AUTHORITY – FINANCIAL STATEMENTS IMPROPERLY REPORTED:

Condition: A material weakness in monitoring the accounting function and reviewing the financial statements exists. The Net Position section of the Statement of Net Position contained miscalculations. The Net Position amount reported on the Statement of Net Position did not match the Net Position amount on the Statement of Activities.

*Auditee Response:*

*As noted in the response to Finding 2018-008 above, it has come to the attention of Two Rivers Authority that the Quickbooks accounting software occasionally demonstrates certain idiosyncrasies in recording entries and generating reports. The variance noted was brought to the attention of Two Rivers Authority by the City Finance Officer. After a certain amount of laborious investigation, Two Rivers Authority determined that certain accounts payable had been either entered incorrectly or reported incorrectly to FYE 2018 from FYE 2017. An adjustment was made and noted on pp. 13-14 of the City's report re: statement of net position and statement of activities in coordination with the City Finance Officer. The two amounts subsequently came into balance.*