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

**CITY OF HARDIN
ORGANIZATION**

Fiscal Year Ended June 30, 2014

Jack Lane

Mayor

CITY COUNCIL

Kenny Kepp

Council Member

Carla Colstad

Council Member

Randy Angevine

Council Member

Darren Zent

Council Member

Jerry Wemple

Council Member

Jeremy Krebs

Council Member

CITY OFFICIALS

Michelle Dyckman

Finance Officer

City Clerk

Deb Winburn

City Judge

Robert Snively

City Attorney

Tony Maxwell

Superintendent of Public Works

City of Hardin
Big Horn County
Hardin, Montana 59034

**TWO RIVERS AUTHORITY
ORGANIZATION**

Fiscal Year Ended June 30, 2014

BOARD

Jon D. Matovich	Chairman
Chip Watts	Vice Chairman
Waylon Barnes	Member
A. J. Barnes	Member
	Member
	Member

OFFICIALS

Jeffrey S. McDowell	Executive Director
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City of Hardin
Management's Discussion and Analysis
June 30, 2014

This section of the Annual Financial Report provides readers with a narrative overview and analysis of the financial activities of the City of Hardin for the fiscal year June 30, 2014. Readers are encouraged to consider the information presented here in conjunction with the basic financial statements contained in the main body of the report, to enhance their understanding of the City of Hardin's financial performance.

USING THIS ANNUAL REPORT

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

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-wide Financial Statements: These statements are designed to provide readers with information that will show if the government as a whole was better off or worse off as a result of the year's activities. The *Statement of Net Position* and the *Statement of Activities* report information about the government as a whole and about its activities in a way that indicate the City's financial condition or health. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. The changes in net position are reported when the underlying event to the change occurs, regardless of the timing of related cash flows. This means that revenues and expenses are reported that may result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave.)

The two statements report the net position and changes in them. Over time, increases or decreases in net position are one indicator of whether the City's financial health is improving or deteriorating. However, one will need to also consider other non-financial factors, such as changes in the property tax base and the condition of the capital assets, to assess the overall health of the city.

In the *Statement of Net Position* and the *Statement of Activities*, the City of Hardin is divided into two kinds of activities:

Governmental activities – Basic services are reported here, including the fire, city court, animal control, parks, lighting and street maintenance districts, and general administration. Property taxes and state and federal entitlements finance some activities, with charges for services, grants and other miscellaneous revenues accounting for the balance of the revenue.

Business-type activities – User fees are charged to customers to help cover all or most of the costs of certain services it provides. The water, sewer, and solid waste system (garbage collection and landfill) services are reported here.

Fund financial statements: The fund financial statements provide detailed information about the most significant funds, not the government as a whole. Some funds are required to be established by state law

City of Hardin
Management's Discussion and Analysis
June 30, 2014

and by bond covenants. Also, the City Council establishes many other funds to help it control and manage money for particular purposes or to meet legal responsibilities for using certain taxes, grants, and other money. We utilize the following funds:

Governmental funds – Basic services are reported in governmental funds, which focus on how money flows in to and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called “modified accrual accounting”, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the general government operations and the basic services it provides. Governmental fund information helps one determine whether there are more or fewer financial resources than can be spent in the near future to finance programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and the governmental funds in reconciliations.

Proprietary funds – User fees charged to customers for the services it provides, whether to outside customers or to other units of the government, are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements, but provide more detail and additional information, such as cash flows, for proprietary funds.

Fiduciary or Agency funds – These funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds use the same basis of accounting as proprietary funds. We exclude these activities from the other financial statements because we cannot use these assets to finance the City's operations. We are responsible for ensuring that the assets reported in these funds are used for their intended purposes.

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.

Budgetary Comparisons: The City of Hardin adopts an annual appropriation budget for all of its funds. A budgetary comparison statement has been provided for its major governmental funds in the section entitled “Required Supplementary Information.” Budget-to-actual comparisons for each of the non-major funds are provided in the combining statements in the section entitled “Other Supplementary Information.”

THE CITY OF HARDIN AS A WHOLE

Net Position: Over time may serve as an indicator of a government's financial position. The assets of the City of Hardin exceeded its liabilities at the close of the year by \$14,281,015 (net position). The total net position decreased by \$1,378,806 from last year. A large portion of the City's Net Position (\$6,147,169 or 43%) constitutes its investment in capital assets (e.g. land, buildings, infrastructure, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. Capital assets are used to provide services to citizens; consequently, they are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt would need to be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Hardin
Management's Discussion and Analysis
June 30, 2014

NET POSITION						
	Governmental Activities		Business-Type Activities		Total	
	FYE 2014	FYE 2013	FYE 2014	FYE 2013	FYE 2014	FYE 2013
Current and other Assets	5,466,160	7,642,558	4,569,253	4,187,709	10,035,413	11,830,268
Capital assets	16,830,793	17,572,063	12,763,118	12,683,775	29,593,911	30,255,839
Total Assets	22,296,953	25,214,622	17,332,371	16,871,485	39,629,324	42,086,106
Total deferred outflows of resources	-		-			
Long-term Liabilities outstanding	20,457,330	19,177,710	4,229,618	4,393,813	24,686,948	23,571,523
Other Liabilities	125,590	586,508	535,771	443,481	661,361	1,029,988
Total Liabilities	20,582,920	19,764,218	4,765,389	4,837,294	25,348,309	24,601,511
Net Position:						
Net Investment in Capital Assets	(3,344,537)	(1,451,047)	9,491,707	9,084,364	6,147,169	7,633,317
Restricted	2,327,191	1,710,306	2,117,733	1,846,826	4,444,924	3,557,132
Unrestricted	2,731,380	3,366,371	957,542	1,103,001	3,688,922	4,469,372
Total Net Position	1,714,033	3,625,630	12,566,982	12,034,191	14,281,015	15,659,821

The Restricted portion of the City's net position (\$4,444,924 or 31%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$3,688,922 or 26%) may be used to meet the City's ongoing obligations to citizens and creditors.

City of Hardin
Management's Discussion and Analysis
June 30, 2014

Changes in Net Position						
	Governmental Activities		Business-Type Activities		Total	
	FYE 2014	FYE 2013	FYE 2014	FYE 2013	FYE 2014	FYE 2013
Revenues						
<i>Program revenues (by major source)</i>						
Charges for services	456,976	2,477,083	2,337,177	2,289,595	2,794,153	4,766,678
Operating grants and contributions	73,689	72,326			73,689	72,326
Capital grants and contributions	192,000	241,749	100,000	853,305	292,000	1,095,054
<i>General revenues (by major source)</i>					-	-
Property taxes	456,354	402,433			456,354	402,433
Licenses and permits	53,702	65,079			53,702	65,079
Unrestricted Federal/State shared revenues	698,720	679,613	612	607	699,332	680,220
Unrestricted grants and contributions					-	-
Investment earnings	6,382	52,399	41,979	22,313	48,361	74,712
Miscellaneous	19,715	2,482	7,714	19,980	27,429	22,462
Total revenues	1,957,537	3,993,164	2,487,482	3,185,800	4,445,020	7,178,964
Program expenses						
General government	580,589	477,608			580,589	477,608
Public safety	595,868	576,578			595,868	576,578
Public works	761,746	501,628			761,746	501,628
Public health	27,206	30,585			27,206	30,585
Culture and recreation	163,212	147,763			163,212	147,763
Housing/Community Development	116,478	109,603			116,478	109,603
Conservation of Natural Resources		6,247				6,247
Accreted Interest	1,244,439	1,168,030			1,244,439	1,168,030
Miscellaneous OPEB	23,136	52,972			23,136	52,972
Unallocated costs					-	-
Water			684,286	588,064	684,286	588,064
Sewer			576,683	611,626	576,683	611,626
Solid Waste			231,225	223,310	231,225	223,310
Landfill			765,260	650,763	765,260	650,763
						-
Total expenses	3,512,675	3,071,014	2,257,454	2,073,763	5,770,129	5,144,777
						-
Increase (decrease) in net position before transfers	(1,555,138)	922,150	230,028	1,112,037	(1,325,110)	2,034,187
Transfers	(302,762)		302,762		-	-
Increase (decrease) in net position	(1,857,900)	922,150	532,791	1,112,037	(1,325,110)	2,034,187
Net Position - beginning	3,625,630	2,632,028	12,034,191	10,921,861	15,659,821	13,553,889
Prior Period Adjustment	(53,697)	71,453		293	(53,697)	71,746
Net Position - ending	1,714,033	3,625,630	12,566,982	12,034,191	14,281,015	15,659,821

City of Hardin
Management's Discussion and Analysis
June 30, 2014

Governmental Activities: The City's governmental activities resulted in a decrease in net position of \$1,911,597 mainly due to accreted interest on a revenue bond for economic development.

Business-type Activities: The City's water, sewer, and solid waste activities resulted in an increase in net position of \$532,790. Investments in improving the City's water and wastewater facilities and an equipment purchase are the main reasons for this increase. This includes contributed capital contributions in the net amount of \$302,762 for assets purchased through governmental resources.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental Funds: As of June 30, the City's governmental funds reported combined fund balances of \$3,308,716, an increase of \$150,530 compared to last year. Restrictions of \$4,157,501 include \$1,616,104 for interfund loans and \$1,651,059 for debt service requirements. The balance of \$890,338 is stipulated by constitution or enabling legislation. As the SIDs (interfund loans) are paid back, the fund balances will show spending reserves.

The City of Hardin's **General Fund** is the chief operating fund for governmental activities. At June 30, 2014 the total fund balance was \$1,566,488 which is an \$122,013 increase over the prior year. \$974,292 or 62% is non-spendable.

The **Street Maintenance Fund** has a fund balance of \$383,432. Of this, 30% or \$116,226 represents inventory. The decrease of \$28,956 from last year due was largely due to increased operating costs.

The **Tax Increment Finance District** has two funds. One is for debt service, the other for construction. The debt service fund had an increase of \$752 from interest earnings for an ending fund balance of \$1,651,059. The construction fund has seen the fund balance decrease by \$7,197 for a fund balance of \$30,280. This is an expected result of construction activities.

SID 120 had an ending fund balance of (\$1,254,399), and SID 121 had (\$530,660). These represent the balance of interfund loans for the Special Improvement Districts (SIDs) in the Wagner and Westlich-Heimat Subdivisions.

Proprietary Funds:

The City of Hardin maintains separate proprietary funds for Water, Sewer, Solid Waste Collection, and Landfill activities. The funds provide the same type of information as the government-wide financial statements, only in more detail. These financial statements can be found on pages 20-22 of this report.

General Fund Budgetary Highlights:

Actual expenditures (other than transfers or loans) in the General Fund were \$1,182,591. Overall expenditures were \$741,515 less than anticipated. \$449,611 was originally classified to identify

City of Hardin
Management's Discussion and Analysis
June 30, 2014

infrastructure and equipment transferred to the proprietary funds and 80,000 was a set-aside for loans for connections in the Industrial Park. Actual revenues of \$1,215,955 were \$71,996 than anticipated. Court revenues were \$10,736 less than anticipated and SID 120 was not assessed until September, 2014, so interfund loans were not payable.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets: The City of Hardin's investment in capital assets for its governmental and business-type activities as of June 30, 2014 totals \$29,593,911 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).

Major improvements to Capital assets include the following:

Governmental:

Sidewalks	\$ 8,746
SID 120 improvements	89,803
Industrial Park Road	6,452

Proprietary:

Water Treatment Plant – improvements	\$ 78,103
WWTP Lift Station improvements	115,491
Landfill Water truck	140,374

City of Hardin
Management's Discussion and Analysis
June 30, 2014

Capital Assets			
Net Investment			
	Governmental Activities	Business-Type Activities	TOTAL
Non-depreciable Assets			
Land	\$ 598,379	\$ 463,193	\$ 1,061,572
Easements or Intangibles	\$ 40,622		\$ 40,622
Construction-in-progress	\$ 1,263,384	\$ 26,509	\$ 1,289,893
	<u>\$ 1,902,385</u>	<u>\$ 489,702</u>	<u>\$ 2,392,087</u>
Depreciable assets			
Buildings/improvements/systems	\$ 855,189	\$ 56,417	\$ 911,606
Improvements other than buildings	\$ 131,095	\$ 1,585,428	\$ 1,716,523
Machinery and equipment	\$ 399,927	\$ 692,024	\$ 1,091,951
Infrastructure (General Plant)	\$ 13,542,197	\$ 27,624	\$ 13,569,821
Treatment Plant		\$ 4,032,208	\$ 4,032,208
Transmission & Distribution		\$ 5,879,715	\$ 5,879,715
	<u>\$ 14,928,408</u>	<u>\$ 12,273,416</u>	<u>\$ 27,201,824</u>
TOTAL CAPITAL ASSETS	<u>\$ 16,830,793</u>	<u>\$ 12,763,118</u>	<u>\$ 29,593,911</u>

Outstanding debt:

At the end of the current fiscal year, the City of Hardin had total bonded debt outstanding of \$23,538,961. The Tax Increment Finance District continues to accrete interest until its conversion in September, 2014. Revenue Bonds are secured by revenue sources of the Water, Wastewater and Solid Waste systems. \$279,500 of a Water Revenue Bond will qualify for forgiveness.

	Governmental Activities		Business-Type Activities		Total	
	FYE 2014	FYE 2013	FYE 2014	FYE 2013	FYE 2014	FYE 2013
Tax Increment	\$20,267,550	\$19,023,111			\$20,267,550	\$19,023,111
Revenue Bonds			\$ 3,271,411	\$ 3,599,411	\$ 3,271,411	\$ 3,599,411
Total	\$20,267,550	\$19,023,111	\$ 3,271,411	\$ 3,599,411	\$23,538,961	\$22,622,522

City of Hardin
Management's Discussion and Analysis
June 30, 2014

Interfund Loans:

The City created and financed SID 120 and 121 to provide improved infrastructure in the Wagner and Westlich-Heimat subdivisions. To help alleviate the cost, the interest rate was reduced from 4% to 3% in September, 2014. The Water fund extended an interfund loan to the General Fund to help make this feasible.

	Governmental Activities	
	FYE 2014	FYE 2013
General Fund	\$ 209,182	\$ 300,000
SID 120	\$ 1,294,626	\$ 1,294,626
SID 121	\$ 530,660	\$ 542,462
	\$ 2,034,469	\$ 2,137,088

THE CITY OF HARDIN'S FUTURE

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

The projects for the next year include:

- Heimat Park sidewalks and restroom
- Welcome signs for Hardin
- Chip-sealing
- SCBAs for the Volunteer Fire Department
- SID 120 completion
- Continue to upgrade water meters to radio-read
- Plant upgrades at the wastewater treatment plant
- Replace a garbage truck
- Upgrades to the facility and equipment at the landfill

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

REQUESTS FOR INFORMATION

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

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

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Hardin as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Hardin as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

The City of Hardin may not be able to meet the September 1, 2015 Tax Increment Financing District (TIFD) revenue bond requirements. The first interest payment of \$653,750 was made March 1, 2015. The first principal payment is scheduled for September 1, 2015. However, the City may not be able to meet the September 2015 principal and interest payment requirement due to the current tax delinquency of the taxpayer, and a dramatic drop in the market value and resulting taxable valuation of the real and personal property in the Tax Increment Financing District. (See NOTE 19A)

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A) on pages 4 - 11; Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual on pages 49 – 50; Schedule of Funding Progress - Other Post-Employment Benefits Other Than Pensions on page 52; Schedule of Funding Progress – Firemen's Disability and Pension Plan on page 53; and Schedule of Employer Contributions – Firemen's Disability and Pension Plan on page 53 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain

limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide assurance.

Other Information

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

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

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2015, on our consideration of City of Hardin's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Hardin's internal control over financial reporting and compliance.

Tripp & Associates

Billings, Montana
March 31, 2015

City of Hardin
Big Horn County
Hardin, Montana

STATEMENT OF NET POSITION
as of June 30, 2014

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total Primary Gov	Two Rivers Authority
ASSETS:				
Current Assets:				
Cash & Investments	\$ 1,798,919	\$ 1,913,007	\$ 3,711,925	\$ 4,384
Taxes/Assessments Receivable	2,045,545	24,185	2,069,730	-
Accounts Receivable (Net of Allowance for Uncollectibles)	-	188,717	188,717	-
Accrued Interest Receivable	3,478	-	3,478	-
Due From Other Governments	2,456	-	2,456	-
Advances to Other Funds (Internal Balances)	(209,182)	209,182	-	-
Inventory (Gravel Pit)	121,987	51,789	173,776	-
Total Current Assets	3,763,203	2,386,880	6,150,082	4,384
Restricted Assets:				
Cash & Investments	1,702,957	2,182,373	3,885,330	123,717
Non-Current Assets:				
Land/Construction in Progress	1,902,385	489,702	2,392,087	257,377
Other Capital Assets (Net)	14,928,408	12,273,416	27,201,824	17,323,206
Total Non-Current Assets	16,830,793	12,763,118	29,593,911	17,580,584
Total Assets	22,296,953	17,332,371	39,629,324	17,708,685
LIABILITIES:				
Current Liabilities:				
Accounts Payable	55,735	193,125	248,860	-
Accrued Payroll Expenses	33,381	66,782	100,164	26,051
Compensated Absences	13,692	21,190	34,883	1,939
Contracts Payable	18,361	-	18,361	-
Deposits Payable	3,196	64,640	67,836	-
Revenues Collected in Advance	-	40,622	40,622	-
Accrued Interest Payable	1,225	-	1,225	10,560,138
Current Bonds Payable	-	149,411	149,411	5,165,000
Total Current Liabilities	125,590	535,771	661,361	15,753,128
Non-Current Liabilities:				
Compensated Absences	41,077	63,571	104,648	-
OPEB Liability	148,703	137,264	285,967	-
Closure /Post-closure Care Costs	-	906,783	906,783	-
Advance Funding Loans - Bondholders	-	-	-	360,532
Bonds Payable	20,267,550	3,122,000	23,389,550	21,850,000
Total Non-Current Liabilities	20,457,330	4,229,618	24,686,948	22,210,532
Total Liabilities	20,582,920	4,765,389	25,348,309	37,963,660
NET POSITION:				
Net Investment in Capital Assets	(3,344,537)	9,491,707	6,147,169	(19,994,554)
Restricted for:				
Debt Service	1,681,338	1,419,517	3,100,856	-
Closure/Post-closure	-	698,216	698,216	-
Other Purposes	645,852	-	645,852	-
Unrestricted	2,731,380	957,542	3,688,922	(260,421)
Total Net Position	\$ 1,714,033	\$ 12,566,982	\$ 14,281,015	\$ (20,254,975)

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, 2014

Functions/Programs	Program Revenues				Net (Expense) Revenues and Changes in Net Position			Component Unit Two Rivers Trade Port Authority
	Expenses	Charges for Services, Fines & Forfeitures	Operating Grants & Contributions	Capital Grants & Contributions	Primary Government			
					Governmental Activities	Business-Type Activities	Total Primary Gov	
GOVERNMENTAL ACTIVITIES								
General Government	\$ 580,589	\$ 145,651	\$ -		\$ (434,939)		\$ (434,939)	
Public Safety	595,868	278	-	-	(595,590)		(595,590)	
Public Works	761,746	309,333	73,689	-	(378,725)		(378,725)	
Public Health	27,206	1,615	-	-	(25,591)		(25,591)	
Culture & Recreation	163,157	-	-	-	(163,157)		(163,157)	
Housing & Community Development	116,532	100	-	-	(116,432)		(116,432)	
Accreted Interest	1,244,439	-	-	-	(1,244,439)		(1,244,439)	
OPEB Expense	23,136	-	-	-	(23,136)		(23,136)	
Miscellaneous	0	-	-	192,000	192,000		192,000	
Total Governmental Activities	3,512,675	456,976	73,689	192,000	(2,790,010)		(2,790,010)	
BUSINESS-TYPE ACTIVITIES								
Water	684,286	741,092	-	-		56,806	56,806	
Sewer	576,683	631,361	-	100,000		154,678	154,678	
Landfill	996,485	964,724	-	-		(31,761)	(31,761)	
Total Business-Type Activities:	2,257,454	2,337,177	-	100,000		179,722	179,722	
TOTAL PRIMARY GOVERNMENT	<u>\$ 5,770,129</u>	<u>\$ 2,794,153</u>	<u>\$ 73,689</u>	<u>\$ 292,000</u>	<u>\$ (2,790,010)</u>	<u>\$ 179,722</u>	<u>\$ (2,610,287)</u>	
COMPONENT UNITS								
Two Rivers Authority	\$ 2,703,128	\$ -	\$ -				\$ (2,703,128)	
GENERAL REVENUES:								
Taxes/Assessments					\$ 511,466	\$ -	\$ 511,466	\$ -
Licenses and Permits					53,702	-	53,702	-
Intergovernmental Revenue					698,720	612	699,332	-
Unrestricted Investment Income:					6,382	41,979	48,361	-
Miscellaneous					23,326	9,247	32,573	197
Gains on Sales of Assets					(3,612)	(1,533)	(5,145)	-
Total General Revenues					1,289,984	50,306	1,340,290	197
SPECIAL ITEMS:								
Transfer of Capital Assets from Governmental to Proprietary					(302,762)	302,762	-	-
CHANGE IN NET POSITION					(1,802,788)	532,791	(1,269,998)	(2,702,931)
Net Position Beginning of the Year					3,515,406	12,034,191	15,549,597	(17,548,144)
Prior Period Adjustments					1,416	-	1,416	(3,900)
Net Position End of the Year					<u>\$ 1,714,034</u>	<u>\$ 12,566,982</u>	<u>\$ 14,281,016</u>	<u>\$ (20,254,975)</u>

City of Hardin
Big Horn County
Hardin, Montana

BALANCE SHEET
GOVERNMENTAL FUNDS
as of June 30, 2014

	MAJOR					Other	Total
	General Fund	Street Mtce. Fund	TIFD Fund	SID 120 Fund	SID 121 Fund	Government Funds	
ASSETS:							
Cash and Investments	\$ 655,558	\$ 290,532	\$ -	\$ 40,479	\$ 1	\$ 812,349	\$ 1,798,919
Taxes/Assessments Receivable	35,423	17,079	-	1,294,626	536,112	162,305	2,045,545
Accrued Interest Receivable	1,309	398	-	-	-	1,771	3,478
Due From Other Funds	1,177,713	-	-	-	-	647,573	1,825,286
Due From Other Governments	2,456	-	-	-	-	-	2,456
Inventories (Gravel Pit)	5,761	116,226	-	-	-	-	121,987
Total Current Assets	1,878,221	424,235	-	1,335,105	536,113	1,623,998	5,797,671
Restricted Assets:							
Cash & Investments	3,196	-	1,681,338	-	-	18,423	1,702,957
Total Assets	1,881,417	424,235	1,681,338	1,335,105	536,113	1,642,421	7,500,628
LIABILITIES:							
Accounts Payable	36,497	4,455	-	-	-	14,783	55,735
Payable to Other Funds	-	-	-	1,294,626	530,660	-	1,825,286
Payable to Proprietary Funds (Internal Balances)	209,182	-	-	-	-	-	209,182
Accrued Payroll Expenses	11,045	19,270	-	252	-	2,815	33,381
Contracts Payable	18,361	-	-	-	-	-	18,361
Interest Payable	1,225	-	-	-	-	-	1,225
Deposits Payable	3,196	-	-	-	-	-	3,196
Total Liabilities	279,506	23,724	-	1,294,878	530,660	17,598	2,146,367
DEFERRED INFLOWS OF RESOURCES:							
Unavailable Revenue - Property Taxes	35,423	17,079	-	1,294,626	536,112	162,305	2,045,545
FUND BALANCES:							
Nonspendable:							
Inventory	5,761	116,226	-	-	-	-	121,987
Interfund Loans	968,531	-	-	-	-	647,573	1,616,104
Restricted:							
General Government	-	-	-	-	-	16,207	16,207
Public Safety	-	-	-	-	-	20,000	20,000
Public Works	-	243,460	-	-	-	281,611	525,070
Debt Service	-	-	1,681,338	-	-	-	1,681,338
Capital Projects	-	23,746	-	-	-	68,473	92,219
Housing & Community Dev.	-	-	-	-	-	84,575	84,575
Committed:							
Other (Insurances & Retirement)	-	-	-	-	-	104,865	104,865
Assigned:							
General Government	-	-	-	-	-	231,738	231,738
Public Safety	58,243	-	-	-	-	-	58,243
Housing & Community Dev.	80,000	-	-	-	-	7,476	87,476
Unassigned:							
	453,953	-	-	(1,254,399)	(530,660)	-	(1,331,106)
Total Fund Balances	1,566,488	383,432	1,681,338	(1,254,399)	(530,660)	1,462,517	3,308,716
Total Liabilities, Deferred Inflows & Fund Bal.	\$ 1,881,416.93	\$ 424,234.50	\$ 1,681,338.47	\$ 1,335,104.88	\$ 536,112.59	\$ 1,642,420.97	\$ 7,500,628.34

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

Total fund balances - Governmental Funds		\$	3,308,716
Capital Assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds			
Cost of Assets	18,871,006		
Less Accumulated Depreciation	<u>(2,040,213)</u>		16,830,793
Less liabilities not reported in the governmental funds			
Compensated Absences	(54,769)		
Other Post-Employment Benefits	(148,703)		
Bonds Payable	<u>(20,267,550)</u>		(20,471,022)
Deferred Inflows of Resources due to Property Tax Collections Receivable			<u>2,045,545</u>
Net Position - Governmental Activities		\$	<u>1,714,033</u>

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

City of Hardin
Big Horn County
Hardin, Montana

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2014

	MAJOR					Other	Total
	General Fund	Street Mtce. Fund	TIFD Fund	SID 120 Fund	SID 121 Fund	Government Funds	Governmental Funds
REVENUES:							
Taxes/Assessments	\$ 380,588	\$ 184,759	\$ -	\$ -	\$ 11,801	\$ 85,245	\$ 662,394
Investment Income	2,758	1,132	758	7	-	1,731	6,385
Licenses & Permits	53,302	400	-	-	-	-	53,702
Fines & Forfeitures	88,665	-	-	-	-	8,125	96,790
Miscellaneous	65,367	43	-	-	-	169,163	234,573
Intergovernmental Rev	622,683	-	-	-	-	149,722	772,405
Charges for Services	<u>2,593</u>	<u>8,388</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>210,410</u>	<u>221,391</u>
Total Revenues	1,215,955	194,722	758	7	11,801	624,396	2,047,639
EXPENDITURES:							
General Government	500,603	-	-	-	-	88,591	589,194
Public Safety	530,061	-	-	-	-	25,328	555,389
Public Works	6,937	250,001	750	-	-	207,719	465,407
Public Health	22,843	-	-	-	-	4,243	27,086
Culture & Recreation	100,860	-	-	-	-	51,289	152,149
Housing & Comm Develop	19,375	-	-	-	-	-	19,375
Other Current Charges	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Current Outlays	1,180,678	250,001	750	-	-	377,170	1,808,599
Capital Outlay	1,913	-	6,452	89,803	-	8,746	106,914
Debt Service (Principal, Interest, Fees)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Outlays	1,182,591	250,001	7,202	89,803	-	385,916	1,915,513
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	33,364	(55,279)	(6,444)	(89,796)	11,801	238,480	132,126
OTHER FINANCING SOURCES (USES)							
Issuance of long-term and refunded debt	-	-	-	-	-	-	-
Sale of Capital Assets	-	-	-	-	-	-	-
Fund Transfers In	163,647	145,962	-	-	-	10,000	319,609
Fund Transfers (Out)	(36,322)	-	-	-	-	(283,286)	(319,609)
NET CHANGES IN FUND BALANCES	160,688	90,683	(6,444)	(89,796)	11,801	(34,806)	132,126
FUND BALANCES:							
Beginning of the Year	1,409,989	293,071	1,687,783	(1,170,479)	(542,461)	1,497,272	3,175,174
Prior Period Adjustments	<u>(4,190)</u>	<u>(322)</u>	<u>-</u>	<u>5,875</u>	<u>-</u>	<u>52</u>	<u>1,416</u>
End of the Year	<u>\$ 1,566,488</u>	<u>\$ 383,432</u>	<u>\$ 1,681,338</u>	<u>\$ (1,254,399)</u>	<u>\$ (530,660)</u>	<u>\$ 1,462,517</u>	<u>\$ 3,308,716</u>

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

City of Hardin
Big Horn County
Hardin, Montana

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014

Total Net Change in Fund Balances - Governmental Funds	\$	132,126
Amounts reported for governmental activities in the statement of activities are different because:		
Revenues reported in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds:		
Increase (decrease) in Taxes/Assessments Receivable		(31,377)
Long-Term debt accreted interest increases long-term liabilities in the Statement of Net Position		
Accreted Interest on TIF Bonds		(1,244,439)
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	(469,708)	
Loss on Disposal of Capital Assets	(3,613)	
Other Post-Employment Benefits (Increase) Decrease	(23,136)	
(Increase) decrease in Compensated Absence Liability	<u>33,208</u>	(463,249)
Expenditures reported in the governmental funds not included in the Statement of Activities		
Capital Outlays		106,914
Special Item: Unusual and Infrequent but in management's control		
Capital Asset Transfer from Governmental Activities to Proprietary Funds		<u>(302,762)</u>
Change in net position reported on the Statement of Activities - governmental activities	\$	<u>(1,802,788)</u>

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

City of Hardin
Big Horn County
Hardin, Montana

STATEMENT OF FUND NET POSITION
PROPRIETARY FUNDS
As of June 30, 2014

	Major Enterprise Water	Major Enterprise Sewer	Major Enterprise Solid Waste	Total Enterprise Funds
ASSETS:				
Current Assets:				
Cash & Cash Equivalents	\$ 967,577	\$ 401,328	\$ 544,102	\$ 1,913,006.77
Assessments Receivable	1,004	960	22,220	24,185
Accounts Receivable	68,757	63,434	56,526	188,717
Due From Other Funds	<u>209,182</u>	<u>-</u>	<u>-</u>	<u>209,182</u>
Total Current Assets	1,246,520	465,722	622,849	2,335,091
Restricted Assets:				
Cash & Cash Equivalents	168,021	571,368	1,442,985	2,182,373
Noncurrent Assets:				
Inventory (Gravel Pit)	23,612	22,336	5,841	51,789
Land	121,191	21,286	320,716	463,193
Construction in Process	-	26,509	-	26,509
Improvements other than Buildings	-	-	2,040,909	2,040,909
Buildings	-	-	100,354	100,354
Machinery & Equipment	1,909	8,010	1,802,353	1,812,273
Infrastructure (Utility Systems)	6,978,048	8,220,125	-	15,198,174
Less: Accumulated Depreciation	<u>(2,977,999)</u>	<u>(2,290,023)</u>	<u>(1,610,272)</u>	<u>(6,878,294)</u>
Total Noncurrent Assets	<u>4,146,762</u>	<u>6,008,244</u>	<u>2,659,901</u>	<u>12,814,906</u>
Total Assets	<u>5,561,302</u>	<u>7,045,335</u>	<u>4,725,734</u>	<u>17,332,371</u>
LIABILITIES:				
Current Liabilities:				
Accounts Payable	31,104	10,140	151,881	193,125
Accrued Payroll Expenses	9,563	8,174	49,045	66,782
Compensated Absences	8,238	5,046	7,907	21,190
Customer Deposits	59,940	-	4,700	64,640
Revenues Collected in Advance	13,841	26,781	-	40,622
Bonds Payable	<u>32,411</u>	<u>77,000</u>	<u>40,000</u>	<u>149,411</u>
Total Current Liabilities	155,097	127,141	253,533	535,771
Non-Current Liabilities:				
Compensated Absences	24,714	15,137	23,720	63,571
OPEB Liability	48,614	28,597	60,053	137,264
Closure Postclosure Care Costs	-	-	906,783	906,783
Bonds Payable	<u>462,000</u>	<u>1,812,000</u>	<u>848,000</u>	<u>3,122,000</u>
Total Non-Current Liabilities	<u>535,328</u>	<u>1,855,734</u>	<u>1,838,556</u>	<u>4,229,618</u>
Total Liabilities	690,426	1,982,874	2,092,089	4,765,389
NET POSITION:				
Net Investment in Capital Assets	3,628,739	4,096,908	1,766,060	9,491,707
Restricted - Debt Service	17,323	196,591	100,025	313,939
Restricted - Closure Postclosure	-	-	698,216	698,216
Restricted - Capital Projects	90,758	374,777	640,044	1,105,578
Unrestricted	<u>1,134,057</u>	<u>394,184</u>	<u>(570,699)</u>	<u>957,542</u>
Total Net Position	<u>\$ 4,870,876</u>	<u>\$ 5,062,460</u>	<u>\$ 2,633,646</u>	<u>\$ 12,566,982</u>

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

City of Hardin
Big Horn County
Hardin, Montana

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
for the Fiscal Year Ended June 30, 2014

	Major Enterprise Water	Major Enterprise Sewer	Major Enterprise Solid Waste	Total Enterprise Funds
OPERATING REVENUES:				
Charges for Services	\$ 741,092	\$ 631,361	\$ 961,945	\$ 2,334,398
Special Assessments	-	-	2,779	2,779
Miscellaneous Revenues	<u>1,392</u>	<u>7,786</u>	<u>68</u>	<u>9,247</u>
Total Operating Revenues	742,485	639,147	964,792	2,346,424
OPERATING EXPENSES:				
Personnel Services - Salaries	278,817	201,494	408,744	889,055
Fixed Charges (Insurance)	16,480	11,809	112,417	140,706
Other Purchased Services	100,062	94,866	76,784	271,712
Supplies & Materials	115,782	50,020	160,205	326,006
Depreciation	<u>166,474</u>	<u>173,849</u>	<u>215,532</u>	<u>555,855</u>
Total Operating Expenses	677,614	532,039	973,681	2,183,334
OPERATING INCOME (LOSS)	64,871	107,108	(8,889)	163,089
NON-OPERATING REVENUE (EXPENSES)				
Interest Revenue	23,432	3,617	14,930	41,979
Intergovernmental Revenue	203	100,140	269	100,612
Interest Expense	(6,672)	(44,644)	(22,804)	(74,120)
Gain (Loss) on Sale of Capital Assets	<u>(290)</u>	<u>(955)</u>	<u>(288)</u>	<u>(1,533)</u>
Total Non-operating Revenue(Expenses)	16,673	58,158	(7,893)	66,939
SPECIAL ITEM				
Capital Assets transferred from Governmental	227,915	-	74,847	302,762
CHANGE IN NET POSITION	309,460	165,266	58,065	532,791
NET POSITION, BEGINNING	<u>4,561,416</u>	<u>4,897,194</u>	<u>2,575,580</u>	<u>12,034,191</u>
NET POSITION, ENDING	<u>\$ 4,870,876</u>	<u>\$ 5,062,460</u>	<u>\$ 2,633,646</u>	<u>\$ 12,566,982</u>

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

City of Hardin
Big Horn County
Hardin, Montana

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
for the Fiscal Year Ended June 30, 2014

	Major Enterprise Water	Major Enterprise Sewer	Major Enterprise Solid Waste	Total Enterprise Funds
CASH FLOWS FROM OPERATIONS:				
Cash Received From Customers	\$ 749,203	\$ 641,492	\$ 962,569	\$ 2,353,264
Personal Services - Salaries	(282,567)	(196,984)	(384,056)	(863,608)
Supplies & Materials	<u>(217,521)</u>	<u>(180,222)</u>	<u>(120,215)</u>	<u>(517,958)</u>
Net Cash Provided (Used) by Operating Activities	249,115	264,286	458,298	971,698
CASH FLOWS FROM NONCAPITAL ACTIVITIES:				
Advance to Other Funds	90,818	-	-	90,818
Subsidies from Taxes and Other Governments	<u>203</u>	<u>100,140</u>	<u>269</u>	<u>100,612</u>
Net Cash Provided (Used) by NonCapital Activities	91,021	100,140	269	191,430
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest Earnings	<u>24,205</u>	<u>4,892</u>	<u>16,606</u>	<u>45,703</u>
Net Cash Provided (Used) by Investing Activities	24,205	4,892	16,606	45,703
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Principal on Bonds	(10,000)	(152,000)	(166,000)	(328,000)
Interest and Agent Fees Paid on Bonds	(6,672)	(44,644)	(22,804)	(74,120)
Capital Contributions in lieu of Contracts Receivable	350	850	-	1,200
Purchase/Acquisition/Construction of Capital Assets	<u>(78,103)</u>	<u>(115,491)</u>	<u>(140,374)</u>	<u>(333,968)</u>
Net Cash Provided (Used) by Capital and Related Fin Activities	(94,425)	(311,285)	(329,178)	(734,887)
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	269,917	58,032	145,995	473,944
CASH & CASH EQUIVALENTS - JULY 1, 2013	<u>865,680</u>	<u>914,664</u>	<u>1,841,092</u>	<u>3,621,436</u>
CASH & CASH EQUIVALENTS - JUNE 30, 2014	<u>1,135,597</u>	<u>972,696</u>	<u>1,987,087</u>	<u>4,095,380</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating Income (Loss)	64,871	107,108	(8,889)	163,089
Adjustments to Reconcile Operating Income to net cash Provided by Operating Activities:				
(Increase)Decrease in Inventory	185	385	1,939	2,508
(Increase)Decrease in Accounts Receivable	(879)	2,345	(5,523)	(4,058)
(Increase)Decrease in Assessments Receivables	(392)	-	(1,400)	(1,792)
Increase(Decrease) in Accounts Payable	14,618	(23,911)	136,681	127,388
Increase(Decrease) in Compensated Absences	(12,090)	(1,900)	(21,797)	(35,787)
Increase(Decrease) in Accrued Payroll	776	1,960	37,142	39,878
Increase(Decrease) in Customer Deposits	7,990	-	4,700	12,690
Landfill Closure and Post-Closure Expense	-	-	90,570	90,570
OPEB Expense	7,563	4,450	9,343	21,356
Depreciation Expense	<u>166,474</u>	<u>173,849</u>	<u>215,532</u>	<u>555,855</u>
Total Adjustments	<u>184,244</u>	<u>157,178</u>	<u>467,187</u>	<u>808,609</u>
Net Cash Provided by Operating Activities	\$ 249,114.83	\$ 264,285.50	\$ 458,297.64	\$ 971,697.97
Noncash Capital Activities:				
Capital Assets transferred from Governmental Activities	\$ 227,915	\$ -	\$ 74,847	\$ 302,762

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

City of Hardin
Big Horn County
Hardin, Montana

STATEMENT OF FIDUCIARY NET POSITION &
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
As of June 30, 2014

	Private Purpose Trust Funds	Agency Funds
ASSETS:		
Cash & Cash Equivalents	\$ 134,360	\$ 5,784
Taxes Receivable	742	-
Other Assets	193	-
Total Assets	<u>135,295</u>	<u>5,784</u>
LIABILITIES:		
Accounts Payable	-	3,593
Warrants Payable	-	2,191
Total Liabilities	-	5,784
DEFERRED INFLOWS OF RESOURCES:		
Unavailable Revenue - Assessments	<u>742</u>	-
NET POSITION:		
Restricted for Pension Benefits		
Held in Trust for Private Purpose Trust	<u>135,295</u>	-
Total Net Position	<u>\$ 135,295</u>	<u>\$ -</u>

CHANGES IN FIDUCIARY NET POSITION

ADDITIONS:	
Intergovernmental Rev - Private Purpose Trusts	8,789
City Contributions	22,872
State Contributions	3,908
Interest Earnings	<u>486</u>
Total Additions	<u>36,055</u>
DEDUCTIONS:	
Administrative Payments	3
Benefit Payments	<u>23,990</u>
Total Deductions	<u>23,993</u>
CHANGE IN NET POSITION:	12,062
Net Position, Beginning of the Year	<u>122,491</u>
Net Position, Ending of the Year	<u>\$ 134,553</u>

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A) REPORTING ENTITY

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

Discretely Presented Component Unit –Two Rivers Authority

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

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 except for the fiduciary funds. The trust funds are reported as private purpose trust funds in the fiduciary fund financial statements.

The government-wide financial statements and fiduciary fund statements report using the economic resources measurement focus and the accrual basis of accounting generally including the elimination of internal service activity between or within funds. 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, sewer, garbage and landfill fees and (2) operating grants that are restricted to a particular functional program. Property taxes, special assessments and other revenue sources not properly included with program revenue are reported as general revenues.

Fund Financial Statements

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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.

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

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

Street Maintenance Fund – This fund is used to account for the revenues and expenditures of the City’s Street Maintenance Districts. Fees collected from taxpayers are used for the maintenance of the City’s streets and right-of-ways within these districts.

TIF –The Tax Increment Financing (TIF) fund is used to account for revenues and costs to make payments on the revenue bond which was used to improve the industrial park and provide funds to finish the Industrial Park Infrastructure. The City uses two funds for accounting for the TIF funds; TIF Debt Service and TIF CIP. These funds are combined for reporting purposes in accordance with GASB No. 54.

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

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

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, 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 services and landfill operations. The City maintains two separate funds (Solid Waste and Landfill) to account for the activities of this fund. The Solid Waste and

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Landfill funds are reported as one fund. Detailed information regarding each of these funds is included in the Supplementary Information section of this report.

Fiduciary Funds

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

Private Purpose Trust Funds – In fiscal year 2014, the City maintained one private purpose trust fund.

The Fireman’s Pension Trust Fund is used to account for assets held by the City in a trustee capacity for the Volunteer Fireman’s Disability and Pension fund.

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

C) CASH AND INVESTMENTS

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

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

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 funds (including restricted assets) held in the City cash pool described above and County cash pool to be cash equivalents. The City considers cash held in the Fiduciary funds to be cash equivalents and are reported at fair value.

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

D) ESTIMATES

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

E) PROPERTY TAXES / ASSESSMENTS

Property taxes and assessments are collected by the Big Horn County Treasurer who credits to the City 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 of Hardin collects any prepaid assessments directly. In fiscal year 2014, the City collected prepaid Street Improvement District (SID) assessments of \$46,023 for SID 120.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

F) INVENTORIES

Inventories are reported at cost (Last in, First out) and are charged to expenditures when purchased. Inventories consist primarily of a gravel pit. Inventories as of June 30, 2014 are \$121,987 for Governmental activities and \$51,789 Proprietary funds. In fiscal year 2014, the City transferred a gravel pit valued at \$119,317 from the Electrical Generation Impact fund to the Streets Maintenance fund.

G) CAPITAL ASSETS

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

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

Primary Government

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

Two Rivers Authority – A Component Unit

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

H) COMPENSATED ABSENCES

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

The City's liability incurred because of unused vacation and sick leave accumulated by employees is reflected in the financial statements. Expenditures for unused leave are recorded when paid in governmental funds and when accrued on the statement of activities. The governmental amount expected to be paid within one year is \$13,692 and it is generally paid out of the general fund. The current portion of the business-type activities compensated absences is \$21,190. Total accrued government and business-type funds liabilities for sick and vacation leave as of June 30, 2014 were \$54,769 and \$84,761 respectively, for total primary governmental compensated absences of \$139,531.

I) INTERFUND TRANSACTIONS

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

J) INTERFUND BALANCES

In fiscal year 2013, the Water fund proprietary fund loaned the General fund \$300,000. The balance outstanding at year end was \$209,182 and is reported on the Statement of Net Position as “Internal Balances” between the governmental and proprietary funds.

K) LONG-TERM OBLIGATIONS

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

L) ENCUMBRANCES

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

NOTE 2: CASH AND INVESTMENTS

A) CITY OF HARDIN – CASH & INVESTMENTS

The majority of the City’s cash resources are held and managed by the City Finance Officer. Deposits consist primarily of demand accounts, money markets and CD’s, and are carried at fair value. The City’s investments consist primarily of repurchase agreements and US Government securities and are carried at fair value. At year end the carrying amount of cash and cash equivalents was \$5,598,426 and the carrying amount of investments was \$2,159,102 for total cash and investments of \$7,757,528. This includes \$134,360 in the Trust funds; \$5,784 in Agency funds and \$20,128 in Clearing funds. Cash and investments held on June 30, 2014 are illustrated in the table in NOTE 2C.

B) TWO RIVERS AUTHORITY – CASH & INVESTMENTS

Two Rivers Authority operating cash resources of \$4,384 are held and managed by the Executive Director. The Bond reserve account of \$123,717 is held and managed by a US Bank Trustee. Deposits consist primarily of demand accounts are carried at fair value. At June 30, 2014, the carrying amount of cash and investments was \$128,101 as shown in the table below.

C) CASH & INVESTMENTS

<u>Cash & Cash Equivalents:</u>	<u>City of Hardin</u>	<u>Two Rivers Authority</u>
Demand Accounts	\$ 25,913	\$128,101
Petty Cash	425	0
Corporate Money Markets	42,466	0
Government Money Markets	19,690	0
Certificates of Deposit	<u>5,509,932</u>	<u>0</u>
Total Cash & Cash Equivalents	\$5,598,426	\$128,101
<u>Investments:</u>		
Repurchase Agreements	\$ 589,245	0
US Treasury Notes	1,015,465	0
US Government Securities	<u>554,392</u>	<u>0</u>
Total Investments	<u>2,159,102</u>	<u>0</u>
Total Cash & Investments	<u>\$7,757,528</u>	<u>\$128,101</u>

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Custodial Credit Risk – Investments: Custodial credit risk for investments is the risk that, in the event of a financial institution failure, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require all investments (other than federal or state government instruments) to be collateralized in accordance with State statutes. The City’s policy for custodial credit risk requires compliance with the laws of the State

Concentration of Credit Risk: The City places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the City at June 30, 2014:

<u>Investment Type</u>	<u>Fair Value</u>	<u>% to Total</u>
Repurchase Agreements	\$ 589,245	27.3%
U.S. Treasury Notes	1,015,465	47.0%
Federal Home Loan Mortgage Corp.	104,936	4.9%
Federal Home Loan Bank	60,703	2.8%
Federal Farm Credit Bank	170,025	7.9%
Federal National Mortgage Association	<u>218,728</u>	<u>10.1%</u>
Total Investments	<u>\$2,159,102</u>	<u>100.0%</u>

D) RESTRICTED CASH & INVESTMENTS

Restricted cash and investments as of June 30, 2014 were restricted for the purposes as shown below:

<u>Fund</u>	<u>City of Hardin</u>	<u>TRA</u>	<u>Description</u>
General	\$ 3,196		Customer Deposits Payable
TIFD	1,651,059		Debt Service Payments
TIF CIP	30,280		Capital Projects
Gas Tax Apportionment	<u>18,422</u>		
Total Governmental	1,702,957		
Water	59,940		Customer Deposits Payable
Water	17,323		Debt Service Payments
Water	90,758		Capital Projects
Sewer	196,591		Debt Service Payments
Sewer	374,777		Capital Projects
Solid Waste	300,000		Capital Projects
Landfill	340,044		Capital Projects
Landfill	4,699		Customer Deposits
Landfill	100,025		Debt Service Payments
Landfill	<u>698,216</u>		Closure/Post-Closure
Total Proprietary	2,182,373		
Total Primary Government	<u>\$3,885,330</u>		
Two Rivers Authority		<u>\$123,717</u>	Third Party Bond Requirements

NOTE 3: NET POSITION / FUND BALANCE

A) NET POSITION

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

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

Restricted Net Position – 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, 2014, restricted Net Position for governmental activities totaled \$2,327,190. Net Position restricted by enabling legislation totaled \$2,419,410 of which \$92,219 is reported in Net Investment in Capital Assets.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

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

B) FUND BALANCE POLICY

Fund Statement – Net Position

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

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

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

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

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

Unassigned – All amounts not included in other spendable classifications.

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

C) FUND BALANCE CLASSIFICATIONS – GOVERNMENTAL FUNDS

Nonspendable Net Position:

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	\$ 968,531	Interfund Loans
General Fund	5,761	Inventories
Street Maintenance Fund	116,226	Inventories
Other Governmental Funds	<u>647,573</u>	Interfund loans
Total Nonspendable	\$1,738,091	

Restricted Net Position:

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
TIF	\$1,681,338	Debt Service
Street Maintenance	243,460	Public Works
Street Maintenance	23,746	Capital Projects
Other Governmental Funds	68,473	Capital Projects
Other Governmental Funds	16,207	General Government
Other Governmental Funds	20,000	Public Safety
Other Governmental Funds	281,611	Public Works
Other Governmental funds	<u>84,575</u>	Housing/Community Development
Total Restricted	\$2,419,410	

Committed Net Position:

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
Other Governmental funds	\$ 104,865	Insurance/Retirement

Assigned Net Position:

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
General	\$ 58,243	Public Safety
General	80,000	Housing/Community Development
Other Governmental funds	7,475	Housing/Community Development
Other Governmental funds	<u>231,738</u>	Public Works
Total Assigned	\$ 377,456	

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Unassigned Net Position:

<u>Fund</u>	<u>Amount</u>
General	\$ 453,953
SID 120	(1,254,399)
SID 121	<u>(530,660)</u>
Total Unassigned	<u>\$(1,331,106)</u>

D) MATERIAL CHANGES IN FUND BALANCE CLASSIFICATIONS

The City reviewed its GASB 54 interpretations and determined that the previously reported fund balance classifications were in need of revision. The fund balances reported above reflect current classifications. The major changes involved changing some fund balances from Assigned to Restricted classifications to correspond with restrictions of levies.

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

The difference of \$214,807 between restricted fund balance on the Balance Sheet - Governmental Funds and restricted net position on the Statement of Net Position represents the deferred inflows of resources due to taxes/assessments receivable in the restricted funds. The difference of \$92,219 is the net position restricted for capital projects that is included in the Net Investment in Capital Assets. These differences are attributable to the difference in accounting basis of these two statements

NOTE 4: TAXES / ASSESSMENTS AND OTHER RECEIVABLES

A) MILL LEVIES

The taxable value of the roll as of January 1, 2013, upon which the levy for the 2014 fiscal year was based, was \$2,605,375 for the City. The tax rates assessed for the year ended June 30, 2014 were as follows:

<u>Fund</u>	<u>Mills</u>
General	145.51
Group Health Insurance	11.09
Firemen’s Disability & Pension Trust	3.36
Comprehensive Insurance	3.09
PERS-(Employer Contribution)	8.97
Permissive Medical	<u>9.38</u>
Total Governmental	<u>181.40</u>

B) TAXES/ASSESSMENTS RECEIVABLE

An allowance for uncollectible accounts was not estimated for real and personal property taxes receivable. The direct write-off method is used for these accounts.

<u>Funds</u>	<u>Taxes Receivable</u>	<u>Assessments Receivable</u>	<u>Total Taxes & Assessments</u>
General	\$ 35,423	\$ 0	\$ 35,423
Street Maintenance	17,079	0	17,079
SID 120	0	1,294,626	1,294,626
SID 121	5,452	530,660	536,112
Curb & Gutter – Crow Ave SID	0	74,476	74,476
Curb & Gutter – Other	0	52,672	52,672
Other Governmental Funds	<u>31,824</u>	<u>3,333</u>	<u>35,157</u>
Total Governmental Funds	\$ 89,778	\$1,955,767	\$2,045,545
Water	\$ 1,004	\$ 0	\$ 1,004
Sewer	960	0	960
Landfill	<u>22,221</u>	<u>0</u>	<u>22,221</u>
Total Proprietary Funds	<u>24,185</u>	<u>0</u>	<u>24,185</u>
Total Primary Government	<u>\$113,963</u>	<u>\$1,955,767</u>	<u>\$2,069,730</u>

Only the principal portion of Assessments Receivable is illustrated above. Past due assessments receivable are included in taxes receivable for illustrative purposes. Interest amounts will be reported as revenues in the year in which they are received.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

C) SPECIAL IMPROVEMENT DISTRICTS (SIDs)

SID 120

This street project began in fiscal year 2013. As of June 30, 2014, no amounts have been billed to City residents. The City financed this project internally through interfund loans to keep the interest within the City rather than paying interest to a third party. The affected City residents will be billed over a 20-year period at 3% beginning in fiscal year 2015.

SID 121

This street project was for the installment, construction and replacement of streets, curbs and gutters, sidewalks and driveway approaches and was completed in fiscal year 2013. In fiscal year 2014, the City Council lowered the interest rate on outstanding balances of this SID from 4% to 3% retroactively to the beginning of the SID assessment period. The City financed this project internally through interfund loans to keep the interest within the City rather than paying interest to a third party. The affected City residents will be billed over a 20-year period at 3%.

Crow Avenue SID

This street project was for the installment, construction, reconstruction and replacements of curbs and gutters, sidewalks and driveway approaches, and was completed in fiscal year 2013. This project was paid for from the Capital Improvement fund and Curb & Gutter revolving loan 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 and at 4% rather than 3% due to the portion covered by the City. Resident payments began in fiscal year 2014. A couple of residents made early payments in fiscal year 2014 bringing the amount due as of June 30, 2014 to \$74,476.

Other SIDs

The City's street maintenance assessments accounted for in the Curb & Gutter fund and assessments accounted for in the Local Charges for Services fund are reported as Other SIDs. Other SID's receivable totaled \$56,005 as of June 30, 2014.

MAJOR SID ASSESSMENTS RECEIVABLE as of June 30, 2014

Fiscal Year	SID 120	SID 121	Crow Ave. SID
<u>Ending 6/30:</u>	<u>Principal</u>	<u>Principal</u>	<u>Principal</u>
2015	\$ 0	\$ 21,225	\$ 5,514
2016	38,069	21,867	5,737
2017	52,129	25,282	5,969
2018	53,705	23,209	6,210
2019	55,328	23,910	6,461
2020 – 2024	302,759	130,838	36,437
2025 – 2029	351,365	151,843	8,148
2030 – 2034	<u>441,271</u>	<u>135,240</u>	<u>0</u>
Total	<u>\$1,294,626</u>	<u>\$530,660</u>	<u>\$74,476</u>

The Assessments receivable amounts shown above are current assessments. Past due assessments are reported as taxes receivable.

E) INTERFUND RECEIVABLES (DUE FROM OTHER FUNDS)

Fund	Prior Year Balance	Current Year Payments	Current Year Balance	Due From / Reason
General	\$ 131	\$(131)	\$ 0	Emergency – to cover negative cash
General	\$ 854,626	\$ 0	\$ 854,626	SID 120 – to cover street construction costs
Curb & Gutter	70,000	0	70,000	SID 120 – to cover street construction costs
Gas Tax Apportionment	130,000	0	130,000	SID 120 – to cover street construction costs
Capital Improvements	<u>240,000</u>	<u>0</u>	<u>240,000</u>	SID 120 – to cover street construction costs
Subtotal SID 120	\$1,294,626	\$ 0	\$1,294,626	
General	\$ 330,273	\$(7,186)	\$ 323,087	SID 121 – to cover street construction costs
Curb & Gutter	28,935	(630)	28,305	SID 121 – to cover street construction costs
Gas Tax Apportionment	67,514	(1,468)	66,046	SID 121 – to cover street construction costs
Capital Improvements	<u>115,740</u>	<u>(2,518)</u>	<u>113,222</u>	SID 121 – to cover street construction costs
Subtotal SID 121	\$ 542,462	\$(11,802)	\$ 530,660	
Total Governmental funds	\$1,837,219	\$(11,933)	<u>\$1,825,286</u>	

NOTES TO THE FINANCIAL STATEMENTS (Continued)

F) INTERNAL BALANCES

Internal Balances represent a 3-year loan from the Water fund which is a Proprietary fund to the General fund which is a Governmental fund. The governmental and proprietary funds are reported in separate columns on the Statement of Net Position. Therefore, the interfund receivable and interfund payable balances cannot be eliminated for reporting purposes. In fiscal year 2014, the General fund paid the Water fund \$90,818. The remaining amounts to be paid from the General fund to the Water funds are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2015	\$102,602	\$ 7,354
2016	<u>106,580</u>	<u>3,215</u>
Total	<u>\$209,182</u>	<u>\$10,569</u>

G) ACCRUED INTEREST RECEIVABLE

<u>Fund</u>	<u>Amount</u>	<u>Due – From / Reason</u>
General	\$1,309	CD Interest Receivable
Street Maintenance	398	CD Interest Receivable
Other Governmental Funds	<u>1,771</u>	CD Interest Receivable
Total	<u>\$3,478</u>	

H) DUE FROM OTHER GOVERNMENTS

<u>Fund</u>	<u>Amount</u>	<u>Due – From / Reason</u>
General	\$ 125	State of Montana – Gambling Distribution
General	<u>2,421</u>	State of Montana – HB758 Reimbursement
	<u>\$2,456</u>	

I) ACCOUNTS RECEIVABLE

An allowance for uncollectible accounts was not estimated for the City’s proprietary funds because any uncollected accounts are placed on the tax rolls as assessments.

NOTE 5: CAPITAL ASSETS

A) CAPITAL ASSETS – GOVERNMENTAL ACTIVITIES:

	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Removals</u>	<u>Intergovernmental Transfers</u>	<u>Transfers to Proprietary</u>	<u>Balance June 30, 2014</u>
COST Non-Depreciable:						
Land	\$ 639,001	\$ 0	\$ 0	\$(40,622)	\$ 0	\$ 598,379
Rights of Way	0	0	0	40,622	0	40,622
CIP	<u>1,171,236</u>	<u>92,149</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,263,385</u>
Total Non-Depreciable	\$ 1,810,237	\$ 92,149	\$ 0	\$ 0	\$ 0	\$1,902,386
COST Depreciable:						
Land Improvements	\$ 377,592	\$ 0	\$ 0	\$ 0	\$(185,277)	\$ 192,315
Buildings	1,104,319	0	0	0	(0)	1,104,319
Machinery & Equipment	1,435,128	0	27,603	0	(187,642)	1,219,883
Infrastructure	<u>14,514,030</u>	<u>14,765</u>	<u>0</u>	<u>0</u>	<u>(76,693)</u>	<u>14,452,101</u>
Total Depreciable COST	<u>17,431,069</u>	<u>14,765</u>	<u>27,603</u>	<u>0</u>	<u>(449,612)</u>	<u>16,968,618</u>
Total COST	<u>\$19,241,306</u>	<u>\$ 106,914</u>	<u>\$ 27,603</u>	<u>\$ 0</u>	<u>\$(449,612)</u>	<u>\$18,871,004</u>
ACCUMULATED DEPRECIATION:						
Land Improvements	\$ (107,067)	\$ (6,648)	\$(0)	\$ 0	\$ (0)	\$ (61,220)
Buildings	(224,823)	(24,307)	(0)	0	(52,495)	(249,130)
Machinery & Equipment	(857,751)	(68,884)	(23,987)	0	(82,691)	(819,957)
Infrastructure	<u>(551,701)</u>	<u>(369,869)</u>	<u>(0)</u>	<u>0</u>	<u>(11,664)</u>	<u>(909,906)</u>
Total Depreciation	<u>\$(1,741,342)</u>	<u>\$(469,708)</u>	<u>\$(23,987)</u>	<u>\$ 0</u>	<u>\$(146,850)</u>	<u>\$(2,040,213)</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

General Government	\$ 7,869
Public Safety	42,172
Public Works	311,323
Public Health	233
Culture & Recreation	11,008
Housing & Dev	<u>97,103</u>
Total Depreciation	<u>\$469,708</u>

B) CAPITAL ASSETS – BUSINESS-TYPE ACTIVITIES:

	Balance <u>July 1, 2013</u>	Additions	Removals	Transfers from <u>Governmental</u>	Balance <u>June 30, 2014</u>
COST Non-Depreciable:					
Land	\$ 463,193	\$ 0	\$ 0	\$ 0	\$ 463,193
CIP	<u>1,853,271</u>	<u>145,994</u>	<u>1,972,756</u>	<u>0</u>	<u>26,509</u>
Total Non-Depreciable	\$ 2,316,464	\$ 145,994	\$1,972,756	\$ 0	\$ 489,702
COST Depreciable:					
Land Improvements	\$ 2,040,909	\$ 0	\$ 0	\$ 0	\$ 2,040,909
Infrastructure (Utility):					
Transmission & Dist.	8,394,368	47,600	34,565	261,969	8,669,372
Treatment Plant	4,126,159	1,972,756	39,034	37,947	6,097,828
General Plant	453,991	0	23,017	0	430,974
Buildings & Improvements	100,354	0	0	0	100,354
Machinery & Equip.	<u>1,548,198</u>	<u>140,375</u>	<u>25,995</u>	<u>149,700</u>	<u>1,812,278</u>
Total Depreciable COST	<u>\$16,663,979</u>	<u>\$2,160,731</u>	<u>\$ 122,611</u>	<u>\$ 449,616</u>	<u>\$19,151,715</u>
Total COST	<u>\$18,980,443</u>	<u>\$2,306,725</u>	<u>\$2,095,367</u>	<u>\$ 449,616</u>	<u>\$19,641,417</u>
ACCUMULATED DEPRECIATION:					
Land Improvements	\$ (378,977)	\$ (76,504)	\$ (0)	\$ (0)	\$ (455,481)
Infrastructure (Utility):					
Transmission & Dist.	(2,577,411)	(182,652)	(34,565)	(64,159)	(2,789,657)
Treatment Plant	(1,940,534)	(155,614)	(38,370)	(7,843)	(2,065,621)
General Plant	(424,693)	(1,674)	(23,017)	(0)	(403,350)
Buildings & Improvements	(41,766)	(2,171)	(0)	(0)	(43,937)
Machinery & Equipment	<u>(933,287)</u>	<u>(137,240)</u>	<u>(25,125)</u>	<u>(74,848)</u>	<u>(1,120,250)</u>
Total Depreciation	<u>\$ (6,296,668)</u>	<u>\$ (555,855)</u>	<u>\$ (121,077)</u>	<u>\$ (146,850)</u>	<u>\$ (6,878,296)</u>

Depreciation was charged to the proprietary funds as follows:

Water	\$166,474
Sewer	173,849
Solid Waste	27,176
Landfill	<u>188,356</u>
Total Depreciation Expense	<u>\$555,855</u>

Interest cost incurred and charged to interest expense on the water project CIP additions for fiscal year 2014 totaled \$3,892. This interest cost was not capitalized. A loss on the disposal of disposal of business-type capital assets totaled \$1,533.

C) CAPITAL ASSETS – TWO RIVERS AUTHORITY:

	Balance <u>July 1, 2013</u>	Additions	Removals	Transfers	Balance <u>June 30, 2014</u>
Two Rivers Authority					
COST Non-Depreciable:					
Land	\$ 257,377	\$ 0	\$ 0	\$ 0	\$ 257,377
Total Non-Depreciable	\$ 257,377	\$ 0	\$ 0	\$ 0	\$ 257,377

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	Balance <u>July 1, 2013</u>	<u>Additions</u>	<u>Removals</u>	<u>Transfers</u>	Balance <u>June 30, 2014</u>
Two Rivers Authority					
COST Depreciable:					
Buildings	\$19,684,930	\$ 0	\$ 0	\$ 0	\$19,684,930
Intangibles – Logo	0	0	0	780	780
Machinery & Equip.	<u>2,000</u>	<u>0</u>	<u>0</u>	<u>(780)</u>	<u>1,220</u>
Total Depreciable COST	<u>\$19,686,930</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$19,686,930</u>
Total COST	<u>\$19,944,307</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$19,944,307</u>
ACCUMULATED DEPRECIATION:					
Buildings	\$(1,968,493)	\$(393,699)	\$ 0	\$ 0	\$(2,362,192)
Intangibles – Logo*	(0)	(52)	0	(260)	(312)
Machinery & Equip.	<u>(955)</u>	<u>(525)</u>	<u>0</u>	<u>260</u>	<u>(1,220)</u>
Total Depreciation	<u>\$(1,969,448)</u>	<u>\$(394,276)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$(2,363,724)</u>

*The logo is reported separately as an intangible asset rather than including it with Machinery and Equipment.

NOTE 6: 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.

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

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

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

Insurance Pools:

In 1986, the City joined with other Montana cities to form the Montana Municipal Insurance Authority (MMIA) which established a workers' compensation plan and a tort liability plan.

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

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

NOTE 7: JOINT VENTURES

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

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

Senior Lien Project Revenue Bonds

On April 24, 2006 Two Rivers Authority issued \$27,015,000 in Senior Lien Project Revenue Bonds to finance the cost of the construction of the detention facility, to establish a reserve, and to pay costs associated with the sale of bonds. (See NOTE 11B)

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

Two Rivers Authority Operations

In fiscal year 2014, Two Rivers Authority's operating costs totaled \$388,827 which does not include depreciation or debt service requirements. Revenues totaled \$197. Basic operating costs outpaced revenues by \$388,630. 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. A bondholder advanced TRA \$360,532 to cover a portion of the revenue shortage. At year end accrued payroll and compensated absences totaled \$27,991.

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

On May 6, 2014, Two Rivers Authority (TRA) executed start-up and operational agreements with Emerald Correctional Management LLC (Emerald) in order to bring the Two Rivers Regional Detention Facility into use. Start-up funding was provided by interested third-party bondholders and was recorded as funding advances of \$360,532 at June 30, 2014. (See NOTE 19E)

NOTE 8: CURRENT LIABILITIES

A) OTHER PAYABLES

<u>Fund</u>	<u>Accounts Payable</u>	<u>Customer Deposits</u>	<u>Revenues Collected in Advance</u>	<u>Accrued Payroll Expenses</u>	<u>Contracts Payable</u>	<u>Accrued Interest Payable</u>
General	\$ 36,497	\$ 3,196	\$ 0	\$ 11,045	\$18,361	\$1,225
Street Maintenance	4,455	0	0	19,270	0	0
SID 120	0	0	0	252	0	0
Other Governmental Funds	<u>14,783</u>	<u>0</u>	<u>0</u>	<u>2,815</u>	<u>0</u>	<u>0</u>
Total Governmental	\$ 55,735	\$ 3,196	\$ 0	\$ 33,382	\$18,361	\$1,225
Water	\$ 31,104	\$59,940	\$ 13,841	\$ 9,563	\$ 0	\$ 0
Sewer	10,140	0	26,781	8,174	0	0
Solid Waste	3,273	0	0	3,507	0	0
Landfill	<u>148,608</u>	<u>4,700</u>	<u>0</u>	<u>45,538</u>	<u>0</u>	<u>0</u>
Total Proprietary	<u>193,125</u>	<u>64,640</u>	<u>40,622</u>	<u>66,782</u>	<u>0</u>	<u>0</u>
Total Primary Government	<u>\$248,860</u>	<u>\$67,836</u>	<u>\$40,622</u>	<u>\$100,164</u>	<u>\$18,361</u>	<u>\$1,225</u>

B) DEFERRED INFLOWS OF RESOURCES

<u>Governmental Fund</u>	<u>Amount</u>	<u>Reason</u>
General	\$ 35,423	Taxes / Assessments Receivable
Street Maintenance	17,079	Taxes / Assessments Receivable
SID 120	1,294,626	Taxes / Assessments Receivable
SID 121	536,112	Taxes / Assessments Receivable
Other Governmental Funds	<u>162,305</u>	Taxes / Assessments Receivable
Total Governmental Activities	<u>\$2,045,545</u>	

NOTES TO THE FINANCIAL STATEMENTS (Continued)

C) REVENUES COLLECTED IN ADVANCE

<u>Proprietary Fund</u>	<u>Amount</u>
Water	\$ 13,841
Sewer	<u>26,781</u>
Total Proprietary Funds	<u>\$ 40,622</u>

D) INTERNAL BALANCES

<u>Governmental Fund</u>	<u>Amount</u>	<u>Proprietary Fund / Reason</u>
General	<u>209,182</u>	Water – in- house SID financing

E) INTERFUND LOANS PAYABLE

<u>Fund</u>	<u>Amount</u>	<u>Due to / Reason</u>
SID 120	\$ 854,626	General – in- house SID financing
SID 120	70,000	Curb & Gutter – in-house SID financing
SID 120	130,000	Gas Tax – in- house SID financing
SID 120	<u>240,000</u>	Capital project – in- house SID financing
Subtotal SID 120	1,294,626	
SID 121	323,087	General – in- house SID financing
SID 121	28,305	Curb & Gutter – in-house SID financing
SID 121	66,046	Gas Tax – in- house SID financing
SID 121	<u>113,222</u>	Capital project – in- house SID financing
Subtotal SID 121	<u>530,660</u>	
Total Governmental Loans	<u>\$1,825,286</u>	

SID Interfund Loans

In fiscal year 2013, the City funded two Street Improvement Districts (SID 120 and SID121) internally by loaning money from other governmental funds at 4%. In fiscal year 2014, the City Council made a resolution reducing the interest rate to 3% to be retroactively applied. 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. Early payments will reduce interest.

<u>Fund</u>	<u>Loan Amt.</u>	<u>Interest Rate</u>	<u>Payment Frequency</u>	<u>Semi-Annual Payments</u>
SID 120	\$1,294,626	3%	Semi-annually	\$44,719
SID 121	542,462	3%	Semi-annually	18,494
	<u>SID 120</u>	<u>SID 121</u>	<u>Total</u>	
Assessments Receivable	<u>\$1,294,626</u>	<u>\$530,660</u>	<u>\$1,825,286</u>	
<u>Due to Other Funds:</u>	<u>Principal</u>	<u>Principal</u>	<u>Balance</u>	
General	\$ 854,626	\$323,087	\$1,177,713	
Curb & Gutter	70,000	28,305	98,305	
Gas Tax Apportionment	130,000	66,046	196,046	
Capital Improvements	<u>240,000</u>	<u>113,222</u>	<u>353,222</u>	
Total	<u>\$1,294,626</u>	<u>\$530,660</u>	<u>\$1,825,286</u>	

The repayment schedule from the SID 120 and SID 121 funds to the governmental funds loaning to them is illustrated below.

Due by June 30:	<u>SID 120</u>		<u>SID 121</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 0	\$ 89,438	\$ 21,225	\$ 15,762
2016	38,069	51,369	21,867	15,120
2017	52,129	37,309	25,282	14,459
2018	53,705	35,733	23,209	13,778
2019	55,328	34,110	23,910	13,077
2020-2024	302,759	144,431	130,838	54,279
2025-2029	351,365	95,825	151,843	33,093
2030-2034	<u>441,271</u>	<u>39,417</u>	<u>135,240</u>	<u>9,102</u>
Total	<u>\$1,294,626</u>	<u>\$527,632</u>	<u>\$530,660</u>	<u>\$168,670</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Water Interfund loan to General fund

In October 2012, the Water fund loaned the General fund \$300,000 on a 3-year basis to be repaid on a semi-annual schedule beginning in November of 2013 at 4% interest to allow the General fund sufficient cash to fund the Special Improvement Districts 120 and 121. In fiscal year 2014, the General fund made a principal payment of \$90,818 and interest payment of \$19,138 to the Water fund.

Due by June 30:	<u>Principal</u>	<u>Interest</u>	<u>Balance</u>
2015	\$102,602	\$ 7,534	\$106,580
2016	<u>106,580</u>	<u>3,215</u>	<u>0</u>
Total	<u>\$209,182</u>	\$10,749	\$ 0

NOTE 9: LONG TERM DEBT OBLIGATIONS – GOVERNMENTAL ACTIVITIES

A) CHANGES IN LONG TERM DEBT

	Balance				Balance	Principal
Governmental Activities:	<u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Accretions</u>	<u>June 30, 2014</u>	<u>Due within</u>
						<u>one year</u>
TIF Bonds (accretion phase)	\$19,023,111	\$ 0	\$ 0	\$1,244,439	\$20,267,550	\$ 0
Compensated Absences	87,977	0	33,208	0	54,769	13,693
OPEB Liability	<u>125,567</u>	<u>23,136</u>	<u>0</u>	<u>0</u>	<u>148,703</u>	<u>0</u>
Total	<u>\$19,236,655</u>	<u>\$23,136</u>	<u>\$33,208</u>	<u>\$1,244,439</u>	<u>\$20,471,022</u>	<u>\$13,693</u>

B) REVENUE BONDS – GOVERNMENTAL ACTIVITIES:

Governmental Revenue Bonds	<u>Issue Date</u>	<u>Original Term</u>	<u>Original Amount</u>	<u>Interest Rate</u>	<u>Accreted</u>	<u>Principal Balance June 30, 2014</u>
Tax Increment Financing (TIF)	9/1/2006	25 yrs.	\$12,600,953	6.25%	\$7,666,597	<u>\$20,267,550</u>

Tax Increments Financing (TIF) District Revenue 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. is exempt from property taxes until January of 2014. In April 2012, Rocky Mountain Power, Inc. filed for Chapter 11 bankruptcy (reorganization). However, the company is paying their utility bills in a timely fashion. The City expects the Company to begin paying tax assessments that will be due in November of 2014 to raise revenues to cover the TIF revenue bonds.

In September 2006, the City issued \$12,600,953 of revenue bonds to finance all or a portion of the costs of construction and installation of certain industrial infrastructure projects in relation to Rocky Mountain Power Inc. that operate a 116MW coal-fired electric generation station and related facilities. The bonds are secured by a lien on the Tax Increment Financing (TIF) district.

The conversion (accretion) period runs from September 2006 to September 1, 2014. During the conversion period, interest accrues at 6.5% and is added to accumulated principal. No principal or interest payments are required by the City during the conversion period. At the end of the conversion period the accreted principal balance will be \$20,920,000.

<u>TIF District Bonds</u>	<u>Amount</u>	<u>TIF District Bonds</u>	<u>Amount</u>
Original Principal	\$12,600,953	Prior Year Balance	\$19,023,111
Accreted Principal as of 6/30/2014	<u>7,666,597</u>	Fiscal Year 2014 Accretion	<u>1,244,439</u>
Principal as of 6/30/2014	<u>\$20,267,550</u>	Principal as of 6/30/2014	<u>\$20,267,550</u>

Tax Increment Financing (TIF) District Revenue Bonds

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Amount Due</u>	<u>Accretion</u>	<u>Balance</u>
2015	\$ 0	\$ 653,750	\$653,750	\$652,450	\$20,920,000
2016	660,000	1,286,875	1,946,875		20,260,000
2017	700,000	1,244,375	1,944,375		19,560,000
2018	745,000	1,199,219	1,944,000		18,815,000
2019	790,000	1,151,250	1,941,250		18,025,000
2020-2024	4,765,000	4,924,219	9,689,219		13,260,000
2025-2029	6,450,000	3,184,375	9,634,375		6,810,000
2030-2034	<u>6,810,000</u>	<u>769,062</u>	7,579,062		0
Totals	<u>\$20,920,000</u>	<u>\$14,413,125</u>			

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Forecasted TIF District 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 taxable values of property within the Tax Increment Financing District are insufficient to allow the City to assess sufficient taxes to meet the debt obligations of the TIF District bonds. (See Note 19A)

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, 2014, there is no arbitrage-rebate liability for the TIF District bonds.

NOTE 10: LONG TERM DEBT OBLIGATIONS – BUSINESS–TYPE ACTIVITIES

A) CHANGES IN LONG TERM DEBT

Business-Type Activities:	Balance			Balance	
	<u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2014</u>	<u>Due within one year</u>
OPEB Liability	\$ 115,908	\$ 21,356	\$ 0	\$ 137,264	\$ 0
Revenue Bonds	3,599,411	0	328,000	3,271,411	149,411
Compensated Absences	120,548	0	35,786	84,762	21,190
Landfill Closure/Postclosure	<u>816,213</u>	<u>90,570</u>	<u>0</u>	<u>906,783</u>	<u>0</u>
Total	<u>\$4,652,080</u>	<u>\$111,926</u>	<u>\$363,786</u>	<u>\$4,400,220</u>	<u>\$170,601</u>

The City plans to make accelerated principal payments on the Landfill bonds to reduce total interest costs. When extra payments are made the remainder of the balance is re-amortized. Therefore, the Landfill bond schedule below will change from year to year.

B) REVENUE BONDS – PROPRIETARY FUNDS

In prior years, the City issued revenue bonds where the entity pledges income derived from the acquired or constructed assets to pay debt service. In fiscal year 2014, the City paid \$328,000 in principal and \$74,120 in interest payments on the proprietary fund’s bonds. Annual requirements to amortize proprietary funds debt are illustrated below. In fiscal year 2013, the City refinanced two Sewer bonds and a Landfill bond. The amounts shown as “Retired” include bond payments and the effects of the refinancing on principal balances.

Business-Type Bonds:	<u>Issue Date</u>	<u>Term</u>	<u>Interest Rate</u>	<u>Original Amt.</u>	June 30, 2014	
					<u>Retired</u>	<u>Balance</u>
Sewer Series 2003	6/27/2005	10 yrs.	2.25%	\$2,026,390	\$(940,390)	\$1,086,000
Sewer Series 2010B	1/15/2010	20 yrs.	0.75%	359,300	(75,300)	284,000
Sewer Series 2010C	5/11/2010	20 yrs.	3.00%	625,000	(106,000)	519,000
Landfill Series 2009	6/19/2009	15 yrs.	2.25%	1,650,000	(762,000)	888,000
Water Series 2012A	11/6/2012	20 yrs.	3.00%	279,500	(0)	279,500
Water Series 2012B	11/6/2012	20 yrs.	3.00%	<u>235,411</u>	<u>(20,500)</u>	<u>214,911</u>
Total Business-Type Bonds				\$5,175,601	\$(1,904,190)	<u>\$3,271,411</u>

	Water Fund Bonds		Sewer Fund Bonds		Landfill Fund Bonds		Total Proprietary Bonds	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 32,411	\$ 24,065	\$ 77,000	\$ 21,068	\$ 40,000	\$ 9,990	\$ 149,411	\$ 55,123
2016	21,000	14,590	156,000	39,592	81,000	18,630	258,000	72,813
2017	22,000	13,915	160,000	36,113	83,000	16,796	265,000	66,823
2018	22,000	13,215	163,000	32,561	85,000	14,918	270,000	60,694
2019	22,000	12,515	167,000	28,928	87,000	12,993	276,000	54,436
2020-2024	122,000	51,500	822,000	86,910	464,000	34,538	1,408,000	172,947
2025-2029	140,000	30,685	282,000	24,938	48,000	540	470,000	56,163
2030-2033	<u>113,000</u>	<u>7,320</u>	<u>62,000</u>	<u>1,056</u>	<u>0</u>	<u>0</u>	<u>175,000</u>	<u>8,377</u>
Totals	<u>\$494,411*</u>	<u>\$167,805</u>	<u>\$1,889,000</u>	<u>\$271,166</u>	<u>\$888,000</u>	<u>\$108,405</u>	<u>\$3,271,411</u>	<u>\$547,376</u>

* The Water bonds include a bond with a forgiveness clause which would reduce the principal by \$279,500 and interest by \$91,816. This bond was forgiven by the federal government in November 2014.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 11: DEBT OBLIGATIONS – TWO RIVERS AUTHORITY (A Component Unit)

A) CHANGES IN DEBT

Two Rivers Authority (a component unit)	Balance			Balance <u>June 30, 2014</u>	Due within <u>one year</u>
	<u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>		
Revenue Bonds	\$27,015,000	\$ 0	\$ 0	\$27,015,000	\$ 5,165,000
Accrued Bond Interest	8,640,113	1,920,025	0	10,560,138	10,560,138
Advance Funding Loan – Bondholder	0	360,532	0	360,532	0
Accrued Payroll Expense	0	26,051	0	26,051	26,051
Compensated Absences	<u>1,926</u>	<u>13</u>	<u>0</u>	<u>1,939</u>	<u>1,939</u>
Total	\$35,657,039	\$2,306,621	\$ <u>0</u>	<u>\$37,963,660</u>	<u>\$15,753,128</u>

B) REVENUE BONDS – TWO RIVERS AUTHORITY

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

Series 2006 Bond Issuance

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

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

Proceeds from the sale of the Two Rivers Authority revenue bonds were distributed as follows:

	<u>Amount</u>
Original Issuance Discount	\$ 612,865
Underwriters Discount	1,620,900
Acquisition Account	19,574,432
Reserve Account	2,640,213
Bond Fund	<u>2,566,590</u>
Face Amount of Bonds	<u>\$27,015,000</u>

Two Rivers Authority - Series 2006 Bond Amortization

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

	<u>Issue Date</u>	<u>Original Term</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Retired</u>	<u>Balance June 30, 2014</u>
Series 2006	11/2006	20 yrs.	\$27,015,000	6-7.375%	\$ 0	<u>\$27,015,000</u>

Debt service requirements to maturity for TRA's principal and interest for all bonded long term obligations are illustrated in the table below. Unpaid interest payments are fixed at the amount of the last payment made which was \$960,012.50. As of June 30, 2014, eleven (11) interest payments are in arrears. As long as the bonds remain in default, interest accrues at \$960,012.50 instead of the scheduled amount. If the bonds remain in default throughout the term, the scheduled interest of \$25,171,281 would be understated by \$749,057 (27 remaining payments X \$960,012.50).

Due for the years ended 6/30:	<u>Principal</u>	<u>Interest</u>
Past Due Portion	\$ 4,285,000	\$10,560,138
2015 Portion	<u>880,000</u>	<u>1,621,225</u>
Total Due in fiscal year 2015	<u>\$ 5,165,000</u>	<u>\$12,181,363</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Due for the years ended 6/30:	<u>Principal</u>	<u>Interest</u>
2015	\$ 5,165,000	\$12,181,363
2016	940,000	1,559,800
2017	1,005,000	1,494,156
2018	1,075,000	1,421,269
2019	1,150,000	1,340,613
2020-2024	7,140,000	5,269,119
2025-2029	<u>10,540,000</u>	<u>1,904,961</u>
Totals	<u>\$27,015,000</u>	<u>\$25,171,281</u>

Matured Interest Payable

Currently, TRA is in default on the loan agreement. The last interest payment of \$960,012 was made during fiscal year 2009 from money held in reserves. TRA did not make any bond principal or interest payments for the fiscal year ended June 30, 2014. The interest amounts due in fiscal year 2014 were accrued. The financial institution holding the bond and Two Rivers Authority are working together to arrive at a repayment solution. TRA is working with the major bondholders to bring the facility into full operation and resolve the debt issue. In May of 2014, TRA entered into an agreement with Emerald Correctional Management LLC to house inmates at the facility.

Revenue Bond Indenture Requirements

The indenture requires that project revenues will be 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.

As of June 30, 2014 TRA’s remaining cash from the original proceeds was \$123,717. TRA’s current Bond Fund requirements for principal are \$5,165,000 and \$12,181,363 for interest. TRA did not meet the bond covenants as of June 30, 2014.

- 2) Operation and Maintenance Costs due and payable within one month are \$0. Accrued payroll expense is \$27,991. The operating account has a balance of \$4,384 as of June 30, 2014.
- 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 \$123,717 balance for fiscal year ended June 30, 2014.
- 4) Any remaining to the Surplus Account. The Surplus account had a \$0 balance for fiscal year ended June 30, 2014.

Revenue Bond Covenants

Section 6.02(b) of the Trust Indenture requires Net Revenues as of the end of each fiscal year shall be equal to not less and 120% of the amount necessary to pay principal and interest coming due on the Bonds during such fiscal year. Two Rivers Authority did not meet the bond covenants for fiscal year 2014.

Operating Loss	\$(716,213)
Add back Accrued Interest Expense	1,925,025
Add back Depreciation Expense	<u>394,276</u>
Net Revenues	\$ 1,603,088
2014 Principal and Interest Due	15,730,138
	<u>X 120%</u>
Required Net Revenues	<u>\$18,876,166</u>

Remedy of Default

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

B) ADVANCE FUNDING LOAN – BONDHOLDERS

In fiscal year 2014, bondholders made advances totaling \$360,532 to Two Rivers Authority to cover professional liability insurance and other costs during the transition of Emerald taking over management of the detention facility. No formal repayment schedule has been established between the bondholders and TRA on the advances.

C) ACCRUED PAYROLL

The Executive Director of Two Rivers Authority has worked since December 9, 2013 without receiving a paycheck due to the unavailability of operating cash to meet payroll. Accrued payroll as of June 30, 2014 is \$26,051.

NOTE 12: LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

State and Federal laws and regulations require that the City of Hardin place a final cover on its landfill 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. The costs expensed each year are based on landfill capacity used as of each balance sheet date. The landfill closure and post-closure liability at June 30, 2014 of \$906,783, represents the cumulative amount reported to-date based on the use of 58% of the Class II area and 16% of the coal ash area which is estimated at 27% of the landfill's total capacity. The remaining estimated costs of closure and post-closure care costs are \$1,394,869 for total costs of \$2,301,652.

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 of the areas are significantly different.

Class II Area

In February, 2014, it was estimated the average the site receives approximately 14,000 tons per year of solid waste. Based on the aforementioned estimate the remaining capacity of the Class II area is 27 years; estimated closure in year 2041. The Class II Area consists of the following two areas:

- 1) 25.0 acres – the originally licensed area
- 2) 20.3 acres – expansion area to the south

Coal Ash Area

The Coal Ash area, which was opened in April of 2009, consists of a 39.8 expansion area to dispose of coal ash. Based on 80,000 tons/year of ash, the area has a remaining capacity to dispose of the ash for 27 years; estimated closure in year 2041. This quantity is the average of the actual quantity that has been brought to the site over the past five years.

Closure and Post-Closure Costs

The City recognizes the remaining estimated cost of closure and post-closure care of \$2,301,652 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and post-closure in 2014. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. The City expects to close the Class II area landfill in the year 2041, and the Coal Ash Area in the year 2041. Closure Costs are estimated at \$1,051,744 and \$942,658 for the Class II and Coal Ash areas respectively. Post-closure costs are estimated at \$219,692 and \$87,558 for the Class II and Coal Ash areas respectively.

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. At June 30, 2014, the City has \$698,216 of cash & investments in trust for future payments. These monies are reported as restricted cash and investments on the Statement of Net Position. The City expects that future inflation costs will be paid from earnings and the annual contributions. However, if interest earnings are inadequate or additional post-closure care requirements are determined (due to changes in technology or applicable laws or regulations) these costs may need to be covered by charges to future landfill users or from future tax assessments. Fiscal year 2014, City contributions to the restricted trust account were \$63,125.

NOTE 13: EMPLOYEE RETIREMENT PLANS

The City participates in a state-wide, cost-sharing multiple employer defined benefit retirement plans which covers all City employees and a single employer plan defined benefit plan that covers the volunteer firemen. Both plans are established under State law. This multiple employer plan is administered by the State of Montana and the volunteer firemen's plan is administered by the City of Hardin.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Public Employees' Retirement System (PERS)

The PERS is a state wide retirement plan established in 1945 and governed by Title 19, chapter 2 & 3 of the Montana Code Annotated providing retirement services to substantially all public employees. The PERS is a mandatory, except for those employed less than one half time, multiple-employer, cost-sharing plan administered by the Public Employees' Retirement Division (PERD).

The PERS offers retirement, disability and death benefits to plan members and their beneficiary according to hire dates as described in the following paragraphs. Members' rights become vested after five years of service. Beginning January 1998, a guaranteed annual benefit adjustment provides an annual 3% benefit increase each January if the recipient has been receiving a benefit for at least 36 months.

For employees hired before 7/1/11 the benefit eligibility is age 60 with at least five years of service; age 65 regardless of service; or 30 years of service regardless of age. Actuarial reduced benefits may be taken with 25 years of service or at age 50 with at least five years of service. With less than 25 years of service, monthly retirements benefits are determined by taking 1/56 times the number of years of service times the highest consecutive 36 months of salary. With 25 or more years of service, monthly retirements benefits are determined by taking 1/50 times the number of years of service times the highest consecutive 36 months of salary.

For employees hired on or after 7/1/11 the benefit eligibility is age 65 with at least five years of service; age 70 regardless of service; or 30 years of service regardless of age. Actuarial reduced benefits may be taken with 25 years of service or at age 55 with at least five years of service. Monthly retirements benefits are determined by taking 1/56 times the number of years of service times the highest consecutive 36 months' salary.

Monthly retirement benefits for employees with less than 10 years of service are determined by taking 1.5% of the highest consecutive 36 months of salary. With more than 10 but less than 30 years of service, monthly retirements benefits are determined by taking 1.785% of the highest consecutive 36 months of salary. With 30 or more years of service, monthly retirements benefits are determined by taking 2% of the highest consecutive 36 months of salary.

The Public Employees Retirement System (PERS) plan issues publicly available annual reports that include financial statements and required supplemental information for the plans. Those reports may be obtained from the following:

Public Employees Retirement System
 PO Box 200131
 Helena MT 59620-0131
 Telephone: 406-444-3154

The actuarial costs are calculated using the entry age normal cost method. The actuarial value of assets is the difference between the total market value of assets and the cost value of assets is added to the cost value on a 4 year smoothed basis. The following rates were assumed, for investment rate of return – 5 year period 4.12%, projected salary increases 4.25%, and post retirement benefit increases of 3% for employees hired before July 1, 2007 and 1.5% for employees hired after July 1, 2007. The amortization method used was level-percentage of projected payroll and the last actuarial valuation was June 30, 2011.

Contribution rates for the plan are required and determined by State law. The PERS rates for employees hired before July 1, 2011, was increased from 6.80% to 6.90% effective July 1, 1999. The PERS rates for employees hired after July 1, 2011 is 7.9%. The PERS rate paid by State was set at .37% for City employers starting July 1, 2010. The PERS rate paid by the State was set at .10 for Cities starting July 1, 2010. The PERS rate for employers was increased from 6.7% to 6.8% effective July 1, 1999.

The amounts contributed to the plan during the years ended June 30, 2012, 2013 and 2014 were equal to the required contribution for each year. The amounts contributed by the State, City and its employees (including additional voluntary contributions by employees as permitted by State law) were as follows:

	<u>2012</u>	<u>2013</u>	<u>2014</u>
PERS	<u>\$145,308</u>	<u>\$152,875</u>	<u>\$171,022</u>

Volunteer Firemen's Disability and Pension Fund

The Firemen's Disability and Pension Plan is a single-employer defined benefit plan established under State law, and covers volunteer firefighters. Volunteer firemen who serve 20 years are eligible for the plan. The plan pays a lifetime benefit of \$100 a month to eligible retired volunteer firemen. Surviving spouses receive 50% of the member benefits. The plan does not contain a cost of living adjustment provision. The plan currently pays benefits to 24 retirees (18 retirees and 6 surviving spouses) and 23 active volunteers.

State law determines the contributions made and the benefits paid. Effective April 7, 2005 MCA required each disability and pension fund to be soundly funded. According to MCA 19-18-503, the fund is soundly funded if (1) assets in the fund are maintained at a level

NOTES TO THE FINANCIAL STATEMENTS (Continued)

equal to at least 0.21% but no more than 0.52% of the total assets value of taxable property, determined as provided in MCA Section 15-8-111, within the city limits; or (2) funding is maintained at a level determined by an actuarial valuation to be sufficient to keep the fund actuarially sound. Whenever the fund contains an amount that is less than the minimum required to keep the fund soundly funded, the city council shall, subject to MCA Section 15-10-420, levy an annual tax on the taxable value of all taxable property within the city.

When the fund contains an amount that is less than 0.52% but more than 0.21% of the total assessed value of all taxable property within the city or town, the city or town council may, if authorized by the voters as provided in MCA Section 15-10-425, levy an annual tax. All revenues from the tax must be deposited in the fund. Fiscal year 2014, tax revenues totaled \$8,788. City and State contributions to the plan for the year totaled \$26,780. City and State contributions were \$22,872 and \$3,908 respectively. No actuarial evaluation has been prepared for this fund. The plan is administered on a pay-as-you-go basis.

The current minimum requirement (.21% of the assessed valuation of taxable property within the City limits of \$91,005,878) is \$191,112. As of June 30, 2014, the fund holds \$134,360 or 70% of the required holdings. The plan assets are included in the City's cash and investment pool as described in NOTE 2.

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

	<u>2012</u>	<u>2013</u>	<u>2014</u>
Additions	\$27,853	\$32,416	\$36,055
Deductions	<u>(24,190)</u>	<u>(24,240)</u>	<u>(23,992)</u>
Net Additions	<u>\$ 3,663</u>	<u>\$ 8,176</u>	<u>\$12,063</u>

NOTE 14: LEASES

Lease of Depot

In July, 2000 the City entered into a lease with **Burlington Northern & Santa Fe** (BNSF) Railway Company for the use of the Depot for office space and landscaping. The lease has an indefinite term with monthly payments of \$1,200, plus an inflation factor tied to the CPI. Since then, the BNSF has increased the annual rent to \$1,562 based on a 3% scale. The lease may be terminated without cause with 30 days' notice. The City has no future non-cancellable commitment to BNSF.

Sub-lease of Depot

In June of 2003, the City sub-leased the depot property to the Hardin area **Chamber of Commerce and Agriculture, Inc.** The Chamber agreed to perform all obligations of the City concerning this property under the lease agreement. The Chamber may terminate the agreement with 3 months' written notice upon the City's notification that BNSF has terminated the City's lease. In December, 2010 the City approved waiving the taxes for one year and modifying the existing contract. The contract has not been modified but the City continues to waive taxes. The Chamber paid a lease payment of \$1,624 in fiscal year 2014.

NOTE 15: OTHER POST EMPLOYMENT BENEFITS (OPEB) OTHER THAN PENSIONS

Plan Description – In accordance with MCA (2-18-704) the City allows employees who are at least age 50 with at least 5 years of service to remain on the City's health insurance plan after retiring from the City as long as they pay the same premium as active employees. Since retirees are usually older than the average age of the active participants, they receive a benefit of lower insurance rates. This benefit is referred to as the "OPEB liability." The City has less than 100 plan members and elected to use the "Entry Age actuarial Cost Method" to calculate its OPEB liability. The OPEB plan does not provide a stand-alone financial report. The City pays 80% of the single active employee's health insurance premium. The implicit subsidy is \$585 per member and \$1,170 per member and spouse. The required schedule of funding progress is reported in the Required Supplementary Information (RSI) section of this report which is immediately following the notes to the financial statements. As of June 30, 2014, twenty (20) active employees received benefits through the City's healthcare plan. Two retirees have elected coverage on the City's healthcare plan.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Funding status and progress - As of June 30, 2014 the funded status of the plan was as follows:

	<u>Entry age actuarial Cost Method</u>
Actuarial Accrued Liability (AAL)	\$399,170
Actuarial value of plan assets	<u>0</u>
Unfunded Actuarial Accrued Liability (UAAL)	399,170
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	\$1,293,140
UAAL as a percentage of covered payroll	31%
Amortization Factor	30
Date of latest AAL calculation	July 1, 2012

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

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

	<u>Entry age actuarial Cost Method</u>
Annual Required Contribution (ARC)	\$ 51,334
Interest on net OPEB obligation	1,207
Adjustment to ARC	<u>(8,049)</u>
Annual OPEB cost	44,492
Contribution made	<u>0</u>
Increase in net OPEB obligation	44,492
Net OPEB obligation - beginning of year	<u>241,475</u>
Net OPEB obligation - end of year	<u>\$285,967</u>

<u>Fund</u>	<u>OPEB OBLIGATION</u>		
	<u>Prior Year</u>	<u>Additions</u>	<u>June 30, 2014</u>
Water	\$ 41,051	\$ 7,563	\$ 48,614
Sewer	24,147	4,450	28,597
Solid Waste	19,318	3,559	22,877
Landfill	<u>31,392</u>	<u>5,784</u>	<u>37,176</u>
Subtotal Proprietary	115,908	21,356	137,264
Governmental	<u>125,567</u>	<u>23,136</u>	<u>148,703</u>
Total	<u>\$241,475</u>	<u>\$44,492</u>	<u>\$285,967</u>

Actuarial Methods and Assumptions - The following actuarial methods and assumptions were used:

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

Health care cost rate trend:

<u>Year</u>	<u>% Increase</u>	<u>Year</u>	<u>% Increase</u>	<u>Year</u>	<u>% Increase</u>
2015	9.50%	2019	7.50%	2022	6.00%
2016	9.00%	2020	7.00%	2023	6.50%
2017	8.50%	2021	6.50%	2024	5.00%
2018	8.00%				

Actuarial calculations reflect a long-term perspective and consistent with that perspective, the actuarial method and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and actuarial value of assets. The City has no actuarial value of assets because the plan is not funded.

The City's Annual Required Contribution (ARC) for the current and preceding two fiscal years is illustrated below. The ARC is a misleading term, since no cash contribution is actually required.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Fiscal Year	Annual Required	ARC Adjustment	Percent of ARC	Net OPEB
<u>Ending June 30:</u>	<u>Contribution (ARC)</u>	<u>Adjustment</u>	<u>Contributed</u>	<u>Obligation</u>
2012	\$62,973	\$4,400	0%	\$196,203
2013	\$50,831	\$6,540	0%	\$241,475
2014	\$44,492	\$8,049	0%	\$285,967

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

NOTE 16: DEFICIT FUND BALANCES

<u>FUND</u>	<u>BALANCE</u>	<u>HOW TO CORRECT</u>
SID 120	\$(1,254,399)	Collect assessments according to 20-year schedule
SID 121	(530,660)	Collect assessments according to 20-year schedule
Total	<u>\$(1,785,059)</u>	

NOTE 17: INTERFUND TRANSFERS

<u>Fund</u>	<u>Transfers Out</u>	<u>Transfers In</u>			<u>Purpose</u>
		<u>General</u>	<u>Capital Projects</u>	<u>Street Mtce.</u>	
General	\$(26,322)	\$ 0	\$ 0	\$ 26,322	Street Maintenance Project
General	(10,000)	0	10,000	0	Firetruck Purchase
Electrical Gen.	(119,640)	0	0	119,640	Inventory Transfer
Electrical Gen.	(163,647)	163,647	0	0	To Close Electrical Generation Impact fund
Total	<u>\$(319,609)</u>	<u>\$163,647</u>	<u>\$10,000</u>	<u>\$145,960</u>	

NOTE 18: PRIOR PERIOD ADJUSTMENTS

<u>Governmental Funds</u>	<u>Amount</u>	<u>Reason</u>
SID 120	\$ 5,875	Vendor revised invoice expensed in prior year
General	(4,190)	Inventory Adjustment
Street Maintenance	(322)	Inventory Adjustment
Emergency	53	Correct Negative fund balance
Total	<u>\$1,416</u>	

<u>Component Unit</u>	<u>Amount</u>	<u>Reason</u>
Two Rivers Authority	<u>\$3,900</u>	Correction between cash basis and accrual basis of accounting

NOTE 19: SUBSEQUENT EVENTS

Subsequent events were evaluated through March 24, 2015.

A) TAX INCREMENT FINANCING DISTRICT (TIFD) BONDS – FORECASTED DEFAULT

Required TIFD Revenue Bond Payments vs. Available Resources

TIFD Bonds were issued to provide funds to finance the costs of designing, constructing and installing various industrial infrastructure improvements within the City’s Hardin Industrial Infrastructure District (the TIFD) to enhance the development by Rocky Mountain Power, Inc. of a 116MW (gross) pulverized coal-fired electrical generating station and related facilities in the TIF District (the Facility).

It is anticipated that the City will not have sufficient tax increment revenues to make principal and interest payments on its TIFD Bonds as they become due. In September 2014, the 10-year accretion period on the TIFD Bonds ended. During the accretion period, principal

NOTES TO THE FINANCIAL STATEMENTS (Continued)

and interest payments were deferred, the associated interest was applied to the principal balance and the Facility within the TIFD held a tax-exempt status.

The TIFD Bonds are payable from tax increment revenues from the levy of taxes against the incremental taxable value of the Facility. The bonds are additionally secured by a debt service reserve fund. The tax increment revenues pledged for the repayment of the Bonds are derived only from the Facility and not from any other property or development in the TIFD.

At the time the base taxable value was calculated and adjusted for the TIFD, the Facility was under construction. The Facility was exempt from taxes under the New Generation Exemption Act through tax year 2013. Pursuant to Section 15-24-3001(5) of the New Generation Exemption Act, the Department of Revenue was required to appraise the Facility during each year that the Facility was exempt, and determine the taxable value of the Facility as if it were subject to property taxation. For the tax year 2013, the combined real property and personal property market value was appraised at \$128,425,291 by the Department of Revenue. Based on the 2013 annual appraisal, it was expected that the taxable value of the Facility would be \$7,705,517. In 2014, Rocky Mountain Power, Inc.'s tax status changed from tax-exempt to taxable.

In 2012, Rocky Mountain Power, Inc.'s parent company and affiliates (the Debtors) had filed for bankruptcy. In connection with the bankruptcy proceedings, the Debtors filed a liquidation analysis estimating the cash liquidation value of the Facility to be between \$32,700,000 and \$16,400,000. In tax year 2014, Rocky Mountain Power, Inc. filed an objection to the 2014 appraisal of the Facility conducted by the Department of Revenue. Based on information provided by Rocky Mountain Power, Inc., the Department of Revenue issued a revised 2014 appraisal of the Facility on August 14, 2014. The results of the revised appraisal are illustrated in the table below. As a result of the drop in both market value and taxable value of the Facility, the anticipated tax increment revenues are not currently nor expected in the future to be sufficient to meet the TIFD Bond principal and interest requirements as they become due.

<u>Real & Personal Property</u>	<u>Market Value</u>	<u>Taxable Value</u>
2013 Annual Appraised Values	\$ 128,425,291	\$ 7,705,517 Estimate only – due to tax-exempt status
2014 Adjusted Annual Appraised Values	<u>24,518,464</u>	<u>1,471,108</u>
Change	(\$103,906,827)	(\$6,234,409)

As of June 30, 2014 the TIFD fund cash totaled \$1,681,338 which is reported as "restricted cash." The following schedule shows possible effects of reduced revenue streams on the City's ability to meet the TIFD revenue bond requirements.

<u>Bond Requirement Dates</u>	<u>Cash Available</u>	<u>Anticipated Revenues</u>	<u>Revenue Bond Requirements</u>	<u>Ending Cash Available</u>
June 30, 2014	\$	\$	\$	\$ 1,681,338
March 1, 2015	1,681,338	0*	(653,750)	1,027,588
September 1, 2015	1,027,588	857,178**	(1,313,750)	571,016
March 1, 2016	571,016	428,589	(633,125)	366,480
September 1, 2016	366,480	428,589	(1,333,125)	(538,056)
March 1, 2017	(538,056)	428,589	(611,250)	(720,717)

* As of March 24, 2015, Rocky Mountain Power, Inc. had not paid their November 20, 2014 taxes due of \$428,589 for the TIFD.

** Assumes that by September 1, 2015 the City receives the \$428,689 tax increment revenue in arrears as of November 30, 2014.

Anticipated tax increment revenues are shown at a constant rate for illustrative purposes only. Actual tax increment revenues may differ from this schedule.

B) PENALTY ON EARLY WITHDRAWAL

The City experienced a penalty on early withdrawal of a CD of \$14,000 used to cover the TIFD bond interest payment. The usage of the CD in fiscal year 2015 was unanticipated because the City expected the TIF District revenues to meet the bond requirements until the CD matured.

C) WATER FUND – SERIES 2012A BOND FORGIVEN

On November 25, 2014, the federal government issued a forgiveness certificate on the series 2012A revenue bond which had an outstanding principal of \$279,500 and outstanding interest and agent fees of \$91,815 for total savings of \$371,315.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

D) TWO RIVERS AUTHORITY – ACCRUED PAYROLL

Payroll expenses have not been paid since December of 2013. Payroll in arrears as of March 24, 2015 totaled \$67,299.

E) TWO RIVERS AUTHORITY – DETENTION FACILITY OPERATIONS

Since June 30, 2014 bondholders provided additional advances of \$497,795 bringing the total advances to \$858,327. The start-up and operating agreements provide for repayment of the advance funding loans, with no fixed repayment schedule, prior to servicing the existing bond debt. Emerald Correctional Management LLC has entered into secure-housing contracts with the Bureau of Indian Affairs and various sovereign tribal entities in Montana, Wyoming, North Dakota, South Dakota, Idaho, Washington and Oregon. The facility began accepting inmates in August 2014. As of March 2015, approximately 150 inmates were housed in the facility. Fiscal year 2015 operating income and expenses have totaled \$765,320 and \$1,027,596 respectively as of March 24, 2015.

City of Hardin
Big Horn County
Hardin, Montana

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
(Budget and Actual)
ALL BUDGETED MAJOR GOVERNMENTAL FUNDS
for the Fiscal Year Ended June 30, 2014

	General Fund			Street Mtce. Fund		SID 120	
	Original Budget	Final Budget	Actual	Original & Final Budget	Actual	Original & Final Budget	Actual
REVENUES:							
Taxes/Assessments	\$ 381,108	\$ 381,108	\$ 380,588	\$ 178,800	\$ 184,759	\$ -	\$ -
Licenses and Permits	59,000	59,000	53,302	500	400	-	-
Intergovernmental Revenue	626,023	626,023	622,683	-	-	-	-
Fines and Forfeitures	99,401	99,401	88,665	-	-	-	-
Investment Earnings	4,000	4,000	2,758	600	1,132	-	7
Miscellaneous	300	116,099	65,367	-	43	157,300	-
Charges for Services	<u>620</u>	<u>2,320</u>	<u>2,593</u>	<u>-</u>	<u>8,388</u>	<u>-</u>	<u>-</u>
Total Revenues	<u>1,170,452</u>	<u>1,287,951</u>	<u>1,215,955</u>	<u>179,900</u>	<u>194,722</u>	<u>157,300</u>	<u>7</u>
EXPENDITURES:							
General Government	501,650	585,511	500,603	-	-	-	-
Public Safety	551,112	551,112	530,061	-	-	-	-
Public Works	20,773	20,773	6,937	326,716	250,001	-	-
Public Health	31,065	31,065	22,843	-	-	-	-
Culture & Recreation	136,035	136,035	100,860	-	-	-	-
Housing & Community Development	579,611	581,111	19,375	-	-	-	-
Other Current Charges	<u>22,600</u>	<u>24,300</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Current Outlays	1,842,846	1,929,907	1,180,678	326,716	250,001	-	-
Capital Outlay	18,500	18,500	1,913	23,746	-	165,120	89,803
Debt Service (Principal, Interest, Fees)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Outlays	<u>1,861,346</u>	<u>1,948,407</u>	<u>1,182,591</u>	<u>350,462</u>	<u>250,001</u>	<u>165,120</u>	<u>89,803</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES							
			33,364		(55,279)		(89,796)
OTHER FINANCING SOURCES/USES							
Sale of Capital Assets				1,000	-	-	-
Special Items				-	-	(97,300)	-
Fund Transfers In	163,646	163,646	163,647	43,000	145,962	-	-
Fund Transfers (Out)	<u>(53,000)</u>	<u>(63,000)</u>	<u>(36,322)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGES IN FUND BALANCES			160,688		90,683		(89,796)
FUND BALANCES:							
BEGINNING FISCAL YEAR FUND BALANCES			1,409,989		293,071		(1,170,479)
PRIOR PERIOD ADJUSTMENTS			<u>(4,190)</u>		<u>(322)</u>		<u>5,875</u>
ENDING FISCAL YEAR FUND BALANCES			<u>\$ 1,566,488</u>		<u>\$ 383,432</u>		<u>\$ (1,254,399)</u>

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

City of Hardin
 Big Horn County
 Hardin, Montana

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 (Budget and Actual)
 ALL BUDGETED MAJOR GOVERNMENTAL FUNDS
 for the Fiscal Year Ended June 30, 2014

	SID 121		TIFD Fund		Original Budget	TIF CIP Fund		
	Original & Final Budget	Actual	Original & Final Budget	Actual		Final Budget	Actual	
REVENUES:								
Taxes/Assessments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Licenses and Permits	-	-	-	-	-	-	-	
Intergovernmental Revenue	-	-	-	-	-	-	-	
Fines and Forfeitures	-	-	-	-	-	-	-	
Investment Earnings	-	-	6,000	752	-	-	5	
Miscellaneous	62,000	-	-	-	-	-	-	
Charges for Services	-	-	-	-	-	-	-	
Total Revenues	<u>62,000</u>	<u>-</u>	<u>6,000</u>	<u>752</u>	<u>-</u>	<u>-</u>	<u>5</u>	
EXPENDITURES:								
General Government	-	-	-	-	-	-	-	
Public Safety	-	-	-	-	-	-	-	
Public Works	-	-	-	-	750	750	750	
Public Health	-	-	-	-	-	-	-	
Culture & Recreation	-	-	-	-	-	-	-	
Housing & Community Development	-	-	-	-	-	-	-	
Other Current Charges	-	-	-	-	-	-	-	
Total Current Outlays	-	-	-	-	750	750	750	
Capital Outlay	-	-	-	-	39,679	46,179	6,452	
Debt Service (Principal, Interest, Fees)	-	-	-	-	-	-	-	
Total Outlays	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>40,429</u>	<u>46,929</u>	<u>7,202</u>	
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES								
				752			(7,197)	
OTHER FINANCING SOURCES/USES								
Sale of Capital Assets	-	-	-	-	-	-	-	
Special Items	(42,000)	-	-	-	-	-	-	
Fund Transfers In	-	-	-	-	-	-	-	
Fund Transfers (Out)	-	-	-	-	-	-	-	
NET CHANGES IN FUND BALANCES								
		-		752			(7,197)	
FUND BALANCES:								
BEGINNING FISCAL YEAR FUND BALANCES		<u>(542,461)</u>		<u>1,650,306</u>			<u>37,477</u>	
ENDING FISCAL YEAR FUND BALANCES		<u><u>\$(542,461)</u></u>		<u><u>\$ 1,651,059</u></u>			<u><u>\$ 30,280</u></u>	

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

NOTES TO THE BUDGET AND ACTUAL SCHEDULE

NOTE 1: BUDGETS

Budgets are adopted on a basis consistent with the State of Montana budget laws 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.

Budget Operation:

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

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

NOTE 2: BUDGET AMENDMENT

The City approved a budget amendment due to unanticipated revenues under the provisions of 17-7-404, MCA. The budget amendment was for \$136,461 based on unexpected revenues and affected the following funds.

<u>Funds</u>	<u>Amount</u>	<u>Reason</u>
General	\$ 31,200	Employee contract negotiation
General	10,000	Budget transfer to purchase a firetruck
General	52,661	Settlement
General	1,700	Additional Revenue received
General	1,500	Economic Development expenditures
TIF CIP	<u>6,500</u>	Anticipated Capital Outlay
Total Governmental Funds	103,561	
Solid Waste	15,200	Increased payroll expense & supplies
Landfill	<u>17,700</u>	Closure & Post-closure costs increase
Total Proprietary Funds	32,900	
Total Funds	<u>\$136,461</u>	

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

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

For the Fiscal Year Ended June 30, 2014

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

The City recalculated its OPEB Accrued Actuarial Liability (AAL) on July 1, 2012.

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

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

SCHEDULE OF FUNDING PROGRESS
 FIREMEN'S DISABILITY & PENSION PLAN
 For the Fiscal Year Ended June 30, 2014

	<u>2012</u>	<u>2013</u>	<u>2014</u>
Cash – Beginning of year	\$110,323	\$113,806	\$122,146
Increase (Decrease)*	<u>3,483</u>	<u>8,340</u>	<u>12,214</u>
Cash – End of year	<u>\$113,806</u>	<u>\$122,146</u>	<u>\$134,360</u>

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

SCHEDULE OF EMPLOYER CONTRIBUTIONS
 FIREMEN'S DISABILITY & PENSION PLAN
 For the Fiscal Year Ended June 30, 2014

	<u>2012</u>	<u>2013</u>	<u>2014</u>
City Contributions	\$13,986	\$18,908	\$22,872
State Contributions	3,755	3,807	3,908
Tax Assessments	<u>8,285</u>	<u>8,779</u>	<u>8,789</u>
Total Contributions	\$26,026	\$31,494	\$35,569
Interest Additions	<u>796</u>	<u>923</u>	<u>486</u>
Total Additions	<u>\$26,822</u>	<u>\$32,417</u>	<u>\$36,055</u>

City of Hardin
Big Horn County
Hardin, Montana

SCHEDULE OF COMBINED FUNDS
BALANCE SHEET - COMBINED FUNDS
as of June 30, 2014

	GOVERNMENTAL FUNDS			BUSINESS - TYPE FUNDS		
	TIFD	TIF CIP	Total	Solid Waste	Landfill	Total
	Fund	Fund	TIF Fund	Fund	Fund	Solid Waste Fund
ASSETS:						
Cash & Cash Equivalents	\$ -	\$ -	\$ -	\$ 230,995	\$ 313,107	\$ 544,102
Assessments Receivable	-	-	-	22,220	-	22,220
Accounts Receivable	-	-	-	793	55,734	56,526
Total Current Assets	-	-	-	254,008	368,841	622,849
Restricted Assets:						
Cash & Investments	1,651,059	30,280	1,681,338	300,000	1,142,985	1,442,985
Non Current Assets:						
Land / Const. in Process	-	-	-	-	320,716	320,716
Buildings	-	-	-	20,927	79,427	100,354
Improvements Other than Buildings	-	-	-	-	2,040,909	2,040,909
Machinery & Equipment	-	-	-	577,584	1,224,769	1,802,353
Less: Accumulated Depreciation	-	-	-	(468,946)	(1,141,326)	(1,610,272)
Inventories	-	-	-	1,240	4,601	5,841
Total Non Current Assets	-	-	-	130,805	2,529,096	2,659,901
Total Assets	1,651,059	30,280	1,681,338	684,813	4,040,921	4,725,734
LIABILITIES:						
Current Liabilities:						
Accounts Payable	-	-	-	3,273	148,608	151,881
Accrued Payroll Expense	-	-	-	3,507	45,538	49,045
Compensated Absences	-	-	-	4,483	3,424	7,907
Deposits Payable	-	-	-	-	4,700	4,700
Bonds Payable	-	-	-	-	40,000	40,000
Total Current Liabilities	-	-	-	11,263	242,270	253,533
Non Current Liabilities:						
Compensated Absences	-	-	-	13,449	10,271	23,720
Bonds Payable	-	-	-	-	848,000	848,000
OPEB Liability	-	-	-	22,877	37,176	60,053
Closure/Postclosures Care Costs	-	-	-	-	906,783	906,783
Total Non Current Liabilities	-	-	-	36,326	1,802,230	1,838,556
Total Liabilities	-	-	-	47,589	2,044,500	2,092,089
FUND BALANCES:						
Net Investment in Capital Assets	-	-	-	129,565	1,636,495	1,766,060
Restricted:						
Debt Service	1,651,059	30,280	1,681,338	-	100,025	100,025
Closure / Postclosure Care Costs	-	-	-	-	698,216	698,216
Capital Projects	-	-	-	300,000	340,044	640,044
Unrestricted:	-	-	-	207,659	(778,359)	(570,699)
Total Fund Balances	1,651,059	30,280	1,681,338	637,224	1,996,421	2,633,646
Total Liabilities, Deferred Inflows & Fund Bal.	\$ 1,651,059	\$ 30,280	\$ 1,681,338	\$ 684,813	\$ 4,040,921	\$ 4,725,734

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

City of Hardin
Big Horn County
Hardin, Montana

SCHEDULE OF COMBINED FUNDS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - COMBINED FUNDS
For the Year Ended June 30, 2014

	GOVERNMENTAL FUNDS			BUSINESS - TYPE FUNDS		
	TIFD Fund	TIF CIP Fund	Total TIFD Fund	Solid Waste Fund	Landfill Fund	Total Solid Waste Fund
REVENUES:						
Investment Income	\$ 752	\$ 5	\$ 758	\$ -	\$ -	\$ -
Special Assessments	-	-	-	2,779	-	2,779
Miscellaneous Revenues	-	-	-	34	34	68
Charges for Services	-	-	-	215,666	746,278	961,945
Total Revenues	752	5	758	218,479	746,312	964,792
OPERATING EXPENSES:						
Personal Services				117,876	290,867	408,744
Supplies				69,412	90,793	160,205
Purchased Services				12,459	64,324	76,784
Fixed Charges				4,302	108,115	112,417
Depreciation				27,176	188,356	215,532
Total Operating Expenses				231,225	742,456	973,681
EXPENDITURES:						
Public Works	-	750	750	-	-	-
Capital Outlay	-	6,452	6,452	-	-	-
Total Outlays	-	7,202	7,202	231,225	742,456	973,681
Operating Income (Loss)				(12,746)	3,857	(8,889)
NON-OPERATING REVENUES (EXPENSES)						
Interest Revenue				1,871	13,059	14,930
Intergovernmental Revenue				77	192	269
Interest Expense				-	(22,804)	(22,804)
Gain (Loss) on Sale of Capital Assets				(115)	(173)	(288)
Total Non-Operating Revenues (Expenses)				1,833	(9,726)	(7,893)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES						
	752	(7,197)	(6,444)			
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS						
				(10,913)	(5,869)	(16,782)
Capital Assets Tranferred from Governmental				-	74,847	74,847
CHANGE IN NET POSITION				(10,913)	68,978	58,065
FUND BALANCES:						
Beginning of the Year	1,650,306	37,477	1,687,783	648,137	1,927,443	2,575,580
End of the Year	\$ 1,651,059	\$ 30,280	\$ 1,681,338	\$ 637,224	\$ 1,996,421	\$ 2,691,711

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

City of Hardin
 Big Horn County
 Hardin, Montana

SCHEDULE OF COMBINED FUNDS
 SCHEDULE of REVENUES, EXPENDITURES, and CHANGES in FUND BALANCES (Budget and Actual)
 COMBINED MAJOR GOVERNMENTAL FUNDS
 for the Fiscal Year Ended June 30, 2014

	TIFD Debt Svc. Fund			TIF CIP Fund		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
REVENUES:						
Taxes/Assessments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and Permits	-	-	-	-	-	-
Intergovernmental Revenue	-	-	-	-	-	1
Fines and Forfeitures	-	-	-	-	-	-
Investment Earnings	6,000	-	752	-	-	-
Miscellaneous	-	-	-	-	-	4
Charges for Services	-	-	-	-	-	-
Total Revenues	<u>6,000</u>	<u>-</u>	<u>752</u>	<u>-</u>	<u>-</u>	<u>5</u>
EXPENDITURES:						
General Government	-	-	-	-	-	-
Public Safety	-	-	-	-	-	-
Public Works	-	-	-	750	750	750
Public Health	-	-	-	-	-	-
Culture & Recreation	-	-	-	-	-	-
Housing & Community Development	-	-	-	-	-	-
Conservation of Natural Resources	-	-	-	-	-	-
Other Current Charges	-	-	-	-	-	-
Other Current Charges	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Current Expenditures	-	-	-	750	750	750
Capital Outlay	-	-	-	39,679	39,679	6,452
Debt Service (Principal, Interest, Fees)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>40,429</u>	<u>40,429</u>	<u>7,202</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES						
			752			(7,197)
OTHER FINANCING SOURCES/USES						
Sale of Capital Assets	-	-	-	-	-	-
Fund Transfers In	-	-	-	-	-	-
Fund Transfers (Out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGES IN FUND BALANCES						
			752			(7,197)
FUND BALANCES:						
BEGINNING FISCAL YEAR FUND BALANCES			1,650,306			37,477
PRIOR PERIOD ADJUSTMENTS			<u>-</u>			<u>-</u>
ENDING FISCAL YEAR FUND BALANCES			<u>\$ 1,651,059</u>			<u>\$ 30,280</u>

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

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Hardin as of and for the year ended June 30, 2014, 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 March 31, 2015.

Internal Control over Financial Reporting

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

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 over financial reporting, described in the accompanying Schedule of Findings and Responses 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 1, 4 and 5, 2014.

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. Items 2 and 3, 2014.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Hardin's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as item 5, 2014.

City of Hardin's Response to Findings

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

Purpose of this Report

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

Tripp & Associates

Tripp & **A**ssociates
Billings, Montana
March 31, 2015

SCHEDULE of PRIOR YEAR FINDINGS and RESPONSES

FINDING NUMBER 3 – INCOMPLETE ANNUAL FINANCIAL REPORT 2013:

This is not a finding for fiscal year 2014

FINDING NUMBER 4 – CAPITAL ASSETS OVERSTATED 2013:

This is not a finding for fiscal year 2014

FINDING NUMBER 5 – TWO RIVERS AUTHORITY (a component unit) IMPROPER REVENUES 2013:

This is not a finding for fiscal year 2014

FINDING NUMBER 6 – TWO RIVERS AUTHORITY (a component unit) PRIOR YEAR ACCRUAL NOT REVERSED 2013:

This is not a finding for fiscal year 2014

FINDING NUMBER 7 – BUDGET 2013:

This is not a finding for fiscal year 2014

FINDING NUMBER 9 – INTERNAL INTEREST 2013:

This is not a finding for fiscal year 2014

FINDING NUMBER 8 – TWO RIVERS AUTHORITY (a component unit) OFF BALANCE SHEET TRANSACTIONS 2013:

This is not a finding for fiscal year 2014

**FINDING NUMBER 1 – TWO RIVERS AUTHORITY (a component unit) REVENUE BOND REQUIREMENTS 2014:
(Repeat Finding since 2011):**

Criteria: Section 6.02(b) of the revenue bond agreement specifies that a reserve fund must be made that is equal to 120% of the average annual debt service payments or the maximum amount of principal and interest to come due in any future year. The future reserve requirement is \$2,534,531 which is the highest annual debt payment required on the schedule due in fiscal year 2028. The bond agreement also requires a current bond reserve in order to make the current bond payment. The current reserve requirement is \$18,876,166. The bond fund requires an Operation and Maintenance reserve approximately \$10,000. The bond fund requires an Operating Reserve/Repair/Contingency Account equal to \$300,000.

Condition: As noted in the prior year, Two Rivers Authority did not maintain the required bond reserves as required by the revenue bond agreement.

Effect: Total reserve requirements equal \$19,186,166 and Two Rivers Authority has total reserves of \$123,717.

Cause: As of June 30, 2014, no inmates have been held in the prison facility and thus no operating revenues have been collected since inception in 2007.

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

Auditee response: As has been noted in the past, the reasons for Two Rivers Authority being unable to bring the Detention Facility into operation have been largely beyond the control of Two Rivers Authority. In May 2014, Two Rivers Authority completed agreements with Emerald Correctional Management, LLC, regarding the operational start-up and ongoing management of the Facility. As of July 2014, certain administrative tasks were being completed to allow for the execution of inmate housing agreements with sending jurisdictions. These inmate housing agreements are expected to generate sufficient cash flow to enable compliance with the various debt covenants.

SCHEDULE of PRIOR YEAR FINDINGS and RESPONSES (Continued)

FINDING NUMBER 2 – FIREMEN’S DISABILITY AND PENSION - FIDUCIARY FUND 2014:
(Repeat finding from 2012):

Criteria: In 2005 Montana Code Annotated (MCA) 19-18-504 required the City to levy an annual tax whenever the funds of the Firemen’s Disability and Pension Fund are less than .21% of the total assessed value of taxable property within the City’s limits.

Condition: The Fireman’s Disability and Pension fund appears to be underfunded.

Context: At year end the Firemen’s Disability and Pension Fund held cash of \$134,360 which represents .16% of the assessed value of taxable property within the City limits. The current requirement (.21% of the assessed valuation of taxable property within the City limits of \$91,005,878) is \$191,112. The fund holds 70% of the required cash and investment holdings. Fiscal year 2014 revenues were in excess of current benefit payments by \$12,062.

Effect: The Firemen’s Disability and Pension Trust Fund is not in compliance with MCA requirements.

Cause: The Fund’s holdings were below the required amount at the onset of the MCA ruling. Each year the City contributes amounts to the fund in excess of the levy. In fiscal year 2014, the City contributed \$22,872 in addition to the levy.

Recommendation: We recommend that the City continue to assess an annual levy and contributions to the Fund and when possible, increase the levy and contributions as appropriate.

Auditee Response: The City is committed to assessing an annual levy and continuing its contributions to this fund as evidenced by the increase of revenues in excess of expenditures totaling \$2,632 in 2012, \$8,176 in 2013 and \$12,062 in 2014.

SCHEDULE OF FINDINGS AND RESPONSES

A. Summary of Auditor's Results

Financial Statements:

The auditor, Tripp & Associates, has issued an unqualified opinion on City of Hardin's financial statements as of and for the year ended June 30, 2014.

Internal Control over financial reporting:

- Material Weaknesses identified? YES NO

- Significant Deficiencies identified? YES NONE REPORTED

Noncompliance material to financial statements noted? YES NO

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

FINDING NUMBER 1 – TWO RIVERS AUTHORITY (a component unit) REVENUE BOND REQUIREMENTS 2014:
(Repeat Finding since 2011):

Criteria: Section 6.02(b) of the revenue bond agreement specifies that a reserve fund must be made that is equal to 120% of the average annual debt service payments or the maximum amount of principal and interest to come due in any future year. The future reserve requirement is \$2,534,531 which is the highest annual debt payment required on the schedule due in fiscal year 2028. The bond agreement also requires a current bond reserve in order to make the current bond payment. The current reserve requirement is \$18,876,166. The bond fund requires an Operation and Maintenance reserve approximately \$10,000. The bond fund requires an Operating Reserve/Repair/Contingency Account equal to \$300,000.

Condition: As noted in the prior year, Two Rivers Authority did not maintain the required bond reserves as required by the revenue bond agreement.

Effect: Total reserve requirements equal \$19,186,166 and Two Rivers Authority has total reserves of \$123,717.

Cause: As of June 30, 2014, no inmates have been held in the prison facility and thus no operating revenues have been collected since inception in 2007.

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

Auditee response: As has been noted in the past, the reasons for Two Rivers Authority being unable to bring the Detention Facility into operation have been largely beyond the control of Two Rivers Authority. In May 2014, Two Rivers Authority completed agreements with Emerald Correctional Management, LLC, regarding the operational start-up and ongoing management of the Facility. As of July 2014, certain administrative tasks were being completed to allow for the execution of inmate housing agreements with sending jurisdictions. These inmate housing agreements are expected to generate sufficient cash flow to enable compliance with the various debt covenants.

SCHEDULE OF FINDINGS AND RESPONSES (Continued)

FINDING NUMBER 2 – FIREMEN’S DISABILITY AND PENSION - FIDUCIARY FUND 2014:
(Repeat finding since 2012):

Criteria: In 2005 Montana Code Annotated (MCA) 19-18-504 required the City to levy an annual tax whenever the funds of the Firemen’s Disability and Pension Fund are less than .21% of the total assessed value of taxable property within the City’s limits.

Condition: The Fireman’s Disability and Pension fund appears to be underfunded.

Context: At year end the Firemen’s Disability and Pension Fund held cash of \$134,360 which represents .16% of the assessed value of taxable property within the City limits. The current requirement (.21% of the assessed valuation of taxable property within the City limits of \$84,524,456) is \$177,501. The fund holds 75.6% of the required cash and investment holdings. Fiscal year 2014 revenues were in excess of current benefit payments by \$12,062.

Effect: The Firemen’s Disability and Pension Trust Fund is not in compliance with MCA requirements.

Cause: The Fund’s holdings were below the required amount at the onset of the MCA ruling. Each year the City contributes amounts to the fund in excess of the levy. The City contributed \$22,872 in addition to the levy.

Recommendation: We recommend that the City continue to assess an annual levy and contributions to the Fund and when possible, increase the levy and contributions as appropriate.

Auditee Response: The City is committed to assessing an annual levy and continuing its contributions to this fund as evidenced by the increase of revenues in excess of expenditures totaling \$2,632 in 2012, \$8,176 in 2013 and \$12,062 in 2014.

FINDING NUMBER 3 – DEPRECIATION EXPENSE 2014:

Criteria: Generally Accepted Accounting Principles (GAAP) requires that capital assets are properly depreciated and that depreciation expense is properly reported.

Condition: Current year depreciation totaling \$25,174 on Governmental Capital assets was calculated twice.

Context: In fiscal year 2014, Governmental Capital Assets of \$302,762 were transferred to Proprietary funds. Current year depreciation on assets transferred was calculated on both the Governmental activities and Proprietary funds sides.

Effect: Current year governmental activities depreciation expense was overstated by \$25,174.

Cause: A transfer of capital assets is not a frequent transaction. Depreciation was calculated on the Governmental activities side after the Proprietary fund’s depreciation was calculated.

Recommendation: We recommend that the City carefully review all depreciation calculations prior to finalizing the financial statement.

Auditee Response: The City will carefully review all depreciation expenses for proper reporting, especially if it involves transferred assets.

FINDING NUMBER 4 – WATER LOAN FORGIVENESS BOOKED in WRONG YEAR 2014:

Criteria: Generally Accepted Accounting Principles (GAAP) requires that liabilities and revenues are booked in the year in which they occur.

Condition: A Water fund loan of \$279,500 was booked in fiscal year 2014 was actually forgiven in November 2014 which is fiscal year 2015.

Context: A Water fund loan of \$279,500 was forgiven by the federal government in November 2014. The entry to remove the liability and report the ensuing revenue was booked in fiscal year 2014 in error.

Effect: Fiscal year 2014 revenues were overstated and liabilities were understated.

Cause: The loan forgiveness certification was received at the time when the fiscal year 2014 financial statements were being prepared and forgiveness was booked in the wrong year.

Recommendation: We recommend that the City void the fiscal year 2014 entries to eliminate this bond and book the forgiveness in fiscal year 2015.

Auditee Response: The City will implement the Auditor’s recommendation to ensure the forgiveness for the Water Bond is voided for fiscal year 2014 and recorded in fiscal year 2015.

SCHEDULE OF FINDINGS AND RESPONSES (Continued)

FINDING NUMBER 5 – TWO RIVERS AUTHORITY – PAYROLL in ARREARS 2014:

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

Condition: Salaries and/or accrued vacation pay has not been paid since December 9, 2013. As of June 30, 2014 accrued payroll expenses totaled \$26,051. As of March 24, 2015 accrued payroll expenses totaled \$67,299. These amounts included vacations payable of \$1,939.

Context: An employee of TRA has worked since December 9, 2013 without pay. No agreement was made that this employee be paid annually.

Effect: TRA is not in compliance with wage and hour laws.

Cause: TRA has not had sufficient revenues to cover payroll expenses. The Trustee of the bond reserve fund has been reluctant to use bond reserves to cover payroll expenses as they come due. The City of Hardin terminated funding TRA effective September 2012.

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

Auditee Response: Certain savings achieved in the area of payroll, employee benefits and employee business expenses from December 2009 through May 2012 enabled Two Rivers Authority to enter fiscal 2013 with a surplus of approximately \$30,000. The City of Hardin budgeted \$50,000 in fiscal 2013 for Two Rivers Authority but provided only \$12,500, with funding terminated effective September 2012. The surplus, in combination with funding advances from a Bondholder and the partial funding from the City of Hardin, enabled Two Rivers Authority to function through December 2013, at which point third-party interest in operating and managing the Detention Facility was renewed. Requests to the City of Hardin and the Bondholders for nominal interim funding were declined. The operating and management agreement with Emerald Correctional Management provides for an administrative fee to be paid to Two Rivers Authority once certain debt covenants have been fulfilled. Two Rivers Authority is cooperating with Emerald Correctional Management to secure additional housing agreements, increase the inmate population and thus increase the cash flow to service the various debt obligations.