

**CITY OF HAMILTON, MONTANA**

**FINANCIAL STATEMENTS**  
**With Independent Auditor's Reports Thereon**

**FOR THE YEAR ENDED**  
**June 30, 2014**

**TERRY JAMES BURKE**  
Certified Public Accountant

# CITY OF HAMILTON, MONTANA

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**CITY OF HAMILTON, MONTANA**

**Organization**

June 30, 2014

**Mayor**

Jerry Steele

**City Council**

Ken Bell  
Albert Mitchell  
Rodney Pogachar

Kristi Bielski  
Joseph Petrusaitis  
Jenny West

**Officers/Clerks**

Attorney .....Karen Mahar  
Chief of Police .....Ryan Oster  
City Judge .....Michael Reardon  
Special Projects Director.....Dennis Stranger  
Finance Officer .....Craig Shepherd  
City Clerk.....Rose M. Allen  
Building Inspector..... Land Hanson  
Public Works Director ..... Keith Smith  
Cemetery/Parks Director..... Terry Cole

**TERRY JAMES BURKE**  
CERTIFIED PUBLIC ACCOUNTANT

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**INDEPENDENT AUDITORS' REPORT**

To the City Council  
City of Hamilton  
Hamilton, Montana

**Report on the Financial Statements**

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hamilton, Montana, 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***

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 I 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 the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

***Opinions***

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hamilton, Montana, as of June 30, 2014, and the respective changes in financial position, and where applicable, cash flows thereof and the respective budgetary comparisons for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

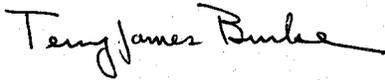
**Other Matters**

**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 11 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. I 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 I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

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

In accordance with *Government Auditing Standards*, I have also issued my report dated June 16, 2015, on my consideration of the City's internal control over financial reporting and on my 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 my 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 the City's control over financial reporting and compliance.



June 16, 2015

# MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion of the City of Hamilton's ("City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2014.

## **USING THE FINANCIAL STATEMENTS**

This annual report consists of a series of financial statements. The City's financial statements are comprised of four components (1) government-wide financial statements, (2) fund financial statements, (3) notes to the financial statements, and (4) required supplementary information.

### **Reporting the City as a Whole**

#### **Government-wide Statements**—The Statement of Net Position and the Statement of Activities

The statement of net position and the statement of activities report the City as a whole and provide answers to the question "Is the City as a whole in a better or worse position as a result of the year's activities?" 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. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the City's *net position* and changes in net assets. You can think of the City's net position as the difference between assets, what the City owns, and liabilities, what the City owes, as one way to measure the City's financial health or *financial position*. Over time, increases or decreases in the City's net position are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as short term variations, or long-term commitments to assess the *overall health* of the City.

### **Reporting the City's most Significant Funds**

#### **Fund Financial Statements**—Balance Sheet, Statement of Revenues, Expenditures and Changes in Fund Balance, and Reconciliations to Government-wide Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific purposes.

All funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds. The fund financial statements provide detailed information about the City's major funds; the general fund, the streetscape and sidewalk debt service funds and the sidewalk project capital improvement fund (governmental funds), the water operating fund and the sewer operating fund (business-type funds); and other aggregated governmental, and aggregated fiduciary funds.

The general fund includes all revenues and expenses that are not specifically assigned to any other fund. Special revenue funds track revenue and expenditures for certain segregated purposes, debt service funds track the flow of receipts and expenditures required to service governmental debts, and capital projects funds track revenues and expenditures associated with certain projects. All of these funds are reported using an accounting method called *modified accrual accounting*, which has a more restrictive time frame for accrual of revenues and expenditures. These governmental-type fund statements provide a detailed *short-term view* of the City's operations and the services it provides. This fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's services. The differences between the fund financial statements and the government-wide financial statements are reconciled following each fund financial statement.

City of Hamilton  
Ravalli County, Montana

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Years Ended June 30, 2014

Proprietary funds include two types, enterprise funds and internal service funds. The City of Hamilton does not use internal service funds; the water and sewer funds are reported as *enterprise* funds and are reported as *business-type activities* in the government-wide financial statements. Enterprise fund financial statements use *accrual accounting* and report the same information as the government-wide financial statements but at a more detailed level.

Fiduciary fund financial statements show assets, liabilities and, where appropriate, changes in assets and liabilities for funds which the city operates in a trust or agency capacity. Net position of these funds are not available to the City to satisfy City obligations.

Notes to the financial statements, provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. In addition to the basic financial statements and accompanying notes, this report also presents additional budgetary information.

**THE CITY AS A WHOLE**

Condensed financial information for the City is outlined in the following Tables I through IV:

Comparative **government** assets and liabilities were as follows:

**Table I**

	<u>2014</u>	<u>2013</u>
Current assets	\$ 4,949,361	\$ 6,049,934
Capital assets-net	7,834,140	7,406,611
Noncurrent assets	<u>0</u>	<u>0</u>
Total assets	<u>\$ 12,783,501</u>	<u>\$ 13,456,545</u>
Deferred Outflows of Resources	<u>\$ -</u>	<u>\$ -</u>
Current liabilities	\$ 558,030	\$ 643,606
Noncurrent liabilities	<u>1,382,136</u>	<u>1,444,826</u>
Total liabilities	<u>\$ 1,940,166</u>	<u>\$ 2,088,432</u>
Deferred Inflows of Resources	<u>\$ -</u>	<u>\$ -</u>
Net position:		
Net investment in capital assets	\$ 6,564,140	\$ 6,076,611
Restricted net position	645,961	697,207
Unrestricted net position	<u>3,633,234</u>	<u>4,594,295</u>
Total net position	<u>\$ 10,843,335</u>	<u>\$ 11,368,113</u>

City of Hamilton  
Ravalli County, Montana

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Years Ended June 30, 2014

Comparative **business** assets and liabilities were as follows:

**Table II**

	<u>2014</u>	<u>2013</u>
Current assets	\$ 2,911,339	\$ 2,296,418
Capital assets-net	15,324,348	15,509,656
Noncurrent assets	<u>253,844</u>	<u>253,844</u>
Total assets	\$ <u>18,489,531</u>	\$ <u>18,059,918</u>
Current liabilities	\$ 395,377	\$ 216,204
Noncurrent liabilities	<u>1,708,642</u>	<u>1,845,187</u>
Total liabilities	\$ <u>2,104,019</u>	\$ <u>2,061,391</u>
Net position:		
Net investment in capital assets	\$ 13,513,309	\$ 13,595,656
Restricted net position	253,844	253,844
Unrestricted net position	<u>2,618,359</u>	<u>2,149,027</u>
Total net position	\$ <u>16,385,512</u>	\$ <u>15,998,527</u>

City of Hamilton  
Ravalli County, Montana

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Years Ended June 30, 2014

Comparative **governmental** revenues and expenses were as follows:

**Table III**

Revenues	2014	2013
Program revenues:		
Charges for services, fines, licenses & permits	\$ 369,673	\$ 958,738
Operating grants and contributions	420,179	457,600
Capital grants and contributions	178,232	306,675
General revenues:		
Property taxes	\$ 1,478,386	\$ 1,410,175
Local option taxes	107,276	96,828
Licenses and permits	-	-
Unrestricted federal/state shared revenue	1,005,906	959,791
Unrestricted investment earnings	2,011	2,387
Miscellaneous	18,243	-
Gain (Loss) on sale of capital assets	5,000	97,814
Gain on disposal of asset	-	52,381
Total revenues & transfers	\$ 3,584,906	\$ 4,342,389
Expenses:		
General government	\$ 1,120,030	\$ 1,000,669
Public safety	1,559,808	1,473,660
Public works	978,961	834,447
Public health	10,000	10,000
Culture and recreation	150,875	125,907
Interest on long-term debt	57,468	60,600
Miscellaneous	359,745	360,486
Unallocated OPEB	20,878	20,253
Total expenses	\$ 4,257,766	\$ 3,886,022
Changes in net position	\$ (672,860)	\$ 456,367
Transfers	\$ 174,919	\$ 165,977
Net position, July 1	\$ 11,368,113	\$ 10,745,769
Changes in beginning equity	(26,837)	-
Net position, July 1 restated	11,341,276	10,745,769
Net position, June 30	\$ 10,843,335	\$ 11,368,113

City of Hamilton  
Ravalli County, Montana

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Years Ended June 30, 2014

Comparative **business-type** revenues and expenses were as follows:

**Table IV**

Revenues	2014	2013
Program revenues:		
Charges for services	\$ 2,239,090	\$ 2,120,019
Capital grants and contributions	-	15,000
Miscellaneous revenues	-	-
General revenues:		
Unrestricted federal/state shared revenues	\$ -	-
Unrestricted investment earnings	1,362	\$ 1,081
Gain on sale of capital assets	-	5,141
 Total revenues	 \$ 2,240,452	 \$ 2,141,241
Expenses:		
Public works	\$ 1,635,805	\$ 1,609,545
Debt service	42,742	52,989
Total expenses	\$ 1,678,547	\$ 1,662,534
Changes in net position	\$ 561,905	\$ 478,707
Transfers	(174,919)	(165,977)
Net position, July 1	15,998,526	15,685,796
Changes in beginning equity	-	-
Net position, July 1 restated	15,998,526	15,685,796
Net position, June 30	\$ 16,385,512	\$ 15,998,526

**THE CITY'S FUNDS**

Changes in Fund Balances

**Table V**

	Major Funds **				Other Governmental Funds
	General Fund	Debt Service Funds			
		SID 18 - Streetscape	SID 19 - Sidewalk	SID 21 - Kurtz Lane	
Fund balances June 30, 2013	\$ 1,407,263	\$ 68,926	18,075	\$ 97,424	\$ 1,534,553
Fiscal year 14 revenue	2,607,463	64,321	27,588	39,368	1,364,622
Fiscal year 14 expenditures	(2,723,202)	(69,400)	(29,205)	(18,863)	(1,325,762)
Fiscal year 14 transfers & other financing sources (uses)	48,086	-	-	-	131,833
Changes in beginning equity	(27,188)	-	-	-	-
Fund balances June 30, 2014	\$ 1,312,423	\$ 63,848	16,458	\$ 117,929	\$ 1,705,246

\*\* See note 1 to the financial statements for a discussion of major funds, they may vary from year to year

City of Hamilton  
Ravalli County, Montana

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Years Ended June 30, 2014

**GENERAL FUND BUDGETARY HIGHLIGHTS**

Budget Summary

**Table VI**

Year Ended June 30,	Revenues			Expenditures		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
2013	\$ 3,372,079	\$ 3,372,079	\$ 3,437,384	\$ 3,961,423	\$ 3,961,388	\$ 3,490,111
2014	\$ 2,736,479	\$ 2,736,479	\$ 2,700,631	\$ 3,377,297	\$ 3,492,797	\$ 2,899,880

**CAPITAL ASSETS AND LONG TERM DEBT**

**Capital Assets**

**Governmental Activities Capital Assets**

**Table VII**

	2014	2013
Land	\$ 275,341	\$ 275,341
Buildings	1,733,034	1,733,034
Other improvements	5,210,208	5,174,046
Machinery and equipment	4,079,003	4,129,175
Construction in progress	503,333	257,603
Total	<u>\$ 11,800,920</u>	<u>\$ 11,569,200</u>
Less accumulated depreciation	<u>(3,966,780)</u>	<u>(3,629,644)</u>
Net capital assets	<u>\$ 7,834,140</u>	<u>\$ 7,939,556</u>

**Business-type Activities Capital Assets**

**Table VIII**

	2014	2013
Land	\$ 651,733	\$ 651,733
Wells-source of supply	1,376,198	1,376,198
Construction in progress	190,978	-
General plant	438,170	405,773
Sewer treatment plant	9,408,183	9,401,314
Transmission and distribution	8,933,675	8,933,676
Treatment equipment	617,502	575,602
Buildings	773,396	773,396
Total capital assets	<u>\$ 22,389,835</u>	<u>\$ 22,117,692</u>
Less accumulated depreciation	<u>(7,065,487)</u>	<u>(6,608,036)</u>
Net capital assets	<u>\$ 15,324,348</u>	<u>\$ 15,509,656</u>

The City's investment in capital assets for its governmental and business-type activities of June 30, 2014 was \$23,158,488 (net of accumulated depreciation). These assets include land, building, improvements, wells, sewer treatment equipment and facilities, and machinery and equipment.

Additional information on the City's capital assets can be found in the notes to the financial statements.

City of Hamilton  
Ravalli County, Montana

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Years Ended June 30, 2014

**Long-term Liabilities**

Tables IX and X show the outstanding long term liabilities for both the governmental and business-type activities.

**Governmental Activities Outstanding Long Term Liabilities**

**Table IX**

	<u>2014</u>	<u>2013</u>
Bonds payable	\$ 1,270,000	\$ 1,330,000
Compensated absences	260,883	235,842
OPEB	<u>72,783</u>	<u>51,905</u>
Total	\$ <u>1,603,666</u>	\$ <u>1,617,747</u>

**Business-type Activities Outstanding Long Term Liabilities**

**Table X**

	<u>2014</u>	<u>2013</u>
Water revenue bonds	\$ 900,000	\$ 982,000
Sewer revenue bonds	884,000	932,000
Sewer capital lease	27,038	-
Compensated absences	46,304	45,129
OPEB	<u>20,174</u>	<u>14,622</u>
Total	\$ <u>1,877,516</u>	\$ <u>1,973,751</u>

**ECONOMIC FACTORS**

The City of Hamilton and the Bitterroot Valley have struggled to recover from the 2008 recession. Ravalli County lags other areas of the state in terms of recovery of economic and building activities but is demonstrating increased economic vitality.

The City of Hamilton administration moved forward on pending street improvement projects and improving the City's water system. The City's is also upgrading the wastewater treatment plant in response to evolving federal and state environmental standards.

The Fiscal Year 2013-2014 City Budget included \$851,690 for (water) Well #5 improvements for which minimal engineering was completed. The remainder of the project was budgeted for again in the 2014-2015 fiscal year at a slightly higher cost. The funding for this project included \$100,000 RRGL Grant from the State's DNRC Division, \$150,000 was to come from the Water Impact Fees, and remainder would be funded by the Water Fund.

The City budgeted \$1,540,500 in Fiscal Year 2013-2014 for the wastewater treatment plant UV project with expected funding of \$322,000 TSEP Grant, \$450,000 in CDBG funding, and \$100,000 in DNRC RRGL Grant and \$180,000 from the Sewer Impact Fees. This sewer project was delayed pending the final State commitment of CDBG grant funds for the 2015 Fiscal Year. As of the date of this writing, the wastewater upgrade project final engineering design is nearly complete and is being prepared for review by Montana Department of Environmental Quality. The project will be put out for bids in early 2015.

In the fiscal year ended June 30, 2014, the City of Hamilton budgeted for the second phase of work on Fairgrounds Road upon completion of the construction of the first phase consisting of a shared use path along Fairgrounds Road and improvements to the area immediately around the Ravalli County Fairgrounds entrance area near the intersection of Fairgrounds Road and Old Corvallis Road in the amount of \$250,100 with up to \$188,808 in funding from the Community

City of Hamilton  
Ravalli County, Montana

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Years Ended June 30, 2014

Transportation Enhancement Program (CTEP) federal dollars. During the year, nearly \$200,000 was expended, and completed within the first part of the 2014-2015 fiscal year. Planning and engineering is currently underway for Phase 2 for the reconstruction of Fairgrounds Road between U.S. Highway 93 and Old Corvallis Road. Future work on the Fairgrounds Road roadway project will present financial and engineering challenges currently being analyzed.

In the fiscal year ended June 30, 2014, the City did some initial engineering for street improvements and water main replacement work beginning on 3<sup>rd</sup> Street, which continued into the 2014-2015 year. The water main replacement projects are to be an annual project with hopes of funding this replacement program two to three blocks at a time each year, depending on cost. Some preliminary engineering work has been done on Ravalli Street improvements as well, but this project may be delayed for a year or two. Other street projects are being considered and some have been delayed due to budget constraints.

The City sold an older police patrol car and replaced it with a new one for \$28,500. The City's public works department purchased a line driver painting machine (\$6,018) for roads, and obtained a new sander unit by way of a MACI federal grant from the State Department of Transportation. The unit cost \$29,000 and the City paid \$3,825 for its share.

The City of Hamilton continues to grow, in terms of population and business activity. The Administration and Council strive to find the right balance of growth within the City and how to fund the operations for the increasing services that are being placed on City operations. The public safety and public works and parks and cemetery departments are challenged making do with the resources they have. As those services increase, so will the cost of administration over these departments.

The City is looking at ways to maintain a balance of growth and to maintain the quality of life that exists in a small city. The City will be considering establishing additional special improvement districts to pay for sidewalk, curb and street improvements within the City. The infrastructure of the City is used more extensively as the population both in and outside of the City increases and new property is annexed into the City. City water and sewer infrastructure improvements are continual, street work improvements are always needed and addressed on a prioritized basis. Cemetery and Park improvements are also planned.

Overall, the City is prepared for the challenges it faces for the future. The City's population has a diverse background, offering different perspectives and solutions for the City of Hamilton.

Signed:

Craig Shepherd  
Finance Administrator

**City of Hamilton, Montana**  
**Statement of Net Position**  
June 30, 2014

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
<b>Current Assets</b>			
Cash and Investments	\$ 3,151,588	\$ 2,700,607	\$ 5,852,195
Receivables			
Property Taxes Receivable	149,571	-	149,571
Assessments Receivable	1,247,286	-	1,247,286
Accounts Receivable	4,078	210,732	214,810
Due From Other Governments	306,934	-	306,934
Prepays	10,000	-	10,000
<b>Total Current Assets</b>	<b>4,869,457</b>	<b>2,911,339</b>	<b>7,780,796</b>
<b>Non-Current Assets</b>			
Cash and Investments	79,905	253,844	333,749
Capital Assets, Depreciable, Net	7,558,798	14,672,615	22,231,413
Capital Assets, Land	275,341	651,733	927,074
<b>Total Noncurrent Assets</b>	<b>7,914,044</b>	<b>15,578,192</b>	<b>23,492,236</b>
<b>Total Assets</b>	<b>12,783,501</b>	<b>18,489,531</b>	<b>31,273,032</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Accounts Payable	248,388	204,916	453,304
Accrued Payables	88,112	21,587	109,699
Current Portion of Compensated Absences	130,442	23,152	153,594
Long-Term Liabilities - Due Within One Year	80,000	143,091	223,091
<b>Total Current Liabilities</b>	<b>546,942</b>	<b>392,746</b>	<b>939,688</b>
<b>Noncurrent Liabilities</b>			
Noncurrent Portion of Compensated Absences	130,441	23,152	153,593
Long-Term Liabilities - Due in More Than One Year	1,262,783	1,688,121	2,950,904
<b>Total Noncurrent Liabilities</b>	<b>1,393,224</b>	<b>1,711,273</b>	<b>3,104,497</b>
<b>Total Liabilities</b>	<b>1,940,166</b>	<b>2,104,019</b>	<b>4,044,185</b>
<b>Net Position</b>			
Net Invested in Capital Assets	6,561,140	13,513,309	20,074,449
Restricted for:			
Debt Service	1,572,508	253,844	1,826,352
General Government	32,493	-	32,493
Public Safety	48,523	-	48,523
Public Works	283,595	-	283,595
Culture and Recreation	1,155	-	1,155
Unrestricted	2,343,921	2,618,359	4,962,281
<b>Total Net Position</b>	<b>\$ 10,843,335</b>	<b>\$ 16,385,512</b>	<b>\$ 27,228,847</b>

See Notes to Financial Statements.

**City of Hamilton, Montana**  
**Statements of Activities**  
**For the Year Ended June 30, 2014**

	Program Revenues				-Net (Expense) Revenue and Changes in Net Assets-	
	Charges For Services, Fines, Forfeitures, Etc.	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities</b>						
General Government	\$ 1,126,920	\$ 1,348	\$ -	(852,137)	\$ -	\$ (852,137)
Public Safety	1,518,079	319,237	-	(1,161,728)	-	(1,161,728)
Public Works	1,034,053	98,844	178,232	(260,266)	-	(260,266)
Public Health	10,000	-	-	(10,000)	-	(10,000)
Culture & Recreation	151,501	750	-	(150,751)	-	(150,751)
Interest on Long-term Debt	57,468	-	-	(57,468)	-	(57,468)
Depreciation - Unallocated	359,745	-	-	(359,745)	-	(359,745)
<b>Total Governmental</b>	<b>4,257,766</b>	<b>420,179</b>	<b>178,232</b>	<b>(2,852,095)</b>	<b>-</b>	<b>(2,852,095)</b>
<b>Business-Type Activities</b>						
Water	701,414	-	-	-	463,046	463,046
Sewer	977,134	-	-	-	97,496	97,496
<b>Total Business-Type Activities</b>	<b>1,678,548</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>560,542</b>	<b>560,542</b>
<b>Total Activities</b>	<b>\$ 5,936,313</b>	<b>\$ 420,179</b>	<b>\$ 178,232</b>	<b>(2,852,095)</b>	<b>560,542</b>	<b>(2,291,553)</b>
<b>General Revenues</b>						
Property Taxes				1,478,386	-	1,478,386
Local Option				107,276	-	107,276
Intergovernmental Revenue				1,005,906	-	1,005,906
Investment Earnings				2,011	1,363	3,374
Other				18,594	-	18,594
Gain on Sale of Capital Assets				5,000	-	5,000
Transfers				174,919	(174,919)	-
<b>Total General Revenues and Transfers</b>				<b>2,792,092</b>	<b>(173,556)</b>	<b>2,618,536</b>
<b>Change in Net Assets</b>				<b>(60,003)</b>	<b>386,986</b>	<b>326,983</b>
<b>Net Assets</b>						
Beginning of the Year				11,368,113	15,998,526	27,366,639
Restatement				(464,775)	-	(464,775)
Beginning of the Year - Restated				10,903,338	15,998,526	26,901,864
End of the Year				10,843,335	\$ 16,385,512	\$ 27,228,847

See Notes to Financial Statements.

**City of Hamilton, Montana**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2014**

	General Fund	SID # 18 DHBID Debt Service	SID # 19 Sidewalk Debt Service	SID # 21 Kurtz Lane Debt Service	Other Governmental Funds	Total
<b>Assets</b>						
Cash and Investments	\$ 1,298,305	\$ 8,510	\$ 10,976	\$ 85,429	\$ 1,748,367	\$ 3,151,587
Restricted Cash and Investments	-	46,250	-	32,500	1,155	79,905
Receivables:						
Property Taxes	104,645	-	-	-	44,926	149,571
Assessments	-	520,785	272,572	439,775	14,154	1,247,286
Accounts and Other Receivables	3,932	-	-	-	146	4,078
Due from Other Funds	-	-	-	-	93,989	93,989
Due from Other Governments	120,450	9,088	5,482	-	171,914	306,934
Advances to Other Funds	47,694	-	-	-	-	47,694
Prepays	10,000	-	-	-	-	10,000
Total Assets	<u>\$ 1,585,026</u>	<u>\$ 584,633</u>	<u>\$ 289,030</u>	<u>\$ 557,704</u>	<u>\$ 2,074,651</u>	<u>\$ 5,091,044</u>
<b>Liabilities</b>						
Accounts Payable	\$ 100,039	\$ -	\$ -	\$ -	\$ 148,349	\$ 248,388
Accrued Payables	67,918	-	-	-	20,193	88,111
Due to Other Funds	-	-	-	-	93,989	93,989
Advances From Other Funds	-	-	-	-	47,694	47,694
Total Liabilities	<u>167,957</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>310,225</u>	<u>478,182</u>
<b>Deferred Inflows of Resources</b>						
Property Taxes/Assessments	<u>104,645</u>	<u>520,785</u>	<u>272,572</u>	<u>439,775</u>	<u>59,180</u>	<u>1,396,957</u>
Total Deferred Inflows of Resources	<u>104,645</u>	<u>520,785</u>	<u>272,572</u>	<u>439,775</u>	<u>59,180</u>	<u>1,396,957</u>
<b>Fund Balances</b>						
Restricted:						
General Government	-	-	-	-	32,493	32,493
Public Safety	-	-	-	-	48,523	48,523
Public Works	-	-	-	-	283,595	283,595
Culture and Recreation	-	-	-	-	1,155	1,155
Special Assessments Debt	-	63,848	16,458	117,929	81,961	280,196
Committed:						
Public Safety	-	-	-	-	891,381	891,381
Public Works	-	-	-	-	159,821	159,821
Other - Comprehensive Insurance	-	-	-	-	92,210	92,210
Other - Employee Retirement	-	-	-	-	90,234	90,234
Other - Group Health Insurance	-	-	-	-	73,835	73,835
Unassigned	<u>1,312,424</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(49,962)</u>	<u>1,262,462</u>
Total Fund Balance	<u>1,312,424</u>	<u>63,848</u>	<u>16,458</u>	<u>117,929</u>	<u>1,705,246</u>	<u>3,215,905</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances						
	<u>\$ 1,585,026</u>	<u>\$ 584,633</u>	<u>\$ 289,030</u>	<u>\$ 557,704</u>	<u>\$ 2,074,651</u>	<u>\$ 5,091,044</u>
<b>Reconciliation to the Statement of Net Position</b>						
Total fund balance reported above						\$ 3,215,905
Add capital assets not reported above					\$ 11,920,255	
Less accumulated Depreciation					(4,086,116)	7,834,139
Less Liabilities not reported above:						
Compensated Absences						(260,883)
Bonds Payable						(1,270,000)
OPEB						(72,783)
Deferred revenues for property taxes and other accrued receivables recognized as revenue in government-wide statement of net position						<u>1,396,957</u>
Net Position						<u>\$ 10,843,335</u>

See Notes to Financial Statements.

**City of Hamilton, Montana**  
**Combined Statement of Revenues, Expenditures,**  
**and Changes in Fund Balances**  
**All Governmental Funds**  
**For the Year Ended June 30, 2014**

	General Fund	SID # 18 DHBID Debt Service	SID # 19 Sidewalk Debt Service	SID # 21 Kurtz Lane Debt Service	Other Governmental Funds	Total
<b>REVENUES:</b>						
Property Taxes and Assessments	\$ 1,150,908	\$ 64,282	\$ 27,573	\$ 39,317	\$ 790,366	\$ 2,072,446
Intergovernmental	1,124,584	-	-	-	479,733	1,604,317
Fine and Forfeitures	132,065	-	-	-	1,110	133,175
Licenses and Permits	74,357	-	-	-	66,176	140,533
Charges for Services	106,266	-	-	-	26,353	132,619
Investment Earnings	1,141	40	15	51	784	2,031
Other	18,494	-	-	-	99	18,593
<b>Total Revenues</b>	<u>2,607,815</u>	<u>64,322</u>	<u>27,588</u>	<u>39,368</u>	<u>1,364,621</u>	<u>4,103,714</u>
<b>EXPENDITURES:</b>						
Current Operations:						
General Government	945,945	-	-	-	90,953	1,036,898
Public Safety	1,112,297	-	-	-	237,525	1,349,822
Public Works	389,945	-	-	-	430,525	820,470
Public Health	10,000	-	-	-	-	10,000
Culture and Recreation	120,973	-	-	-	-	120,973
Miscellaneous	14,076	-	-	-	345,669	359,745
Capital Outlay	129,966	-	-	-	221,090	351,056
Debt Service:						
Principal	-	45,000	15,000	-	-	60,000
Interest	-	24,400	14,205	18,863	-	57,468
<b>Total Expenditures</b>	<u>2,723,202</u>	<u>69,400</u>	<u>29,205</u>	<u>18,863</u>	<u>1,325,762</u>	<u>4,166,432</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	(115,387)	(5,078)	(1,617)	20,505	38,859	(62,718)
<b>OTHER SOURCES (USES):</b>						
Sale of Capital Assets	5,000	-	-	-	-	5,000
Transfers In (Out)	43,086	-	-	-	131,833	174,919
<b>Net Change in Fund Balances</b>	<u>(67,301)</u>	<u>(5,078)</u>	<u>(1,617)</u>	<u>20,505</u>	<u>170,692</u>	<u>117,201</u>
<b>FUND BALANCES:</b>						
Beginning of the Year	1,406,913	68,926	18,075	97,424	1,534,554	3,125,892
Restatement/Prior Period Adjustment	(27,188)	-	-	-	-	(27,188)
Beginning of the Year - as Restated	<u>1,379,725</u>	<u>68,926</u>	<u>18,075</u>	<u>97,424</u>	<u>1,534,554</u>	<u>3,098,704</u>
<b>End of the Year</b>	<u>\$ 1,312,424</u>	<u>\$ 63,848</u>	<u>\$ 16,458</u>	<u>\$ 117,929</u>	<u>\$ 1,705,246</u>	<u>\$ 3,215,905</u>

See Notes to Financial Statements.

**City of Hamilton, 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**

Changes in Fund Balances as Reported in the Government Funds Statement	\$	117,201
Changes in Current Property Taxes and Special Assessments Receivable Not Reflected in Revenue on the Governmental Fund Statements		(85,868)
Amounts Reported as Expenditures/(Other Financing Sources) on the Governmental Funds Statements Not Included as Expenses on the Government-wide Statements		
Capital Outlay		351,056
Increase in Compensated Absences		(25,042)
Principal Payments on Long-Term Debt		60,000
		<u>386,014</u>
Amounts Reported on the Government-wide Statements of Activities Not Included on the Governmental Fund Statements		
Depreciation Expense		(456,472)
Other Post Employment Benefit Obligations		(20,878)
		<u>(477,350)</u>
Change in Net Position Reported on the Statement of Activities	\$	<u>(60,003)</u>

See Notes to Financial Statements.

**City of Hamilton, Montana**  
**Statement of Revenues, Expenditures and Other Financing Sources (Uses)**  
**Budget and Actual - General Fund**  
**For the Year Ended June 30, 2014**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b>REVENUES:</b>				
Property Taxes and Assessments	\$ 1,120,565	\$ 1,120,565	\$ 1,150,908	\$ 30,343
Intergovernmental	1,111,314	1,111,314	1,124,584	13,270
Fines and Forfeitures	129,600	129,600	132,065	2,465
Licenses and Permits	76,650	76,650	74,357	(2,293)
Charges for Services	99,284	99,284	106,266	6,982
Investment Earnings	1,000	1,000	1,141	141
Other	10,000	10,000	18,494	8,494
Total Revenues	<u>2,548,413</u>	<u>2,548,413</u>	<u>2,607,815</u>	<u>59,402</u>
<b>EXPENDITURES:</b>				
Current Operations:				
General Government	977,634	977,634	945,945	31,689
Public Safety	1,267,742	1,267,742	1,112,297	155,445
Public Works	462,923	462,923	389,945	72,978
Public Health	10,000	10,000	10,000	-
Culture and Recreation	113,842	113,842	120,973	(7,131)
Miscellaneous	66,500	66,500	14,076	52,424
Capital Outlay	287,004	402,504	129,966	272,538
Total Expenditures	<u>3,185,645</u>	<u>3,301,145</u>	<u>2,723,202</u>	<u>577,943</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(637,232)	(752,732)	(115,387)	637,345
<b>OTHER SOURCES (USES):</b>				
Sale of Capital Assets	-	-	5,000	5,000
Transfers In (Out)	(3,586)	(3,586)	43,086	46,672
Total Other Sources (Uses)	<u>-</u>	<u>-</u>	<u>48,086</u>	<u>51,672</u>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES</b>	\$ <u>(640,818)</u>	\$ <u>(756,318)</u>	\$ <u>(67,301)</u>	\$ <u>689,017</u>

See Notes to Financial Statements.

**City of Hamilton, Montana**  
**Statement of Net Position**  
**Enterprise Funds**  
**June 30, 2014**

	Water Fund	Sewer Fund	Total
<b>Assets</b>			
Current Assets			
Cash and Investments	\$ 1,607,495	\$ 1,093,112	\$ 2,700,607
Accounts Receivable	155,169	55,563	210,732
Total Current Assets	1,762,664	1,148,675	2,911,339
Non-Current Assets			
Cash and Investments	111,086	142,758	253,844
Capital Assets, Depreciable, Net	5,802,132	8,870,482	14,672,615
Capital Assets, Land	159,596	492,137	651,733
Total Noncurrent Assets	6,072,814	9,505,377	15,578,191
Total Assets	7,835,478	10,654,052	18,489,530
<b>Liabilities</b>			
Current Liabilities			
Accounts Payable	157,426	47,489	204,915
Accrued Payables	9,845	11,743	21,588
Current Portion of Compensated Absences	12,271	10,881	23,152
Long-Term Liabilities - Due Within One Year	82,000	61,091	143,091
Total Current Liabilities	261,542	131,204	392,746
Noncurrent Liabilities			
Noncurrent Portion of Compensated Absences	12,311	10,840	23,151
Long-Term Liabilities - Due in More Than One Year	826,954	861,167	1,688,121
Total Noncurrent Liabilities	839,265	872,008	1,711,272
Total Liabilities	1,100,807	1,003,212	2,104,018
<b>Net Position</b>			
Net Invested in Capital Assets	5,061,728	8,451,581	13,513,309
Restricted for Debt Service	111,086	142,758	253,844
Unrestricted	1,561,857	1,056,502	2,618,359
Total Net Position	\$ 6,734,671	\$ 9,650,840	\$ 16,385,512

See Notes to Financial Statements.

**City of Hamilton, Montana**  
**Combined Statement of Income and Changes in Net Position**  
**Enterprise Funds**  
**For the Year Ended June 30, 2014**

	<u>Water Fund</u>	<u>Sewer Revenue</u>	<u>Total</u>
<b>OPERATING REVENUES:</b>			
Charges for Services	\$ 1,164,389	\$ 1,074,560	\$ 2,238,949
Miscellaneous Revenue	<u>70</u>	<u>70</u>	<u>140</u>
Total	<u>1,164,459</u>	<u>1,074,630</u>	<u>2,239,089</u>
<b>OPERATING EXPENSES:</b>			
Personal Services	237,867	309,796	547,663
Supplies and Materials	96,301	144,773	241,074
Purchased Services	168,848	189,556	358,404
Fixed Charges	7,545	23,668	31,213
Depreciation	<u>169,219</u>	<u>288,232</u>	<u>457,451</u>
Total	<u>679,780</u>	<u>956,025</u>	<u>1,635,805</u>
<b>OPERATING INCOME:</b>	484,679	118,605	603,284
<b>NON-OPERATING REVENUE (EXPENSE)</b>			
Interest Revenue	804	559	1,363
Interest Expense	<u>(21,634)</u>	<u>(21,109)</u>	<u>(42,743)</u>
Total Non-Operating Revenue (Expenses)	<u>(20,830)</u>	<u>(20,550)</u>	<u>(41,379)</u>
Income Before Transfers	463,849	98,055	561,904
Transfers	<u>(81,891)</u>	<u>(93,028)</u>	<u>(174,919)</u>
<b>CHANGES IN NET POSITION</b>	381,958	5,027	386,985
<b>NET POSITION:</b>			
Beginning of the Year	<u>6,352,713</u>	<u>9,645,814</u>	<u>15,998,527</u>
End of the Year	<u>\$ 6,734,671</u>	<u>\$ 9,650,841</u>	<u>\$ 16,385,512</u>

See Notes to Financial Statements.

**City of Hamilton, Montana**  
**Combined Statement of Cash Flows**  
**Enterprise Funds**  
**For the Year Ended June 30, 2014**

	<b>Water Fund</b>	<b>Sewer Revenue</b>	<b>Total</b>
<b>Cash Flows From Operations</b>			
Receipts From Customers	\$ 1,166,757	\$ 1,081,892	\$ 2,248,649
Payments to Suppliers	(150,680)	(342,590)	(493,270)
Payments to Employees	(233,371)	(306,124)	(539,495)
Net Cash Provided (Used) by Operations	782,706	433,178	1,215,884
<b>Cash Flows From Noncapital Financing Activities</b>			
Transfers From (To) Other Funds	(81,891)	(93,028)	(174,919)
Net Cash Provided (Used) by Noncapital Financing Activities	(81,891)	(93,028)	(174,919)
<b>Cash Flows From Capital and Related Financing Activities</b>			
Purchases of Capital Assets	(223,374)	(6,869)	(230,243)
Principal Paid on Debt	(82,000)	(62,861)	(144,861)
Interest Paid on Debt	(21,634)	(21,109)	(42,743)
Net Cash Provided (Used) by Capital and Related Financing Activities	(327,008)	(90,839)	(417,847)
<b>Cash Flows From Investing Activities</b>			
Interest Revenue	804	559	1,363
Net Cash Provided (Used) by Investing Activities	804	559	1,363
<b>Net Increase (Decrease) in Cash</b>	374,611	249,870	624,481
<b>Cash and Cash Equivalents</b>			
Beginning of the Year	1,343,970	986,000	2,329,970
End of the Year	\$ 1,718,581	\$ 1,235,870	\$ 2,954,451
<b>Reconciliation of Operating Income to Net Cash Provided by Operations</b>			
Operating Income	\$ 484,679	\$ 118,605	\$ 603,284
Adjustments to Reconcile to Cash Flow			
Depreciation Expense	169,219	288,232	457,451
Increase (Decrease) in Accounts Receivable	2,297	7,261	9,558
Increase (Decrease) in Accounts Payable	122,015	15,407	137,422
Increase (Decrease) in Accrued Payable	416	1,027	1,443
Increase (Decrease) in Compensated Absences	1,701	(526)	1,175
Increase (Decrease) in OPEB Payable	2,379	3,172	5,551
Net Cash Provided (Used) by Operations	\$ 782,706	\$ 433,178	\$ 1,215,884

See Notes to Financial Statements.

**City of Hamilton, Montana**  
Statement of Fiduciary Net Assets  
Agency Funds  
June 30, 2014

**Assets**

Cash and Investments	\$ 718,749
Property Taxes Receivable	83,492
Accounts Receivable	<u>5,962</u>

Total Assets \$ 808,203

**Liabilities**

Warrants Payable	\$ 39,981
Due to Other Governments	<u>768,223</u>

Total Liabilities \$ 808,203

See Notes to Financial Statements.

# CITY OF HAMILTON, MONTANA

## Notes to Financial Statements

June 30, 2014

### Note 1 – Summary of Significant Accounting Policies

The financial statements of the City of Hamilton (the City) have been prepared in accordance with generally accepted accounting principles (GAAP) in the United States of America as set forth by standards established by the Governmental Accounting Standards Board (GASB).

The government's significant accounting policies are described below.

Financial Reporting Entity – The City is a political subdivision of the State of Montana governed by an elected Mayor and City Council duly elected by the registered voters of the City. The City is considered a primary government because it is a general purpose local government. Further, it meets the following criteria: (a) It has a separately elected governing body, (b) It is legally separate and (c) It is fiscally independent from the State and other local governments.

The City provides a wide range of municipal services that include public safety, recreation, public improvements, and general administrative services. Water and sewer services are provided by the City and are accounted for in the Enterprise Fund. The financial statements include all operations controlled by the City.

A reporting entity consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of the relationship are such that exclusion would cause the reporting entity's financial statements to be misleading. Based on this criteria, the City is considered to be an independent reporting entity and has no component units.

### Measurement Focus, Basis of Presentation and Basis of Accounting

#### Government-wide Financial Statements

The statement of net position and the statement of activities show information about the overall financial position and activities of the City. Fiduciary (agency funds) are not included in these statements. These statements are reported using the economic resources measurement focus and the accrual basis of accounting. The activities of the City are generally financed through property taxes, assessments, charges for services, licenses and permits, fines, and federal and state grants.

Revenues are recorded when they occur and expenses are recorded at the time the liability is incurred, regardless of when the related cash flows take place. On the accrual basis, revenues from property taxes are recognized in the fiscal year for which the taxes are levied. Revenues from grants are recognized in the fiscal year in which eligibility requirements have been met. The City's business-type activities are financed by charges for services to users.

## Note 1 – Summary of Significant Accounting Policies (Continued)

The statement of activities presents a comparison between direct expenses and program revenues for each function of the City's activities. Direct expenses are those that are specifically associated with a program or function. The City does not charge indirect expenses to programs or functions; however, the general fund is reimbursed for administrative costs incurred for other functions including business type activities. Program revenues include charges for services (primarily user fees, assessments, permits, fines, and grants that are restricted to a particular function). Generally, restricted revenues are used first to pay expenses incurred when both restricted and unrestricted funds are available. Revenues that are not received for a specific purpose and classified as program revenues are reported as general revenues. These include all property taxes, entitlement revenue, investment earnings, permits and licenses (i.e., local business licenses and alcoholic beverage licenses and permits).

### Fund Financial Statements

These statements provide information about the City's governmental, enterprise and agency funds. The emphasis of fund financial statements is on major governmental and enterprise funds. Each major fund is displayed in a separate column. All of the non-major governmental funds are aggregated and reported in a single column as other governmental funds. The water and sewer funds are both major enterprise funds and are reported in separate columns.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period (the City defined the length of time used for "available" for purposes of revenue recognition to be 60 days). Revenues applicable to the current fiscal year and collected soon after year-end are recognized as revenue. Most current taxes/assessments receivable are delinquent at June 30 and amounts collected soon after year-end are not significant. Deferred property tax/assessment revenues are recorded as deferred inflows of resources in the government funds for these receivables. This change from previous years, when deferred property taxes/assessments were reported as a liability, results from the City's early implementation of GASB 65, *Items Previously Reported as Assets and Liabilities* in fiscal year 2013. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt and payments for compensated absences which are recognized as expenditures when due. General capital asset acquisitions are reported as expenditures in governmental funds.

Enterprise funds (business-type activities) are reported using the economic resources measurement focus and the accrual basis of accounting similar to the basis used for the government-wide financial statements. Revenues are recorded when earned and expenses are recorded at the time the liability is incurred, regardless of when the related cash flows take place. Charges for services are reported as operating revenues; investment earnings and grants are reported as non-operating revenues. All assets and liabilities are recorded in the enterprise funds financial statements including capital assets and long-term liabilities.

Note 1 – Summary of Significant Accounting Policies (Continued)

Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, or other governments. These funds are reported using the economic resources measurement focus and the accrual basis of accounting similar to the basis used for the government-wide financial statements.

The City reports the following fiduciary funds:

Agency Funds – This accounts for the administrative clearing funds for payroll and claims. In addition, the City is the agent for the Bitterroot Library District, Fireman’s Disability Fund for the Hamilton Fire Department Relief Association and the City Court Judge’s Trust.

Major funds – Generally accepted accounting principles require that the main operating fund of a government be reported as a major fund. In addition, major funds include all other governmental funds whose total assets, liabilities, revenues, or expenditures/expenses are at least 10% or more of the total for all governmental funds or, for enterprise funds, at least 10% of the total for all enterprise funds. In addition, the same 10% elements of these individual governmental or enterprise fund should be at least 5% or more of the total for all governmental and enterprise funds combined. Accordingly, the City reports the following major governmental funds:

General Fund – This is the City’s main operating fund and it accounts for all current financial resources of the City except those required to be accounted for in other funds.

SID #18 – DHBID Streetscape Debt Service Fund – This fund accounts for the special assessment revenue used to service the principal and interest payments required on construction bonds for the Downtown Hamilton Business Improvement District.

SID #19 – Sidewalk Debt Service Fund – This fund accounts for the special assessment revenue used to service the principal and interest payments required on construction bonds for the Highway 93 property owners.

SID #21 – Kurtz Lane Improvement Debt Service Fund – This fund accounts for the special assessment revenue used to service the principal and interest payments required on construction bonds for the Kurtz Lane property owners.

Enterprise Funds – The City reports its water and sewer operations as major enterprise funds.

Budgets – Budgets are adopted for the general, special revenue, debt service, capital projects, and enterprise funds. The annual budget is a plan of financial operation with an estimate of expenditures and means of financing them. A preliminary budget is prepared in July, budget hearings are held, and the final budget is adopted by the second Monday in August. The adopted budget constitutes the appropriations for the City and is the maximum limit of expenditures in each budgeted fund.

The adopted budget may be amended for emergencies and other matters as provided by state law. There were two budget amendments in 2014 for \$115,500 to cover the General Fund street improvements.

Note 1 – Summary of Significant Accounting Policies (Continued)

The budget is prepared on the basis of accounting described for its governmental funds. Tax levies are set by expenditure requirements, but are authorized and limited by state law. Expenditures are classified as required by state law. Transfers of budget authority within a fund are permitted. Appropriations lapse at June 30, except for encumbrances, which represent commitments to expend funds under current budget appropriations. There were no encumbrances in fiscal year 2014. State law requires only that a fund's total expenditures not exceed total budgeted expenditures. The level of budgetary control is the fund level.

Cash and Cash Equivalents – The City's cash is invested as permitted by law. State law restricts investments to certificates of deposit, repurchase agreements, direct obligations of the U.S. Government, or the State Treasurer under the Montana Board of Investments State Unified Investment Program (STIP). Investments are reported at fair value, which is based primarily on quoted market prices.

For purposes of the statement of cash flows, the City considers all highly liquid investments, with a maturity of three months or less when purchased, to be cash equivalents.

Restricted cash and cash equivalents are funds set aside in reserve accounts to meet bond covenants. When appropriate, cash from restricted accounts will be used for its intended purpose before using cash from other accounts.

Inventories – Cost of inventories are recorded as an expenditure at the time individual inventory items are purchased. Inventories on hand at year-end are not considered material.

Property Taxes and Assessments – Property tax revenue in the governmental fund statements is recognized as revenue on the modified accrual basis of accounting in the period for which the taxes are levied. Property taxes receivable at June 30 consist primarily of delinquent property taxes from prior year levies. No allowance is made for uncollectible taxes, which are not considered to be significant. Property taxes are levied in August of each year, based on assessments as of the prior January 1. Taxes are usually billed in October and are payable 50% on November 30 and 50% on following May 30.

Accounts Receivable – Accounts receivable are billings for water and sewer charges that have not yet been collected. Uncollected accounts receivable are considered to be immaterial and, therefore, no allowance for uncollectible accounts receivable is maintained.

Capital Assets – All capital assets are reported in the government-wide and enterprise fund financial statements at cost. Only assets with a cost of \$5,000 or more are capitalized; smaller purchases are expensed when purchased.

Note 1 – Summary of Significant Accounting Policies (Continued)

Capital assets are depreciated under the straight-line method over estimated useful lives as follows:

Governmental Activities:

Buildings.....	50 to 100 years
Land Improvements.....	10 to 30 years
Equipment.....	10 to 30 years

Business-type Activities:

Wells and Water Lines.....	50 to 70 years
Treatment Plant and Sewer Lines.....	50 years
Sewer Treatment Equipment.....	25 years
Other Equipment.....	10 to 25 years

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

Compensated Absences – All City employees are permitted to accumulate vacation and sick leave. On termination of employment, an employee is paid for accumulated vacation and for 25% of accumulated sick pay based on the current hourly rate of pay. The City records accrued vacation pay and 25% of accumulated sick pay. In the governmental funds, expenditures for these compensated absences are recorded when paid because the amounts expected to be liquidated from current resources do not vary materially from year to year. For the government-wide financial statements, vacation pay is classified as compensated absences due within one year, accrued sick leave is classified as noncurrent.

Interfund Transactions – During the course of its operations, the City has transactions between funds to finance operations, provide services, and service debt. These transactions are generally recorded as interfund transfers in and out.

Long-term Obligations– Long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond issuance costs are recognized as an expense in the period incurred. Bonds payable are reported net of the applicable bond premium or discount.

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

Deferred Inflows of Resources – In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrued basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Note 1 – Summary of Significant Accounting Policies (Continued)

Net Position - Net position represents the difference between assets and liabilities. In the government-wide statements, equity is classified as net position and displayed in three components:

Net Investment in Capital Assets – consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balance of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Position – consists of net positions with constraints on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted Net Position – all other net position that do not meet the definition of “restricted” or “net investment in capital assets”.

Proprietary fund equity is classified the same as in the government-wide statements.

Fund Balance - In the fund statements, governmental fund equity is classified as fund balance. The following classifications describe the relative strength of the spending constraints:

Non-spendable – These amounts cannot be spent either because it is not in spendable form or because legal or contractual constraints.

Restricted – These amounts can be spent only for specific purposes because of constitutional provision, charter requirements or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of others.

Committed – These amounts can only be used for specific purposes pursuant to constraints imposed by formal ordinances or resolutions of the City Council, the City’s highest level of decision making authority. Committed amounts cannot be used for any other purpose unless the City Council removes the specified use by ordinance.

Assigned – These amounts do not meet the criteria to be classified as restricted but they are intended to be used for specific purposes. Under the City’s adopted policy, only the City Council may assign amounts for specific purposes.

Unassigned – These are all other spendable amounts.

When both restricted and unrestricted fund balances are available for use, it is the City’s policy to use restricted fund balance first, then unrestricted fund balances. Furthermore, committed fund balances are reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of these unrestricted fund balance classifications can be used.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

## Note 2 – Cash and Investments

Cash and investments (which are stated at fair value) are as follows:

	2014
Demand Deposits	\$ 22,142
Bank Repurchase Agreements	6,270,459
Certificates of Deposits	320,721
Savings	274,879
Short Term Investment Pool	16,192
Cash on Hand	300
Total	\$ <u>6,904,693</u>

All deposits and investments are covered by FDIC insurance or collateralized.

*Interest rate risk:* The City addresses this risk by placing cash in various instruments with stated interest rates. These instruments include savings accounts, certificates and time deposits and repurchase agreements.

*Credit risk:* The City addresses credit risk by limiting investments to those allowed by state law as described in Note 1.E.1.

*Concentration of credit risk:* The City's investment policy is to spread risk by using more than one banking/investment institution. At June 30, 2013, .003% of the City's cash was invested in STIP which was not directly covered. The majority of the City's money was held by First Interstate Bank at June 30, 2014.

*Custodial credit risk:* This is the risk that, in the event of the failure of the depository or investment counterparty, the government will not be able to recover its assets. Custodial credit risk is created when the City's deposits, including checking accounts, certificates of deposits and any fiduciary accounts using the City's identification number in any one institution exceed the Federal Deposit Insurance Corporation's (FDIC) limit which was \$250,000 for the year ended June 30, 2014.

Montana law allows the City to require security for the portion of deposits not guaranteed or insured by the FDIC. Collateral may be taken up to 50 percent of deposits, if the institution in which the deposits are made has a net worth to total assets ratio of 6 percent or more, and 100 percent if the total ratio is less than 6 percent.

The City entered into a security agreement, effective March 4, 2014 for a two year term ending in March 3, 2016. The City maintains a repurchase agreement with First Interstate Bank to invest operating funds on a short term basis. Unused cash is transferred into the repurchase account on a predetermined basis and returned to the operating account as needed to cover disbursements. The credit rating of the repurchase funds as a whole is AAA.

A portion of funds were invested with the Montana State Unified Investment Program (STIP); funds can be transferred to and from the investment pool in approximately one day which allows for liquidity as well as prudent investments. Credit quality ratings are listed in the fund's financial statements which are available from the Montana Board of Investments, Attn: STIP Program Manager, PO Box 200126, Helena, MT 59620-0126. Information is also available on the state website [mt.gov](http://mt.gov), type STIP into search and select [investment.com/programs/STIP/default](http://investment.com/programs/STIP/default).

## Note 3 – Receivables

In the statement of net position, receivables from taxes and special assessments are clearly labeled. The City does consider amounts received after year end as revenue; tax and assessment receivables (and due from other government) includes \$212,943 collected by the county in June and remitted to the City in July. Unbilled special assessments are the portion of special assessments which will be billable in future years. Accounts and other receivables consist of \$100 in governmental funds as explained later in this note and \$210,732 due from utility customers. Water and sewer utility customers are billed at the end of the month for the month that is concluding, so June 30 receivables from customers primarily represent the billing at June 30.

Note 3 – Receivables (Continued)

Community Development Block Grant (CDBG) funds were provided as a deferred loan to the Hamilton Affordable Housing Project with a 1% simple interest rate. Interest does not start until the first mortgage loan described below is paid in full. The CDBG funds in the amount of \$382,200 were used to assist in financing the acquisition of the Parkside Apartments. The CDBG loan is secured with a deed of trust. The loan is subordinate to a first mortgage loan by the Montana Board of Housing (MBOH). The loan agreement states that the payments in the amount of \$1,811 per month shall commence after the payment in full of the MBOH loan (scheduled for 2049), but that such payments shall be due from net cash flow only after all operating costs, including the funding of capital and operating reserves, have been paid. Because of the 1% interest rate, deferral of payments until after the first mortgage loan is paid, and because payments are not required unless all other cash requirements are met, the City has established a contra account to reduce the carrying value of the loan to a nominal value of \$100.

Accounts receivables consist of \$3,293 for interfund receivable, \$165 of interest receivable is accrued interest, from a certificate of deposit and \$520 of accrued miscellaneous revenue.

Note 4 – Due From Other Governments

Due from other governments, in the governmental funds, consists of \$212,944 due from Ravalli County Treasurer's office for June 2014 tax disbursement payments, and \$93,990 due from federal grant Community Transportation Enhancement Program (CTEP).

Note 5 – Capital Assets

The changes in capital assets used in governmental activities during 2014 were as follows:

	Balance June 30, 2013	Additions	Disposals	Balance June 30, 2014
<b>Cost of Assets</b>				
Land	\$ 275,341	\$ -	\$ -	\$ 275,341
Buildings	1,733,034	-	-	1,733,034
Improvements	5,174,046	36,162	-	5,210,208
Machinery & Equipment	4,129,175	69,164	(119,336)	4,079,003
Infrastructure	257,603	245,730	-	503,333
Total	<u>11,569,199</u>	<u>351,056</u>	<u>(119,336)</u>	<u>11,800,919</u>
<b>Accumulated Depreciation</b>				
Building	(598,420)	(37,594)	-	(636,014)
Improvements	(1,051,038)	(170,726)	-	(1,221,764)
Machinery & Equipment	(1,980,186)	(248,152)	119,336	(2,109,002)
Total	<u>(3,629,644)</u>	<u>(456,472)</u>	<u>119,336</u>	<u>(3,966,780)</u>
Capital Assets - Net	<u>\$ 7,939,555</u>	<u>\$ (105,416)</u>	<u>\$ -</u>	<u>\$ 7,834,139</u>

Note 5 – Capital Assets (Continued)

Depreciation expense was charged to expense as follows:

Governmental Activities:

General Government	\$ 78,626
Public Safety	140,184
Public Works	208,465
Culture and Recreation	<u>29,197</u>
Total Depreciation Expense	<u>\$ 456,472</u>

The changes in capital assets used in business activities during 2014 were as follows:

	Balance June 30, 2013	Additions	Disposals	Balance June 30, 2014
<b>Water Fund - Cost of Assets</b>				
Land	\$ 159,596	-	-	\$ 159,596
Construction in Progress	-	190,978	-	190,978
Buildings & System	577,428	-	-	577,428
Source of Supply	1,376,198	-	-	1,376,198
Transmission & Distribution	5,418,220	-	-	5,418,220
General Plant	405,774	32,396	-	438,170
Total	<u>7,937,216</u>	<u>223,374</u>	<u>-</u>	<u>8,160,590</u>
<b>Accumulated Depreciation</b>				
Buildings & System	\$ (119,427)	(10,783)	-	\$ (130,210)
Source of Supply	(218,608)	(21,150)	-	(239,758)
Transmission & Distribution	(1,408,290)	(109,108)	-	(1,517,398)
General Plant	(283,318)	(28,178)	-	(311,496)
Total	<u>(2,029,643)</u>	<u>(169,219)</u>	<u>-</u>	<u>(2,198,862)</u>
Capital Assets - Net	<u>\$ 5,907,573</u>	<u>\$ 54,155</u>	<u>\$ -</u>	<u>\$ 5,961,728</u>

Note 5 – Capital Assets (Continued)

	Balance <u>June 30, 2013</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>June 30, 2014</u>
<b>Sewer Fund - Cost of Assets</b>				
Land	\$ 492,137	-	-	\$ 492,137
Buildings & System	195,968	-	-	195,968
Sewer Treatment Plant	9,401,314	6,869	-	9,408,183
Treatment Equipment	575,602	41,900	-	617,502
Transmission & Distribution	<u>3,515,455</u>	-	-	<u>3,515,455</u>
Total	<u>14,180,476</u>	<u>48,769</u>	<u>-</u>	<u>14,229,245</u>
<b>Accumulated Depreciation</b>				
Buildings & System	\$ (7,838)	(3,919)	-	\$ (11,757)
Sewer Treatment Plant	(3,085,393)	(188,484)	-	(3,273,877)
Treatment Equipment	(451,252)	(25,520)	-	(476,772)
Transmission & Distribution	<u>(1,033,910)</u>	<u>(70,309)</u>	<u>-</u>	<u>(1,104,219)</u>
Total	<u>(4,578,393)</u>	<u>(288,232)</u>	<u>-</u>	<u>(4,866,625)</u>
<b>Capital Assets - Net</b>	<b><u>\$ 9,602,083</u></b>	<b><u>\$ (239,463)</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 9,362,620</u></b>

Note 6 – Long-Term Debt

Changes in long-term debt during 2014 are as follows:

	Balance June 30, 2013	Additions	Reductions	Balance June 30, 2014	Due Within One Year
<b>Government Activities</b>					
Bonds Payable	\$ 1,330,000	\$ -	\$ (60,000)	\$ 1,270,000	\$ 80,000
Compensated Absences	235,841	25,042	-	260,883	130,442
Other Post Employment Benefits	51,905	20,878	-	72,783	-
<b>Business Activities</b>					
Water System Revenue Bonds	982,000	-	(82,000)	900,000	82,000
Sewer System Revenue Bonds	932,000	-	(48,000)	884,000	48,000
Sewer Capital Lease	-	41,900	(14,862)	27,038	13,091
Compensated Absences	45,129	1,175	-	46,304	23,152
Other Post Employment Benefits	14,623	5,551	-	20,174	-
Total	<u>\$ 3,591,498</u>	<u>\$ 94,546</u>	<u>\$ (204,862)</u>	<u>\$ 3,481,182</u>	<u>\$ 376,685</u>

	Balance June 30, 2014
<b>Revenue Bonds-Business-Type Activities</b>	
\$136,000 Water System Revenue Bond, Series 2003 A issued May 2003, amended November 2012, \$ from 4% to 2.25% due in varying amounts to July 2026; repayment from charges for services.	112,000
\$320,000 Water System Revenue Bond, Series 2004 A issued May 2004, amended November 2012, 2.75%, due in varying amounts to July 2026; repayment from charges for services.	270,000
\$217,000 Water System Revenue Bond, Series 2004 B issued May 2004, amended November 2012, 2.25%, due in varying amounts to July 2024; repayment from charges for services.	185,000
\$261,000 Water System Revenue Bond, Series 2004 C issued July 2004, amended November 2012, 2.25%, due in varying amounts to July 2026; repayment from charges for services.	221,000
\$128,000 Water System Revenue Bond, Series 2006 issued May 2006, amended November 2012, 2.25%, due in varying amounts to July 2026; repayment from charges for services.	112,000
\$359,300 Waste Water Treatment (Sewer) Revenue Bond, Series 2009B, ARRA "B", .75%, due in varying amounts to July 2030; repayment from charges for services.	275,000
\$667,000 Water Treatment (Sewer) Plant Revenue Bond, Series 2009C issued October 2009, amended November 2012, 3.00%, due in varying amounts to July 2030; repayment from charges for services.	<u>609,000</u>
Total Revenue Bonds-Business-Type Activities	<u>\$ 1,784,000</u>

## Note 6 – Long-Term Debt (Continued)

Special Assessment Bonds-Governmental Activities- Special Assessment debt is payable from annual assessments-the government is **not** obligated for these amounts.

\$925,000 Special Improvement District No. 18 Bond issued March 2004, 1.2% to 4.5%, due in varying amounts to July 2024; repayment from special assessments.	\$ 550,000
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\$380,000 Special Improvement District No. 19 Bond issued April 2006, 4.5% to 5%, due in varying amounts to July 2026; repayment from special assessments.	270,000
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\$640,000 Special Improvement District No. 21 Bond issued June 2007, 4.125%, due in varying amounts to July 2027; repayment from special assessments.	<u>450,000</u>
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Total Special Assessment Bonds-Governmental Activities	\$ <u>1,270,000</u>
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### Capital lease – Sewer camera

\$41,900 capital lease, Kansas State Bank, Manhattan, Kansas, 3 annual installment payments, Issued December 2014, 6.550%, Annual in advance \$14,861.54, same following 2 years. Final payment due December 15, 2015.	\$ <u>27,038</u>
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### Liability for Compensated Absences and Other Post Employment Liabilities

Compensated Absences- Governmental-type activities	\$ 260,883
Compensated Absences- Business-type activities	46,304
OPEB- Governmental-type activities	72,783
OPEB- Business-type activities	<u>20,174</u>

Total Liability for Compensated Absences and OPEB	\$ <u>400,144</u>
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Total Long-Term Debt	<u><u>3,481,182</u></u>
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Note 6 – Long-Term Debt (Continued)

Annual debt service principal and interest payments required on bonds, contracts, and leases payable to maturity are as follows:

Governmental Activities Special Assessment Bonds					
Fiscal Year Ending June 30th	\$925,000 SID 18		\$380,000 SID 19		
	Principal	Interest	Principal	Interest	
2015	\$ 45,000	\$ 22,475	\$ 15,000	\$ 13,250	
2016	45,000	20,855	20,000	12,545	
2017	50,000	19,190	20,000	11,605	
2018	50,000	17,290	20,000	10,665	
2019	55,000	15,340	20,000	9,685	
2020-2024	305,000	41,100	120,000	32,180	
2025-2029	-	-	55,000	4,250	
	<u>550,000</u>	<u>\$ 136,250</u>	<u>270,000</u>	<u>\$ 94,180</u>	
Less current portion	<u>(45,000)</u>		<u>(15,000)</u>		
	<u>\$ 505,000</u>		<u>\$ 255,000</u>		
Fiscal Year Ending June 30th	\$640,000 SID 21		Total Principal	Total Interest	
2015	\$ 20,000	\$ 18,150	\$ 80,000	\$ 53,875	
2016	15,000	17,738	80,000	51,138	
2017	30,000	17,119	100,000	47,914	
2018	30,000	15,881	100,000	43,836	
2019	35,000	14,644	110,000	39,669	
2020-2024	190,000	50,944	615,000	124,224	
2025-2029	130,000	10,519	185,000	14,769	
	<u>450,000</u>	<u>\$ 144,995</u>	<u>1,270,000</u>	<u>\$ 375,425</u>	
Less current portion	<u>(20,000)</u>		<u>(80,000)</u>		
	<u>\$ 430,000</u>		<u>\$ 1,190,000</u>		

Note 6 – Long-Term Debt (Continued)

Business-Type Activities

Fiscal Year Ending June 30th	\$136,000 Drinking Water Bond Series 2003 A		\$320,000 Drinking Water Bond Series 2004 A	
	Principal	Interest	Principal	Interest
2015	\$ 12,000	\$ 2,453	\$ 26,000	\$ 5,929
2016	12,000	2,183	26,000	5,344
2017	12,000	1,913	27,000	4,759
2018	13,000	1,643	28,000	4,140
2019	14,000	1,339	28,000	3,510
2020-2024	49,000	2,205	135,000	7,684
2025-2029	-	-	-	-
2030	-	-	-	-
	<u>112,000</u>	<u>\$ 11,736</u>	<u>270,000</u>	<u>\$ 31,366</u>
Less current portion	<u>(12,000)</u>		<u>(26,000)</u>	
	<u>\$ 100,000</u>		<u>\$ 244,000</u>	

Business-Type Activities (Continued)

Fiscal Year Ending June 30th	\$217,000 Drinking Water Bond Series 2004 B		\$261,000 Drinking Water Bond Series 2004 C	
	Principal	Interest	Principal	Interest
2015	\$ 16,000	\$ 4,073	\$ 20,000	\$ 4,860
2016	17,000	3,713	20,000	4,410
2017	18,000	3,319	21,000	3,960
2018	18,000	2,914	22,000	3,477
2019	18,000	2,509	22,000	2,981
2020-2024	98,000	6,233	116,000	7,312
2025-2029	-	-	-	-
2030	-	-	-	-
	<u>185,000</u>	<u>\$ 22,761</u>	<u>221,000</u>	<u>\$ 27,000</u>
Less current portion	<u>(16,000)</u>		<u>(20,000)</u>	
	<u>\$ 169,000</u>		<u>\$ 201,000</u>	

Note 6 – Long-Term Debt (Continued)

Business-Type Activities (Continued)

Fiscal Year Ending June 30th	\$128,000 Drinking Water Bond Series 2006		Total	
	Principal	Interest	Principal	Interest
2015	\$ 8,000	\$ 2,475	\$ 82,000	\$ 19,790
2016	8,000	2,295	83,000	17,945
2017	9,000	2,115	87,000	16,066
2018	10,000	1,902	91,000	14,076
2019	10,000	1,677	92,000	12,016
2020-2024	50,000	5,007	448,000	28,441
2025-2029	17,000	394	17,000	394
2030	-	-	-	-
	<u>112,000</u>	<u>\$ 15,865</u>	<u>900,000</u>	<u>\$ 108,728</u>
Less current portion	<u>(8,000)</u>		<u>(82,000)</u>	
	<u>\$ 104,000</u>		<u>\$ 818,000</u>	

Business-Type Activities

Fiscal Year Ending June 30th	\$359,000 Sewer Treatment Bond Series 2009 B		\$667,000 Sewer Treatment Bond Series 2009 C	
	Principal	Interest	Principal	Interest
2015	\$ 18,000	\$ 2,029	\$ 30,000	\$ 18,045
2016	18,000	1,894	31,000	17,145
2017	18,000	1,759	32,000	16,200
2018	18,000	1,624	33,000	15,240
2019	18,000	1,489	34,000	14,235
2020-2024	90,000	5,419	186,000	55,170
2025-2029	95,000	2,006	215,000	25,365
2030	-	-	48,000	1,095
	<u>275,000</u>	<u>\$ 16,220</u>	<u>609,000</u>	<u>\$ 162,495</u>
Less current portion	<u>(18,000)</u>		<u>(30,000)</u>	
	<u>\$ 257,000</u>		<u>\$ 579,000</u>	

Note 6 – Long-Term Debt (Continued)

Fiscal Year Ending June 30th	Total Principal	Total Interest
2015	\$ 48,000	\$ 20,074
2016	49,000	19,039
2015	50,000	17,959
2016	51,000	16,864
2017	52,000	15,724
2018	276,000	60,589
2019	310,000	27,371
2020-2024	48,000	1,095
	<u>884,000</u>	<u>\$ 178,715</u>
Less current portion	<u>(48,000)</u>	
	<u>\$ 836,000</u>	

All water and sewer bonds require:

An operating account which is separate-the City complied by establishing a fund for water operations and a fund for sewer operations separate from other funds.

A bond account, also known as a sinking and interest account in which money is accumulated monthly for semi-annual payments. For bonds where the payments are made in June to meet a July 1 deadline, the balances in these accounts will be zero.

A "reserve" account in which money is accumulated over a ten year period until the balance equals one year's payments. For each bond the balance remains in the reserve account until the loan is paid in full.

During construction a separate "construction" account is required during use of the bond proceeds. The City's water and sewer bonds have been sold to the State Revolving Fund which allows bond draws as construction progresses, there were no construction balances included at June 30, 2014.

Replacement and depreciation accounts set by the City Council to accumulate funds for "replacement of renewal of worn out, obsolete or damaged properties".

Surplus accounts which may be established to accumulate surplus revenue to retire bonds early, replenish the reserve account if needed or used for replacement and repair.

The City appears to be in compliance with all debt covenants noted above.

Note 6 – Long-Term Debt (Continued)

Capital lease

On December 15, 2013, the City entered into a lease for a Sewer camera. The lease term is three years payable in annual installments of \$14,861.54 including interest at 6.55%. The total amount capitalized of \$41,900 represents the present value of the future lease payments. The payments of this obligation are being recorded in the Sewer Fund. The present value of the future minimum lease payments is \$27,038.

Note 7 – Interfund Transactions

The City uses interfund transfers for regular recurring internal charges, to move money from funds with collection authorization to funds making the actual payments, for budgeted transfers to capital funds and to close expiring funds.

		June 30, 2014		
Transfers:	Transfers In	Transfers Out		
General Fund	\$ 219,764	\$ 176,678		
Non-Major Governmental	313,110	181,277		
Water Fund	-	81,891		
Sewer Fund	-	93,028		
Total Transfers	<u>\$ 532,874</u>	<u>\$ 532,874</u>		

Note 8 – Retirement Plans

All Town employees participate in one of two statewide, cost-sharing, multiple employer, defined benefit retirement plans: Montana Public Employees' Retirement System (MPERA) and Municipal Police Officers Retirement System (MPORS).

The plans are established by State law and are administered by the State of Montana. The plans provide retirement, disability, and death benefits to plan members and beneficiaries. Contribution rates for both plans are required and determined by State law. There were changes to the plans or the required contribution rates in 2014.

The contribution rates, expressed as a percentage of covered payroll, were as follows:

	<u>Employer</u>	<u>Employee</u>	<u>State</u>	<u>Total</u>
MPORS	14.410%	9.000%	29.370%	52.780%
MPERS	7.900%	8.070%	0.10%	16.070%

Note 8 – Retirement Plans (Contineud)

The amounts contributed to MPORS and MPERA during the years ended June 30, 2012, 2013, and 2014 were equal to the required contribution for each year.

	<u>2012</u>	<u>2013</u>	<u>2014</u>
MPORS	\$ 70,589	\$ 74,098	\$ 75,078
MPERS	<u>98,957</u>	<u>99,375</u>	<u>108,787</u>
Total	<u>\$ 169,546</u>	<u>\$ 173,473</u>	<u>\$ 183,865</u>

The State’s contributions to the plans in 2014 were approximately \$153,022 for MPORS and \$1,385 for MPERS. The State contribution qualifies as an on-behalf payment and the amounts were recorded in the Town’s financial statements.

Publicly available financial report that include financial statements and required supplementary information may be obtained for the plans from the following:

Public Employee Retirement Administration  
 100 N Park Avenue Suite 200  
 PO Box 200131  
 Helena, MT 59620-0131  
 Telephone: (406) 444-3154

Fire Department Relief Association Disability and Pension Fund – Volunteer firemen are covered by the Fire Department Relief Association Disability and Pension Fund, which is established by state law, is governed by an independent board and is not considered a component unit of the City. To meet the actuarial amount of \$101,894 to pay the Fire Relief Association, the City levied 4.18 mills, totaling \$54,653 for budgeted tax revenue, \$19,611 for Insurance Premium Apportionment, with the remainder coming from cash on hand in fiscal 2014 to pay the City's share of fire relief pension.

Note 9 – Leases and Contracts

The City leases the library building to the Bitterroot Public Library. The library was leased in 1987 for 70 years at a nominal rent.

In July of 2007, the City entered into an agreement with the Hamilton Rural Fire District. The City’s Volunteer Fire Department will continue to furnish fire protection service to the District and the District will be required to pay the City a base rate of \$134,000 with an annual increase of 3.7%. The funds are used for operations and maintenance of the City’s Fire Department, purchase of equipment for the City’s Fire Department and support of the Hamilton Fire Department Relief Association. During 2014, \$163,278 was received from this agreement. The agreement runs through December 2017.

#### Note 10 – Inter-Local Agreement

The City has an inter-local agreement with the Hamilton Rural Fire District (District) to provide mutually beneficial services. Important provisions, in addition to the lease portion of the agreement explained in Note 9, include: income from the District to the City is deposited in a capital improvement account for use of the City Fire Department; the City Fire Chief is in charge of all operations; each party is responsible for maintaining employee benefits and liability coverage for its employees and volunteers, maintaining insurance on each party's owned facilities and equipment; the City jurisdiction first, providing fire prevention and education, motor vehicle accident response and hazardous materials response, equip, man and utilize the rural stations, providing for training and recruitment of firefighters; the District is responsible for providing upkeep and utilities for the District stations. The agreement in effect for the year ended June 30, 2011, began July 1, 2007, continued through June 30, 2012, and was renewed on January 1, 2013, for an additional 5 years.

On July 8, 1987, the City and Ravalli County entered into an agreement to form a Library District which encompasses the area within the boundaries of the Hamilton, Corvallis and Victor school districts, excluding the town of Pinesdale. A separate Board of trustees was established to which the City appoints two members, the County appoints two members and the fifth member is jointly appointed. The City provides accounting and payroll services as part of this agreement.

#### Note 11 – Other Post Employment Benefits (OPEB)

In accordance with state law, employees on the City's health insurance plan who retire prior to age 65 (at which time they become eligible to receive Medicare) may opt to remain on the City's health insurance, as long as the employee reimburses the City of Hamilton for the insurance premium. The City purchases health insurance for employees from a private insurer. In the event that employees failed to reimburse the City, it is estimated that the maximum period of liability for the City would be one to two month's premiums before the retiree was dropped from the plan.

Beginning with the year ended June 30, 2010 the City implemented Governmental Accounting Standards Board statement 45. GASB 45 requires the City to estimate and record an estimated future liability for the imputed extra insurance cost of making a post-employment benefit available. In the current fiscal year ended June 30, 2014, OPEB was increased in the governmental liabilities by \$20,878, water fund liabilities by \$2,379, and sewer liabilities by \$3,172. Although the amounts are not considered material, these increases are reflected on the Government Wide Statement of Net Position and Statement of Activities; and the Proprietary Fund Statement of Net Position and Statement of Revenues, Expenses and Changes in Fund Net Position.

#### Note 12 – Risk Management

The City faces a considerable number of risks of loss and damages to property and contents, employee torts, professional errors and omissions, environmental damage, employee injuries, etc. A variety of methods are used to provide insurance for these risks. The City joined together with other Montana governments to establish the Montana Municipal Insurance Authority (MMIA) which provides workers' compensation and tort liability plans. Both public entity risk pools currently operate a common risk management and insurance program for the member governments.

The City also purchases property insurance for vehicles and buildings from MMIA.

Coverage information, as well as audited financial statements for the plan, is available from Montana Municipal Insurance Authority, PO Box 6669, Helena, Montana, 59604-6669, (406)443-0907 or (800)635-3089; or [mmia.net](http://mmia.net). See Note 3 for a discussion of cash risk management.

#### Note 13 – Restatements/Prior Period Adjustments

During the year ended June 30, 2014 the City made a prior period adjustment to fund balances or net positions, within the General Fund, to decrease cash in the amount of \$27,188 for bank reconciliation purposes. The cash adjustment occurred because the cash has not been reconciled to the records because of the difficulty in determining what this was attributed to, going back to before the current finance administrator's time.

In addition, the City adjusted the unbilled Special Assessment by \$437,587 to agree with the underlying accounting records. The restatement is reflected on the Statement of Activities. The adjustment was made to remove the interest portion of the special assessments that have been levied but were not yet due at the beginning of the year.

#### Note 14 – Subsequent Events

In August of 2014, the City purchased land for \$228,393 for the future site of the Justice Law and Legal Facility.

In April of 2015, the City awarded the Fairgrounds Road Phase 2 Road Reconstruction in the amount of \$279,404.

In April of 2015, the City awarded the Well #5 Improvements Project for \$1,112,515.

In May of 2015, the City awarded the Wastewater Treatment Plant Improvements Project, Phase II, for \$1,214,929.

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

To the City Council  
City of Hamilton  
Hamilton, Montana

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hamilton, Montana, 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 and have issued my report thereon dated June 16, 2015.

**Internal Control Over Financial Reporting**

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

My consideration of internal control was for the limited purpose described in the preceding paragraph 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 discussed below, I identified a certain deficiency in internal control over financial reporting that I consider to be a material weakness and a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. I consider the deficiencies described below as items 14-1 and 14-2 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I noted no deficiencies to be significant deficiencies.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described as items 14-1 and 14-3.

### **FINDINGS – MATERIAL WEAKNESSES**

#### **14-1 – Annual Financial Report**

**Condition** – During the audit, I noted the following items relating to the Annual Financial Report (AFR):

- The total restricted fund balance for governmental funds and the total restricted net position for governmental activities did not reasonably reconcile. There was a material misclassification of net position components on the government-wide Statement of Net Position.
- The Unbilled Assessment Receivables included both principal and interest. As a result, the receivables were over stated by the interest portion. This resulted in a prior period adjustment.
- The City completed and submitted the annual financial report (AFR) to the State of Montana on January 22, 2015.

The financial statements have been adjusted accordingly.

**Criteria** - The AFR should be completed accurately in the prescribed format. Also, the City should submit the AFR to the State of Montana by December 31 of each fiscal year.

**Effect** – Errors and inaccuracies in the AFR may lead users of the report to be misled regarding the financial status of the City.

**Cause** – It appears that the City has been making a concerted effort to accurately report and submit the AFR on a timely basis.

**Recommendation** – I recommend the Annual Financial Report be completed accurately as prescribed. In addition, the City should submit the AFR to the State of Montana in the time frame as required by the State.

## 14-2 – Monitoring

**Condition** – The City does not monitor various financial activities. For example, I noted the following:

- The City does not review and update the Finance Policy as considered necessary. In addition, the Finance Policy is not always followed. Specifically, the City Council had not approved the Payroll Register after issuing the payroll checks.
- The City does not monitor the building permit process. For example, it is my understanding that building permit numbers are assigned to permit applications. Should a permit be turned down, it appears that the permit is deleted from the computer system. However, it appears the system is able to generate a building permit list for those deleted from the system by date order. Not being able to generate a list in numerical order complicates the accountability process.

**Criteria** – The Finance Policy requires the City Council to approve the Payroll Register after issuing the payroll checks. In addition, the Finance Policy should be reviewed and updated each year as necessary. In addition, the City should monitor the building permits process. The building permits should be monitored and accounted for rather than deleted from the computer system.

**Effect** – Not having proper internal controls over monitoring the various financial activities increases the City's vulnerability for improper activities.

**Cause** – This condition is caused by an oversight by the City.

**Recommendation** - I recommend the City Council review and update the Finance Policy as needed. In addition, the City should ensure that the Finance Policy is followed. The City should monitor the financial activities as stated above.

## FINDING – NONCOMPLIANCE

### 14-3 – Noncompliance with State Statute

**Condition** – At June 30, 2014, there appears to be a deficit in the Fire Department Relief Association (FDRA), the Fire Disability Fund according to State Law.

**Criteria** – According to MCA 19-18-503, (1) assets in the fund are to be maintained at a level equal to at least 0.21% of the total assessed value of taxable property or (2) funding is to be maintained at a level determined by an actuarial valuation to be sufficient to keep the fund actuarially sound. Based on an actuarial valuation performed, the City should have been funding \$1,982 more per year starting in FY 2014.

**Effect** – The result of this condition is increased risk of the fund being underfunded.

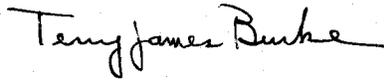
**Recommendation** – It appears that the City has immediately addressed this finding. For FY 2015-2016, the City has budgeted the correct amount of \$103,876 as noted by the actuary.

### Entity's Response to Findings

The City's response to audit findings identified in my audit is described on page 47. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

### **Purpose of this Report**

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



June 16, 2015

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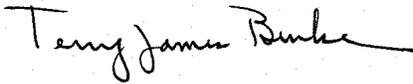
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**REPORT ON PRIOR AUDIT RECOMMENDATIONS**

To the City Council  
City of Hamilton  
Hamilton, Montana

The prior audit report contained one audit recommendation. The action taken on the recommendation is as follows:

**2013-1 – Problems with Monitoring – Repeated.**



June 16, 2015



# City of Hamilton

223 South Second Street  
Hamilton, Montana 59840

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June 17, 2015

To Readers of the 2013-2014 Audit Report:

The City of Hamilton responds to the June 30, 2014, Auditor's Findings of Compliance and Other Matters in;

**14-1 Annual Financial Report, as follows:**

**1a) Condition:** The total restricted fund balance for governmental funds and the total restricted net position for governmental activities did not reasonably reconcile. There was a material misclassification of net position components on the government-wide Statement of Net Position.

**1a) Response:** We concur with the auditor's finding and recommendation on this condition. However, the City already utilizes the State of Montana's prescribed format to prepare the annual report, and the prescribed format itself does not allow the City to present the information as recommended. Until an alternative annual report format is made available, the above condition will continue to result when using the State's annual report package. In the meantime, the City and auditor discussed other ways to properly present the recommended information, including tracking separate funds which may not be feasible or time-effective. The City will continue to investigate other options while awaiting changes to the prescribed format.

**1b) Condition:** The Unbilled Assessment Receivables included both principal and interest. As a result, the receivables were over stated by the interest portion. This resulted in a prior period adjustment.

**1b) Response:** The City concurs with the auditor's finding and recommendation on this condition. The City's prior auditor recommended unbilled assessment receivables be reported this way because including both the principal and interest portion more accurately disclosed the total uncharged amounts remaining within the SID funds. However, the principal portion only will be reported in future annual reports in accordance with the State BARS manual. **The City has already amended and resubmitted the annual report with this correction.**

**1c) Condition:** The City completed and submitted the annual financial report (AFR) to the State of Montana on January 22, 2015.

**1c) Response:** The City concurs with the auditor's finding of the annual financial report having been filed past the due date of December 31, 2014. **The City notes no penalty was incurred by filing on January 22.** The City will ensure that the annual report is submitted in a timely manner in future years.

**14-2 Monitoring, as follows:**

**2) Condition:** The City does not monitor various financial activities. For example, the auditor noted the following:

- a) The City does not review and update the Finance Policy as considered necessary. In addition, the Finance Policy is not always followed. Specifically, the City Council had not approved the Payroll Register after issuing the payroll checks.
- b) The City does not monitor the building permit process. For example, it is the auditor's understanding that building permit numbers are assigned to permit applications. Should a permit be turned down, it appears that the permit is deleted from the computer system. However, it appears the system is able to generate a building permit list for those deleted from the system by date order. Not being able to generate a list in numerical order complicates the accountability process.

**2) Response:** The City concurs with the findings and recommendations in regard to the two (2) specific instances the auditor noted. These are specific instances only which do not reflect on the overall monitoring of financial activities or update of the Finance Policy in general. **In point of fact, the current Finance Policy was adopted in 2008 and has been updated as considered necessary by the City three (3) times since its adoption (2009, 2010, and 2012).**

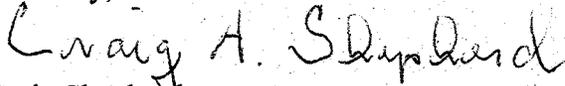
- a) Payroll is currently approved on the consent agenda of the next available City Council meeting. Internal Financial Control E3 of the City's Finance Policy states "[t]he City Council shall approve the Payroll Register at the next regularly scheduled meeting following issuance of the payroll checks." The auditor recommends the City submit an actual payroll document to the Council, rather than having payroll records available in the Finance Office upon request. The City has therefore generated a Payroll Reconciliation Summary to provide monthly to the City Council with an acknowledgment by a designated official or employee (other than those calculating compensation and signing payroll checks) who has reviewed the summary for accuracy. This section of the Finance Policy will be updated when this process is put in place in July 2015.
- b) The City does monitor all building permit applications received by initially creating both a computer record and written file. However, when permit applications are withdrawn prior to issuance or when permits are denied, the computer record is deleted and just the written file is maintained, which creates gaps in the numerical order. The City will now keep both the computer record and written file so that a list of all applications in consecutive numerical order can be generated at any time for accountability purposes. The City notes that no fees are collected before a permit is issued and all refunds are processed through the Finance Department in compliance with Internal Financial Control K of the City's Finance Policy (double check system for receipts/deposits on collection of all monies for the Building Department). The *Permits Issued Report* prepared and submitted to the Finance Department will henceforth contain a complete numerical list of both permits issues and permit applications withdrawn or denied.

**14-3 Noncompliance with State Statute, as follows:**

**3) Condition:** At June 30, 2014, there appears to be a deficit in the Fire Department Relief Association (FDRA), the Fire Disability Fund according to State Law.

**3) Response:** As stated in the auditor's Recommendation, the City has already addressed this finding and funded the Fire Department Relief Association for FY 2015-2016 in the amount noted in the actuary study given to the City.

Sincerely,

  
Craig Shepherd  
Financial Administrator, City of Hamilton

cc: Mayor Jerry Steele