

**CITY OF HARLEM
BLAINE COUNTY
HARLEM, MONTANA**

FINANCIAL AND COMPLIANCE REPORT

Fiscal year Ended June 30, 2014

Strom & Associates, P. C.
PO BOX 1980
Billings, Montana 59103

City of Harlem
Blaine County
Harlem, Montana 59526

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City of Harlem
Blaine County
Harlem, Montana 59526

ORGANIZATION

MAYOR AND CITY COUNCIL

William J. Tayler	Mayor
Kenneth Hansen	Council President
Ralph Schneider	Council Member
Eva English	Council Member
Marc Arensmeyer	Council Member

OFFICIALS

Mark Harshman	City Attorney
Rebecca Skoyen	Clerk-Treasurer
Perry Miller	City Judge
Richard Mohar	Public Utilities Supervisor

**CITY OF HARLEM
MANAGEMENT'S DISCUSSION & ANALYSIS
JUNE 30, 2014**

The financial management of the City of Harlem, a political subdivision of the State of Montana, wishes to provide readers of this report a narrative overview and analysis of the financial activities of the City of Harlem for the fiscal years ended June 30, 2014 and 2013. Reading this narrative in conjunction with the City's financial statements will help you to better understand the City's financial performance and current status.

FINANCIAL HIGHLIGHTS

The assets of the City of Harlem exceeded its liabilities by \$3,897,516. Of this amount, \$839,558 may be used to meet the City's ongoing operational needs. \$2,776,676 is invested in capital assets, net of related debt, and \$281,282 is restricted to bond indenture requirements, general government, public works, and economic development.

The net position for the City's governmental activities increased by 1.3% from the 2013 fiscal year. Net position for business-type activities decreased by just under 3% from the prior fiscal year.

The debt obligations of the City governmental funds increased by \$74,100 during the fiscal year. Outstanding debt obligation is \$87,896. This balance is comprised of loans and contracted debt.

Debt obligations of the Proprietary Funds decreased by \$72,545. The debt is comprised of revenue bonds for the water fund, a note payable for the sewer fund, and a note payable for the garbage fund. The total balance payable at June 30, 2014 is \$921,277.

Expenditures of the governmental funds did exceed revenues for the 2014 fiscal year.

Expenditures of the proprietary funds did exceed revenues for the 2014 fiscal year.

USING THIS ANNUAL REPORT

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The basic financial statements consist of the following components:

1. Government-wide Financial Statements
2. Fund Financial Statements
3. Notes to the Basic Financial Statements
4. Required Supplemental Information (RSI)

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements (described below) are intended to provide readers with a broad overview of the City of Harlem's finances.

The *Statement of Net Position* provides an overall view of the City's assets and liabilities. The difference between the two categories is reported as net position of the City.

The *Statement of Activities* presents information showing how the City's net position changed during the fiscal year, giving an overall view of the origin of revenues and destination of expenses.

Both of the financial statements above distinguish functions of the City that are primarily supported by taxes and intergovernmental revenues (governmental activities) from functions that derive their revenue from charges and fees (known as business-type activities). Governmental activities of the City include general government, public safety (law enforcement), public works (streets, alleys, and street lighting), culture and recreation (city parks and the City pool), and community economic development. The City's business activities are the water and sewer utilities and garbage collection and disposal.

FUND FINANCIAL STATEMENTS

The fund financial statements give more detailed information about the City's activities. Funds are established to manage resources that have been separated for specific activities or objectives. Law requires that some funds must be established; the City creates other funds to help manage funding and expenses for specific purposes. All of the City's funds are divided into two categories: Governmental Funds and Proprietary Funds.

The category of *Governmental Funds* includes the General Funds and other levied funds for which the City adopts an annual appropriation. The governmental fund statements provide a detailed short-term view of cash and fund operations.

Proprietary Funds includes the City's utility funds. The City charges customers for services provided. Proprietary Funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities.

NOTES TO BASIC FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data and reports presented in the government-wide and fund financial statements.

REQUIRED SUPPLEMENTAL INFORMATION

This section provides detailed information concerning revenues, expenditures, and changes in fund balances, comparing budget to actual amounts for the General Fund.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

The following schedule of net position and changes in net position provide summaries of the City's governmental and business-type activities.

Net Position

	Governmental Activities	Business-Type Activities	Total
Current and Other Assets	\$ 643,061	\$ 484,360	\$ 1,127,421
Restricted Assets		105,409	105,409
Capital Assets	444,981	3,340,868	3,785,849
Total Assets	1,088,042	3,930,637	5,018,679
Current Liabilities	69,966	81,997	151,963
Long-Term Liabilities	71,407	897,793	969,200
Total Liabilities	141,373	979,790	1,121,163
Net Position:			
Invested in Capital Assets, Net of Related Debt	357,085	2,419,591	2,776,676
Restricted	208,948	72,337	281,285
Unrestricted	380,639	458,919	839,558
Total Net Position	\$ 946,669	\$ 2,950,847	\$ 3,897,516

Statement of Activities

	Governmental Activities	Business-Type Activities	Total
Revenues:			
Program Revenues:			
Charges for Services	\$ 103,000	\$ 648,375	\$ 751,375
Operating Grants	115,459	100,000	215,459
General Revenues:			
Taxes and Assessments	348,449		348,449
Licenses and Permits	7,558		7,558
Intergovernmental	135,553		135,553
Interest	3,291	155	3,446
Miscellaneous	8,513	1,936	10,449
Total Revenues	721,823	750,466	1,472,289
Expenses:			
General Government	212,564		212,564
Public Safety	178,240		178,240
Public Works	311,489		311,489
Culture and Recreation	60,267		60,267
Miscellaneous	4,013		4,013
Interest and other charges	677		677
Water and Sewer Funds		722,092	722,092
Landfill/Garbage		161,579	161,579
Total Expenses	767,250	883,671	1,650,921
Change in Net Position	(45,427)	(133,205)	(178,632)
Net Position, Beginning of Year	994,045	3,084,052	4,078,097
Prior Period Adjustments	(1,949)		(180,581)
Net Position, End of Year	\$ 946,669	\$ 2,950,847	\$ 3,897,516

GOVERNMENTAL ACTIVITIES

The City's Governmental Activities are made up of several categories. The *Public Safety* category summarizes the costs of the City's police, fire, and dispatcher services. The *Public Works* category is made up of road and street services, street maintenance, street light districts, and gas tax. The City's *Culture and Recreation* category represents the expenditures made for the City pool and parks and recreation. The *Miscellaneous* category is used to track the City's liability insurance premium expense.

The cost of all City of Harlem Governmental Activities for the year ending June 30, 2014 was \$767,250 as compared to \$581,766 for the previous (2013) fiscal year, amounting to a total net increase of \$185,484. This increase is more specifically identified as follows:

	<u>2014</u>	<u>2013</u>	<u>Change</u>
General	\$ 212,564	\$ 156,546	\$ 56,018
Public Safety	178,240	173,791	4,449
Public Works	311,489	164,592	146,897
Culture/Recreation	60,267	82,914	(22,647)
Miscellaneous	4,013	3,923	90
Interest and other	677		677
Totals	\$ 767,250	\$ 581,766	\$ 185,484

The changes in governmental activities occurred in part for the following reasons:

- *Continued repair work to the City pool.
- *A full-time employee was hired to assist the other City employees in various jobs.
- *Sidewalks and landscaping around City Hall were updated.

Harlem taxpayers were charged \$348,449 through property and local option taxes to fund about 45% of the City's governmental expenses of \$767,250. The balance was funded through other government programs such as State Entitlement and State Gas Tax allocation, as well as a loan from the Bank of Harlem for a new shop addition. CTEP funds were used for the sidewalk maintenance at City Hall.

BUSINESS-TYPE ACTIVITIES

The cost of business-type activities for the 2014 fiscal year was \$883,671 compared to \$805,829 for the previous year, an increase of \$77,842. This increase is due mostly to costs associated with sludge removal done at the waste water treatment plant lagoons. In addition, aerators were purchased for the fresh water settling ponds.

GOVERNMENTAL FUND FOCUS

The focus of governmental funds' analysis is to provide information on current period revenues and expenditures and the balance of resources available for future requirements. The information is useful in determining the City's annual financial requirements. As of the end of fiscal year 2014, the City of Harlem governmental funds reported a combined fund balance of \$377,617. This compares to \$457,299 in fiscal year 2013, which is a decrease of \$79,682.

The City of Harlem has one governmental fund reported as a major fund:

- *General Fund – This is the City's primary operating fund. It accounts for all financial resources of the General Government, Public Safety, Public Works, and Culture and Recreation.

ENTERPRISE FUNDS FOCUS

The Enterprise funds for the City consist of the Water and Sewer funds, the Garbage fund, and the Landfill fund. The Water and Sewer funds account for the activities of the City's water utility and sewer utility services. The Garbage and Landfill funds account for the activities of the City's garbage collection services and the City's share of the costs associated with the landfill in the Unified Disposal District.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets is \$357,085 for the governmental activities and \$2,419,591 for business-type activities (net of related debt). This investment in capital assets includes land, buildings, improvements other than buildings, and machinery and equipment. Depreciation on capital assets is recognized in the government-wide financial statements and proprietary fund financial statements.

Long-Term Debt

The City's long-term debt increased by \$59,479 for the governmental funds and decreased by \$65,432 for the business-type funds. Total debt in the governmental funds, including compensated absences of \$5,894 is \$93,790. In the proprietary funds, the debt for compensated absences is \$27,557 and total debt is \$948,834.

THE CITY GOVERNMENT'S FUTURE

The annual budget prepared by the City assures the efficient, effective, and most economical use of the City's resources, as well as establishes projects, priorities, and direction. Through the budget process, the Mayor and City Council set the direction of the City and allocated its resources accordingly.

Some of the factors considered while preparing the fiscal year 2014-2015 budget include:

- *Maintaining services at their current level. Keeping taxes affordable for Harlem residents but still providing the City with tax revenue to fund continued City improvements.
- *Deteriorating streets and alleys within the City limits.
- *Maintaining the current employee health benefits package as well as other benefits for City employees.
- *Coping with increasing costs for goods and services purchased by the City of Harlem.
- *Incorporation of the City's Capital Improvements plan to facilitate planned and responsible spending.
- *Getting the much needed waste water treatment plant project under way.

In summary, the City of Harlem continues to maintain services at the level necessary to provide its citizens an affordable and quality City in which to live.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

The financial report is designed to provide a general overview of the City's finances and to show the City's accountability for the money and resources that it receives. If you have any questions about this report or need additional financial information, contact:

Rebecca Skoyen
City Clerk-Treasurer
City of Harlem
PO Box 579
Harlem, MT 59526-0579
(406) 353-2361

INDEPENDENT AUDITOR'S REPORT

Mayor and City Council
City of Harlem
Blaine County
Harlem, Montana 59526

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 3 - 7) and budgetary comparison information (pages 30 - 31) 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 basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 5, 2015 on our consideration of City of Harlem internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Harlem internal control over financial reporting and compliance.



STROM & ASSOCIATES, PC
Billings, Montana
January 5, 2015

STATEMENT OF NET POSITION
as of June 30, 2014

	Governmental Activities	Business-type Activities	Total
ASSETS:			
Current Assets:			
Cash and Cash Equivalents	\$ 403,511	\$ 358,036	\$ 761,547
Taxes/Assessments Receivable - Net	217,861	87,755	305,616
Accounts Receivable - Net	6,856	38,569	45,425
Due From Other Governments	14,833	-	14,833
Total Current Assets	<u>643,061</u>	<u>484,360</u>	<u>1,127,421</u>
Noncurrent Assets:			
Restricted Cash and Cash Equivalents	-	105,409	105,409
Capital Assets:			
Land	51,279	7,785	59,064
Construction in Progress	-	49,000	49,000
Net Depreciable Assets	393,702	3,284,083	3,677,785
Total Noncurrent Assets	<u>444,981</u>	<u>3,446,277</u>	<u>3,891,258</u>
Total Assets	<u>\$ 1,088,042</u>	<u>\$ 3,930,637</u>	<u>\$ 5,018,679</u>
LIABILITIES:			
Current Liabilities			
Accounts Payable	\$ 4,181	\$ -	\$ 4,181
Deposits and Refunds Payable	-	30,956	30,956
Grants Received In Advance	43,402	-	43,402
Compensated Absences	1,368	6,406	7,774
Current Portion Long-Term Capital Obligations	22,383	51,041	73,424
Total Current Liabilities	<u>71,334</u>	<u>88,403</u>	<u>159,737</u>
Noncurrent Liabilities:			
Compensated Absences	4,526	21,151	25,677
Long-Term Capital Obligations	65,513	870,236	935,749
Total Noncurrent Liabilities	<u>70,039</u>	<u>891,387</u>	<u>961,426</u>
Total Liabilities	<u>141,373</u>	<u>979,790</u>	<u>1,121,163</u>
NET POSITION:			
Net investment in capital assets	357,085	2,419,591	2,776,676
Restricted for debt service	-	66,604	66,604
Restricted for construction	-	5,733	5,733
Restricted for special projects	208,945	-	208,945
Unrestricted (Deficit)	380,639	458,919	839,558
Total Net Position	<u>946,669</u>	<u>2,950,847</u>	<u>3,897,516</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 1,088,042</u>	<u>\$ 3,930,637</u>	<u>\$ 5,018,679</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

STATEMENT OF ACTIVITIES
for the Year Ended June 30, 2014

	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
	Expenses	Charge for Services	Operating Grants and Contributions	Primary Government		
				Governmental Activities	Business-type Activities	Total
GOVERNMENT OPERATIONS						
General Government	\$ 212,564	\$ -	\$ 94,968	\$ (117,596)		\$ (117,596)
Public Safety	178,240	9,972	-	(168,268)		(168,268)
Public Works	311,489	84,472	20,491	(206,526)		(206,526)
Culture and Recreation	60,267	8,556	-	(51,711)		(51,711)
Miscellaneous	4,013	-	-	(4,013)		(4,013)
Debt Service						
Interest and other charges	677	-	-	(677)		(677)
Total Governmental Activities	<u>767,250</u>	<u>103,000</u>	<u>115,459</u>	<u>(548,791)</u>		<u>(548,791)</u>
BUSINESS-TYPE ACTIVITIES						
Water	\$ 464,457	\$ 309,888	\$ -		\$ (154,569)	(154,569)
Sewer	257,635	152,606	100,000		(5,029)	(5,029)
Landfill	161,579	185,881	-		24,302	24,302
Total Business-type activities	<u>883,671</u>	<u>648,375</u>	<u>100,000</u>		<u>(135,296)</u>	<u>(135,296)</u>
Total Primary Government	<u>\$ 1,650,921</u>	<u>\$ 751,375</u>	<u>\$ 215,459</u>	<u>\$ (548,791)</u>	<u>\$ (135,296)</u>	<u>\$ (684,087)</u>
GENERAL REVENUES						
Taxes and Assessments				334,674	-	334,674
Local Option taxes				13,775	-	13,775
Licences and permits				7,558	-	7,558
Unrestricted Federal/State shared Revenues				135,553	-	135,553
Interest				3,291	155	3,446
Other				8,513	1,936	10,449
Total General Revenues				<u>503,364</u>	<u>2,091</u>	<u>505,455</u>
Change in Net Position				(45,427)	(133,205)	(178,632)
Net Position						
Beginning of the Year				994,045	3,084,052	4,078,097
Prior Period Adjustments				(1,949)	-	(1,949)
End of the Year				<u>\$ 946,669</u>	<u>\$ 2,950,847</u>	<u>\$ 3,897,516</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

BALANCE SHEET
 GOVERNMENTAL FUNDS
 as of June 30, 2014

	<u>MAJOR</u>		
	General	Other Governmental Funds	Total Governmental Funds
ASSETS:			
Current Assets:			
Cash and Cash Equivalents	\$ 229,267	\$ 174,244	\$ 403,511
Taxes/Assessments Receivable - Net	146,614	71,247	217,861
Accounts Receivable - Net	-	6,856	6,856
Due From Other Governments	14,833	-	14,833
Total Assets	\$ 390,714	\$ 252,347	\$ 643,061
LIABILITIES:			
Current Liabilities			
Accounts Payable	4,181	-	4,181
Grants Received In Advance	-	43,402	43,402
Total Liabilities	4,181	43,402	47,583
DEFERRED INFLOWS OF RESOURCES			
Unavailable Property Taxes Receivable	146,614	71,247	217,861
Total Deferred Inflows of resources	146,614	71,247	217,861
FUND BALANCE:			
Fund Balances:			
Restricted	-	137,698	137,698
Unassigned:	239,919	-	239,919
Total Fund Balance	239,919	137,698	377,617
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 390,714	\$ 252,347	\$ 643,061

RECONCILIATION TO THE STATEMENT OF NET POSITION

Total fund balance reported above	\$ 377,617
Governmental Capital Assets	444,981
Long-term Liabilities	
Compensated Absences	(5,894)
Long-Term Capital Obligations	(87,896)
Unavailable Property Taxes Receivable	217,861
Net Position of Governmental Activities	\$ 946,669

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

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

	MAJOR		
	General	Other Governmental Funds	Total Governmental Funds
REVENUES:			
Taxes and Assessments	\$ 333,724	\$ 84,472	\$ 418,196
Liscenses and Permits	3,858	-	3,858
Charges for Services	8,556	-	8,556
Fines and Forfeitures	9,972	-	9,972
Interest	1,747	1,544	3,291
Intergovernmental Revenues	234,221	20,491	254,712
Miscellaneous	3,512	5,001	8,513
Total Revenues	<u>595,590</u>	<u>111,508</u>	<u>707,098</u>
EXPENDITURES:			
Current			
General Government	199,002	-	199,002
Public Safety	178,240	-	178,240
PublicWorks	154,472	145,670	300,142
Culture and Recreation	50,360	5,000	55,360
Miscellaneous	4,013	-	4,013
Debt Service			
Principal	23,537	1,000	24,537
Interest and other charges	677	-	677
Capital Outlay	121,497	-	121,497
Total Expenditures	<u>731,798</u>	<u>151,670</u>	<u>883,468</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(136,208)</u>	<u>(40,162)</u>	<u>(176,370)</u>
OTHER FINANCING SOURCES/USES			
Loan Proceeds	99,000	-	99,000
Fund Transfers In	-	50,000	50,000
Fund Transfers (Out)	(50,000)	-	(50,000)
Total Other financial Sources/Uses	<u>49,000</u>	<u>50,000</u>	<u>99,000</u>
NET CHANGES IN FUND BALANCES	<u>(87,208)</u>	<u>9,838</u>	<u>(77,370)</u>
FUND BALANCE:			
Beginning of the Year	334,491	122,808	457,299
Prior Period Adjustments	(7,364)	5,052	(2,312)
End of the Year	<u>\$ 239,919</u>	<u>\$ 137,698</u>	<u>\$ 377,617</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

City of Harlem
Blaine County
Harlem, MT 59526

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

Net Changes in Fund Balance		\$	(77,370)
Revenues on the Statement of Activity not included in governmental funds statement:			
Increase (decrease) in taxes receivable			14,725
Revenues reported in the governmental funds statement not included in the Statement of Activity			
Bond/Note Proceeds			(99,000)
Expenses on the Statement of Activity not included in the governmental funds statement:			
Depreciation Expense	(29,032)		
(Increase) decrease in compensated absence liability	<u>(784)</u>		(29,816)
Expenditures reported in the governmental funds statement not included in the Statement of Activity			
Capital outlays	121,497		
Principal payments on bonds	<u>24,537</u>		<u>146,034</u>
Change in net position reported on the Statement of Activity		\$	<u>(45,427)</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
as of June 30, 2014

	MAJOR			Total Enterprise Funds
	Water	Sewer	Landfill	
ASSETS:				
Current Assets:				
Cash and Cash Equivalents	\$ 172,858	\$ 42,427	\$ 142,751	\$ 358,036
Taxes/Assessments Receivable - Net	21,000	-	66,755	87,755
Accounts Receivable - Net	26,963	11,606	-	38,569
Total Current Assets	<u>220,821</u>	<u>54,033</u>	<u>209,506</u>	<u>484,360</u>
Noncurrent Assets:				
Restricted Cash and Cash Equivalents	105,409	-	-	105,409
Capital Assets:				
Land	7,285	500	-	7,785
Construction in Progress	-	49,000	-	49,000
Net Depreciable Assets	3,077,611	133,494	72,978	3,284,083
Total Noncurrent Assets	<u>3,190,305</u>	<u>182,994</u>	<u>72,978</u>	<u>3,446,277</u>
Total Assets	<u>\$ 3,411,126</u>	<u>\$ 237,027</u>	<u>\$ 282,484</u>	<u>\$ 3,930,637</u>
LIABILITIES:				
Current Liabilities				
Deposits and refunds payable	\$ 30,956	\$ -	\$ -	\$ 30,956
Compensated Absences	1,435	4,350	621	6,406
Current Portion Long-Term Capital Obligations	24,000	11,478	15,563	51,041
Total Current Liabilities	<u>56,391</u>	<u>15,828</u>	<u>16,184</u>	<u>88,403</u>
Noncurrent Liabilities:				
Compensated Absences	4,725	14,369	2,057	21,151
Long-Term Capital Obligations	815,000	5,968	49,268	870,236
Total Noncurrent Liabilities	<u>819,725</u>	<u>20,337</u>	<u>51,325</u>	<u>891,387</u>
Total Liabilities	<u>876,116</u>	<u>36,165</u>	<u>67,509</u>	<u>979,790</u>
NET POSITION:				
Net investment in capital assets	2,245,896	165,548	8,147	2,419,591
Restricted for debt service	66,604	-	-	66,604
Restricted for construction	5,733	-	-	5,733
Unrestricted (Deficit)	216,777	35,314	206,828	458,919
Total Net Position	<u>2,535,010</u>	<u>200,862</u>	<u>214,975</u>	<u>2,950,847</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 3,411,126</u>	<u>\$ 237,027</u>	<u>\$ 282,484</u>	<u>\$ 3,930,637</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

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

	MAJOR			Total Enterprise Funds
	Water	Sewer	Landfill	
OPERATING REVENUES:				
Charges for Services	309,888	152,606	-	462,494
Miscellaneous	-	-	1,936	1,936
Special Assessments	-	-	185,881	185,881
Total Operating Revenues	309,888	152,606	187,817	650,311
OPERATING EXPENSES:				
Personal services	85,755	94,453	55,077	235,285
Supplies	79,331	8,504	19,473	107,308
Purchased services	54,201	139,070	84,029	277,300
Fixed charges	9,755	5,478	-	15,233
Loss/Bad debt expense	3,535	-	-	3,535
Depreciation	206,684	9,871	844	217,399
Total Operating Expense	439,261	257,376	159,423	856,060
OPERATING INCOME (LOSS)	(129,373)	(104,770)	28,394	(205,749)
NONOPERATING REVENUES (EXPENSES)				
Intergovernmental revenue	-	100,000	-	100,000
Interest revenue	155	-	-	155
Debt service interest expense	(25,196)	(259)	(2,156)	(27,611)
Total nonoperating revenue (expenses)	(25,041)	99,741	(2,156)	72,544
CHANGE IN NET POSITION	(154,414)	(5,029)	26,238	(133,205)
NET POSITION:				
Beginning of the Year	2,689,424	205,891	188,737	3,084,052
End of the Year	\$ 2,535,010	\$ 200,862	\$ 214,975	\$ 2,950,847

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

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

	Business-type Activities - Enterprise Funds			
	MAJOR			Total
	Water Utility	Sewer Utility	Landfill/ Garbage	Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from Customers	\$ 305,294	\$ 153,313	\$ 172,890	\$ 631,497
Payments to Suppliers	(146,822)	\$ (153,052)	\$ (103,502)	(403,376)
Payments to Employees	(85,334)	\$ (95,750)	\$ (52,635)	(233,719)
Net Cash Provided (Used) by Operating Activities	<u>73,138</u>	<u>(95,489)</u>	<u>16,753</u>	<u>(5,598)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Purchases of Capital Assets	(63,073)	\$ (20,422)	\$ -	(83,495)
Principal Paid on Capital Debt	(46,000)	\$ (11,376)	\$ (15,169)	(72,545)
Interest Paid on Capital Debt	(25,196)	\$ (259)	\$ (2,156)	(27,611)
Intergovernmental grant	-	\$ 100,000	\$ -	100,000
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(134,269)</u>	<u>67,943</u>	<u>(17,325)</u>	<u>(83,651)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest and Dividends	<u>155</u>	\$ -	\$ -	<u>155</u>
Net Cash Provided (Used) by Investing Activities	<u>155</u>	<u>-</u>	<u>-</u>	<u>155</u>
Net Increase (Decrease) In Cash and Cash Equivalents	<u>(60,976)</u>	<u>(27,546)</u>	<u>(572)</u>	<u>(89,094)</u>
BALANCE:				
Beginning of the Year	<u>339,243</u>	<u>69,973</u>	<u>143,323</u>	<u>552,539</u>
End of the Year	<u>\$ 278,267</u>	<u>\$ 42,427</u>	<u>\$ 142,751</u>	<u>\$ 463,445</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating Income (Loss)	\$ (129,373)	\$ (104,770)	\$ 28,394	\$ (205,749)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:				
Depreciation Expense	206,684	9,871	844	217,399
Bad debt expense	3,535	-	-	3,535
Changes In Assets and Liabilities:				
Accounts Receivable	2,849	707	-	3,556
Special Assessments Receivable	(11,763)	-	(14,927)	(26,690)
Customer Deposits	785	-	-	785
Compensated Absences	421	(1,297)	2,442	1,566
Net Cash Provided (Used) by Operating Activities	<u>\$ 73,138</u>	<u>\$ (95,489)</u>	<u>\$ 16,753</u>	<u>\$ (5,598)</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

City of Harlem
Blaine County
Harlem, MT 59526

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
as of June 30, 2014

	<u>Agency Funds</u>
ASSETS:	
Current Assets:	
Cash and Cash Equivalents	\$ 79,668
Total Assets	<u>79,668</u>
LIABILITIES:	
Current Liabilities	
Warrants Payable	<u>79,668</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

CITY OF HARLEM

NOTES TO THE FINANCIAL STATEMENTS
Fiscal Year-Ended June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. a. REPORTING ENTITY

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

During fiscal year 2014 the City adopted the following

- GASB Statement No. 67 – Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25. The amendment revised existing guidance for financial report of pension systems for state and local government. The statement is applicable for fiscal year 2014. This statement affects the applicable retirement plan administration at the State level and did not have any effect on the City.
- GASB Statement No. 70 – Accounting and Financial Reporting for Nonexchange Financial Guarantees. The statement is applicable for fiscal year 2014. This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The City has not extend any financial guarantees to other parties. This statement has no effect on the financial statements.

The following are a listing of GASB statements which have been issued and the City assessment of effects to the financial statements.

- GASB Statement No. 68 – Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27. This statement revises and establishes new financial reporting requirement that provide employees with pension benefits. The statement is effective for fiscal year 2015. This statement will require the City to expand its pension foot note disclosures. The City plans to implement this in fiscal year 2015 after the State of Montana provides the required information for reporting and disclosure.
- GASB Statement No. 69 – Government Combinations and Disposals of Government Operations. The statement is applicable for fiscal year 2015. The statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The City is not merging with another City or ceasing to exist. This statement has no effect on the financial statements.
- GASB Statement No. 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68. This statement amends paragraph 137 of statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The City plans to implement this in fiscal year 2015 after the State of Montana provides the required information for reporting and disclosure.

The City of Harlem was incorporated under the laws of the State of Montana in 1910. The City operates under an elected Mayor-Council form of government and provides the following services authorized by its charter: public safety - police, highways and streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services. It also operates the water, sewer, and garbage facilities.

The criteria for including organizations as component units within the City's reporting entity is set forth in Section 2100 of the Governmental Accounting Standards Board's (GASB) "Codification of Government Accounting and Financial Reporting Standards." The basic criteria include appointing a voting majority of an organization's governing body, as well as the City's ability to impose its will on that organization, or the potential for the organization to provide specific financial benefit to, or impose specific financial burdens on, the City. Based on those criteria this City has no component units.

1. b. BASIS OF PRESENTATION AND ACCOUNTING

1. b. 1 GOVERNMENT-WIDE STATEMENTS

The government-wide financial statements include the statement of net position and the statement of activities. The governmental activities column incorporates data from governmental funds, while business-type activities incorporate data from the government's enterprise funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

The government-wide financial statements report using the economic resource measurement focus and the accrual basis of accounting generally including the elimination of internal activity between or within funds. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

CITY OF HARLEM

NOTES TO THE FINANCIAL STATEMENTS (continued) Fiscal Year-Ended June 30, 2014

Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. Expenses which are not directly related to a function, indirect expenses, are not charges to a function. Program revenues include:

- Charges for services such as fines and forfeitures and utility billing charges and
- Operating grants that are restricted to a particular functional program.

Property taxes, investment earnings, state entitlement payments, and other revenue sources not properly included with program revenue are reported as general revenues.

1. b. 2 FUND ACCOUNTING

The fund financial statements provide information about the government's funds, including its fiduciary funds. Separate statements for each fund category – governmental, proprietary, and fiduciary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities, and fund balance are included on the balance sheet. Operating statement of these funds present net increases and decreases in current assets. Revenues are recorded when they are both measurable and available. Available means collectible within the current period anything collected after June 30 are generally not material. Unavailable income are recorded in governmental funds for delinquent taxes. Expenditures are recorded when the related fund liability is incurred except for principal and interest on general long-term debt and compensated absence payments which are recognized when due. Capital assets are functional expenditures in governmental funds and proceeds from long-term debt or capital leases are reported as other financing sources.

Revenues from local sources consist primarily of property taxes. Property tax revenue and revenues received from the State of Montana are recognized when susceptible to accrual. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are measurable and available. Cost reimbursement grant funds are considered to be both measurable and available to the extent of expenditures made under the provisions of the grant and, accordingly, when such funds are received and the expenditure has not been incurred they are recorded as unearned grant revenues because the revenues are available. All other revenue items are considered to be measurable and available only when cash is received by the government.

Proprietary, trust and agency fund financial statements report using the economic resources measurement focus and are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. On an accrual basis, revenue from property taxes and assessments are recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water, sewer and landfill funds are charges to customers for sales and services. The water fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. Resources received for capital acquisition or construction are reported as separate items.

GASB Statement No. 34 requires the general fund be reported as a major fund. Other individual governmental and enterprise funds should be reported in separate columns as major funds based on these criteria:

- Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total (assets, liabilities, and so forth) for all funds of that category or type (that is, total governmental or total enterprise funds), and
- Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

CITY OF HARLEM

NOTES TO THE FINANCIAL STATEMENTS (continued)
Fiscal Year-Ended June 30, 2014

In addition to funds that meet the major fund criteria, any other governmental or enterprise fund that government officials believe is particularly important to financial statement users may be reported as a major fund.

The City reports the following major governmental funds:

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

The City reports the following major enterprise funds:

- Water Fund – This fund is used to account for financing the activities of the City's water distribution operations and to collect and administer water impact fees.
- Sewer Fund – This fund is used to account for financing the activities of the City's sewer collection and treatment operations and includes the storm sewer system.
- Landfill Fund – This fund is used to account for financing the activities of the City's solid waste service.

1. b. 3 OTHER FUND TYPES

Agency Funds – Account for assets that the City holds on behalf of others as their agent in the payroll and claims clearing funds and employee payroll tax withholdings. Cash is held for warrants which were written but have not been paid by the County Treasurer. A warrant is an order by which the drawer (the person with authority to make the order) commands the City trustee to pay a particular sum of money to a payee (person or entity) from funds in the City treasury which are or may become available.

1. c. ASSETS, LIABILITIES AND NET POSITION (FUND BALANCE)

1. c. 1 CASH AND INVESTMENTS

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

Information regarding the collateral and security for cash is not available to the City. However, State statute requires that United State government securities or agencies be held as collateral to secure deposits of public funds in excess of Federal Deposit Insurance Corporation (FDIC) insurance. The external investment pool is audited as part of Blaine County's financial statements. This investment pool is not registered with or monitored by the Securities and Exchange Commission (SEC).

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.

1. c. 2 TAXES

Property tax levies are set in August in connection with the budget process, and are based on taxable values listed as of January 1 for all property located in the City. Taxable values are established by the State Department of Revenue based on market values. A revaluation of all property is required to be completed on a periodic basis. Taxable value is defined by State statute as a fixed percentage of market value.

Real property taxes and special assessments are generally billed in October and are payable 50% by November 30 and 50% by May 31. After these dates, taxes and assessments become delinquent and become a lien on the property. Personal property is assessed and personal property taxes are billed throughout the year, with a significant portion generally billed in May, June and July. Personal property taxes are based on levies set during the prior August. These taxes become delinquent 30 days after billing.

CITY OF HARLEM

NOTES TO THE FINANCIAL STATEMENTS (continued)
Fiscal Year-Ended June 30, 2014

Taxes and assessments that become delinquent are charged interest at the rate of 5/6 of 1% per month plus a penalty of 2%. Real property on which taxes and assessments remain delinquent and unpaid may be sold at tax sales. In the case of personal property, the property is to be seized and sold after the taxes become delinquent.

The City is permitted by State statutes to levy taxes up to certain fixed limits for various purposes. The taxes levied by the City for the year ended June 30, 2014, were within legal limits. The tax levies were based upon a taxable valuation of \$507,127.

1. c. 3 INVENTORIES

Materials and supplies inventory at year end was not material. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased.

1. c. 4 CAPITAL ASSETS

The City's property, plant, equipment, and infrastructure (e.g. roads, bridges, sidewalks, lighting, and similar items) with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. Historical cost was established at the initial booking of the capital assets by determining actual costs or estimating using standard costing procedures. The City considers capital assets to be items in excess of \$5,000 with a useful life in excess of one year. The costs of normal maintenance and repair are not capitalized. Land and construction in progress are not depreciated. Depreciation on the other capital assets is provided over their estimated useful lives on the straight-line method. The useful lives of these assets have been estimated as follows:

<u>Capital Asset Classes</u>	<u>Lives</u>
Infrastructure	25 years
Buildings	20 - 50 years
Improvements other than buildings	20 - 25 years
Machinery and Equipment	3 - 25 years
Sewer Lines and Pump Stations	20 - 40 years

1.c. 5 DEFERRED INFLOWS OF RESOURCES

In addition to liabilities, the statement of financial position reports 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 accrual basis of accounting, which qualifies for reporting in this category. Accordingly, the item, unavailable, is reported only in the governmental funds balance sheet. The governmental funds report unavailable 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.

1.c. 6 VACATION AND SICK LEAVE

City employees accumulate vacation and sick leave for later use or for payment upon termination, death, or retirement. City employees earn vacation leave at the rate of 15 days per year during the first 10 years of employment, and at increasing rates thereafter to a maximum of 24 days per year after 20 years of employment. There is no requirement that vacation leave be taken, but the maximum permissible accumulation is the amount earned in the most recent two-year period. At termination, employees are paid for any accumulated vacation leave at the current rate of pay. City employees earn sick leave at the rate of one day per month. There is no limit on the accumulation of unused sick leave. However, upon termination, only 25% of accumulated sick leave is paid.

Liabilities incurred because of unused vacation and sick leave accumulated by employees are reflected in the financial statements. Expenditures for unused leave are recorded when paid in governmental funds and when accrued on the statement activities. The amount expected to be paid within one year is \$7,774, mainly paid from the Sewer fund.

1.c. 7 NET POSITION AND FUND BALANCE

Statement of Net Position include the following:

- Net Investment in Capital Assets – The component of net position that reports the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt that is directly attributable to the acquisition, construction, or improvement of these capital assets.

CITY OF HARLEM

NOTES TO THE FINANCIAL STATEMENTS (continued)
Fiscal Year-Ended June 30, 2014

- Restricted – The component of net position that is either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.
- Unrestricted – The difference between the assets and liabilities that is not reported in the other element of net position.

Governmental fund financial statements include the following fund balances:

- Restricted - Includes amounts that can be spent only for the specific purposes stipulated by the constitution, external resource providers, or through enabling legislation.
- Unassigned - Amounts that are available for any purpose; these amounts are reported only in the general fund.

As of June 30, 2014, fund balance components other than unassigned fund balance consist of the following:

<u>Purpose</u>	<u>Restricted</u>
Public Safety	\$ 2,903
Public Works	74,691
Future Capital Costs	<u>60,104</u>
Total	<u>\$ 137,698</u>

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first.

1. d. OTHER

1. d. 1 USE OF ESTIMATES

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

1.d. 2 County Provided Services

The City is provided various financial services by Blaine County. The Blaine County also serves as cashier and treasurer for the City for tax and assessment collections and other revenues received by the Blaine County which are subject to distribution to the various taxing jurisdictions located in the Blaine County. The collections made by the Blaine County on behalf of the City are accounted for in an agency fund in the City's name and are periodically remitted to the City by the Blaine County Treasurer. No service charges have been recorded by the City or the Blaine County.

NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

The City maintains a cash pool for all funds under the control of the City Treasurer. Composition of cash, deposits and investments at fair value on June 30, 2014, are as follows::

	<u>Amount</u>
Cash on Hand	\$ 500
Demand Accounts	800,044
Time Deposits	<u>146,080</u>
Total	<u>\$ 946,624</u>

Custodial Credit Risk – Deposits: Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of June 30, 2014, City's bank balance was exposed to custodial credit risk as follows:

	<u>Deposits</u>	<u>Fair Value</u>
Insured	\$ 396,080	
Collateral held by the pledging bank's trust department but not in the Entity's name		<u>560,875</u>
Total		<u>\$ 956,955</u>

CITY OF HARLEM

NOTES TO THE FINANCIAL STATEMENTS (continued)
Fiscal Year-Ended June 30, 2014

NOTE 3. TAXES RECEIVABLE

An allowance for uncollectible accounts is maintained for real and personal property taxes, special assessments and utilities receivable. The allowance amount is estimated by management's review of past due accounts. Related amounts are shown in the following table:

	<u>Taxes</u> <u>Assessments</u>	<u>Accounts</u> <u>Receivable</u>	<u>Loans</u> <u>Receivable</u>	<u>Allowance</u>	<u>Net</u> <u>Receivable</u>
General*	\$ 146,614	\$ 0	\$ 0	\$ 0	\$ 146,614
Other Governmental	74,447	0	6,856	3,200	78,103
Water	21,000	36,963	0	10,000	47,963
Sewer	0	13,018	0	1,412	11,606
Landfill	66,755	0	0	0	66,755
Total	<u>\$ 308,816</u>	<u>\$ 49,981</u>	<u>\$ 6,856</u>	<u>\$ 14,612</u>	<u>\$ 351,041</u>

NOTE 4. DUE FROM OTHER GOVERNMENTS

	<u>Amount</u>	<u>Due From</u>	<u>Reason</u>
General	\$14,833	State of Montana	DNRC Grant expenditures

NOTE 5. CAPITAL ASSETS, DEPRECIATION AND NET CAPITAL ASSETS

5. a. At June 30, 2014, the schedule of changes in general capital assets follows:

<u>Governmental Activities:</u>	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Balance</u> <u>June 30, 2014</u>
<u>Non-depreciable:</u>			
Land	<u>\$ 51,279</u>	<u>\$ 0</u>	<u>\$ 51,279</u>
<u>Depreciable:</u>			
Buildings	\$ 511,301	\$ 110,141	\$ 621,442
Improvements	118,010	0	118,010
Machinery and equipment	233,254	11,356	244,610
Infrastructure	94,285	0	94,285
Total Depreciable	<u>\$ 956,850</u>	<u>\$ 121,497</u>	<u>\$ 1,078,347</u>
<u>Accumulated Depreciation:</u>			
Buildings	\$ (343,886)	\$ (14,998)	\$ (358,884)
Improvements	(74,423)	(4,907)	(79,330)
Machinery and equipment	(197,778)	(5,355)	(203,133)
Infrastructure	(39,526)	(3,772)	(43,298)
Total Depreciation	<u>\$ (655,613)</u>	<u>\$ (29,032)</u>	<u>\$ (684,645)</u>
Net Depreciable Assets	<u>301,237</u>	<u>92,465</u>	<u>393,702</u>
Net General Capital Assets	<u>\$ 352,516</u>	<u>\$ 92,465</u>	<u>\$ 444,981</u>

5. b. General capital asset depreciation expense was charged to governmental functions as follows:

<u>Function</u>	<u>Amount</u>
General Government	\$ 12,778
Public Works	11,347
Culture and Recreation	4,907
Total Depreciation Expense	<u>\$ 29,032</u>

CITY OF HARLEM

NOTES TO THE FINANCIAL STATEMENTS (continued)
Fiscal Year-Ended June 30, 2014

5. c. At June 30, 2014, the schedule of changes in business-type capital assets follows:

<u>Business-type Activities:</u>	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Balance</u> <u>June 30, 2014</u>
<u>Non-depreciable:</u>			
Land	\$ 7,785	0	7,785
Construction in progress	49,000	0	49,000
Total Non-Depreciable	<u>\$ 56,785</u>	<u>\$ 0</u>	<u>\$ 56,785</u>
<u>Depreciable:</u>			
Buildings	\$ 257,600	\$ 0	\$ 257,600
Machinery and equipment	133,218	0	133,218
Pumping Plant	273,797	0	273,797
Treatment Plant	2,494,984	27,185	2,522,168
Transmission and Distribution	4,498,077	56,310	4,554,387
Total Depreciable	<u>\$ 7,657,676</u>	<u>\$ 83,495</u>	<u>\$ 7,741,171</u>
<u>Accumulated Depreciation:</u>			
Buildings	\$ (208,660)	\$ (2,139)	\$ (210,799)
Machinery and equipment	(45,062)	(3,382)	(48,444)
Pumping Plant	(270,188)	(1,309)	(271,497)
Treatment Plant	(714,098)	(113,611)	(827,709)
Transmission and Distribution	(3,001,681)	(96,958)	(3,098,639)
Total Depreciation	<u>\$ (4,239,689)</u>	<u>\$ (217,399)</u>	<u>\$ (4,457,088)</u>
Net Depreciable Assets	<u>3,417,987</u>	<u>(133,904)</u>	<u>3,284,083</u>
Net General Capital Assets	<u>\$ 3,474,772</u>	<u>\$ (133,904)</u>	<u>\$ 3,340,868</u>

NOTE 6. CHANGES IN LONG-TERM DEBT

6. a. At June 30, 2014, the schedule of changes in general Long-Term debt follows:

	<u>Balance</u> <u>July 1, 2013</u>	<u>New Debt</u> <u>and Other</u> <u>Additions</u>	<u>Principal</u> <u>Payments</u> <u>and Other</u> <u>Reductions</u>	<u>Balance</u> <u>June 30, 2014</u>	<u>Due within</u> <u>One Year</u>
<u>Governmental Activities:</u>					
Loans/Contracts	\$ 13,796	\$ 99,000	\$ (24,900)	\$ 87,896	\$ 22,383
Compensated Absences	5,110	784	0	5,894	1,368
Total	<u>\$ 18,906</u>	<u>\$ 99,784</u>	<u>\$ (24,900)</u>	<u>\$ 93,790</u>	<u>\$ 23,751</u>
<u>Business-type Activities::</u>					
Water Revenue Bonds	\$ 885,000	\$ 0	\$ (46,000)	\$ 839,000	\$ 24,000
Loans/Contracts	108,822	0	(26,545)	82,277	27,041
Compensated Absences	25,991	2,863	(1,297)	27,557	6,406
Total	<u>\$ 1,019,813</u>	<u>\$ 2,863</u>	<u>\$ (73,842)</u>	<u>\$ 948,834</u>	<u>\$ 57,447</u>

6. b. LOANS/CONTRACTED DEBT

Governmental:

<u>Description</u>	<u>Issue Date</u>	<u>Interest</u> <u>Rate</u>	<u>Length of</u> <u>Loan</u>	<u>Maturity</u> <u>Date</u>	<u>Amount</u> <u>Issued</u>	<u>Outstanding</u> <u>June 30,</u> <u>2014</u>
Little Rockies Senior Center	6/30/2000	5%	17 years	11/10/2017	\$ 87,365	\$ 8,124
Shop Addition	3/31/2014	2.25%	5 years	12/31/2017	99,000	79,772
					<u>\$ 186,365</u>	<u>\$ 87,896</u>

CITY OF HARLEM

NOTES TO THE FINANCIAL STATEMENTS (continued)
Fiscal Year-Ended June 30, 2014

Business-type:

Description	Issue Date	Interest Rate	Length of Loan	Maturity Date	Amount Issued	Outstanding
						June 30, 2014
Intercap Loan Sewer Study*	12/18/2009	1 - 1.25%	3 years	2/15/2016	\$ 40,000	\$ 17,446
Garbage Truck	6/4/2013	2.68%	5 years	6/1/2018	80,000	64,831
					<u>\$ 120,000</u>	<u>\$ 82,277</u>

Debt service requirements to maturity for principal and interest for all bonded long term obligations are as follows:

For the year ended 6/30:	Governmental		Business-type	
	Principal	Interest	Principal	Interest
2015	\$ 22,383	\$ 1,795	\$ 27,041	\$ 1,994
2016	22,369	1,389	21,950	1,459
2017	18,936	970	16,420	904
2018	24,208	245	16,866	458
Totals	<u>\$ 87,896</u>	<u>\$ 4,399</u>	<u>\$ 82,277</u>	<u>\$ 4,815</u>

*Intercap loans have variable interest rates. Interest rates are subject to change annually. Interest rates to the borrower are adjusted on February 16th of each year and are based on a spread over the interest paid on one-year term, tax-exempt bonds which are sold to fund the loans.

6. c. REVENUE BONDS

Description	Issue Date	Interest Rate	Length of Loan	Maturity Date	Amount Issued	Outstanding
						June 30, 2014
Water System	2/25/2009	2.75%	20 years	1/1/2029	\$ 500,000	\$ 387,000
Water System Refinance**	4/16/2013	3.00%	16 years	1/1/2029	488,000	452,000
					<u>\$ 988,000</u>	<u>\$ 839,000</u>

Debt service requirements to maturity for principal and interest for all Intercap long term obligations are as follows:

For the year ended 6/30:	Principal	Interest
2015	\$ 24,000	\$ 23,856
2016	48,000	22,472
2017	49,000	21,072
2018	52,000	19,587
2019	52,000	18,088
2020-2024	285,000	67,415
2025-2029	329,000	21,912
Totals	<u>\$ 839,000</u>	<u>\$ 194,402</u>

**The Intended Use Plan for fiscal year 2013 for the Drinking Water State Revolving Fund Program, the Department of Natural Resources and Conservation and the Department of Environmental Quality of the State of Montana have determined that is in the best interest of borrowers of loans made under the Programs to reduce the interest rates. The Series 2009B bond was reduced from three and three-quarters percent per annum to three percent per annum.

Water Revenue Bonds constitute special obligations of the City solely secured by a lien on and pledge of the net revenues of the water system. The revenue bonds are collateralized by the revenues of the water and sewer systems and the various special funds established by the bond ordinances. The ordinances provide that the revenues of the systems are to be used first to pay operating and maintenance expenses of the systems and second to establish and maintain the revenue bond funds. Any remaining revenues may then be used for and lawful purpose.

The bond ordinances also require that water rates be sufficient to provide for operations, maintenance and 125% of the maximum amount of principal and interest requirements in any future fiscal year of the City. The more significant covenants 1) require that cash be restricted and reserved for operations, construction, debt service, and replacement and depreciation; 2) specify minimum required operating revenue; and 3) specific and timely reporting of financial information to bond holders and the registrar. The City was in compliance with the applicable covenants.

CITY OF HARLEM

NOTES TO THE FINANCIAL STATEMENTS (continued)
Fiscal Year-Ended June 30, 2014

NOTE 7. DEFERRED INFLOWS OF RESOURCES

PROPERTY TAXES

<u>Fund</u>	<u>Amount</u>	<u>Reason</u>
General	\$ 146,614	Taxes Receivable
Street Lights	30,767	Taxes Receivable
Street Maintenance	40,480	Taxes Receivable
Total	<u>\$ 217,861</u>	

NOTE 8. TRANSFERS

<u>From</u>	<u>Amount</u>	<u>To</u>
General	\$ 10,000	CIP – Civic Center
General	20,000	CIP – Streets
General	10,000	CIP – Parks/Rec
General	10,000	CIP – Pool
Total	<u>\$ 50,000</u>	

NOTE 8. OTHER POST EMPLOYMENT BENEFITS

The City allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the local government is subsidizing the retirees because each participant is charged a level of premium regardless of age. The City uses a single premium for both active and retired employees resulting in an implicit rate subsidy (the older retiree benefits from the City's blended premium). The City has not recorded a liability for the implicit rate subsidy as based on an analysis of the cost it is not material to the City's financial statements. At June 30, 2014 the City had no retired employees on the group insurance plan.

NOTE 9. UNAVAILABLE UNEARNED REVENUE

The City reports unearned revenues in the CDBG Housing program of \$6,856, included in Other Governmental Funds. The loan payments are due in monthly installments as per the terms of the loans agreements, however, they could be forgiven. Due to the nature of the transaction amounts are reported as unearned revenue.

NOTE 10. RISK MANAGEMENT

The City faces a considerable number of risks of loss, including damage to and loss of property and contents, employee torts, professional liability, (i.e. errors and omission), environmental damage, workers' compensation, and medical insurance costs of employees. A variety of methods are used to provide insurance for these risks. Commercial policies, transferring all risk of loss except for relatively small deductible amounts, are purchased for property and content damage and professional liabilities. Given the lack of coverage available, the City has no coverage for potential losses from environmental damages. The City participates in three statewide public risk pools operated by the Montana Municipal Interlocal Authority, for workers' compensation, tort liability and property coverage.

Coverage limits and the deductibles in the commercial policies have stayed relatively constant for the last several years. The premiums for the policies are allocated between the City's general fund and other funds based upon the insurance needs of the funds. Settled claims resulting from these risks did not exceed commercial insurance coverage for each of the past three years.

In 1986, the City joined other Montana cities in the Montana Municipal Interlocal Authority which established a workers' compensation plan and a tort liability plan. In 1996, the Montana Municipal Interlocal Authority created a property insurance plan. The public entity risk pools currently operate as common risk management and insurance programs for the member governments. The liability limits for damages in tort action are \$750,000 per claim and \$1.5 million per occurrence with a \$750 deductible per government. State tort law limits the City's liability to \$1.5 million. The City pays an annual premium for its employee injury insurance coverage, which is allocated to the employer funds based on total salaries and wages. The agreements for formation of the pools provide that they will be self-sustaining through member premiums.

Separate audited financial statements are available from the Montana Municipal Insurance Authority.

CITY OF HARLEM

NOTES TO THE FINANCIAL STATEMENTS (continued)
Fiscal Year-Ended June 30, 2014

NOTE 11. EMPLOYEE RETIREMENT SYSTEM

The City participates in a state-wide, cost-sharing multiple employer defined benefit retirement plans which covers all City employees. The Public Employee Retirement System (PERS) covers all employees. The plan is established under State law and administered by the State of Montana.

The plan issues publicly available annual reports that include financial statements and required supplemental in-formation for the plan. The report may be obtained from the following:

Public Employees Retirement System
P.O. Box 200131
1712 Ninth Avenue
Helena, MT 59620-0131
Phone: 406-444-3154
www.state.mt.us/doa/perb/prb.htm

The PERS defined benefit contribution rates for employees was 7.9%. The PERS rate for the State was set at .37%. For the defined contribution plan the rates are the same except only 4.19% of the employer amount is added to the employee account. Employees who elect the defined contribution plan are in control of their investments and the retirement is based upon the cash in their fund. The PERS rate for employers was 7.8%.

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

	<u>2012</u>	<u>2013</u>	<u>2014</u>
PERS	\$29,292	\$29,373	\$49,849

NOTE 12. LOCAL RETIREMENT PLAN

Fire Department Relief Association Disability and Pension Fund City volunteer firefighters are covered by the Fire Department Relief Association Disability and Pension Fund, which is established by State Law. The Association is managed by a Board of Trustees made up of members of the fire department, and the Disability and Pension Fund is considered an independent reporting entity which is to be included in the City's financial statements. The City does maintain a Fire Department Relief Association Disability and Pension Fund as an agency fund; however, this fund is only used to account for contributions until they are remitted to the separate Disability and Pension Funds.

NOTE 13. JOINT VENTURES

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

13. a. UNIFIED DISPOSAL DISTRICT

The Unified Disposal District is operating under an Interlocal agreement between Hill County, Blaine County, the City of Havre, the City of Harlem, the City of Chinook, and the Town of Big Sandy. The District was formed for the purpose of coordinating solid waste collections and disposal for the parties to the agreement. The Unified Disposal Board has twelve members, which are appointed by the governing bodies of the various entities involved.

The Unified Disposal District is financed by user charges to the residents in the District. Revenues generated from these charges are deposited with Hill County for administration of the program. Expenditures made by the district are first approved by the Unified Disposal Board prior to transmittal to the Hill County auditor for processing and payment. The Unified Disposal District is a component unit of Hill County.

If any of the entities should wish to terminate their participation in this agreement that entity is required to give at least a one year's written notice of their intent to withdraw. The entity continuing with the Unified Board will have an option to buy the terminating entity's share, which shall be the proportionate interest of the net position of the unified board determined by appraisal at the time of withdrawal. If all entities should wish to terminate, proceeds of any sale or distribution of the assets of the entity shall be split according to the proportionate interest the withdrawing entities have in the entire district.

CITY OF HARLEM

NOTES TO THE FINANCIAL STATEMENTS (continued)
Fiscal Year-Ended June 30, 2014

13. b. LAW ENFORCEMENT SERVICES

An agreement for law enforcement services has been agreed to between Blaine County and the City of Harlem. The agreement specifies the Sheriff Office will provide comprehensive law enforcement and dispatch services to the City. The agreement was entered into as specified in MCA 7-32-101. The city paid to Blaine County \$163,920 for law enforcement service for the year ended June 30, 2014.

13. c. AIRPORT COMMISSION

The Blaine County Airport Commission was established by a Joint Resolution of the County Commissioners of Blaine County, Montana, the City Council of the City of Chinook, Montana, and the City Council of the City of Harlem, Montana, on June 29, 1946 to manage and operate county airports. The Commission is governed by five commissioners, one of whom is appointed by the Blaine County Commissioners, two of whom are appointed by the mayor of the City of Chinook subject to the approval of the Chinook City Council, and two of whom are appointed by the mayor of the City of Harlem subject to the approval of the Harlem City Council. These commissioners hold office for a term of three years.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 (Budget and Actual)
 ALL BUDGETED MAJOR GOVERNMENTAL FUNDS
 for the Year Ended June 30, 2015

	Original Budget	General Final Budget	Actual
REVENUES:			
Taxes and Assessments	\$ 333,505	\$ 333,505	\$ 333,724
Liscenses and Permits	4,800	4,800	3,858
Charges for Services	10,025	10,025	8,556
Fines and Forfeitures	5,800	5,800	9,972
Interest	2,000	2,000	1,747
Intergovernmental Revenues	189,389	189,389	234,221
Miscellaneous	3,800	3,800	3,512
Total Revenues	549,319	549,319	595,590
EXPENDITURES:			
Current			
General Government	165,670	196,659	199,002
Public Safety	181,200	181,200	178,240
Public Works	111,720	111,720	154,472
Culture and Recreation	40,565	40,565	50,360
Miscellaneous	4,015	4,015	4,013
Debt Service			
Principal	25,000	25,000	23,537
Interest and other charges	-	-	677
Capital Outlay	93,500	192,500	121,497
Total Expenditures	621,670	751,659	731,798
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(72,351)	(202,340)	(136,208)
OTHER FINANCING SOURCES/USES			
Loan Proceeds	100,001	100,001	99,000
Fund Transfers (Out)	50,000	50,000	(50,000)
Total Other financial Sources/Uses	150,001	150,001	49,000
NET CHANGES IN FUND BALANCES	77,650	(52,339)	(87,208)
FUND BALANCE:			
Beginning of the Year			334,491
Prior Period Adjustments			(7,364)
End of the Year			\$ 239,919

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

CITY OF HARLEM

NOTES TO THE BUDGET VS ACTUAL SCHEDULE
Fiscal Year-Ended June 30, 2014

NOTE 1. BUDGETS

1. a. BUDGETS

Budgets are adopted on a basis consistent with the State of Montana budget laws (Title 7, Chapter 6, Part 40, MCA) which are consistent with generally accepted accounting principles (GAAP). Annual appropriated budgets are adopted for all funds of the City. All annual appropriations lapse at fiscal year-end, unless the City elects to encumber supplies and personal property ordered but not received at year end. The Town does not use a formal encumbrance system.

1. a. 1 General Budget Policies:

Budgeted funds are those of which a legal budget must be adopted to have expenditures from such funds and are noted above. The Schedule of Revenues, Expenditures, and Changes in Fund Balances, Budget vs. Actual, has been prepared on the modified accrual basis of accounting and contains financial information for only the major budgeted funds. The major funds Water, Sewer, and Solid Waste are not included in the schedule because they are enterprise funds.

1. a. 2 Budget Operation:

The City operates within the budget requirements for incorporated city or town's as specified by State law. The financial report reflects the following budgetary standards:

- (1) A local government shall submit a complete copy of the final budget together with a statement of tax levies to the Department of Administration by the later of October 1 or 60 days after receipt of taxable values from the Department of Revenue.
- (2) Local government officials may not make a disbursement or an expenditure or incur an obligation in excess of the total appropriations for a fund.
- (3) The governing body may amend the budget during the fiscal year by conducting public hearings at regularly scheduled meetings. Budget amendments providing for additional appropriations must identify the fund reserves, unanticipated revenue, or previously unbudgeted revenue that will fund the appropriations.
- (4) The governing body and each municipal official are limited to the amount of appropriations and by the classifications in the annual appropriation resolution when making disbursements or expenditures or incurring liabilities. Exceptions to this limitation - Appropriations may be adjusted according to procedures authorized by the governing body for:
 - a. debt service funds for obligations related to debt approved by the governing body;
 - b. trust funds for obligations authorized by trust covenants;
 - c. any fund for federal, state, local, or private grants and shared revenue accepted and approved by the governing body;
 - d. any fund for special assessments approved by the governing body;
 - e. the proceeds from the sale of land;
 - f. any fund for gifts or donations; and
 - g. money borrowed during the fiscal year.
- (5) If an expenditure is to be financed from a tax levy required to be authorized and approved at an election, the expenditure may not be made or an obligation may not be incurred against the expenditure until the tax levy is authorized and approved.
- (6) At the end of a fiscal year, unencumbered appropriations lapse unless specifically obligated by the City.

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Certified Public Accountants
P.O. Box 1980
Billings, Montana 59103

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

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
City of Harlem
Blaine County
Harlem, Montana 59526

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Harlem as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City of Harlem's basic financial statements and have issued our report thereon dated January 5, 2015.

Internal Control Over Financial Reporting

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

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. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Harlem's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

Purpose of this Report

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



STROM & ASSOCIATES, PC
Billings, Montana
January 5, 2015

STROM & ASSOCIATES, PC
Certified Public Accountants
P.O. Box 1980
Billings, Montana 59103

SCHEDULE OF FINDINGS AND RESPONSES

The following is the status of prior year findings:

Finding Number 1 – 2013: Auditor’s Assistance:

This finding has been implemented from the prior year

There are no findings for the fiscal year ended June 30, 2014.