

**CITY OF HARLOWTON
WHEATLAND COUNTY
HARLOWTON, MONTANA**

FINANCIAL AND COMPLIANCE REPORT

Fiscal year Ended June 30, 2014

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

City of Harlowton
Wheatland County
Harlowton, MT 59036

TABLE OF CONTENTS

	Page No
TABLE OF CONTENTS	1
ORGANIZATION – CITY COUNCIL AND OFFICIALS	2
MANAGEMENT’S DISCUSSION AND ANALYSIS	3 - 7
INDEPENDENT AUDITOR’S REPORT	8 - 9
BASIC FINANCIAL STATEMENTS:	
Statement of Net Position	10
Statement of Activities	11
Balance Sheet – Governmental Funds and a Reconciliation of the Balance Sheet Governmental Funds to the Statement of Net Position	12
Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds	13
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities	14
Statement of Fund Net Position - Proprietary Funds	15
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds	16
Statement of Cash Flow - Proprietary Funds	17
Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position	18
Notes to the Financial Statements	19 - 30
REQUIRED SUPPLEMENTAL INFORMATION:	
Schedule of Revenues, Expenditures, and Changes in Fund Balance (Budget and Actual) – All Budgeted Major Funds	31
Notes to the Budget and Actual Schedule	32
INDEPENDENT AUDITOR’S REPORTS:	
Report on Internal Control over Financial Reporting and on Compliance and other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	33 - 34
SCHEDULE OF FINDINGS AND RESPONSES	35 - 36

City of Harlowton
Wheatland County
Harlowton, MT 59036

ORGANIZATION

CITY OFFICIALS

Jeff Sell	Mayor
-----------	-------

CITY COUNCIL

John Anderson	Member
Ron Teig	Member
Joe Brouillette	Member
Jim Kalitowski	Member
Bryan Tomlinson	Member
Robert Jones	Member

OFFICIALS

Jayme Colby	Clerk/Treasurer
Richard Egebakken	City Judge
Ian Reed	Public Utilities Supervisor
Jon Hesse	City Attorney

Management's Discussion and Analysis

Our discussion and analysis of the City of Harlowton, Montana's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2014. Please read it in conjunction with the City's financial statements.

Mission and Structure

The mission of the City of Harlowton, through its employees, is to provide responsive and cost-effective services for our citizens, which optimize every individual's opportunity for an enhanced quality of life and the pursuit of success as a valued member of our community.

The current structure of the City of Harlowton Government is the Commission-Executive (council-mayor) form of government. The city employed 18 employees during fiscal year 2014. This equated to 11.1 full time equivalents (FTEs).

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. Other supplementary information is also included at the end of the financial section.

The government-wide statements are designed to provide readers with a broad overview of the City's finances using the accrual basis of accounting. The statement of net position presents information on all of the City's assets and liabilities. The difference between assets and liabilities is reported as net position.

The fund financial statements are designed to provide readers with a more focused look at the City's funds. A fund is a grouping of related accounts that are used to maintain control over resources that have been segregated for specific objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The City has three types of funds; 1) governmental funds; 2) proprietary funds; and 3) fiduciary funds. Governmental fund financial statements are prepared on a modified accrual basis therefore present a more "short-term" view of the balances and spendable resources available. Proprietary funds are prepared on the accrual basis of accounting. The City uses proprietary funds to account for the water, sewer and solid waste funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government. The City used these funds to account for the Rick Smart property purchase, lodging taxes collected for the Chief Joseph Park and for a portion of the firemen's disability fund.

Financial Highlights

- The City's assets increased as a result of this year's operations. Net assets of our business-type activities increased by 1.45%, net assets invested in governmental activities increased by 24.25%.
- The City's tax assessment revenues increased by 18.49% for the fiscal year. Business-type revenue increased by 50.52%. Revenues in total for the city increased by 18.57%.

- The City's government program expenses increased by 10.99% while the business-type activities increased by 1.99%.
- Over-all these noted highlights created a negative change in net position for the City's government programs of \$88,713 and a positive change in net position for the City's business-type activities of \$131,280

The City as a Whole

The following table shows, in a condensed format, the net position as of June 30, 2013 and 2014.

	Governmental Activities		Business-Type Activities		Total Government	
	2013	2014	2013	2014	2013	2014
Assets						
Current Assets	288,353	311,699	(78,114)	53,144	210,239	364,843
Restricted Assets	-	-	106,278	16,852	106,278	16,852
Net Capital Assets	260,722	245,347	3,122,128	3,844,318	3,382,850	4,089,665
Total Assets	549,075	557,046	3,150,292	3,914,314	3,699,367	4,471,360
Liabilities						
Current Liabilities	12,863	5,637	135,861	255,714	148,724	261,351
Long Term Liabilities	32,486	34,239	1,586,454	2,127,976	1,618,940	2,162,215
Total Liabilities	45,349	39,876	1,722,315	2,383,690	1,767,664	2,423,566
Net Position						
Net investment in Capital Assets	227,862	212,413	1,455,912	1,633,749	1,683,774	1,846,162
Restricted	107,847	155,985	106,278	149,675	214,125	305,660
Unrestricted	168,017	148,772	(134,213)	(252,800)	33,804	(104,028)
Total Net Position	503,726	517,170	1,427,977	1,530,624	1,931,703	2,047,794

The City has combined net position of approximately \$2 million at June 30, 2014. Governmental activities represent \$517,000, which is approximately 25.25% of the total net position. Business-type activities comprise approximately \$1.5 million of the total net position, which is approximately 74.75% of the total net position.

Of the total combined net position, approximately \$1.8 million is invested in capital assets, net of related debt, while \$300,000 is restricted for various purposes and cannot be used for general operations.

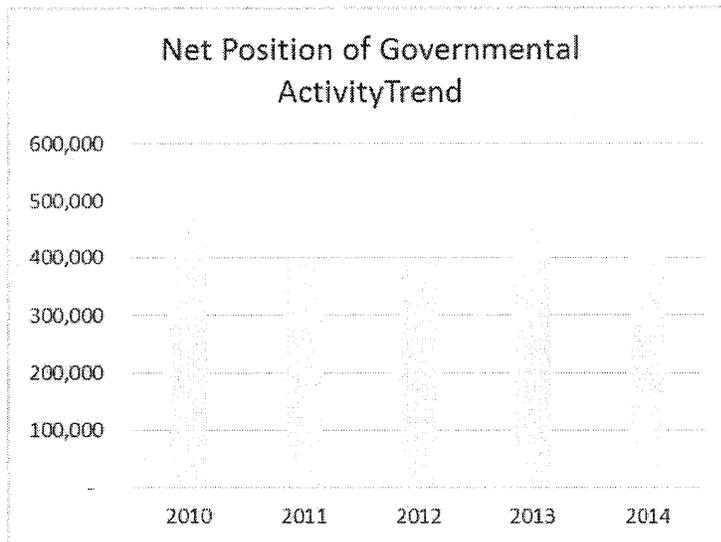
The following table shows the changes in the net position for the years ended June 30, 2013 and 2014.

	Governmental Activities		Business-Type Activities		Total Government	
	2013	2014	2013	2014	2013	2014
Revenues						
Program Revenues						
Charges for Services	60,052	32,756	414,146	623,357	474,198	656,113
Operating Grants	168,888	75,745	-	-	168,888	75,745
Capital Grants			169,377	82,112	169,377	82,112
					-	-
General Revenues					128,700	152,503
Taxes/Assessments	128,700	152,503			128,700	152,503
Local option taxes	22,907	23,345			22,907	23,345
Licenses and Permits	3,240	2,565			3,240	2,565
Unrestricted Fed/St Shared Rev	154,572	149,269			154,572	149,269
Interest	75	52			75	52
Gain on sale of capital assets	-	-		20,000	-	20,000
Other	58,482	126,285			58,482	126,285
Total Revenues	596,916	562,520	583,523	725,469	1,180,439	1,287,989
Expenses						
General Government	175,362	118,457			175,362	118,457
Public Safety	52,534	74,126			52,534	74,126
Public Works	111,273	147,160			111,273	147,160
Public Health	887	4,471			887	4,471
Culture and Recreation	140,164	194,191			140,164	194,191
Community Development	9,518	5,960			9,518	5,960
Conservation of Natural Resources	1,913	2,612			1,913	2,612
Miscellaneous	77	247			77	247
Debt Service	2,430	1,251			2,430	1,251
Business-Type Activities						
Water			261,346	271,736	261,346	271,736
Sewer			247,454	247,216	247,454	247,216
Solid Waste			26,149	26,663	26,149	26,663
Total Expenses	494,158	548,475	534,949	545,615	1,029,107	1,094,090
Change in Net Position	102,758	14,045	48,574	179,854	151,332	193,899

Total net position increased approximately \$42,000. When looking at the activities separately, you can see that governmental activities net position decreased by \$89,000 while business-type activities net position increased by \$131,000.

Governmental Activities

The financial position of a local government can be analyzed by looking at the trend of the net position of the governmental activities balances over a multi-year period. Net position is defined as the assets of a fund less liabilities of a fund; essentially the net worth of the fund at any given point in time. An increase in net position generally indicates positive growth. The following chart shows the ending net position for the fiscal years ending June 30, 2010, 2011, 2012, 2013, and 2014.



Business-type Activities

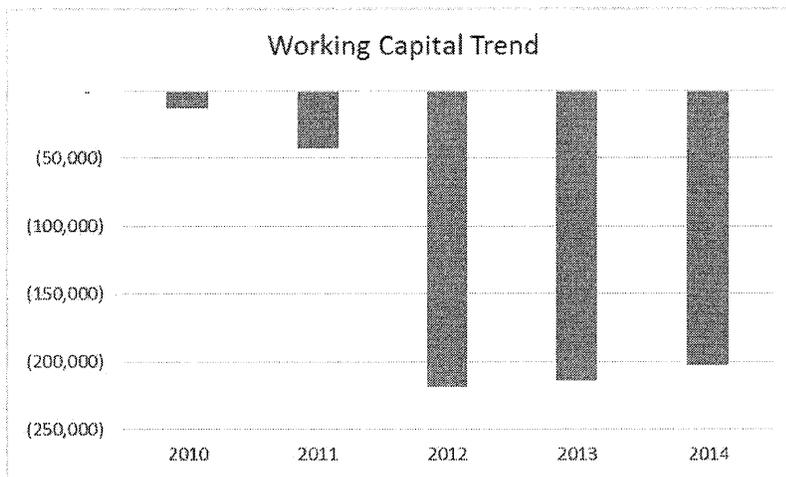
Accounting requirements for the city’s proprietary (enterprise) funds are different and so is the financial analysis that is needed for these funds. A good measure of the financial position of the enterprise funds of a local government is working capital. Working capital is defined as the current assets of the funds less current liabilities of the funds. Current means due within one year. Therefore, as an example, a wastewater system’s physical plant would be excluded from this calculation as would the associated long-term debt of the wastewater plant (bonds payable). The end result is the fund’s liquid net worth. The fact that the working capital of a fund is declining is not necessarily an indicator of a problem. In the City of Harlowton’s analysis below, the sudden decline starting in 2012 of the city’s working capital is due to concerted efforts to repair and replace needed equipment. However a concern is the continued negative working capital. This mainly indicates the current assets (cash and receivables) of the fund are less than the current liabilities (accounts payable and current loan payable). In 2012 the City started with Phase I of the water project. Cash reserves began to be depleted to fund the project. In 2013 there was a negative current cash situation that required taking a \$55,000 line of credit out at the bank. In addition Phase II of the water project was initiated. In 2014 the Phase II water project continued. The following chart shows the ending working capital for the fiscal years ending June 30, 2010, 2011, 2012, 2013, and 2014.

The City’s Funds

The City’s major funds for 2014 include the general fund (governmental fund), water, sewer and solid waste funds (proprietary funds). The City’s major funds represent approximately 89% of the city’s total expenses.

The general fund pays for most of the City’s governmental services. The most significant are public works (road and streets), public safety (police) and culture and recreation (library, pool, and parks), which incurred expenses of approximately \$340,000, compared to \$248,000 in 2013, and represents approximately 77% of the total General Fund expenditures.

Total charges for services for the proprietary major funds increased approximately \$178,000 from 2013; while total expenses in those same funds increased only \$5,000. Rates charged to customers for water, sewer and solid waste were updated in April 2013 in order to establish appropriate reserves and to repay outstanding loans payable.



Capital Assets and Debt Administration

The City's investments in capital assets categorized as equipment were minimal for 2014. The city continues to upgrade its water delivery systems. During fiscal year 2014 an additional \$658,000 was added to construction in progress. At the end of fiscal year 2014 there was almost \$2.5 million in construction in progress. Once the projects are deemed completed this will be re-allocated into depreciable assets.

Through June 30, 2014 an additional \$662,000 of debt was incurred to fund the on-going water project upgrades. In total, to complete phase II of the water project upgrade, there will be \$825,000 of revenue bonds, half of this will be forgiven.

Budgetary Highlights

The city expended more funds than the original budget amounts. Proper budgetary amendments were not completed to authorize and justify excess expenditures.

The general fund exceeded the budget by \$32,000. The majority of this excess was miscoding of expenses. Salaries were allocated to general fund road and street expenses while they should have been allocated to the street maintenance fund and gas tax fund.

The library fund exceeded the budget by \$16,000. Expenses related to the upgrade of the ceiling were incurred prior to June 30, 2014 and the budget had not accounted for that.

The water fund exceeded the budget due to not budgeting for the revenue and expenses associated with continued upgrades to the distribution systems.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the city office at 406-632-5523 or at 17 South Central Avenue, Harlowton, MT.

INDEPENDENT AUDITOR'S REPORT

Mayor and City Council
City of Harlowton
Wheatland County
Harlowton, MT 59036

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 Harlowton 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 Harlowton 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 31 - 32) 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 June 26, 2014 on our consideration of City of Harlowton 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 Harlowton internal control over financial reporting and compliance.

Strom & Associates, P.C.

STROM & ASSOCIATES, PC
Billings, Montana
June 26, 2014

STATEMENT OF NET POSITION
June 30, 2014

	Governmental Activities	Business-type Activities	Total
ASSETS:			
Current Assets:			
Cash and Cash Equivalents	\$ 191,210	\$ -	\$ 191,210
Taxes/Assessments Receivable	55,759	-	55,759
Accounts Receivable - Net	-	53,144	53,144
Internal Balances	64,730	(64,730)	-
Total Current Assets	311,699	(11,586)	300,113
Noncurrent Assets:			
Restricted Cash and Cash Equivalents	-	16,852	16,852
Capital Assets:			
Land	13,556	54,062	67,618
Construction in Progress	-	2,497,455	2,497,455
Net Depreciable Assets	231,791	1,292,801	1,524,592
Total Noncurrent Assets	245,347	3,861,170	4,106,517
Total Assets	\$ 557,046	\$ 3,849,584	\$ 4,406,630
LIABILITIES:			
Current Liabilities			
Accounts Payable	\$ (144)	\$ 100,054	\$ 99,910
Current Portions Compensated Absences	2,044	2,406	4,450
Current Portion Long-Term Capital Obligations	3,737	88,524	92,261
Total Current Liabilities	5,637	190,984	196,621
Noncurrent Liabilities:			
Compensated Absences	5,042	5,931	10,973
Long-Term Capital Obligations	29,197	2,122,045	2,151,242
Total Noncurrent Liabilities	34,239	2,127,976	2,162,215
Total Liabilities	39,876	2,318,960	2,358,836
NET POSITION:			
Net investment in capital assets	212,413	1,633,749	1,846,162
Restricted	155,985	149,675	305,660
Unrestricted (Deficit)	148,772	(252,800)	(104,028)
Total Net Position	517,170	1,530,624	2,047,794
Total Liabilities and Net Position	\$ 557,046	\$ 3,849,584	\$ 4,406,630

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	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
GOVERNMENT OPERATIONS							
General Government	\$ 118,457	\$ 8,285	\$ 46,500	\$ -	\$ (63,672)		\$ (63,672)
Public safety	74,126	-	1,211	-	(72,915)		(72,915)
Public works	147,160	1,100	28,034	-	(118,026)		(118,026)
Public health	4,471	-	-	-	(4,471)		(4,471)
Culture and Recreation	194,191	23,371	-	-	(170,820)		(170,820)
Housing and community development	5,960	-	-	-	(5,960)		(5,960)
Conservation of natural resources	2,612	-	-	-	(2,612)		(2,612)
Miscellaneous	247	-	-	-	(247)		(247)
Debt Service							
Interest and other charges	1,251	-	-	-	(1,251)		(1,251)
Total Governmental Activities	<u>548,475</u>	<u>32,756</u>	<u>75,745</u>	<u>-</u>	<u>(439,974)</u>		<u>(439,974)</u>
BUSINESS-TYPE ACTIVITIES							
Water	\$ 271,736	\$ 297,617	\$ -	\$ -		\$ 25,881	25,881
Sewer	247,216	295,863	-	82,112		130,759	130,759
Solid Waste	26,663	29,877	-	-		3,214	3,214
Total Business-type activities	<u>545,615</u>	<u>623,357</u>	<u>-</u>	<u>82,112</u>		<u>159,854</u>	<u>159,854</u>
Total Primary Government	<u>\$ 1,094,090</u>	<u>\$ 656,113</u>	<u>\$ 75,745</u>	<u>\$ 82,112</u>	<u>\$ (439,974)</u>	<u>\$ 159,854</u>	<u>\$ (280,120)</u>
GENERAL REVENUES							
Taxes/assessments					152,502	-	152,502
Local option taxes					23,345	-	23,345
Licenses and Permits					2,565	-	2,565
Unrestricted Federal/State shared revenues					149,269	-	149,269
Interest					52	-	52
Other					126,285	-	126,285
Gain loss on Sale of Assets					-	20,000	20,000
Total General Revenues					<u>454,018</u>	<u>20,000</u>	<u>474,018</u>
Change in Net Position					14,044	179,854	193,898
Net Position							
Beginning of the Year					503,726	1,427,977	1,931,703
Prior Period Adjustments					(600)	(77,207)	(77,807)
End of the Year					<u>\$ 517,170</u>	<u>\$ 1,530,624</u>	<u>\$ 2,047,794</u>

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

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2014

	<u>MAJOR</u>		
	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS:			
Current Assets:			
Cash and Cash Equivalents	\$ 20,051	\$ 171,159	\$ 191,210
Taxes/Assessments Receivable	55,895	(136)	55,759
Receivable From Other Funds	70,434	-	70,434
Total Assets	\$ 146,380	\$ 171,023	\$ 317,403
LIABILITIES:			
Current Liabilities			
Accounts Payable	(144)	-	(144)
Payable to Other Funds	-	5,704	5,704
Total Liabilities	(144)	5,704	5,560
DEFERRED INFLOWS OF RESOURCES			
Unavailable Property Taxes Receivable	55,895	(136)	55,759
Total Deferred Inflows of resources	55,895	(136)	55,759
FUND BALANCE:			
Fund Balances:			
Restricted	-	156,121	156,121
Committed	-	15,038	15,038
Unassigned:	90,629	(5,704)	84,925
Total Fund Balance	90,629	165,455	256,084
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 146,380	\$ 171,023	\$ 317,403

RECONCILIATION TO THE STATEMENT OF NET POSITION

Total fund balance reported above	\$ 256,084
Governmental Capital Assets	245,347
Long-term Liabilities	
Compensated Absences	(7,086)
Long-Term Capital Obligations	(32,934)
Unavailable Property Taxes Receivable	55,759
Net Position of Governmental Activities	\$ 517,170

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/assessments	\$ 149,600	\$ 24,049	\$ 173,649
Licenses and permits	2,565	-	2,565
Intergovernmental revenues	149,269	75,745	225,014
Charges for services	11,175	13,296	24,471
Fines and forfeitures	8,285	-	8,285
Miscellaneous	66,207	60,077	126,284
Investment and royalty earnings	52	-	52
Total Revenues	387,153	173,167	560,320
EXPENDITURES:			
Current			
General Government	67,569	49,629	117,198
Public safety	71,148	2,000	73,148
Public works	121,106	19,485	140,591
Public health	4,471	-	4,471
Culture and Recreation	147,611	36,105	183,716
Housing and community development	5,960	-	5,960
Conservation of natural resources	2,612	-	2,612
Miscellaneous	247	-	247
Debt Service			
Principal	9,926	-	9,926
Interest and other charges	1,251	-	1,251
Capital Outlay	8,333	-	8,333
Total Expenditures	440,234	107,219	547,453
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(53,081)	65,948	12,867
OTHER FINANCING SOURCES/USES			
Loan Proceeds	10,000	-	10,000
Total Other financial Sources/Uses	10,000	-	10,000
NET CHANGES IN FUND BALANCES	(43,081)	65,948	22,867
FUND BALANCE:			
Beginning of the Year	134,310	99,507	233,817
Prior Period Adjustments	(600)	-	(600)
End of the Year	\$ 90,629	\$ 165,455	\$ 256,084

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

City of Harlowton
Wheatland County
Harlowton, MT 59036

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		\$	22,867
Revenues on the Statement of Activities not included in governmental funds statement:			
Increase (decrease) in taxes receivable			2,199
Revenues reported in the governmental funds statement not included in the Statement of Activities			
Bond/Note Proceeds			(10,000)
Expenses on the Statement of Activities not included in the governmental funds statement:			
Depreciation Expense	(23,708)		
(Increase) decrease in compensated absence liability	<u>4,427</u>		(19,281)
Expenditures reported in the governmental funds statement not included in the Statement of Activities			
Capital outlays	8,333		
Principal payments on bonds	<u>9,926</u>		<u>18,259</u>
Change in net position reported on the Statement of Activities		\$	<u>14,044</u>

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

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2014

	MAJOR			Total Enterprise Funds
	Water	Sewer	Solid Waste	
ASSETS:				
Current Assets:				
Cash and Cash Equivalents	\$ -	\$ -	\$ -	\$ -
Accounts Receivable - Net	24,398	27,329	1,417	53,144
Total Current Assets	24,398	27,329	1,417	53,144
Noncurrent Assets:				
Restricted Cash and Cash Equivalents	-	16,852	-	16,852
Land	970	53,092	-	54,062
Construction in Progress	2,324,341	173,114	-	2,497,455
Net Depreciable Assets	89,309	1,203,259	233	1,292,801
Total Noncurrent Assets	2,414,620	1,446,317	233	3,861,170
Total Assets	2,439,018	1,473,646	1,650	3,914,314
LIABILITIES:				
Current Liabilities				
Accounts Payable	53,043	47,012	(1)	100,054
Payable to Other Funds	55,390	-	9,340	64,730
Current Portions Compensated Absences	906	1,015	485	2,406
Current Portion Long-Term Capital Obligations	51,208	37,316	-	88,524
Total Current Liabilities	160,547	85,343	9,824	255,714
Noncurrent Liabilities:				
Compensated Absences	2,227	2,575	1,129	5,931
Long-Term Capital Obligations	1,177,535	944,510	-	2,122,045
Total Noncurrent Liabilities	1,179,762	947,085	1,129	2,127,976
Total Liabilities	1,340,309	1,032,428	10,953	2,383,690
NET POSITION:				
Net investment in capital assets	1,185,877	447,639	233	1,633,749
Restricted for debt service	86,795	62,880	-	149,675
Unrestricted (Deficit)	(173,963)	(69,301)	(9,536)	(252,800)
Total Net Position	1,098,709	441,218	(9,303)	1,530,624
Total Liabilities and Net Position	\$ 2,439,018	\$ 1,473,646	\$ 1,650	\$ 3,914,314

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	Solid Waste	
OPERATING REVENUES:				
Charges for Services	270,204	293,330	20,677	584,211
Miscellaneous	24,867	-	9,200	34,067
Special Assessments	2,546	2,533	-	5,079
Total Operating Revenues	297,617	295,863	29,877	623,357
OPERATING EXPENSES:				
Personal services	100,651	64,393	10,184	175,228
Supplies	82,388	27,031	1,010	110,429
Purchased services	52,024	53,892	14,825	120,741
Fixed charges	2,704	2,272	427	5,403
Depreciation	12,153	54,986	217	67,356
Total Operating Expense	249,920	202,574	26,663	479,157
OPERATING INCOME (LOSS)	47,697	93,289	3,214	144,200
NONOPERATING REVENUES (EXPENSES)				
Debt service interest expense	(21,816)	(44,642)	-	(66,458)
Gain (Loss) on Sale of Capital Assets	20,000	-	-	20,000
Total nonoperating revenue (expenses)	(1,816)	(44,642)	-	(46,458)
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS				
Capital contributions	-	82,112	-	82,112
CHANGE IN NET POSITION	45,881	130,759	3,214	179,854
NET POSITION:				
Beginning of the Year	1,130,696	309,798	(12,517)	1,427,977
Prior Period Adjustments	(77,868)	661	-	(77,207)
End of the Year	\$ 1,098,709	\$ 441,218	\$ (9,303)	\$ 1,530,624

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	Solid Waste	Enterprise
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from Customers	\$ 250,786	\$ 270,349	\$ 19,195	\$ 540,330
Payments to Suppliers	(174,301)	(40,257)	(17,221)	(231,779)
Payments to Employees	(104,619)	(70,338)	(10,291)	(185,248)
Miscellaneous receipts	24,867	-	9,200	34,067
Net Cash Provided (Used) by Operating Activities	(3,267)	159,754	883	157,370
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Operating Subsidies and Transfers to Other Funds	55,390	-	9,340	64,730
Subsidies from Taxes and Other Governments	90,228	-	-	90,228
Net Cash Provided (Used) By Noncapital Financing Activities	145,618	-	9,340	154,958
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Proceeds from Capital Debt	541,104	10,000	-	551,104
Capital Contributions	-	82,112	-	82,112
Purchases of Capital Assets	(580,104)	(135,751)	-	(715,855)
Principal Paid on Capital Debt	(42,470)	(37,659)	-	(80,129)
Interest Paid on Capital Debt	(21,816)	(44,642)	-	(66,458)
Net Cash Provided (Used) by Capital and Related Financing Activities	(103,286)	(125,940)	-	(229,226)
Net Increase (Decrease) In Cash and Cash Equivalents	39,065	33,814	10,223	83,102
BALANCE:				
Beginning of the Year	(39,065)	(16,962)	(10,223)	(66,250)
End of the Year	\$ -	\$ 16,852	\$ -	\$ 16,852

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:

Operating Income (Loss)	\$ 47,697	\$ 93,289	\$ 3,214	\$ 144,200
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:				-
Depreciation Expense	12,153	54,986	217	67,356
Changes In Assets and Liabilities:				-
Accounts Receivable	(21,964)	(25,514)	(1,482)	(48,960)
Accounts Payable	(37,185)	42,938	(959)	4,794
Compensated Absences	(3,968)	(5,945)	(107)	(10,020)
Net Cash Provided (Used) by Operating Activities	\$ (3,267)	\$ 159,754	\$ 883	\$ 157,370

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

City of Harlowton
Wheatland County
Harlowton, MT 59036

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2014

	<u>Agency Funds</u>
ASSETS:	
Current Assets:	
Cash and Cash Equivalents	\$ 1,622
Total Assets	<u>\$ 1,622</u>
LIABILITIES:	
Due to Others	\$ 1,622
Total Liabilities	<u>\$ 1,622</u>

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

CITY OF HARLOWTON

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

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's 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 Harlowton was incorporated under the laws of the State of Montana and as required by generally accepted accounting principles, the financial statements of the reporting entity include those of the City of Harlowton (the primary government) and any component units. 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 the 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 (primary government). 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 HARLOWTON

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 facility rental fees.
- Operating and Capital grants that are restricted to a particular functional program.

Property taxes, investment earnings, 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. The firemen's disability fund is displayed as fiduciary funds. Since the resources in the fiduciary funds cannot be used for City operations, they are not included in the entity-wide 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 solid waste 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 HARLOWTON

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.
- Solid Waste 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.

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.

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/ASSESSMENTS

Property tax levies are set in conjunction 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 Montana 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.

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

Taxes and assessments that become delinquent are charged interest at the rate of 5/6 of 1% per month plus a penalty of 2%. After a period of three years, the County may begin foreclosure proceedings and sell real property at auction. In the case of personal property, the property may be seized and sold after the taxes become delinquent.

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.

CITY OF HARLOWTON

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

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>
Buildings	10 - 100 years
Improvements other than buildings	25 - 35 years
Machinery and Equipment	10 - 40 years
Source of Supply	25 - 60 years
Treatment Plant	40 years
Transmission and Distribution	60 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 property taxes receivable, is reported only in the governmental funds balance sheet. The governmental funds report unavailable property taxes receivable. 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 at the current rate of pay.

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 of activities. The amount expected to be paid within one year is \$4,450 and it is generally paid out of the general, water and sewer funds.

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.
- 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.

CITY OF HARLOWTON

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

- Committed – Amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint. The government’s highest level of decision-making authority, the city council, must approve all committed expenditures.
- Unassigned – Amounts that are available for any purpose; these amounts are reported only in the general fund or funds that have negative fund balances.

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

<u>Purpose</u>	<u>Restricted</u>	<u>Committed</u>
Public safety	\$ 842	\$ 0
Public works	111,826	5,755
Culture and recreation	43,453	0
General government	0	9,283
Total	<u>\$ 156,121</u>	<u>\$ 15,038</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. When an expenditure is incurred and committed or unassigned fund balances are available, the City considers amounts to have been spent first out of committed, and then unassigned funds as needed, unless the city council has provided otherwise.

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 Wheatland County. The County also serves as cashier and treasurer for the City for tax and assessment collections and other revenues received by the County which are subject to distribution to the various taxing jurisdictions located in the County. The collections made by the 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 Wheatland County Treasurer. No service charges have been recorded by the City or the Wheatland County.

NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

At June 30, 2014, the summary of cash, cash equivalents for governmental and business-type activities, and fiduciary funds is as follows:

<u>Account Type</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash and Cash Equivalents	\$ 191,210	\$ 0	\$ 1,622	\$ 192,832
Restricted Assets	0	16,852	0	16,852
Total	<u>\$ 191,210</u>	<u>\$ 16,852</u>	<u>\$ 1,622</u>	<u>\$ 209,684</u>

The carrying amount of cash on hand, deposits and investments at June 30, 2014, is as follows:

	<u>Amount</u>
Cash on Hand	\$ 530
Demand Accounts	148,918
Time Deposits	59,370
Mutual Funds	866
Total	<u>\$ 209,684</u>

CITY OF HARLOWTON

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

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, \$209,684 was fully covered by FDIC insurance.

Interest Rate Risk: The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from rising interest rates. The City's investment policy is to hold investments to maturity with the contractual understanding that these investments are low risk, locked in to a guaranteed rate of return, are therefore not impacted significantly by changes in short term interest rates. As a means of limiting its exposure to fair value losses arising from rising interest rates all of the City's investment portfolio is made up of securities whose maturities are less than 5 years.

NOTE 3. TAXES/ASSESSMENTS RECEIVABLE

The City is permitted by State statutes to levy taxes up to certain fixed limits for various purposes. The assessed value of the roll as of January 1, 2013, upon which the levy for the 2014 fiscal year was based, was \$807,581 for the City. The tax rates assessed for the year ended June 30, 2014 to finance City operations and applicable taxes receivable follows:

<u>Fund</u>	<u>Mill Levies</u>	<u>Taxes Receivable</u>	<u>Assessments Receivable</u>	<u>Total</u>
General*	148.53	\$ 55,895		\$ 55,895
Permissive medical	<u>12.02</u>	<u>(1,383)</u>		(1,383)
Light District #1			\$ 2,230	2,230
Light District #2			2,229	2,229
Light District #3			3,988	3,988
Street Maintenance			<u>(7,200)</u>	<u>(7,200)</u>
Total	<u>160.55</u>	<u>\$ 54,512</u>	<u>\$ 1,247</u>	<u>\$ 55,759</u>

* Denotes Major Funds

NOTE 4. ACCOUNTS RECEIVABLE

<u>Fund</u>	<u>Amount</u>
Water*	\$ 24,398
Sewer*	27,329
Solid Waste*	<u>1,417</u>
Total	<u>\$ 53,144</u>

* Denotes Major Funds

NOTE 5. DUE TO/FROM OTHER FUNDS

<u>Fund Due To</u>	<u>Amount</u>	<u>Fund Due From</u>	<u>Reason</u>
General*	\$ 50	Weed Control	Cash overdraft covered by General fund
General*	1,753	Light District #1	Cash overdraft covered by General fund
General*	1,751	Light District #2	Cash overdraft covered by General fund
General*	2,150	Defensible Space Grant	Cash overdraft covered by General fund
General*	55,390	Water*	Cash overdraft covered by General fund
General*	<u>9,340</u>	Solid Waste*	Cash overdraft covered by General fund
Total	<u>\$ 70,434</u>		

* Denotes Major Funds

NOTE 6. CAPITAL ASSETS, DEPRECIATION AND NET CAPITAL ASSETS

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

<u>Governmental Activities:</u>	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Adjustments/ Transfers</u>	<u>Balance June 30, 2014</u>
<u>Non-depreciable:</u>				
Land	<u>\$ 8,036</u>	<u>\$ 0</u>	<u>\$ 5,520</u>	<u>\$ 13,556</u>
<u>Depreciable:</u>				

CITY OF HARLOWTON

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

Buildings	\$ 590,287	\$ 0	\$ 0	\$ 590,287
Improvements other than buildings	145,323	0	(5,520)	139,803
Machinery and equipment	218,251	8,333	0	226,584
Total Depreciable	<u>\$ 953,861</u>	<u>\$ 8,333</u>	<u>\$ (5,520)</u>	<u>\$ 956,674</u>
<u>Accumulated Depreciation:</u>				
Buildings	\$ (415,444)	\$ (12,033)	\$ 0	\$ (427,477)
Improvements other than buildings	(114,752)	(4,911)	0	(119,663)
Machinery and equipment	(170,979)	(6,764)	0	(177,743)
Total Depreciation	<u>\$ (701,175)</u>	<u>\$ (23,708)</u>	<u>\$ 0</u>	<u>\$ (724,883)</u>
Net Depreciable Assets	<u>252,686</u>	<u>(15,375)</u>	<u>(5,520)</u>	<u>231,791</u>
Net General Capital Assets	<u>\$ 260,722</u>	<u>\$ (15,375)</u>	<u>\$ 0</u>	<u>\$ 245,347</u>

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

<u>Function</u>	<u>Amount</u>
General Government	\$ 2,366
Public Safety	978
Public Works	8,783
Culture and Recreation	11,581
Total Depreciation Expense	<u>\$ 23,708</u>

6. c. At June 30, 2014, the schedule of changes in enterprise fund capital assets follows:

<u>Business-type Activities:</u>	<u>Balance</u>			<u>Balance</u>
	<u>July 1, 2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2014</u>
<u>Non-depreciable:</u>				
Land	\$ 54,062	\$ 0	0	\$ 54,062
Construction in Progress	1,744,576	752,879	0	2,497,455
Total Non-depreciable	<u>\$ 1,798,638</u>	<u>\$ 752,879</u>	<u>0</u>	<u>\$ 2,551,517</u>
<u>Depreciable:</u>				
Machinery and equipment	\$ 110,989	\$ 36,666	(58,588)	\$ 89,067
Source of supply	59,690	0	0	59,690
Treatment plant	1,702,986	0	0	1,702,986
Transmission and distribution	859,547	0	0	859,547
Total Depreciable	<u>\$ 2,733,212</u>	<u>\$ 36,666</u>	<u>(58,588)</u>	<u>\$ 2,711,290</u>
<u>Accumulated Depreciation:</u>				
Machinery and equipment	\$ (70,075)	\$ (9,312)	58,588	\$ (20,799)
Source of supply	(38,198)	(1,144)	0	(39,342)
Treatment plant	(602,381)	(42,575)	0	(644,956)
Transmission and distribution	(699,065)	(14,325)	0	(713,390)
Total Depreciation	<u>\$ (1,409,719)</u>	<u>\$ (67,356)</u>	<u>58,588</u>	<u>\$ (1,418,487)</u>
Net Depreciable Assets	<u>1,323,493</u>	<u>(30,690)</u>	<u>0</u>	<u>1,292,803</u>
Net General Capital Assets	<u>\$ 3,122,131</u>	<u>\$ 722,188</u>	<u>0</u>	<u>\$ 3,844,320</u>

6. d. Depreciation was charged to the City's enterprise programs as follows:

	<u>Amount</u>
Water	\$ 12,153
Sewer	54,986
Solid Waste	217
Total Depreciation Expense	<u>\$ 67,356</u>

CITY OF HARLOWTON

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

NOTE 7. CHANGES IN LONG-TERM DEBT

7. a At June 30, 2014, the schedule of changes in general long-term debt follows:

<u>Governmental Activities</u>	<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>Notes and Loans Payable</u>					
Long term notes	\$ 32,860	\$ 10,000	\$ 9,926	\$ 32,934	\$ 3,737
<u>Other Liabilities:</u>					
Compensated Absences	\$ 11,513	\$ 0	\$ 4,427	\$ 7,086	\$ 2,044
Total Governmental:	\$ 44,373	\$ 10,000	\$ 14,353	\$ 40,020	\$ 5,781

7. b At June 30, 2014, the schedule of changes in business-type activities long-term debt follows:

<u>Business-type Activities</u>	<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>Notes and Loans Payable</u>					
Revenue bonds	1,547,807	662,000	43,724	2,166,083	54,108
Line of credit	57,695	0	30,753	26,942	26,942
Long term notes	3,197	20,000	5,653	17,544	7,474
Total notes and loans payable	\$ 1,608,699	\$ 682,000	\$ 80,130	\$ 2,210,569	\$ 88,524
<u>Other Liabilities:</u>					
Compensated Absences	\$ 18,357	\$ 0	\$ 10,020	\$ 8,337	\$ 2,406
Total Enterprise Activities - Long-Term Debt:	\$ 1,627,056	\$ 682,000	\$ 90,150	\$ 2,218,906	\$ 90,930

7. c LONG TERM NOTES

The City entered into the following loan agreements for the Library Building and a Backhoe. The Backhoe loan is split between Governmental and Enterprise funds.

<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>
<u>Governmental Activities</u>						
Library Building	9/22/2004	4.5 to 5.0%	15 years	9/22/2019	\$ 70,086	\$ 24,162
Backhoe	1/1/2014	3.0%	3 years	1/1/2017	10,000	8,772
					\$ 80,086	\$ 32,934
<u>Enterprise Activities</u>						
Backhoe	1/1/2014	3.0%	3 years	1/1/2017	\$ 20,000	\$ 17,544
					\$ 20,000	\$ 17,544

Debt service requirements to maturity for principal and interest for Long Term Notes:

For the year
ended 6/30:

	<u>Principal</u>	<u>Interest</u>
2015	\$ 11,211	\$ 789
2016	16,306	1,462
2017	9,230	864
2018	5,932	497
2019	6,205	224
2020	1,594	12
Totals	\$ 50,478	\$ 3,848

CITY OF HARLOWTON

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

7. d. REVENUE BONDS

The City entered into water revenue bonds with the State of Montana Revolving fund program in fiscal year 2012 to finance a new water tank and improvements. The City entered phase II of the water line replacement project that will be completed in fiscal year 2015. As of June 30, 2014 the City had drawn down \$825,000 half of which (\$412,500) is anticipated to be forgiven. The City entered into sewer revenue bonds with the U.S. Government in 2000 for the acquisition and construction of sewer capital facilities. The revenue bonds are as follows:

<u>Description</u>	<u>Issue Date</u>	<u>Interest Rate*</u>	<u>Length of Loan</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Outstanding June 30, 2014</u>
Water Revenue Bonds	11/16/2012	3.00%	19 years	11/16/2031	\$ 429,900	\$ 389,000
Water SRF-A (forgiven)+	5/1/2013	2.75%	n/a	n/a	412,500	412,500
Water SRF-B	6/30/2014	2.75%	26 years	6/30/2040	412,500	405,000
Sewer Revenue Bonds	5/17/2000	4.20%	40 years	5/17/2040	<u>1,164,400</u>	<u>959,583</u>
					<u>\$ 2,419,300</u>	<u>\$ 2,166,083</u>

+This loan is reported as outstanding debt until the eligibility requirement for being forgiven are met. No amortization schedule is presented.

Debt service requirements to maturity for principal and interest for all Revenue Bond obligations are as follows, not including the loan which is anticipated to be forgiven:

For the year ended 6/30:		
	Principal	Interest
2015	\$ 54,108	\$ 66,337
2016	54,916	64,510
2017	56,993	62,397
2018	60,003	60,338
2019	62,060	58,156
2020-2039	<u>1,465,503</u>	<u>598,061</u>
Totals	<u>\$ 1,753,583</u>	<u>\$ 909,799</u>

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 any 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 not in compliance with restricted cash requirements.

7. e. LINE OF CREDIT

The City has an outstanding line of credit available for use in the Water and Sewer funds which was started in 2013. The Line of credit terms and payments are as follows:

<u>Description</u>	<u>Issue Date</u>	<u>Interest Rate*</u>	<u>Length of Loan</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Outstanding June 30, 2014</u>
Line of Credit	8/1/2012	3.50%	2 years	10/1/2014	<u>\$ 55,108</u>	<u>\$ 26,942</u>

Debt service requirements to maturity for principal and interest for the line of credit is as follows:

For the year ended 6/30:		
	Principal	Interest
2015	<u>\$ 26,942</u>	<u>\$ 944</u>

CITY OF HARLOWTON

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

NOTE 8. DEFERRED INFLOWS OF RESOURCES

<u>Fund</u>	<u>Amount</u>	<u>Reason</u>
General*	\$ 55,895	Taxes Receivable
Permissive Medical Levy	(1,383)	Taxes Receivable
Light District #1	2,230	Assessments Receivable
Light District #2	2,229	Assessments Receivable
Light District #3	3,988	Assessments Receivable
Street Maintenance	(7,200)	Assessments Receivable
Total	<u>\$ 55,759</u>	

* Denotes Major Funds

NOTE 9. DEFICIT FUND BALANCES

<u>Fund</u>	<u>Amount</u>	<u>How to Correct</u>
Weed Control	\$ 50	Future weed fees
Light District #1	1,753	Tax collections and consolidation with Light District #3
Light District #2	1,751	Tax collections and consolidation with Light District #3
Defensible Space Grant	2,150	Reimbursable grant revenues
Solid Waste*	9,303	Increased fees
Total	<u>\$ 15,007</u>	

* Denotes Major Funds

NOTE 10. PRIOR PERIOD ADJUSTMENTS

<u>Fund</u>	<u>Amount</u>	<u>REASON</u>
General*	\$ (600)	Correction of accounting system equity
Water*	(32,424)	Correction of Construction and Long-term Debt to agree with project engineer reports
Water*	(45,444)	Correction of prior year accrual error
Sewer*	661	Correction of accounting system equity
Total	<u>\$ (77,807)</u>	

* Denotes Major Funds

NOTE 11. RESTRICTED ASSETS

The following Restricted Cash was held by the City Treasurer as of June 30, 2014:

<u>Fund Name</u>	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Restricted for Bond Repayment	<u>\$ 0</u>	<u>\$ 16,852</u>	<u>\$ 16,852</u>

The ordinances authorizing the water and sewer system revenue bonds requires that the City establish sinking funds or cash restricted for payment of principal and interest on all revenue bonds. At June 30, 2014, the sinking fund balance was not sufficient to meet revenue bond requirements in either the Water or Sewer funds.

NOTE 12. 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.

CITY OF HARLOWTON

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

NOTE 13. 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.

NOTE 14. EMPLOYEE RETIREMENT SYSTEM

The City participates in a state-wide, cost-sharing multiple employer defined benefit retirement plans which cover 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 information for the plan. Reports 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 0.10%. 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 8.07%

Contribution rates for the plan 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:

PERS	<u>2012</u>	<u>2013</u>	<u>2014</u>
	<u>\$30,022</u>	<u>\$29,490</u>	<u>\$39,108</u>

CITY OF HARLOWTON

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

NOTE 15. LOCAL RETIREMENT PLAN

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 is accounted for as a pension trust fund of the City. A member of a volunteer fire department who has served 20 years or more is entitled to benefits after attaining age 50. Volunteers serving less than 20 years but more than 10 years may receive reduced benefits. The amount of the pension benefits are set by the Association's Board of Trustees.

Montana law requires that the disability and pension fund contain at least 0.21 % of the total assessed value of taxable property within the City limits but not more than 0.52% of the assessed taxable value. Once the fund contains less than 0.21 % of the assessed value the City council shall levy a tax to be deposited in the fund. The State contributes, out of moneys received for insurance premium taxes, an amount equal to 1½ mills times the total taxable value of the City, but not less than \$100. The plan's benefits are established by the Association's Board of Trustees. No actuarial valuation or report of unfunded past service costs had been prepared for 2014.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
(Budget and Actual)
ALL BUDGETED MAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2014

	General		
	Original Budget	Final Budget	Actual
REVENUES:			
Taxes/assessments	\$ 143,851	\$ 143,851	\$ 149,600
Licenses and permits	4,920	4,920	2,565
Intergovernmental revenues	147,651	147,651	149,269
Charges for services	12,700	12,700	11,175
Fines and forfeitures	5,000	5,000	8,285
Miscellaneous	42,305	42,305	66,207
Investment and royalty earnings	-	-	52
Total Revenues	<u>356,427</u>	<u>356,427</u>	<u>387,153</u>
EXPENDITURES:			
Current			
General Government	46,762	46,762	67,569
Public safety	64,197	64,197	71,148
Public works	107,783	107,783	121,106
Public health	10,800	10,800	4,471
Culture and Recreation	159,043	151,343	147,611
Housing and community development	7,630	7,630	5,960
Conservation of natural resources	2,800	2,800	2,612
Miscellaneous	-	-	247
Debt Service			
Principal	5,600	5,600	9,926
Interest and other charges	1,600	1,600	1,251
Capital Outlay	-	10,000	8,333
Total Expenditures	<u>406,215</u>	<u>408,515</u>	<u>440,234</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(49,788)</u>	<u>(52,088)</u>	<u>(53,081)</u>
OTHER FINANCING SOURCES/USES			
Loan Proceeds	-	-	10,000
Total Other financial Sources/Uses	-	-	10,000
NET CHANGES IN FUND BALANCES	(49,788)	(52,088)	(43,081)
FUND BALANCE:			
Beginning of the Year			134,310
Prior Period Adjustments			(600)
End of the Year			<u>\$ 90,629</u>

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

CITY OF HARLOWTON

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 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.

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

Mayor and City Council
City of Harlowton
Wheatland County
Harlowton, MT 59036

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 Harlowton as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City of Harlowton's basic financial statements and have issued our report thereon dated June 26, 2014.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses as items 2014-001, 2014-004, and 2014-006.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency as item 2014-005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Harlowton's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2014-002 and 2014-003.

City of Harlowton's Response to Findings

The City did not provide a response to the findings identified in our audit are described in the schedule of findings and responses. State law provides if a response is not included in the report the audited entity has thirty-days to provide a response to the State.

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, P.C.

STROM & ASSOCIATES, PC
Billings, Montana
June 26, 2014

CITY OF HARLOWTON

SCHEDULE OF FINDINGS AND RESPONSES

Fiscal Year-Ended June 30, 2014

The following is the status of prior year findings and updated for the fiscal year ended June 30, 2014.

Prior year findings:

<u>2013 Finding Number 1 – Liabilities</u>	Implemented
<u>2013 Finding Number 2 – Assets and Revenue</u>	Implemented
<u>2013 Finding Number 3 – Cash and Expenditures</u>	Implemented
<u>2013 Finding Number 4 – Expenditures and Revenue</u>	Repeated, see 2014-004
<u>2013 Finding Number 5 – Cash Balance</u>	Repeated, see 2014-001
<u>2013 Finding Number 6 – Budget</u>	Repeated, see 2014-003

Current year findings:

2014-001 Negative cash balance reporting (Repeat of finding 2013-5):

Criteria: Generally Accepted Accounting Principles (GAAP) require negative cash balances to be reported as a liability rather than a negative asset.

Condition: Cash in the enterprise funds and some governmental funds have run in a deficit due to the timing of expenditures/expenses and revenues.

Effect: Reporting negative cash as a negative asset would materially misstate asset balances.

Context: The major funds Water, Sewer and Solid Waste showed negative cash at year-end of \$145,081, \$19,615, and \$9,340 respectively. Other governmental funds had negative cash of \$5,704. The client has corrected these for reporting purposes.

Cause: This was caused by the accounting software.

Recommendation: We recommend that the Town re-evaluate charges for utilities and expenses in the utility funds to ensure that negative cash balances are corrected for future periods.

2014-002 Revenue bond requirements – restricted cash:

Criteria: Per revenue bond covenants in the Water and Sewer funds, the City is required to have \$86,795 in restricted cash in the Water fund and \$62,880 in the Sewer fund.

Condition: City currently has had negative unrestricted cash in the Water and Sewer funds. Because of this, the City has used the restricted cash accounts and borrowed remaining deficit funds from the General fund.

Effect: The City is not in compliance with Revenue bond requirements.

Context: The City currently has no restricted cash in the Water fund and only \$16,852 in the Sewer fund.

Cause: The restricted cash at year end is used to make up for the deficit in unrestricted cash, causing restricted cash to be below required amounts.

Recommendation: We recommend that the City review charges and expenses in the Water and Sewer funds in order to correct the deficit cash situation and increase the restricted cash accounts to the proper amount.

2014-003 Excess budget over appropriations (Repeat of fiscal year 2013 finding 6):

Criteria: Montana Code Annotated 7-6-4006 requires expenditures to be within the amount approved in the original budget or properly approved budget resolutions.

Condition: Funds expended more than original budget amounts and did not have proper budget amendments to justify excess expenditures. Enterprise funds (Water and Sewer) did not include in the original budget authority the expenditures out of the separate Water and Sewer project accounts.

Effect: The City is not in compliance with Montana budgetary laws.

Context: Major funds exceeded budgetary authority as follows: General by \$31,719, Water by \$639,744, Sewer by \$78,793, and Solid Waste by \$3,518. Non-major funds exceeded budget as follows: Library by \$16,105, Light District #1 by \$1,416, Light District #2 by \$1,544, Police training by \$2,000, and Callant Foundation Grants by \$49,629.

Cause: Original budgets and budget amendments were not properly prepared for expected expenditures.

Recommendation: We recommend that the City properly budget all expenditures and prepare budget amendments when known changes occur that affect spending authority.

SCHEDULE OF FINDINGS AND RESPONSES (continued)

2014-004 Unrecorded accounts payable (repeat of finding 4 - 2013):

Criteria: Full accrual accounting in enterprise funds requires that capitalized costs be capitalized in the period in which the cost was incurred rather than the period paid.

Condition: Services were performed in fiscal year 2014 which were not billed to the City until fiscal year 2015. These should have been capitalized in fiscal year 2014 when the services were performed..

Effect: Accounts payable and related construction in progress assets were understated by \$53,028 in the Water fund. Likewise, accounts payable and construction in progress in the Sewer fund were understated by \$41,760. Both amounts have been corrected for financial reporting.

Context: Costs associated with an ongoing water project in the amount of \$53,028 and costs associated with an ongoing sewer project in the amount of \$41,760 were incurred in fiscal year 2014, but were not recognized until the amounts were paid in fiscal year 2015

Cause: The City did not properly accrue accounts payable related to services performed in fiscal year 2014 for the water and sewer projects. The City has corrected this for financial reporting.

Recommendation: We recommend that the City obtain documentation from all contractors and engineering firms at year end to ensure that all costs are properly accrued in the correct fiscal year.

2014-005 Taxes receivable:

Criteria: Taxes receivable should be recorded for outstanding amounts of receivables at fiscal year-end.

Condition: The City must adjust receivables and corresponding deferred inflows of resources to the amount of receivables outstanding at the end of each fiscal year.

Effect: Taxes receivable and deferred inflows of resources were incorrectly reported.

Context: At fiscal year ending June 30, 2014, taxes receivable in the General fund were understated by \$22,428 and taxes receivable in the other governmental funds were overstated by \$20,252. Overall taxes receivable were understated by \$2,176. This has been corrected for financial reporting.

Cause: The City did not make the reconciling adjustment correctly at year end.

Recommendation: We recommend that the City adjust taxes receivable to agree with the County report at least yearly.

2014-006 Subsequent activity:

Criteria: In performing the audit, the auditor reviews subsequent activity and reports on any events which could have a material impact on the financial statements. Subsequent to fiscal year end 2014, the City has not reconciled cash accounts and has not properly recorded material revenues and expenditures in the accounting records.

Condition: The City should record all revenue and expenditure transactions as they occur. In addition, the City should maintain cash reconciliations on a monthly basis.

Effect: Material subsequent transactions could have occurred subsequent to year end which are not properly reported in the footnotes to the financial statements. In addition, controls over cash reconciliations and revenue and expenditure recognition are not operating effectively subsequent to fiscal year ending June 30, 2014.

Context: The City has gone through significant turnover in the accounting staff subsequent to June 30, 2014 and as such the City is currently behind in recording and reconciling all transactions which have occurred.

Cause: Significant turnover in the accounting staff and cash reconciliations not being performed on a monthly basis after June 30, 2014.

Recommendation: We recommend that the City immediately review all activity in all cash accounts from June 30, 2014 to present to ensure that all activity is properly recorded in the accounting records. We also recommend that the City perform bank reconciliations on a monthly basis and present the reconciliations to the Mayor or City Council for review monthly.