

**CITY OF HAMILTON, MONTANA**

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

**FOR THE YEARS ENDED  
June 30, 2018 and June 30, 2017**

**TERRY JAMES BURKE**  
Certified Public Accountant

# CITY OF HAMILTON, MONTANA

## TABLE OF CONTENTS

<b>Organization .....</b>	<b>1</b>
<b>Independent Auditors' Report .....</b>	<b>2</b>
<b>Management's Discussion and Analysis .....</b>	<b>4</b>
<b>Basic Financial Statements</b>	
<b>Year Ended June 30, 2018</b>	
<b>Government-wide Financial Statements</b>	
Statement of Net Position.....	13
Statement of Activities .....	14
<b>Fund Financial Statements</b>	
Balance Sheet - Governmental Funds .....	15
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds.....	16
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	17
Statements of Revenues, Expenditures, and Other Financing Sources (Uses)	
Budget and Actual - General Fund.....	18
Statement of Net Position - Enterprise Funds.....	19
Statement of Revenues, Expenses, and Changes in Fund Net Position - Enterprise Funds.....	20
Statement of Cash Flows - Enterprise Funds.....	21
Statement of Fiduciary Net Position – Agency Funds.....	22
<b>Year Ended June 30, 2017</b>	
<b>Government-wide Financial Statements</b>	
Statement of Net Position.....	23
Statement of Activities .....	24
<b>Fund Financial Statements</b>	
Balance Sheet - Governmental Funds .....	25
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds.....	26
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	27
Statements of Revenues, Expenditures, and Other Financing Sources (Uses)	
Budget and Actual - General Fund.....	28
Statement of Net Position - Enterprise Funds.....	29
Statement of Revenues, Expenses, and Changes in Fund Net Position - Enterprise Funds.....	30
Statement of Cash Flows - Enterprise Funds.....	31
Statement of Fiduciary Net Position – Agency Funds.....	32
Notes to Financial Statements .....	33

**Required Supplemental Information**

Schedule of Proportionate Share of Net Pension Liability and  
Schedule of Contributions to Montana Retirement Systems .....67 and 68  
Notes to Proportionate Share and Contributions Schedules - Pension Plan Changes..... 69

**Independent Auditor's Reports:**

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* ..... 74  
Report on Prior Audit Recommendations..... 77  
**City's Response to Audit Findings** ..... 78

**CITY OF HAMILTON, MONTANA**

**Organization**

June 30, 2018

**Mayor**

Dominic Farrenkopf

**City Council**

Rod Pogachar  
Travis Martinez  
Claire Kemp

Kristi Bielski  
Joseph Petrusaitis  
Jenny West

**Officers/Clerks**

Attorney .....Karen Mahar  
Chief of Police .....Ryan Oster  
City Judge .....Michael Reardon  
Planner/Special Projects Director .....Dennis Stranger  
Finance Officer .....Craig Shepherd  
City Clerk.....Rose M. Allen  
Building Inspector..... Land Hansen  
Public Works Director ..... Donny Ramer  
Fire Chief .....Brad Mohn

**Organization**

June 30, 2017

**Mayor**

Jerry Steele

**City Council**

Ken Bell  
Travis Martinez  
Rodney Pogachar

Kristi Bielski  
Joseph Petrusaitis  
Jenny West

**Officers/Clerks**

Attorney .....Karen Mahar  
Chief of Police .....Ryan Oster  
City Judge .....Michael Reardon  
Planner/Special Projects Director .....Dennis Stranger  
Finance Officer .....Craig Shepherd  
City Clerk.....Rose M. Allen  
Building Inspector..... Land Hansen  
Cemetery/Parks Director ..... Donny Ramer

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**INDEPENDENT AUDITORS' REPORT**

To the City Council  
City of Hamilton  
Hamilton, Montana

**Report on the Financial Statements**

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hamilton, Montana, as of and for the years ended June 30, 2018 and June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

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

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

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

***Opinions***

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hamilton, Montana, as of June 30, 2018 and June 30, 2017, and the respective changes in financial position, and where applicable, cash flows thereof and the respective budgetary comparisons for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 12 and schedules of Proportionate Share of Net Pension Liability and Contribution to Montana Retirement System on pages 67 and 68 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

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

In accordance with *Government Auditing Standards*, I have also issued my report dated July 18, 2019, on my consideration of the City's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's control over financial reporting and compliance.



July 18, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Years Ended June 30, 2017 and June 30, 2018

Our discussion of the City of Hamilton's ("City") financial performance provides an overview of the City's financial activities for the fiscal years ended June 30, 2017 and 2018.

**USING THE FINANCIAL STATEMENTS**

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

**Reporting the City as a Whole**

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

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

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

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

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

All funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds. The fund financial statements provide detailed information about the City's major funds. Either a governmental fund or enterprise fund can be a major fund reported as a separate column in the basic fund financial statements. The general fund is always a major fund. Otherwise, major funds are funds whose revenues/expenditures, assets or liabilities are at least 10 percent of corresponding totals for all government or enterprise funds and at least 5 percent of the aggregate amount for all governmental and enterprise funds for the same item. Any other government or enterprise fund may be reported as a major fund if the government's officials believe that fund is particularly important to financial statement users.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Years Ended June 30, 2017 and June 30, 2018

The general fund includes all revenues and expenses that are not specifically assigned to any other fund. Special revenue funds track revenue and expenditures for certain segregated purposes, debt service funds track the flow of receipts and expenditures required to service governmental debts, and capital projects funds track revenues and expenditures associated with certain projects.

All of these funds are reported using an accounting method called *modified accrual accounting*, which has a more restrictive time frame for accrual of revenues and expenditures. These governmental-type fund statements provide a detailed

*short-term view* of the City's operations and the services it provides. This fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's services. The differences between the fund financial statements and the government-wide financial statements are reconciled following each fund financial statement.

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

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

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



City of Hamilton, Montana

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Years Ended June 30, 2017 and June 30, 2018

**THE CITY AS A WHOLE**

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

Comparative **governmental activities** assets and liabilities were as follows:

**Table I**

<b>Assets</b>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Current and other assets	\$ 6,713,696	\$ 6,053,711	\$ 5,360,610
Capital assets			
Non-depreciable	1,339,894	534,087	524,758
Depreciable (Net)	<u>7,749,703</u>	<u>7,076,917</u>	<u>7,237,564</u>
Total assets	<u>15,803,293</u>	<u>13,664,714</u>	<u>13,122,932</u>
<b>Deferred outflows of resources</b>	<u>485,484</u>	<u>329,792</u>	<u>198,936</u>
<b>Liabilities</b>			
Current liabilities	612,079	531,020	442,176
Noncurrent liabilities	<u>4,277,102</u>	<u>2,997,229</u>	<u>2,911,829</u>
Total liabilities	<u>4,889,181</u>	<u>3,528,249</u>	<u>3,354,005</u>
<b>Deferred inflows of resources</b>	<u>177,319</u>	<u>35,701</u>	<u>130,712</u>
<b>Net position</b>			
Net investment in capital assets	6,994,280	6,601,003	6,652,322
Restricted net position	820,770	1,068,431	820,770
Unrestricted net position	<u>3,407,227</u>	<u>2,761,122</u>	<u>2,364,059</u>
Total net position	<u>\$ 11,222,277</u>	<u>\$ 10,430,557</u>	<u>\$ 9,837,151</u>

City of Hamilton, Montana

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Years Ended June 30, 2017 and June 30, 2018

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

**Table II**

<b>Assets</b>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Current and other assets	\$ 4,148,982	\$ 3,571,252	\$ 2,782,266
Capital assets			
Non-depreciable	657,854	651,733	651,733
Depreciable (Net)	<u>16,202,657</u>	<u>16,348,796</u>	<u>16,667,141</u>
Total assets	<u>21,009,493</u>	<u>20,571,781</u>	<u>20,101,140</u>
<b>Deferred outflows of resources</b>	<u>130,650</u>	<u>79,028</u>	<u>37,439</u>
<b>Liabilities</b>			
Current liabilities	255,051	287,935	254,658
Noncurrent liabilities	<u>1,725,679</u>	<u>1,796,033</u>	<u>1,847,627</u>
Total liabilities	<u>1,980,730</u>	<u>2,083,967</u>	<u>2,102,285</u>
<b>Deferred inflows of resources</b>	<u>62,276</u>	<u>2,966</u>	<u>41,330</u>
<b>Net position</b>			
Net investment in capital assets	15,617,511	15,615,529	15,796,875
Restricted net position	252,669	182,394	253,844
Unrestricted net position	<u>3,226,957</u>	<u>2,765,953</u>	<u>1,944,245</u>
Total net position	<u>\$ 19,097,137</u>	<u>\$ 18,563,876</u>	<u>\$ 17,994,964</u>

City of Hamilton, Montana

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Years Ended June 30, 2017 and June 30, 2018

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

**Table III**

<b>Revenues</b>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Program revenues:			
Charges for services, fines, licenses & permits	\$ 975,060	\$ 844,889	\$ 855,337
Operating grants and contributions	326,029	265,855	437,423
Capital grants and contributions	-	-	387,760
General revenues:			
Property taxes	2,649,996	2,002,961	2,086,619
Local option taxes	131,676	122,052	111,058
Unrestricted federal/state shared revenue	1,069,434	1,227,324	1,062,264
Unrestricted investment earnings	33,848	17,163	1,950
Miscellaneous	108,289	-	15,466
Gain (Loss) on sale of capital assets	42,500	-	-
Transfers in (out)	179,230	165,310	163,960
Total revenues & transfers	<u>5,516,062</u>	<u>4,645,554</u>	<u>5,121,837</u>
<b>Expenses</b>			
General government	1,306,341	1,204,439	1,047,866
Public safety	1,868,693	1,526,205	1,533,368
Public works	778,659	668,287	876,215
Public health	10,000	10,000	10,000
Culture and recreation	142,194	161,690	150,760
Housing and community development	20,000	-	387,760
Interest on long-term debt	80,742	48,964	52,188
Miscellaneous	517,713	449,540	452,684
Unallocated OPEB	-	-	-
Total expenses	<u>4,724,342</u>	<u>4,069,125</u>	<u>4,510,841</u>
Changes in net position	<u>791,720</u>	<u>576,429</u>	<u>610,996</u>
Net position, July 1	10,430,557	9,854,128	9,226,165
Changes in beginning equity	-	-	-
Net position, July 1 restated	<u>10,430,557</u>	<u>9,854,128</u>	<u>9,226,165</u>
Net position, June 30	<u>\$ 11,222,277</u>	<u>\$ 10,430,557</u>	<u>\$ 9,837,161</u>

City of Hamilton, Montana

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Years Ended June 30, 2017 and June 30, 2018

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

**Table IV**

<b>Revenues</b>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Program revenues:			
Charges for services	\$ 2,762,030	\$ 2,569,478	\$ 2,564,026
Capital grants and contributions	-	-	972,262
General revenues:			
Unrestricted federal/state shared revenues	9,045	9,417	10,524
Unrestricted investment earnings	17,350	8,147	1,402
Gain on sale of capital assets	638	-	-
Transfers	(179,230)	(165,310)	(163,960)
Total revenues	<u>2,609,832</u>	<u>2,421,732</u>	<u>3,384,254</u>
<b>Expenses</b>			
Public works	2,045,633	1,826,541	1,840,015
Debt service interest	30,938	34,061	37,896
Total expenses	<u>2,076,571</u>	<u>1,860,602</u>	<u>1,877,911</u>
Changes in net position	<u>533,261</u>	<u>561,130</u>	<u>1,506,344</u>
Net position, July 1	18,563,876	17,994,963	16,488,620
Changes in beginning equity	-	7,782	-
Net position, July 1 restated	<u>18,563,876</u>	<u>18,002,746</u>	<u>16,488,620</u>
Net position, June 30	\$ <u>19,097,137</u>	\$ <u>18,563,876</u>	\$ <u>17,994,964</u>

**CAPITAL ASSETS AND LONG TERM DEBT**

**Capital Assets**

**Governmental Activities Capital Assets**

**Table V**

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Land	\$ 1,103,734	\$ 503,734	\$ 503,734
Buildings	2,348,034	1,748,034	1,748,034
Other improvements	6,859,273	6,407,201	6,277,420
Machinery and equipment	4,208,187	4,256,730	4,084,136
Construction in progress	236,159	30,353	30,353
Total	\$ <u>14,755,388</u>	\$ <u>12,946,052</u>	\$ <u>12,643,677</u>
Less accumulated depreciation	<u>(5,665,792)</u>	<u>(5,335,049)</u>	<u>(4,872,026)</u>
Net capital assets	\$ <u>9,089,596</u>	\$ <u>7,611,003</u>	\$ <u>7,771,651</u>

City of Hamilton, Montana

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Years Ended June 30, 2017 and June 30, 2018

**Business-type Activities Capital Assets**

**Table VI**

	2018	2017	2016
Land	\$ 651,733	\$ 651,733	\$ 651,733
Wells-source of supply	2,680,101	2,680,101	2,680,101
Construction in progress	6,121	-	-
General plant	572,369	520,653	502,805
Sewer treatment plant	10,864,830	10,864,830	10,842,551
Transmission and distribution	9,868,581	9,507,576	9,355,585
Treatment equipment	821,125	735,452	639,781
Buildings	773,396	773,396	773,396
Total capital assets	\$ 26,238,256	\$ 25,733,741	\$ 25,445,953
Less accumulated depreciation	(9,377,745)	(8,733,212)	(8,127,079)
Net capital assets	\$ 16,860,511	\$ 17,000,529	\$ 17,318,873

The City's total capital assets for its governmental and business-type activities of June 30, 2018, 2017 and 2016 (net of accumulated depreciation) was:

Governmental and Business			
Net capital assets	\$ 25,950,107	\$ 24,611,532	\$ 25,090,524

These assets include land, building, improvements, wells, sewer treatment equipment and facilities, and machinery and equipment.

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

**Long-term Liabilities**

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

**Governmental Activities Outstanding Long Term Liabilities**

**Table VII**

	2018	2017	2016
Bonds payable	\$ 2,095,318	\$ 1,010,000	\$ 1,110,000
Compensated absences	315,582	292,560	267,330
Net OPEB obligation	-	-	16,978
Net pension liability	2,209,720	1,950,949	1,751,185
Total	\$ 4,620,620	\$ 3,253,509	\$ 3,145,493

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Years Ended June 30, 2017 and June 30, 2018

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

**Table VIII**

	<u>2018</u>		<u>2017</u>		<u>2016</u>
Water revenue bonds	\$ 557,000	\$	648,000	\$	735,000
Sewer revenue bonds	686,000		737,000		787,000
Net OPEB obligation	-		-		4,706
Compensated absences	46,042		36,259		44,325
Net pension liability	603,658		507,800		435,759
Total	<u>\$ 1,892,699</u>	\$	<u>1,929,059</u>	\$	<u>2,006,789</u>

**ECONOMIC FACTORS**

The City building inspector office has processed more permits the past year than in the preceding five years so it has been noticeable that an economic upswing has been going on in the City, as well as the rest of the country.

For the **2016-2017** year the City did have **governmental activity** capital expenditures of:

- \$30,700 for buying a new police car,
- \$108,530 for a street dump truck with sander unit,
- \$30,354 for 9<sup>th</sup> and Ravalli Streets design,
- \$28,761 for F-250 pickup for cemetery and parks,
- \$22,303 mower for cemetery and parks,
- \$101,882 on Fairgrounds Road continuing improvements,

For the **2016-2017** year the City did have **business-type activity** capital expenses of:

- \$151,991 for continued 3<sup>rd</sup> Street water main replacement,
- \$14,175 for WWTP asphalt paving,
- \$16,469 for WWTP IE Blower unit,
- \$38,234 Sewer Bobcat skidsteer,
- \$36,579 for dri-prime diesel pump

For the **2017-2018** year the City did have **governmental activity** capital expenditures of:

- \$31,200 for buying a new police car,
- \$75,165 for a street patching equipment,
- \$15,900 for cemetery sprinkler reels and guns,
- \$56,628 for a partially completed fire vehicle (\$68,122 more in 2018-2019),
- \$214,305 on Fairgrounds Road continuing improvements,
- \$220,789 on 3<sup>rd</sup> Street continuing water main replacement,
- \$600,000 purchase amount designated for Claudia Driscoll Park,
- \$600,000 purchase of National Guard Armory building, and
- \$146,956 architectural services of Armory building to convert to City Justice Center

City of Hamilton, Montana

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Years Ended June 30, 2017 and June 30, 2018

For the **2017-2018** year the City did have **business-type activity** capital expenses of:

- \$6,120 beginning costs for a \$250,000 SCADA monitoring system shared with Water and Sewer,
- \$31,560 for a new F350 Ford pickup in Water fund,
- \$20,156 for two new utility boxes for Water fund vehicles,
- \$361,006 for continued 3<sup>rd</sup> Street water main replacement,
- \$69,649 for a IE Blower for the Sewer plant, and
- \$16,025 for a sump pump and rotary lobe pump

Looking ahead into the **2018-2019** fiscal year, **governmental activity** budgeted included:

- \$683,000 for Fairgrounds Road improvements, with 2 phases remaining,
- \$15,000 for turnout gear laundry/drying system,
- \$30,000 pickle ball court w/ \$15,000 matching requirement,
- \$10,000 bike park w/ \$5,000 matching requirement of non-profit,
- \$22,000 3-bay elevated sander storage rack,
- \$24,000 cold storage building for cemetery and parks,
- \$20,000 cemetery irrigation pond repairs,
- \$40,000 small dump truck for cemetery and parks,
- \$20,000 turn around mower for cemetery and parks,
- \$150,000 restroom building at Claudia Driscoll Park,
- \$55,000 for dog park, Hieronymus parking lot improvements,
- \$2,500,000 for Justice Center renovation.

Looking ahead into the **2018-2019** fiscal year, **business-type activity** budgeted included:

- \$90,000 SCADA monitoring shared by Water, \$250,000 SCADA monitor shared by Sewer,
- \$700,000 in Water fund, for 10" transmission line on Big Corral Road,
- \$60,000 for New York Avenue lift station upgrade,
- \$115,000 for WWTP solar project pending a USB grant of about \$70,000,
- \$350,000 for screw pump replacement for WWTP,
- \$380,000 for a Sewer jet truck

The City has much going on, and we've been fortunate to have the resources available to make all this possible.

Sincerely,

Craig A. Shepherd

Craig A. Shepherd  
Financial Administrator

**City of Hamilton, Montana**  
**Statement of Net Position**  
**June 30, 2018**

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
<b>Current Assets</b>			
Cash and Investments	\$ 5,315,194	\$ 3,634,993	\$ 8,950,187
Receivables			
Property Taxes Receivable	342,260	-	342,260
Assessments Receivable	733,098	-	733,098
Accounts Receivable	-	231,644	231,644
Due From Other Governments	244,394	-	244,394
<b>Total Current Assets</b>	<b>6,634,946</b>	<b>3,866,637</b>	<b>10,501,583</b>
<b>Non-Current Assets</b>			
Cash and Investments	78,750	282,344	361,095
Capital Assets, Depreciable, Net	7,749,703	16,202,658	23,952,361
Capital Assets, Construction in Progress	236,159	6,120	242,279
Capital Assets, Land	1,103,735	651,733	1,755,468
<b>Total Noncurrent Assets</b>	<b>9,168,347</b>	<b>17,142,855</b>	<b>26,311,202</b>
<b>Total Assets</b>	<b>15,603,293</b>	<b>21,009,492</b>	<b>36,812,785</b>
<b>Deferred Outflows of Resources</b>			
Pension Contributions	485,484	130,649	616,133
<b>Total Deferred Outflows of Resources</b>	<b>485,484</b>	<b>130,649</b>	<b>616,133</b>
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ 16,288,777</b>	<b>\$ 21,140,141</b>	<b>\$ 37,428,918</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Accounts Payable	\$ 215,521	\$ 75,884	\$ 291,405
Accrued Payables	53,040	12,148	65,188
Current Portion of Compensated Absences	157,791	23,020	180,811
Long-Term Liabilities - Due Within One Year	150,727	144,000	294,727
<b>Total Current Liabilities</b>	<b>577,079</b>	<b>255,052</b>	<b>832,131</b>
<b>Noncurrent Liabilities</b>			
Long-Term Portion of Compensated Absences	157,791	23,021	180,812
Long-Term Liabilities - Due in More Than One Year	4,154,311	1,702,658	5,856,969
<b>Total Noncurrent Liabilities</b>	<b>4,312,102</b>	<b>1,725,679</b>	<b>6,037,781</b>
<b>Total Liabilities</b>	<b>4,869,181</b>	<b>1,980,731</b>	<b>6,869,911</b>
<b>Deferred Inflows of Resources</b>			
Pension Investment Earnings Premium	177,319	62,276	239,595
<b>Total Deferred Inflows of Resources</b>	<b>177,319</b>	<b>62,276</b>	<b>239,595</b>
<b>Net Position</b>			
Net Invested in Capital Assets	6,994,280	15,617,512	22,611,792
Restricted for Debt Service	301,385	282,344	583,729
Restricted for General Government	26,635	-	26,635
Restricted for Public Safety	41,608	-	41,608
Restricted for Public Works	450,262	-	450,262
Restricted for Culture and Recreation	880	-	880
Unrestricted	3,407,227	3,197,279	6,604,505
<b>Total Net Position</b>	<b>11,222,277</b>	<b>19,097,135</b>	<b>30,319,412</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Net Position</b>	<b>\$ 16,288,777</b>	<b>\$ 21,140,141</b>	<b>\$ 37,428,918</b>

See Notes to Financial Statements.



**City of Hamilton, Montana**  
Statement of Activities  
For the Year Ended June 30, 2018

	Program Revenues			-Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges For Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities</b>							
General Government	\$ 1,306,341	\$ 244,397	\$ 20,693	\$ -	\$ (1,041,251)	\$ -	\$ (1,041,251)
Public Safety	1,868,693	250,492	185,964	-	(1,432,237)	-	(1,432,237)
Public Works	778,659	480,171	103,256	-	(195,232)	-	(195,232)
Public Health	10,000	-	-	-	(10,000)	-	(10,000)
Culture & Recreation	142,194	-	1,116	-	(141,078)	-	(141,078)
Housing and Community Development	20,000	-	15,000	-	(5,000)	-	(5,000)
Interest on Long-term Debt	80,742	-	-	-	(80,742)	-	(80,742)
Miscellaneous	517,713	-	-	-	(517,713)	-	(517,713)
<b>Total Governmental</b>	<b>4,724,342</b>	<b>975,060</b>	<b>326,029</b>	<b>-</b>	<b>(3,423,253)</b>	<b>-</b>	<b>(3,423,253)</b>
<b>Business-Type Activities</b>							
Water	939,274	1,431,299	-	-	-	492,025	492,025
Sewer	1,137,300	1,330,731	-	-	-	193,431	193,431
<b>Total Business-Type Activities</b>	<b>2,076,574</b>	<b>2,762,030</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>685,456</b>	<b>685,456</b>
<b>Total Activities</b>	<b>\$ 6,800,916</b>	<b>\$ 3,737,090</b>	<b>\$ 326,029</b>	<b>\$ -</b>	<b>(3,423,253)</b>	<b>685,456</b>	<b>(2,737,797)</b>
<b>General Revenues</b>							
Property Taxes					2,649,996	-	2,649,996
Local Option					131,676	-	131,676
Intergovernmental Revenue					1,069,434	9,045	1,078,479
Investment Earnings					33,848	17,350	51,198
Gain on Sale of Capital Assets					42,500	-	42,500
Other					108,289	638	108,927
Transfers					179,230	(179,230)	-
<b>Total General Revenues and Transfers</b>					<b>4,214,973</b>	<b>(152,197)</b>	<b>4,062,776</b>
<b>Change in Net Position</b>					<b>791,720</b>	<b>533,259</b>	<b>1,324,979</b>
<b>Net Position</b>							
Beginning of the Year					10,430,557	18,563,876	28,994,433
End of the Year					<u>11,222,277</u>	<u>19,097,135</u>	<u>30,319,412</u>

See Notes to Financial Statements.

**City of Hamilton, Montana**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2018**

	General Fund	SID # 18 DHBID Debt Service	SID # 21 Kurtz Lane Debt Service	Fund # 4513 Justice Law & Legal Facility	Fund # 4517 2017 Justice Ctr Construction	Other Governmental Funds	Total
<b>Assets</b>							
Cash and Investments	\$ 1,606,885	\$ 11,482	\$ 636	\$ 1,076,767	\$ -	\$ 2,619,414	\$ 5,315,194
Restricted Cash and Investments	-	46,250	32,500	-	-	-	78,750
Receivables:							
Property Taxes	262,091	-	-	-	-	80,169	342,260
Assessments	-	286,714	243,862	-	-	202,521	733,098
Due from Other Governments	170,670	6,289	-	-	-	67,434	244,394
Advances to Other Funds	44,686	-	-	-	-	-	44,686
Total Assets	<u>\$ 2,084,333</u>	<u>\$ 350,745</u>	<u>\$ 276,998</u>	<u>\$ 1,076,767</u>	<u>\$ -</u>	<u>\$ 2,969,538</u>	<u>\$ 6,758,382</u>
<b>Liabilities</b>							
Accounts Payable	\$ 79,974	\$ -	\$ -	\$ 37,981	\$ -	\$ 97,566	\$ 215,521
Accrued Payables	41,613	-	-	-	-	11,427	53,040
Advances From Other Funds	-	-	-	-	-	44,686	44,686
Total Liabilities	<u>121,587</u>	<u>-</u>	<u>-</u>	<u>37,981</u>	<u>-</u>	<u>153,679</u>	<u>313,247</u>
<b>Deferred Inflows of Resources</b>							
Property Taxes/Assessments	<u>262,091</u>	<u>286,714</u>	<u>243,862</u>	<u>-</u>	<u>-</u>	<u>282,888</u>	<u>1,075,355</u>
Total Deferred Inflows of Resources	<u>262,091</u>	<u>286,714</u>	<u>243,862</u>	<u>-</u>	<u>-</u>	<u>282,688</u>	<u>1,075,355</u>
<b>Fund Balances</b>							
<b>Restricted:</b>							
General Government	-	-	-	-	-	19,611	19,611
Public Safety	-	-	-	-	-	866,248	866,248
Other: Debt Service	-	64,031	33,136	-	-	94,483	191,650
<b>Committed:</b>							
General Government	-	-	-	-	-	356,211	356,211
Public Safety	-	-	-	1,038,786	-	702,232	1,741,018
Public Works	-	-	-	-	-	254,765	254,765
Other	-	-	-	-	-	239,821	239,621
Unassigned	<u>1,700,655</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,700,655</u>
Total Fund Balance	<u>1,700,655</u>	<u>64,031</u>	<u>33,136</u>	<u>1,038,786</u>	<u>-</u>	<u>2,533,171</u>	<u>5,369,779</u>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>							
	<u>\$ 2,084,333</u>	<u>\$ 350,745</u>	<u>\$ 276,998</u>	<u>\$ 1,076,767</u>	<u>\$ -</u>	<u>\$ 2,969,538</u>	<u>\$ 6,758,381</u>
<b>Reconciliation to the Statement of Net Position</b>							
Total fund balance reported above							\$ 5,369,779
Add capital assets not reported above						\$ 14,755,388	
Less accumulated Depreciation						<u>(5,865,792)</u>	9,089,596
<b>Less Liabilities not reported above:</b>							
Compensated Absences							(315,582)
Bonds Payable							(2,095,318)
Deferred Inflows of Resources - Property Taxes and Assessment Receivables							1,075,358
Deferred Inflows of Resources - Pension Investment Earnings Premium							(177,319)
Deferred Outflows of Resources - Pension Contributions							485,494
Net Pension Liability							<u>(2,209,719)</u>
Net Position							<u>11,222,277</u>

See Notes to Financial Statements.

**City of Hamilton, Montana**  
**Statement of Revenues, Expenditures,**  
**and Changes in Fund Balances**  
**All Governmental Funds**  
**For the Year Ended June 30, 2018**

	General Fund	SID # 18 DHBID Debt Service	SID # 21 Kurtz Lane Debt Service	Fund # 4513 Justice Law & Legal Facility	Fund # 4517 2017 Justice Ctr Construction	Other Governmental Funds	Total
<b>REVENUES:</b>							
Property Taxes and Assessments	\$ 1,923,462	\$ 67,633	\$ 37,161	-	-	\$ 862,157	\$ 2,890,414
Intergovernmental	1,322,634	-	-	-	-	102,597	1,425,231
Fine and Forfeitures	136,085	-	-	-	-	140,335	276,420
Licenses and Permits	82,285	-	-	-	-	155,422	237,707
Charges for Services	152,317	-	-	-	-	169,917	322,234
Investment Earnings	11,439	750	661	10,098	-	10,902	33,849
Other	102,641	-	-	-	-	5,647	108,288
<b>Total Revenues</b>	<b>3,720,863</b>	<b>68,383</b>	<b>37,822</b>	<b>10,098</b>	<b>-</b>	<b>1,310,892</b>	<b>5,138,058</b>
<b>EXPENDITURES:</b>							
Current Operations:							
General Government	938,848	-	-	-	19,364	92,134	1,050,346
Public Safety	1,437,110	-	-	2,109	-	93,168	1,532,387
Public Works	383,351	-	-	-	-	63,463	446,814
Public Health	10,000	-	-	-	-	-	10,000
Culture and Recreation	95,155	-	-	-	-	-	95,155
Housing and Community development	-	-	-	-	-	20,000	20,000
Miscellaneous	38,956	-	-	-	-	478,757	517,713
Capital Outlay	285,644	-	-	743,956	-	348,544	1,978,144
Debt Service:							
Principal	-	50,000	120,000	-	-	94,682	264,682
Interest	-	17,640	16,231	-	-	46,871	80,742
<b>Total Expenditures</b>	<b>3,185,064</b>	<b>67,640</b>	<b>136,231</b>	<b>746,065</b>	<b>619,364</b>	<b>1,237,619</b>	<b>5,995,983</b>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<b>541,799</b>	<b>743</b>	<b>(98,409)</b>	<b>(735,967)</b>	<b>(619,364)</b>	<b>73,273</b>	<b>(837,925)</b>
<b>OTHER SOURCES (USES):</b>							
Bond Proceeds	-	-	-	-	1,350,000	-	1,350,000
Sale of Capital Assets	-	-	-	-	-	42,500	42,500
Transfers In (Out)	(302,856)	-	-	1,100,000	(730,636)	112,722	179,230
<b>Net Change in Fund Balances</b>	<b>238,943</b>	<b>743</b>	<b>(98,409)</b>	<b>364,033</b>	<b>-</b>	<b>228,495</b>	<b>733,805</b>
<b>FUND BALANCES:</b>							
Beginning of the Year	1,461,712	63,288	131,545	674,753	-	2,304,676	4,635,974
End of the Year	1,700,655	64,031	33,136	1,038,786	-	2,533,171	5,369,779

See Notes to Financial Statements.

**City of Hamilton, Montana**  
**Reconciliation of the**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
**For the Year Ended June 30, 2018**

Changes in Fund Balances as Reported in the Government Funds Statement	\$ 733,805
Increase in Current Property Taxes and Special Assessments Receivable Not Included on the Governmental Fund Statements	
Increase in Taxes and Assessments Receivables	(67,641)
State Pension - On-behalf	203,364
Amounts Reported as Expenditures/(Other Financing Sources) on the Governmental Funds Statements Not Included as Expenses on the Government-wide Statements	
Capital Outlay	1,978,144
Increase in Compensated Absences	(23,022)
Bond Proceeds	(1,350,000)
Principal Payments on Long-Term Debt	264,682
	<u>869,804</u>
Amounts Reported on the Government-wide Statements of Activities Not Included on the Governmental Fund Statements	
Depreciation Expense	(499,551)
Pension Expense	(448,061)
	<u>(947,612)</u>
Change in Net Position Reported on the Statement of Activities	\$ <u>791,720</u>

See Notes to Financial Statements.

**City of Hamilton, Montana**  
**Statement of Revenues, Expenditures and Other Financing Sources (Uses)**  
**Budget and Actual - General Fund**  
**For the Year Ended June 30, 2018**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget</b>
<b>REVENUES:</b>				
Property Taxes and Assessments	\$ 1,928,406	\$ 1,928,406	\$ 1,923,462	\$ (4,944)
Intergovernmental	1,151,161	1,151,161	1,322,634	171,473
Fines and Forfeitures	128,125	128,125	136,085	7,960
Licenses and Permits	93,700	93,700	82,285	(11,415)
Charges for Services	163,226	163,226	152,317	(10,909)
Investment Earnings	3,500	3,500	11,439	7,939
Other	13,996	13,996	102,641	88,645
Total Revenues	3,482,114	3,482,114	3,730,862	248,750
<b>EXPENDITURES:</b>				
Current Operations:				
General Government	982,162	982,162	938,848	43,314
Public Safety	1,310,188	1,310,188	1,437,110	(126,922)
Public Works	442,496	442,496	383,351	59,145
Public Health	10,000	10,000	10,000	-
Culture and Recreation	143,448	143,448	95,155	48,293
Miscellaneous	103,070	103,070	38,956	64,114
Capital Outlay	1,010,815	1,010,815	285,644	725,171
Total Expenditures	4,002,179	4,002,179	3,189,064	813,115
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(520,065)	(520,065)	541,799	1,061,864
<b>OTHER SOURCES (USES):</b>				
Sale of Capital Assets	-	-	-	-
Transfers In (Out)	(304,521)	(304,521)	(302,856)	1,665
Total Other Sources (Uses)	(304,521)	(304,521)	(302,856)	1,665
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES</b>	\$ (824,586)	\$ (824,586)	\$ 238,943	\$ 1,063,529

See Notes to Financial Statements.

**City of Hamilton, Montana**  
**Statement of Net Position**  
**Enterprise Funds**  
**June 30, 2018**

	<u>Water</u> <u>Fund</u>	<u>Sewer</u> <u>Fund</u>	<u>Total</u>
<b>Assets</b>			
<b>Current Assets</b>			
Cash and Investments	\$ 1,910,602	\$ 1,724,391	\$ 3,634,993
Accounts Receivable	<u>161,370</u>	<u>70,275</u>	<u>231,644</u>
Total Current Assets	<u>2,071,972</u>	<u>1,794,666</u>	<u>3,866,637</u>
<b>Non-Current Assets</b>			
Cash and Investments	111,086	171,258	282,344
Capital Assets, Depreciable, Net	7,135,345	9,067,313	16,202,658
Capital Assets, Construction in Progress	1,509	4,611	6,120
Capital Assets, Land	<u>159,596</u>	<u>492,137</u>	<u>651,733</u>
Total Noncurrent Assets	<u>7,407,536</u>	<u>9,735,319</u>	<u>17,142,855</u>
Total Assets	<u>9,479,508</u>	<u>11,529,985</u>	<u>21,009,493</u>
<b>Deferred Outflows of Resources</b>			
Pension Contributions	<u>55,000</u>	<u>75,649</u>	<u>130,649</u>
Total Deferred Outflows of Resources	<u>55,000</u>	<u>75,649</u>	<u>130,649</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 9,534,508</u>	<u>\$ 11,605,634</u>	<u>\$ 21,140,142</u>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Accounts Payable	45,760	30,123	75,884
Accrued Payables	5,186	6,963	12,148
Current Portion of Compensated Absences	10,976	12,044	23,020
Long-Term Liabilities - Due Within One Year	<u>92,000</u>	<u>52,000</u>	<u>144,000</u>
Total Current Liabilities	153,922	101,130	255,052
<b>Noncurrent Liabilities</b>			
Noncurrent Portion of Compensated Absences	10,977	12,044	23,021
Long-Term Liabilities - Due in More Than One Year	<u>719,122</u>	<u>983,536</u>	<u>1,702,658</u>
Total Noncurrent Liabilities	<u>730,099</u>	<u>995,580</u>	<u>1,725,679</u>
Total Liabilities	<u>884,022</u>	<u>1,096,709</u>	<u>1,980,731</u>
<b>Deferred Inflows of Resources</b>			
Pension Investment Earnings Premium	<u>26,216</u>	<u>36,060</u>	<u>62,276</u>
Total Deferred Inflows of Resources	<u>26,216</u>	<u>36,080</u>	<u>62,276</u>
<b>Net Position</b>			
Net Invested in Capital Assets	6,739,450	8,878,061	15,617,512
Restricted for Debt Service	111,086	171,258	282,344
Unrestricted	<u>1,773,734</u>	<u>1,423,545</u>	<u>3,197,279</u>
Total Net Position	<u>8,624,271</u>	<u>10,472,865</u>	<u>19,097,135</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 9,534,508</u>	<u>\$ 11,605,634</u>	<u>\$ 21,140,142</u>

See Notes to Financial Statements.

**City of Hamilton, Montana**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**Enterprise Funds**  
**For the Year Ended June 30, 2018**

	<u>Water Fund</u>	<u>Sewer Revenue</u>	<u>Total</u>
<b>OPERATING REVENUES:</b>			
Charges for Services	\$ 1,413,693	\$ 1,313,091	\$ 2,726,784
Miscellaneous	17,606	17,640	35,246
	<u>1,431,299</u>	<u>1,330,731</u>	<u>2,762,030</u>
<b>OPERATING EXPENSES:</b>			
Personal Services	327,899	413,479	741,378
Supplies and Materials	149,773	128,415	278,187
Purchased Services	191,902	158,867	350,769
Fixed Charges	7,736	23,032	30,768
Depreciation	247,889	396,644	644,533
	<u>925,199</u>	<u>1,120,436</u>	<u>2,045,635</u>
<b>OPERATING INCOME:</b>	506,100	210,295	716,395
<b>NON-OPERATING REVENUE (EXPENSE)</b>			
Intergovernmental Revenue	3,808	5,237	9,045
Interest Revenue	8,968	8,382	17,350
Gain of Sale of Capital Assets		638	638
Interest Expense	<u>(14,074)</u>	<u>(16,864)</u>	<u>(30,938)</u>
Total Non-Operating Revenue (Expenses)	<u>(1,298)</u>	<u>(2,607)</u>	<u>(3,905)</u>
Income Before Transfers	504,803	207,688	712,491
Transfers	<u>(84,188)</u>	<u>(95,042)</u>	<u>(179,230)</u>
<b>CHANGES IN NET POSITION</b>	420,615	112,646	533,261
<b>NET POSITION:</b>			
Beginning of the Year	<u>8,203,656</u>	<u>10,360,220</u>	<u>18,563,876</u>
End of the Year	<u>\$ 8,624,271</u>	<u>\$ 10,472,866</u>	<u>\$ 19,097,137</u>

See Notes to Financial Statements.

**City of Hamilton, Montana**  
**Statement of Cash Flows**  
**Enterprise Funds**  
For the Year Ended June 30, 2018

	<u>Water Fund</u>	<u>Sewer Revenue</u>	<u>Total</u>
<b>Cash Flows From Operations</b>			
Receipts From Customers	\$ 1,439,363	\$ 1,336,376	\$ 2,775,739
Payments to Suppliers	(415,962)	(311,813)	(727,775)
Payments to Employees	(260,983)	(356,846)	(617,829)
Net Cash Provided (Used) by Operations	<u>762,418</u>	<u>667,717</u>	<u>1,430,135</u>
<b>Cash Flows From Noncapital Financing Activities</b>			
Transfers From (To) Other Funds	(84,188)	(95,042)	(179,230)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(84,188)</u>	<u>(95,042)</u>	<u>(179,230)</u>
<b>Cash Flows From Capital and Related Financing Activities</b>			
Purchases of Capital Assets	(414,231)	(90,285)	(504,516)
Other	-	638	638
Principal Paid on Debt	(91,000)	(51,000)	(142,000)
Interest Paid on Debt	(14,073)	(16,864)	(30,937)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(519,304)</u>	<u>(157,511)</u>	<u>(676,815)</u>
<b>Cash Flows From Investing Activities</b>			
Interest Revenue	8,968	8,382	17,350
Net Cash Provided (Used) by Investing Activities	<u>8,968</u>	<u>8,382</u>	<u>17,350</u>
<b>Net Increase (Decrease) in Cash</b>	167,894	423,546	591,440
<b>Cash and Cash Equivalents</b>			
Beginning of the Year	<u>1,853,794</u>	<u>1,472,103</u>	<u>3,325,897</u>
End of the Year	<u>\$ 2,021,688</u>	<u>\$ 1,895,649</u>	<u>\$ 3,917,337</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operations</b>			
Operating Income	\$ 506,100	\$ 210,295	\$ 716,395
Adjustments to Reconcile to Cash Flow			
Depreciation Expense	247,889	396,644	644,533
(Increase) Decrease in Accounts Receivable	8,064	5,645	13,709
Increase (Decrease) in Accounts Payable	(66,552)	(1,498)	(68,050)
Increase (Decrease) in Accrued Payable	991	182	1,173
Increase (Decrease) in Compensated Absences	3,934	5,849	9,783
Pension Adjustments	61,992	50,600	112,592
Net Cash Provided (Used) by Operations	<u>\$ 762,418</u>	<u>\$ 667,717</u>	<u>\$ 1,430,135</u>

See Notes to Financial Statements.



**City of Hamilton, Montana**  
**Statement of Fiduciary Net Position**  
**Agency Funds**  
**June 30, 2018**

<b>Assets</b>	
Cash and Investments	\$ 756,449
Property Taxes Receivable	70,705
Total Assets	\$ <u>827,154</u>
<b>Liabilities</b>	
Warrants Payable	\$ 56,814
Due to Other Governments	<u>770,340</u>
Total Liabilities	\$ <u>827,154</u>

See Notes to Financial Statements.

**City of Hamilton, Montana**  
**Statement of Net Position**  
June 30, 2017

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
<b>Current Assets</b>			
Cash and Investments	\$ 4,624,833	\$ 3,043,553	\$ 7,668,386
Receivables			
Property Taxes Receivable	266,158	-	266,158
Assessments Receivable	876,839	-	876,839
Accounts Receivable	-	245,355	245,355
Due From Other Governments	207,130	-	207,130
<b>Total Current Assets</b>	<b>5,974,960</b>	<b>3,288,908</b>	<b>9,263,868</b>
<b>Non-Current Assets</b>			
Cash and Investments	78,750	282,344	361,095
Capital Assets, Depreciable, Net	7,076,917	16,348,797	23,425,714
Capital Assets, Construction in Progress	30,352	-	30,352
Capital Assets, Land	503,735	651,733	1,155,468
<b>Total Noncurrent Assets</b>	<b>7,689,754</b>	<b>17,282,874</b>	<b>24,972,628</b>
<b>Total Assets</b>	<b>13,664,714</b>	<b>20,571,783</b>	<b>34,236,497</b>
<b>Deferred Outflows of Resources</b>			
Pension Contributions	329,792	79,027	408,819
<b>Total Deferred Outflows of Resources</b>	<b>329,792</b>	<b>79,027</b>	<b>408,819</b>
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ 13,994,506</b>	<b>\$ 20,650,810</b>	<b>\$ 34,645,316</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Accounts Payable	\$ 223,895	\$ 143,936	\$ 367,831
Accrued Payables	50,844	10,973	61,817
Current Portion of Compensated Absences	146,280	19,663	165,943
Long-Term Liabilities - Due Within One Year	110,000	142,000	252,000
<b>Total Current Liabilities</b>	<b>531,019</b>	<b>316,572</b>	<b>847,591</b>
<b>Noncurrent Liabilities</b>			
Long-Term Portion of Compensated Absences	146,280	16,596	162,876
Long-Term Liabilities - Due in More Than One Year	2,850,948	1,750,800	4,601,748
<b>Total Noncurrent Liabilities</b>	<b>2,997,228</b>	<b>1,767,396</b>	<b>4,764,624</b>
<b>Total Liabilities</b>	<b>3,528,247</b>	<b>2,083,968</b>	<b>5,612,215</b>
<b>Deferred Inflows of Resources</b>			
Pension Investment Earnings Premium	35,701	2,965	38,666
<b>Total Deferred Inflows of Resources</b>	<b>35,701</b>	<b>2,965</b>	<b>38,666</b>
<b>Net Position</b>			
Net Invested in Capital Assets	6,601,006	15,615,531	22,216,537
Restricted for Debt Service	290,389	282,344	572,733
Restricted for General Government	20,154	-	20,154
Restricted for Public Safety	40,383	-	40,383
Restricted for Public Works	717,506	-	717,506
Unrestricted	2,761,120	2,666,002	5,427,121
<b>Total Net Position</b>	<b>10,430,558</b>	<b>18,563,877</b>	<b>28,994,435</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Net Position</b>	<b>\$ 13,994,506</b>	<b>\$ 20,650,810</b>	<b>\$ 34,645,316</b>

See Notes to Financial Statements.

**City of Hamilton, Montana**  
Statement of Activities  
For the Year Ended June 30, 2017

	-----Program Revenues-----			-Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges For Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities</b>							
General Government	\$ 1,187,461	\$ 132,062	\$ 12,710	\$ -	\$ (1,042,689)	\$ -	\$ (1,042,689)
Public Safety	1,542,862	146,056	159,978	-	(1,236,828)	-	(1,236,828)
Public Works	668,287	549,792	90,821	-	(27,674)	-	(27,674)
Public Health	10,000	-	-	-	(10,000)	-	(10,000)
Culture & Recreation	162,569	-	2,346	-	(160,223)	-	(160,223)
Interest on Long-term Debt	48,964	-	-	-	(48,964)	-	(48,964)
Miscellaneous	432,006	-	-	-	(432,006)	-	(432,006)
<b>Total Governmental</b>	<b>4,052,149</b>	<b>827,910</b>	<b>265,855</b>	<b>-</b>	<b>(2,958,384)</b>	<b>-</b>	<b>(2,958,384)</b>
<b>Business-Type Activities</b>							
Water	723,127	1,354,006	-	-	-	630,879	630,879
Sewer	1,137,475	1,215,472	-	-	-	77,997	77,997
<b>Total Business-Type Activities</b>	<b>1,860,602</b>	<b>2,569,478</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>708,876</b>	<b>708,876</b>
<b>Total Activities</b>	<b>\$ 5,912,751</b>	<b>\$ 3,397,388</b>	<b>\$ 265,855</b>	<b>\$ -</b>	<b>(2,958,384)</b>	<b>708,876</b>	<b>(2,249,508)</b>
<b>General Revenues</b>							
Property Taxes					2,002,961	-	2,002,961
Local Option					122,052	-	122,052
Intergovernmental Revenue					1,227,324	9,417	1,236,741
Investment Earnings					17,163	8,147	25,310
Other					16,981	7,783	24,764
Transfers					165,310	(165,310)	-
<b>Total General Revenues and Transfers</b>					<b>3,551,791</b>	<b>(139,963)</b>	<b>3,411,828</b>
<b>Change in Net Position</b>					593,407	568,913	1,162,320
<b>Net Position</b>							
Beginning of the Year					9,837,151	17,994,964	27,832,115
End of the Year					<b>\$ 10,430,558</b>	<b>\$ 18,563,877</b>	<b>\$ 28,994,435</b>

**City of Hamilton, Montana**

**Balance Sheet**

**Governmental Funds**

June 30, 2017

	<b>General</b>	<b>SID # 18</b>	<b>SID # 19</b>	<b>SID # 21</b>	<b>Other</b>	
	<b>Fund</b>	<b>DHBID</b>	<b>Sidewalk</b>	<b>Kurtz Lane</b>	<b>Governmental</b>	
		<b>Debt Service</b>	<b>Debt Service</b>	<b>Debt Service</b>	<b>Funds</b>	<b>Total</b>
<b>Assets</b>						
Cash and Investments	\$ 1,475,918	\$ 12,980	\$ 11,004	\$ 99,045	\$ 3,025,886	\$ 4,624,833
Restricted Cash and Investments		46,250	-	32,500	-	78,750
Receivables:						
Property Taxes	190,572	-	-	-	75,586	266,158
Assessments	-	347,449	211,843	292,245	25,301	876,839
Accounts and Other Receivables	-	-	-	-	-	-
Due from Other Governments	135,232	4,059	2,314	-	65,524	207,130
Advances to Other Funds	87,939	-	-	-	-	87,939
<b>Total Assets</b>	<b>\$ 1,889,662</b>	<b>\$ 410,738</b>	<b>\$ 225,161</b>	<b>\$ 423,790</b>	<b>\$ 3,192,298</b>	<b>\$ 6,141,649</b>
<b>Liabilities</b>						
Accounts Payable	\$ 197,895	\$ -	\$ -	\$ -	\$ 26,000	\$ 223,895
Accrued Payables	39,483	-	-	-	11,361	50,844
Advances From Other Funds	-	-	-	-	87,939	87,939
<b>Total Liabilities</b>	<b>237,378</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>125,300</b>	<b>362,678</b>
<b>Deferred Inflows of Resources</b>						
Property Taxes/Assessments	190,572	347,450	211,843	292,245	100,887	1,142,997
<b>Total Deferred Inflows of Resources</b>	<b>190,572</b>	<b>347,450</b>	<b>211,843</b>	<b>292,245</b>	<b>100,887</b>	<b>1,142,997</b>
<b>Fund Balances</b>						
<b>Restricted:</b>						
General Government	-	-	-	-	20,153	20,153
Public Safety	-	-	-	-	40,383	40,383
Public Works	-	-	-	-	717,506	717,506
Special Assessments Debt/Other	-	63,288	13,318	131,545	82,237	290,388
<b>Committed:</b>						
General Government	-	-	-	-	305,633	305,633
Public Safety	-	-	-	-	1,315,721	1,315,721
Public Works	-	-	-	-	197,339	197,339
Other	-	-	-	-	287,139	287,139
Unassigned	1,461,712	-	-	-	-	1,461,712
<b>Total Fund Balance</b>	<b>1,461,712</b>	<b>63,288</b>	<b>13,318</b>	<b>131,545</b>	<b>2,966,111</b>	<b>4,635,974</b>
<b>Total Liabilities, Deferred Inflows</b>						
<b>of Resources and Fund Balances</b>	<b>\$ 1,889,662</b>	<b>\$ 410,738</b>	<b>\$ 225,161</b>	<b>\$ 423,790</b>	<b>\$ 3,192,298</b>	<b>\$ 6,141,649</b>
<b>Reconciliation to the Statement of Net Position</b>						
Total fund balance reported above						\$ 4,635,974
Add capital assets not reported above					\$ 12,946,052	
Less accumulated Depreciation					(5,335,048)	7,611,004
Less Liabilities not reported above:						
Compensated Absences						(292,560)
Bonds Payable						(1,010,000)
Deferred Inflows of Resources - Property Taxes and Assessment Receivables						1,142,997
Deferred Inflows of Resources - Pension Investment Earnings Premium						(35,701)
Deferred Outflows of Resources - Pension Contributions						329,792
Net Pension Liability						(1,950,948)
<b>Net Position</b>						<b>\$ 10,430,558</b>

See Notes to Financial Statements.

**City of Hamilton, Montana**  
**Statement of Revenues, Expenditures,**  
**and Changes in Fund Balances**  
**All Governmental Funds**  
**For the Year Ended June 30, 2017**

	General Fund	SID # 18 DHBID Debt Service	SID # 19 Sidewalk Debt Service	SID # 21 Kurtz Lane Debt Service	Other Governmental Funds	Total
<b>REVENUES:</b>						
Property Taxes and Assessments	\$ 1,568,318	\$ 71,003	\$ 28,845	\$ 37,161	\$ 855,777	\$ 2,561,104
Intergovernmental	1,151,884	-	-	-	170,892	1,322,776
Fine and Forfeitures	131,284	-	-	-	2,965	134,249
Licenses and Permits	97,059	-	-	-	71,579	168,638
Charges for Services	99,867	-	-	-	49,288	149,155
Investment Earnings	6,060	394	16	354	10,338	17,162
Other	16,481	-	-	-	500	16,981
<b>Total Revenues</b>	<b>3,070,953</b>	<b>71,397</b>	<b>28,861</b>	<b>37,515</b>	<b>1,161,339</b>	<b>4,370,065</b>
<b>EXPENDITURES:</b>						
Current Operations:						
General Government	947,574	-	-	-	89,557	1,037,131
Public Safety	1,258,120	-	-	-	107,930	1,366,050
Public Works	325,206	-	-	-	72,772	397,978
Public Health	10,000	-	-	-	-	10,000
Culture and Recreation	116,283	-	-	-	880	117,163
Miscellaneous	2,871	-	-	-	429,133	432,004
Capital Outlay	305,164	-	-	-	33,824	338,988
Debt Service:						
Principal	-	50,000	20,000	30,000	-	100,000
Interest	-	19,540	11,955	17,469	-	48,964
<b>Total Expenditures</b>	<b>2,965,218</b>	<b>69,540</b>	<b>31,955</b>	<b>47,469</b>	<b>734,096</b>	<b>3,848,278</b>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<b>105,735</b>	<b>1,857</b>	<b>(3,094)</b>	<b>(9,954)</b>	<b>427,243</b>	<b>521,787</b>
<b>OTHER SOURCES (USES):</b>						
Sale of Capital Assets	-	-	-	-	-	-
Transfers In (Out)	(118,130)	-	-	-	283,440	165,310
<b>Net Change in Fund Balances</b>	<b>(12,395)</b>	<b>1,857</b>	<b>(3,094)</b>	<b>(9,954)</b>	<b>710,683</b>	<b>687,097</b>
<b>FUND BALANCES:</b>						
Beginning of the Year	1,474,107	61,431	16,412	141,499	2,255,428	3,948,877
End of the Year	\$ 1,461,712	\$ 63,288	\$ 13,318	\$ 131,545	\$ 2,966,111	\$ 4,635,974

See Notes to Financial Statements.

**City of Hamilton, Montana**  
**Reconciliation of the**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
**For the Year Ended June 30, 2017**

Changes in Fund Balances as Reported in the Government Funds Statement	\$ 687,097
Increase in Current Property Taxes and Special Assessments Receivable Not Included on the Governmental Fund Statements	
Decrease in Taxes and Assessments Receivables	(60,224)
State Pension - On-behalf	170,403
Amounts Reported as Expenditures/(Other Financing Sources) on the Governmental Funds Statements Not Included as Expenses on the Government-wide Statements	
Capital Outlay	338,988
Increase in Compensated Absences	(25,230)
Principal Payments on Long-Term Debt	100,000
	413,758
Amounts Reported on the Government-wide Statements of Activities Not Included on the Governmental Fund Statements	
Depreciation Expense	(490,306)
Decrease in Other Post Employment Benefit Obligations	16,978
Pension Expense	(144,299)
	(617,627)
Change in Net Position Reported on the Statement of Activities	\$ <u>593,407</u>

See Notes to Financial Statements.

**City of Hamilton, Montana**  
**Statement of Revenues, Expenditures and Other Financing Sources (Uses)**  
**Budget and Actual - General Fund**  
**For the Year Ended June 30, 2017**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget</b>
<b>REVENUES:</b>				
Property Taxes and Assessments	\$ 1,558,531	\$ 1,558,531	\$ 1,568,318	\$ 9,787
Intergovernmental	1,181,310	1,181,310	1,151,884	(29,426)
Fines and Forfeitures	122,200	122,200	131,284	9,084
Licenses and Permits	86,300	86,300	97,059	10,759
Charges for Services	91,093	91,093	99,867	8,774
Investment Earnings	500	500	6,060	5,560
Other	13,600	13,600	16,481	2,881
Total Revenues	3,053,534	3,053,534	3,070,952	17,420
<b>EXPENDITURES:</b>				
Current Operations:				
General Government	946,535	946,535	947,574	(1,039)
Public Safety	1,277,474	1,277,474	1,258,120	19,354
Public Works	433,464	433,464	325,206	108,258
Public Health	10,000	10,000	10,000	-
Culture and Recreation	128,340	128,340	116,283	12,057
Miscellaneous	69,014	69,014	2,871	66,143
Capital Outlay	690,306	690,306	305,164	385,142
Total Expenditures	3,555,133	3,555,133	2,965,218	589,915
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(501,599)	(501,599)	105,735	607,334
<b>OTHER SOURCES (USES):</b>				
Sale of Capital Assets	-	-	-	-
Transfers In (Out)	(121,566)	(121,566)	(118,130)	3,436
Total Other Sources (Uses)	(121,566)	(121,566)	(118,130)	3,436
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES</b>	\$ (623,165)	\$ (623,165)	\$ (12,395)	\$ 610,770

See Notes to Financial Statements.

**City of Hamilton, Montana**  
**Statement of Net Position**  
**Enterprise Funds**  
**June 30, 2017**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
<b>Assets</b>			
<b>Current Assets</b>			
Cash and Investments	\$ 1,742,709	\$ 1,300,844	\$ 3,043,553
Accounts Receivable	<u>169,434</u>	<u>75,921</u>	<u>245,355</u>
Total Current Assets	<u>1,912,143</u>	<u>1,376,765</u>	<u>3,288,908</u>
<b>Non-Current Assets</b>			
Cash and Investments	111,086	171,258	282,344
Capital Assets, Depreciable, Net	6,970,512	9,378,285	16,348,797
Capital Assets, Land	<u>159,596</u>	<u>492,137</u>	<u>651,733</u>
Total Noncurrent Assets	<u>7,241,194</u>	<u>10,041,680</u>	<u>17,282,874</u>
Total Assets	<u>9,153,337</u>	<u>11,418,445</u>	<u>20,571,782</u>
<b>Deferred Outflows of Resources</b>			
Pension Contributions	<u>30,597</u>	<u>48,430</u>	<u>79,027</u>
Total Deferred Outflows of Resources	<u>30,597</u>	<u>48,430</u>	<u>79,027</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 9,183,934</u>	<u>\$ 11,466,875</u>	<u>\$ 20,650,809</u>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Accounts Payable	112,312	31,623	143,935
Accrued Payables	4,194	6,780	10,974
Current Portion of Compensated Absences	9,547	10,116	19,663
Long-Term Liabilities - Due Within One Year	<u>91,000</u>	<u>51,000</u>	<u>142,000</u>
Total Current Liabilities	217,053	99,519	316,572
<b>Noncurrent Liabilities</b>			
Noncurrent Portion of Compensated Absences	8,472	8,123	16,595
Long-Term Liabilities - Due in More Than One Year	<u>753,604</u>	<u>997,196</u>	<u>1,750,800</u>
Total Noncurrent Liabilities	<u>762,076</u>	<u>1,005,319</u>	<u>1,767,395</u>
Total Liabilities	<u>979,129</u>	<u>1,104,838</u>	<u>2,083,967</u>
<b>Deferred Inflows of Resources</b>			
Pension Investment Earnings Premium	<u>1,148</u>	<u>1,817</u>	<u>2,965</u>
Total Deferred Inflows of Resources	<u>1,148</u>	<u>1,817</u>	<u>2,965</u>
<b>Net Position</b>			
Net Invested in Capital Assets	6,482,108	9,133,422	15,615,530
Restricted for Debt Service	111,086	171,258	282,344
Unrestricted	<u>1,610,463</u>	<u>1,055,540</u>	<u>2,666,003</u>
Total Net Position	<u>8,203,657</u>	<u>10,360,220</u>	<u>18,563,877</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 9,183,934</u>	<u>\$ 11,466,875</u>	<u>\$ 20,650,809</u>

See Notes to Financial Statements.



**City of Hamilton, Montana**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**Enterprise Funds**  
**For the Year Ended June 30, 2017**

	<u>Water Fund</u>	<u>Sewer Revenue</u>	<u>Total</u>
<b>OPERATING REVENUES:</b>			
Charges for Services	\$ 1,354,006	\$ 1,214,028	\$ 2,568,034
Miscellaneous	<u>4,877</u>	<u>4,350</u>	<u>9,227</u>
Total	<u>1,358,883</u>	<u>1,218,378</u>	<u>2,577,261</u>
<b>OPERATING EXPENSES:</b>			
Personal Services	195,077	373,170	568,247
Supplies and Materials	117,002	149,312	266,314
Purchased Services	158,286	189,887	348,173
Fixed Charges	7,137	18,522	25,659
Depreciation	<u>229,542</u>	<u>388,607</u>	<u>618,149</u>
Total	<u>707,044</u>	<u>1,119,498</u>	<u>1,826,542</u>
<b>OPERATING INCOME:</b>	651,839	98,880	750,719
<b>NON-OPERATING REVENUE (EXPENSE)</b>			
Intergovernmental Revenue	3,646	5,771	9,417
Interest Revenue	4,156	3,991	8,147
Interest Expense	<u>(16,083)</u>	<u>(17,977)</u>	<u>(34,060)</u>
Total Non-Operating Revenue (Expenses)	<u>(8,281)</u>	<u>(8,215)</u>	<u>(16,496)</u>
Income Before Transfers	643,558	90,665	734,223
Transfers	<u>(77,093)</u>	<u>(88,217)</u>	<u>(165,310)</u>
<b>CHANGES IN NET POSITION</b>	566,465	2,448	568,913
<b>NET POSITION:</b>			
Beginning of the Year	<u>7,637,192</u>	<u>10,357,772</u>	<u>17,994,964</u>
End of the Year	<u>\$ 8,203,657</u>	<u>\$ 10,360,220</u>	<u>\$ 18,563,877</u>

See Notes to Financial Statements.

**City of Hamilton, Montana**  
**Statement of Cash Flows**  
**Enterprise Funds**  
**For the Year Ended June 30, 2017**

	<b>Water Fund</b>	<b>Sewer Revenue</b>	<b>Total</b>
<b>Cash Flows From Operations</b>			
Receipts From Customers	\$ 1,354,047	\$ 1,207,744	\$ 2,561,791
Payments to Suppliers	(211,019)	(356,709)	(567,728)
Payments to Employees	(206,017)	(382,497)	(588,514)
Net Cash Provided (Used) by Operations	937,011	468,538	1,405,549
<b>Cash Flows From Noncapital Financing Activities</b>			
Transfers From (To) Other Funds	(77,093)	(88,217)	(165,310)
Net Cash Provided (Used) by Noncapital Financing Activities	(77,093)	(88,217)	(165,310)
<b>Cash Flows From Capital and Related Financing Activities</b>			
Purchases of Capital Assets	(179,498)	(120,306)	(299,804)
Other	(15,223)	20,444	5,221
Proceeds From Grants	-	-	-
Principal Paid on Debt	(87,000)	(50,000)	(137,000)
Interest Paid on Debt	(16,083)	(17,977)	(34,060)
Net Cash Provided (Used) by Capital and Related Financing Activities	(297,804)	(167,839)	(465,643)
<b>Cash Flows From Investing Activities</b>			
Interest Revenue	4,156	3,991	8,147
Net Cash Provided (Used) by Investing Activities	4,156	3,991	8,147
<b>Net Increase (Decrease) in Cash</b>	566,270	216,473	782,743
<b>Cash and Cash Equivalents</b>			
Beginning of the Year	1,287,524	1,255,630	2,543,154
End of the Year	\$ 1,853,794	\$ 1,472,103	\$ 3,325,897
<b>Reconciliation of Operating Income to Net Cash Provided by Operations</b>			
Operating Income	\$ 651,839	\$ 98,880	\$ 750,719
<b>Adjustments to Reconcile to Cash Flow</b>			
Depreciation Expense	229,542	388,607	618,149
(Increase) Decrease in Accounts Receivable	41	(6,284)	(6,243)
Increase (Decrease) in Accounts Payable	71,449	736	72,185
Increase (Decrease) in Accrued Payable	(6,497)	(6,234)	(12,731)
Increase (Decrease) in Compensated Absences	(2,354)	(5,712)	(8,066)
Increase (Decrease) in OPEB Payable	(2,089)	(2,617)	(4,706)
Pension Adjustments	(4,920)	1,162	(3,758)
Net Cash Provided (Used) by Operations	\$ 937,011	\$ 468,538	\$ 1,405,549

See Notes to Financial Statements.

**City of Hamilton, Montana**  
**Statement of Fiduciary Net Position**  
**Agency Funds**  
**June 30, 2017**

**Assets**

Cash and Investments	\$ 779,389
Property Taxes Receivable	<u>64,875</u>

Total Assets	\$ <u>844,264</u>
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**Liabilities**

Warrants Payable	\$ 109,601
Due to Other Governments	<u>734,663</u>

Total Liabilities	\$ <u>844,264</u>
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See Notes to Financial Statements.

## CITY OF HAMILTON, MONTANA

### Notes to Financial Statements Year ended June 30, 2017 and June 30, 2018

#### Note 1 – Summary of Significant Accounting Policies

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

The government's significant accounting policies are described below.

During fiscal years 2017 and 2018, the City adopted the following:

GASB Statement No. 78, Pensions provided through Certain Multiple-Employer Defined Benefit Pension Plans and amends GASB 68 for cost-sharing multiple-employer defined benefit pension plans that is not a state or local governmental pension plan and provides defined benefit pensions both to employees of local governments and non-governmental employers. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015.

GASB Statement No. 82, Pension Issues, an amendment of GASB Statements No. 67, 68 and 73. Prior to the issuance of this Statement, Statements 67 and 68 required presentation of covered-employee payroll, which is the payroll of employees that are provided with pensions through the pension plan, and ratios that use that measure, in schedules of required supplementary information. This Statement amends Statements 67 and 68 to instead require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

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

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

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

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

### Government-wide Financial Statements

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

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

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

### Fund Financial Statements

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

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period (the City defined the length of time used for "available" for purposes of revenue recognition to be 60 days). Revenues applicable to the current fiscal year and collected soon after year-end are recognized as revenue.

Most current taxes/assessments receivable are delinquent at June 30 and amounts collected soon after year-end are not significant. Deferred property tax/assessment revenues are recorded as deferred inflows of resources in the government funds for these receivables.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt and payments for compensated absences which are recognized as expenditures when due. General capital asset acquisitions are reported as expenditures in governmental funds.

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

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

The City reports the following fiduciary funds:

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

Major funds – Generally accepted accounting principles require that the main operating fund of a government be reported as a major fund. In addition, major funds include all other governmental funds whose total assets, liabilities, revenues, or expenditures/expenses are at least 10% or more of the total for all governmental funds or, for enterprise funds, at least 10% of the total for all enterprise funds. In addition, the same 10% elements of these individual governmental or enterprise fund should be at least 5% or more of the total for all governmental and enterprise funds combined. Accordingly, the City reports the following major governmental funds for the year ended June 30, 2017:

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

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

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

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

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

The City reports the following major governmental funds for the year ended June 30, 2018:

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

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

Fund #4513 - Justice Law and Legal Facility – This fund accounts for receipts and disbursements made for the renovation of the City’s recently acquired National Guard Armory building and property.

Fund #4517 - Justice Center Construction – This fund accounts for receipts and disbursements of Board and Investment Intercap Loan proceeds for the purchase of the former National Guard Armory building and property.

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

Budgets – Budgets are adopted for the general, special revenue, debt service, capital projects, and enterprise funds. The annual budget is a plan of financial operation with an estimate of expenditures and means of financing them. A preliminary budget is prepared in July, budget hearings are held, and the final budget is adopted by the second Monday in August. The adopted budget constitutes the appropriations for the City and is the maximum limit of expenditures in each budgeted fund. The adopted budget may be amended for emergencies and other matters as provided by state law. There were no budget amendments in 2017 or 2018. The budget is prepared on the basis of accounting described for its governmental funds. Tax levies are set by expenditure requirements, but are authorized and limited by state law. Expenditures are classified as required by state law. Transfers of budget authority within a fund are permitted. Appropriations lapse at June 30, except for encumbrances, which represent commitments to expend funds under current budget appropriations. There were no encumbrances in fiscal year 2017 or 2018. State law requires only that a fund’s total expenditures not exceed total budgeted expenditures. The level of budgetary control is the fund level.

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

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

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

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

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

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

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

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

**Governmental Activities:**

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

**Business-type Activities:**

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

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

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



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

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources.

Premiums received on debt issuance are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Deferred Outflows/Inflows of Resources – The government reports decreases in net position that relate to a future period(s) as deferred outflows of resources in a separate section of its statement of net position. Deferred outflows of resources are related to the government's pension plans and consist of differences between expected and actual results, changes in actuarial assumptions, differences between actual and expected contributions and contributions made to the pension plans subsequent to the measurement date. No deferred outflows of resources affect the governmental funds financial statements in the current year. The government's statements of net position and its governmental fund balance sheet report a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in net position that applies to a future period(s) .

Deferred inflows of resources are reported in the government's statement of net position for actual pension plan investment earnings in excess of the expected amounts and differences between actual and expected contributions included in determining pension expense. In the governmental funds, the only deferred inflow of resources is for revenues that are not considered available. The government will not recognize the related revenues until they are available under the modified accrual basis of accounting. Accordingly, unavailable revenues from property taxes are reported in the governmental funds balance sheet.

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

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

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

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

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

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

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

Restricted – These amounts can be spent only for specific purposes because of constitutional provision, charter requirements or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of others.  
 Committed – These amounts can only be used for specific purposes pursuant to constraints imposed by formal ordinances or resolutions of the City Council, the City’s highest level of decision making authority. Committed amounts cannot be used for any other purpose unless the City Council removes the specified use by ordinance.

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

Unassigned – These are all other spendable amounts.

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

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

**Note 2 – Cash and Investments**

At year end, the City's cash, cash equivalents and investments are reported in the basic financial statements as follows:

<u>Fund Type</u>	<u>2017</u>	<u>2018</u>
Governmental Activities	\$ 4,703,583	\$ 5,393,944
Business-type Activities	3,325,897	3,917,337
Fiduciary Funds	<u>779,389</u>	<u>756,451</u>
Total	\$ <u>8,808,869</u>	\$ <u>10,067,732</u>

The composition of cash and investments held by the City at June 30 is as follows:

	<u>2017</u>	<u>2018</u>
Demand Deposits	\$ 20,097	\$ 34,615
Certificates of Deposits	99,920	
Bank Repurchase Agreements	5,884,919	7,083,928
Savings	31,974	135,662
Cash on Hand	<u>300</u>	<u>300</u>
Total	<u>6,037,210</u>	<u>7,254,505</u>
 <b>Investments (Fair Value):</b>		
Short Term Investment Pool	<u>2,771,659</u>	<u>2,812,927</u>
 Total Cash and Deposits	 <u>\$ 8,808,869</u>	 <u>10,067,432</u>

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

#### Deposit and Investment Risks

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

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

*Concentration of credit risk:* The City's investment policy is to spread risk by using more than one banking/investment institution. Approximately .31% for June 30, 2017 and .28% for June 30, 2018 of the City's cash was invested in STIP which was not directly covered. The majority of the City's money was held by First Interstate Bank at June 30, 2017 and June 30, 2018.

*Custodial credit risk:* This is the risk that, in the event of the failure of the depository or investment counterparty, the government will not be able to recover its assets. Custodial credit risk is created when the City's deposits, including checking accounts, certificates of deposits and any fiduciary accounts using the City's identification number in any one institution exceed the Federal Deposit Insurance Corporation's (FDIC) limit which was \$250,000 for the year ended June 30, 2017 and June 30, 2018.

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

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

The City voluntarily participates in the STIP administered by the Montana Board of Investments (MBOI). A local government's STIP ownership is represented by shares, the prices of which are fixed at \$1.00 per share, and participants may buy or sell shares with one business days' notice.

STIP administrative expenses are charged daily against the STIP income, which is distributed on the first calendar day of each month. Shareholders have the option to automatically reinvest their distribution income in additional shares.

STIP is not registered with the Securities and Exchange Commission. STIP is not FDIC-insured or otherwise insured or guaranteed by the federal government, the State of Montana, the MBOI or any other entity against investment losses, and there is no guaranteed rate of return on funds invested in STIP shares. The MBOI maintains a reserve fund to offset possible losses and limit fluctuations in STIP's valuation. The STIP investment portfolio consists of securities with maximum maturity of 2 years.

Credit quality ratings are listed in the fund's financial statements which are available from the Montana Board of Investments, Attn: STIP Program Manager, PO Box 200126, Helena, MT 59620-0126. Information is also available on the state website [mt.gov](http://mt.gov).

#### Note 3 – Receivables

In the statement of net position, receivables from taxes and special assessments are clearly labeled. The City does consider amounts received after year end as revenue; tax and assessment receivables (and due from other government) includes \$207,131 in June 30, 2017 and \$231,646 in June 30, 2018 collected by the county in June and remitted to the City in July of each year. Deferred special assessments are the portion of special assessments which will be billable in future years.

Accounts and other receivables consist of \$100 in governmental funds as explained later in this note and \$245,355 at June 30, 2017 and \$244,393 at June 30, 2018 due from utility customers. Water and sewer utility customers are billed at the end of the month for the month that is concluding, so June 30 receivables from customers primarily represent the billing at June 30.

#### Note 4 – Due From Other Governments

Due From Other Governments consists of County taxes received after year end.

Note 5 -- Capital Assets

The changes in capital assets used in governmental activities during 2017 were as follows:

	<u>June 30, 2016</u>	<u>Additions</u>	<u>Disposals</u>	<u>Adjustments</u>	<u>June 30, 2017</u>
<b>Cost of Assets</b>					
Land	\$ 503,735	\$ -	\$ -	\$ -	\$ 503,735
Buildings	1,748,034	-	-	-	1,748,034
Improvements	6,277,420	108,757	-	21,025	6,407,202
Machinery & Equipment	4,084,135	199,877	(27,283)	-	4,256,729
Construction Work in Progress	21,023	30,354	-	(21,025)	30,352
Total	<u>12,634,347</u>	<u>338,988</u>	<u>(27,283)</u>	<u>-</u>	<u>12,946,052</u>
<b>Accumulated Depreciation</b>					
Building	(712,202)	(38,094)	-	-	(750,296)
Improvements	(1,618,351)	(208,266)	-	-	(1,826,617)
Machinery & Equipment	(2,541,473)	(243,946)	27,283	-	(2,758,136)
Total	<u>(4,872,026)</u>	<u>(490,306)</u>	<u>27,283</u>	<u>-</u>	<u>(5,335,049)</u>
<b>Capital Assets - Net</b>	<u>\$ 7,762,321</u>	<u>\$ (151,318)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,611,003</u>

Depreciation expense was charged to expense as follows:

<b>Governmental Activities:</b>	<u><b>FY 2017</b></u>
General Government	\$ 77,356
Public Safety	133,521
Public Works	246,152
Culture and Recreation	33,277
Total Depreciation Expense	<u>\$ 490,306</u>

The changes in capital assets used in business activities during 2017 were as follows:

	Balance <u>June 30, 2016</u>	Additions	Disposals	Balance <u>June 30, 2017</u>
<b>Water Fund - Cost of Assets</b>				
Land	\$ 159,596	-	-	\$ 159,596
Construction in Progress	(1)	-	-	(1)
Buildings & System	577,428	-	-	577,428
Source of Supply	2,680,101	-	-	2,680,101
Transmission & Distribution	5,840,131	151,991	-	5,992,122
General Plant	502,806	27,508	(9,660)	520,654
Total	<u>9,760,061</u>	<u>179,499</u>	<u>(9,660)</u>	<u>9,929,900</u>
<b>Accumulated Depreciation</b>				
Buildings & System	\$ (151,524)	(10,532)	-	\$ (162,056)
Source of Supply	(303,790)	(64,618)	-	(368,408)
Transmission & Distribution	(1,755,480)	(123,171)	-	(1,878,651)
General Plant	(369,115)	(31,221)	9,660	(390,676)
Total	<u>(2,579,909)</u>	<u>(229,542)</u>	<u>9,660</u>	<u>(2,799,791)</u>
Capital Assets - Net	<u>\$ 7,180,152</u>	<u>\$ (50,043)</u>	<u>\$ -</u>	<u>\$ 7,130,109</u>
<b>Sewer Fund - Cost of Assets</b>				
Land	\$ 492,137	-	-	\$ 492,137
Buildings & System	195,968	-	-	195,968
Construction in Progress	-	-	-	-
Sewer Treatment Plant	10,842,551	22,279	-	10,864,830
Treatment Equipment	639,782	98,028	(2,357)	735,453
Transmission & Distribution	3,515,455	-	-	3,515,455
Total	<u>15,685,893</u>	<u>120,307</u>	<u>(2,357)</u>	<u>15,803,843</u>
<b>Accumulated Depreciation</b>				
Buildings & System	\$ (19,595)	(3,919)	-	\$ (23,514)
Sewer Treatment Plant	(3,746,470)	(285,099)	-	(4,031,569)
Treatment Equipment	(536,269)	(29,280)	2,357	(563,192)
Transmission & Distribution	(1,244,837)	(70,309)	-	(1,315,146)
Total	<u>(5,547,171)</u>	<u>(388,607)</u>	<u>2,357</u>	<u>(5,933,421)</u>
Capital Assets - Net	<u>\$ 10,138,722</u>	<u>\$ (268,300)</u>	<u>\$ -</u>	<u>\$ 9,870,422</u>

The changes in capital assets used in governmental activities during 2018 were as follows:

	Balance June 30, 2017	Additions	Disposals	Adjustments	Balance June 30, 2018
<b>Cost of Assets</b>					
Land	\$ 503,735	\$ 600,000	\$ -	\$ -	\$ 1,103,735
Buildings	1,748,034	600,000	-	-	2,348,034
Improvements	6,407,202	452,072	-	-	6,859,274
Machinery & Equipment	4,256,729	120,265	(168,808)	-	4,208,186
Construction Work in Progress	30,352	205,807	-	-	236,159
Total	<u>12,946,052</u>	<u>1,978,144</u>	<u>(168,808)</u>	<u>-</u>	<u>14,755,388</u>
<b>Accumulated Depreciation</b>					
Building	(750,296)	(50,094)	-	-	(800,390)
Improvements	(1,826,617)	(226,903)	-	-	(2,053,520)
Machinery & Equipment	(2,758,136)	(222,554)	168,808	-	(2,811,882)
Total	<u>(5,335,049)</u>	<u>(499,551)</u>	<u>168,808</u>	<u>-</u>	<u>(5,665,792)</u>
Capital Assets - Net	<u>\$ 7,611,003</u>	<u>\$ 1,478,593</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,089,596</u>

Depreciation expense was charged to expense as follows:

Governmental Activities:	<u>FY 2018</u>
General Government	\$ 81,941
Public Safety	109,923
Public Works	273,218
Culture and Recreation	34,469
Total Depreciation Expense	<u>\$ 499,551</u>

The changes in capital assets used in business activities during 2018 were as follows:

	Balance June 30, 2017	Additions	Disposals	Balance June 30, 2018
<b>Water Fund - Cost of Assets</b>				
Land	\$ 159,596	-	-	\$ 159,596
Construction in Progress		1,509	-	1,509
Buildings & System	577,428	-	-	577,428
Source of Supply	2,680,101	-	-	2,680,101
Transmission & Distribution	5,992,121	361,006	-	6,353,127
General Plant	520,653	51,716	-	572,369
Total	<u>9,929,899</u>	<u>414,231</u>	<u>-</u>	<u>10,344,130</u>
<b>Accumulated Depreciation</b>				
Buildings & System	\$ (162,056)	(10,532)	-	\$ (172,588)
Source of Supply	(368,408)	(64,614)	-	(433,022)
Transmission & Distribution	(1,878,651)	(140,271)	-	(2,018,922)
General Plant	(390,676)	(32,472)	-	(423,148)
Total	<u>(2,799,791)</u>	<u>(247,889)</u>	<u>-</u>	<u>(3,047,680)</u>
Capital Assets - Net	<u>\$ 7,130,108</u>	<u>\$ 166,342</u>	<u>\$ -</u>	<u>\$ 7,296,450</u>
<b>Sewer Fund - Cost of Assets</b>				
Land	\$ 492,137	-	-	\$ 492,137
Buildings & System	195,968	-	-	195,968
Construction in Progress	-	4,611	-	4,611
Sewer Treatment Plant	10,864,830	-	-	10,864,830
Treatment Equipment	735,452	85,673	-	821,125
Transmission & Distribution	3,515,455	-	-	3,515,455
Total	<u>15,803,842</u>	<u>90,284</u>	<u>-</u>	<u>15,894,126</u>
<b>Accumulated Depreciation</b>				
Buildings & System	\$ (23,514)	(3,919)	-	\$ (27,433)
Sewer Treatment Plant	(4,031,569)	(285,594)	-	(4,317,163)
Treatment Equipment	(563,192)	(36,822)	-	(600,014)
Transmission & Distribution	(1,315,146)	(70,309)	-	(1,385,455)
Total	<u>(5,933,421)</u>	<u>(396,644)</u>	<u>-</u>	<u>(6,330,065)</u>
Capital Assets - Net	<u>\$ 9,870,421</u>	<u>\$ (306,360)</u>	<u>\$ -</u>	<u>\$ 9,564,061</u>



Note 6 – Long-Term Debt

Changes in long-term debt during 2017 and 2018 are as follows:

	Balance June 30, 2016	Additions	Reductions	Balance June 30, 2017	Due Within One Year
<b>Government Activities</b>					
Bonds Payable	\$ 1,110,000	\$ -	\$ (100,000)	\$ 1,010,000	\$ 110,000
Compensated Absences	267,330	25,230	-	292,560	146,280
Net Pension Liability	1,751,185	199,764	-	1,950,949	-
Other Post Employment Benefits	16,978	-	(16,978)	-	-
<b>Business Activities</b>					
Water System Revenue Bonds	735,000	-	(87,000)	648,000	91,000
Sewer System Revenue Bonds	787,000	-	(50,000)	737,000	51,000
Compensated Absences	44,325	-	(8,066)	36,259	18,130
Other Post Employment Benefits	4,706	-	(4,706)	-	-
Net Pension Liability - PERS	435,759	72,041	-	507,800	-
Total	<u>\$ 5,152,283</u>	<u>\$ 297,035</u>	<u>\$ (266,750)</u>	<u>\$ 5,182,568</u>	<u>\$ 416,410</u>
	Balance June 30, 2017	Additions	Reductions	Balance June 30, 2018	Due Within One Year
<b>Government Activities</b>					
Bonds Payable	\$ 1,010,000	\$ -	\$ (190,000)	\$ 820,000	\$ 75,000
Go Bonds Payable	-	1,350,000	(74,682)	1,275,318	75,727
Compensated Absences	292,560	23,022	-	315,582	157,791
Net Pension Liability	1,950,949	258,771	-	2,209,720	-
Other Post Employment Benefits	-	-	-	-	-
<b>Business Activities</b>					
Water System Revenue Bonds	648,000	-	(91,000)	557,000	92,000
Sewer System Revenue Bonds	737,000	-	(51,000)	686,000	52,000
Compensated Absences	36,259	9,782	-	46,041	23,021
Other Post Employment Benefits	-	-	-	-	-
Net Pension Liability - PERS	507,800	95,858	-	603,658	-
Total	<u>\$ 5,182,568</u>	<u>\$ 1,737,433</u>	<u>\$ (406,682)</u>	<u>\$ 6,513,319</u>	<u>\$ 475,539</u>

	<u>Balance</u> <u>June 30, 2018</u>	<u>Balance</u> <u>June 30, 2017</u>
<b>Revenue Bonds-Business-Type Activities</b>		
\$136,000 Water System Revenue Bond, Series 2003 A issued May 2003, amended November 2012, \$ from 4% to 2.25% due in varying amounts to July 2026; repayment from charges for services.	63,000	\$ 76,000
\$320,000 Water System Revenue Bond, Series 2004 A issued May 2004, amended November 2012, 2.75%, due in varying amounts to July 2026; repayment from charges for services.	163,000	191,000
\$217,000 Water System Revenue Bond, Series 2004 B issued May 2004, amended November 2012, 2.25%, due in varying amounts to July 2024; repayment from charges for services.	116,000	134,000
\$261,000 Water System Revenue Bond, Series 2004 C issued July 2004, amended November 2012, 2.25%, due in varying amounts to July 2026; repayment from charges for services.	138,000	160,000
\$128,000 Water System Revenue Bond, Series 2006 issued May 2006, amended November 2012, 2.25%, due in varying amounts to July 2026; repayment from charges for services.	77,000	87,000
\$359,300 Waste Water Treatment (Sewer) Revenue Bond, Series 2009B, ARRA "B", .75%, due in varying amounts to July 2030; repayment from charges for services.	203,000	221,000
\$667,000 Water Treatment (Sewer) Plant Revenue Bond, Series 2009C issued October 2009, amended November 2012, 3.00%, due in varying amounts to July 2030; repayment from charges for services.	<u>483,000</u>	<u>516,000</u>
<b>Total Revenue Bonds-Business-Type Activities</b>	<b>\$ <u>1,243,000</u></b>	<b>\$ <u>1,385,000</u></b>
<b>Special Assessment Bonds-Governmental Activities- Special Assessment debt is payable from annual assessments-the government is <b>not</b> obligated for these amounts.</b>		
\$925,000 Special Improvement District No. 18 Bond issued March 2004, 1.2% to 4.5%, due in varying amounts to July 2024; repayment from special assessments.	\$ 360,000	\$ 410,000
\$380,000 Special Improvement District No. 19 Bond issued April 2006, 4.5% to 5%, due in varying amounts to July 2026; repayment from special assessments.	195,000	215,000
\$640,000 Special Improvement District No. 21 Bond issued June 2007, 4.125%, due in varying amounts to July 2027; repayment from special assessments.	<u>265,000</u>	<u>385,000</u>
<b>Total Special Assessment Bonds-Governmental Activities</b>	<b>\$ <u>820,000</u></b>	<b>\$ <u>1,010,000</u></b>

	<u>Balance</u> <u>June 30, 2018</u>	<u>Balance</u> <u>June 30, 2017</u>
General Obligation Bonds-Governmental Activities- General Obligation debt is payable from annual assessments-the government is <b>not</b> obligated for these amounts.		
\$1,350,000 General Obligation Bonds issued July 2017, 2.770%, \$110,538 annual payments, due to July 2032; repayment from voter approved levy.	\$ <u>1,275,318</u>	
Liability for Compensated Absences, Other Post Employment Liabilities, and Pension Liabilities		
Compensated Absences- Governmental-type activities	\$ 315,582	\$ 292,560
Compensated Absences- Business-type activities	46,042	36,259
Net Pension Liability - Government-type Activities	2,209,720	1,950,949
Net Pension Liability - Business-type Activities	<u>603,658</u>	<u>507,800</u>
Total Liability for Compensated Absences and OPEB	\$ <u>3,175,002</u>	\$ <u>2,787,568</u>
Total Long-Term Debt	<u>6,513,320</u>	<u>5,182,568</u>

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

Governmental Activities Special Assessment Bonds				
Fiscal Year Ending June 30th	\$925,000 SID 18		\$380,000 SID 19	
	Principal	Interest	Principal	Interest
2019	\$ 55,000	\$ 15,340	\$ 20,000	\$ 9,685
2020	55,000	13,140	20,000	8,705
2021	60,000	10,885	25,000	7,725
2022	60,000	8,365	25,000	6,500
2023	65,000	5,785	25,000	5,250
2024-2028	65,000	2,925	80,000	8,250
2029-2032				
	<u>360,000</u>	<u>\$ 56,440</u>	<u>195,000</u>	<u>\$ 46,115</u>
Less current portion	<u>(55,000)</u>		<u>(20,000)</u>	
	<u>\$ 305,000</u>		<u>\$ 175,000</u>	
Governmental Activities Special Assessment Bonds				
Fiscal Year Ending June 30th	\$640,000 SID 21		Total	Total
	Principal	Interest	Principal	Interest
2019	\$	\$ 12,169	\$ 75,000	\$ 37,194
2020		12,169	75,000	34,014
2021	15,000	11,756	100,000	30,366
2022	40,000	10,313	125,000	25,178
2023	40,000	8,663	130,000	19,698
2024-2028	170,000	17,531	315,000	28,706
2029-2032			-	-
	<u>265,000</u>	<u>\$ 72,601</u>	<u>820,000</u>	<u>\$ 175,156</u>
Less current portion	<u>-</u>		<u>(75,000)</u>	
	<u>\$ 265,000</u>		<u>\$ 745,000</u>	

Fiscal Year Ending June 30th	\$1,350,000 GO Bond		Total	
	Principal	Interest	Principal	Interest
2019	\$ 75,727	\$ 34,812	\$ 75,727	\$ 34,812
2020	77,751	32,788	77,751	32,788
2021	80,007	30,531	80,007	30,531
2022	82,239	28,299	82,239	28,299
2023	84,533	26,006	84,533	26,006
2024-2028	459,267	93,424	459,267	93,424
2029-2032	415,794	26,359	415,794	26,359
	<u>1,275,318</u>	<u>\$ 272,219</u>	<u>1,275,318</u>	<u>\$ 272,219</u>
Less current portion	<u>(75,727)</u>		<u>(75,727)</u>	
	<u>\$ 1,199,591</u>		<u>\$ 1,199,591</u>	

**Business-Type Activities**

Fiscal Year Ending June 30th	\$136,000 Drinking Water Bond Series 2003 A		\$320,000 Drinking Water Bond Series 2004 A	
	Principal	Interest	Principal	Interest
2019	\$ 14,000	\$ 1,339	\$ 28,000	\$ 3,510
2020	14,000	1,024	29,000	2,880
2021	14,000	709	30,000	2,217
2022	14,000	394	30,000	1,541
2023	7,000	79	46,000	1,047
	<u>63,000</u>	<u>\$ 3,545</u>	<u>163,000</u>	<u>\$ 11,195</u>
Less current portion	<u>(14,000)</u>		<u>(28,000)</u>	
	<u>\$ 49,000</u>		<u>\$ 135,000</u>	

**Business-Type Activities (Continued)**

Fiscal Year Ending June 30th	\$217,000 Drinking Water Bond Series 2004 B		\$261,000 Drinking Water Bond Series 2004 C	
	Principal	Interest	Principal	Interest
2019	\$ 18,000	\$ 2,509	\$ 22,000	\$ 2,982
2020	18,000	2,104	22,000	2,487
2021	19,000	1,699	22,000	1,992
2022	20,000	1,260	24,000	1,485
2023	20,000	810	24,000	945
2024-2028	21,000	360	24,000	405
	<u>116,000</u>	<u>\$ 8,742</u>	<u>138,000</u>	<u>\$ 10,296</u>
Less current portion	<u>(18,000)</u>		<u>(22,000)</u>	
	<u>\$ 98,000</u>		<u>\$ 116,000</u>	

**Business-Type Activities (Continued)**

Fiscal Year Ending June 30th	\$128,000 Drinking Water Bond Series 2006		Total Principal	Total Interest
	Principal	Interest		
2019	\$ 10,000	\$ 1,675	\$ 92,000	\$ 12,015
2020	10,000	1,451	93,000	9,946
2021	10,000	1,226	95,000	7,843
2022	10,000	1,001	98,000	5,681
2023	10,000	776	107,000	3,657
2024-2028	27,000	955	72,000	1,720
	<u>77,000</u>	<u>\$ 7,084</u>	<u>557,000</u>	<u>\$ 40,862</u>
Less current portion	<u>(10,000)</u>		<u>(92,000)</u>	
	<u>\$ 67,000</u>		<u>\$ 465,000</u>	

**Business-Type Activities**

Fiscal Year Ending June 30th	\$359,000 Sewer Treatment Bond Series 2009 B		\$667,000 Sewer Treatment Bond Series 2009 C	
	Principal	Interest	Principal	Interest
2019	\$ 18,000	\$ 1,489	\$ 34,000	\$ 13,049
2020	18,000	1,354	35,000	12,114
2021	18,000	1,219	36,000	11,138
2022	18,000	1,084	37,000	11,070
2023	18,000	949	38,000	9,942
2024-2028	93,000	2,708	209,000	31,680
2029-2033	20,000	113	94,000	3,570
	<u>203,000</u>	<u>\$ 8,916</u>	<u>483,000</u>	<u>\$ 92,563</u>
Less current portion	<u>(18,000)</u>		<u>(34,000)</u>	
	<u>\$ 185,000</u>		<u>\$ 449,000</u>	

	Total Principal		Total Interest
\$	52,000	\$	14,538
	53,000		13,468
	54,000		12,357
	55,000		12,154
	56,000		10,891
	302,000		34,388
	114,000		3,683
	<u>686,000</u>	\$	<u>101,479</u>
	(52,000)		
\$	<u>634,000</u>		

All water and sewer bonds require:

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

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

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

During construction a separate "construction" account is required during use of the bond proceeds. The City's water and sewer bonds have been sold to the State Revolving Fund which allows bond draws as construction progresses, there were no construction balances included at June 30, 2017 or 2018.

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

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

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

Note 6 – Interfund Transactions

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

Fund	June 30, 2017	
	Transfers	Transfers
	In	Out
General Fund	\$ 181,870	\$ 300,000
Non-Major Governmental	365,635	82,195
Water Fund	-	77,093
Sewer Fund	-	88,217
Total Transfers	<u>\$ 547,505</u>	<u>\$ 547,505</u>

Fund	June 30, 2018	
	Transfers	Transfers
	In	Out
General Fund	\$ 197,144	\$ 500,000
Justice, Law and Legal Facility	1,100,000	
2017 Construction Account	-	730,636
Non-Major Governmental	306,994	194,272
Water Fund	-	84,188
Sewer Fund	-	95,042
Total Transfers	<u>\$ 1,604,138</u>	<u>\$ 1,604,138</u>

Note 7 – Employee Retirement Systems

All Town employees participate in one of two statewide, cost-sharing, multiple employer, defined benefit retirement plans: Montana Public Employees' Retirement System (PERS) and Municipal Police Officers Retirement System (MPORS). The plans are established by State law and are administered by the State of Montana. The plans provide retirement, disability, and death benefits to plan members and beneficiaries.

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

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



## FIRE DEPARTMENT RELIEF ASSOCIATION DISABILITY AND PENSION FUND

Fire Department Relief Association Disability and Pension Fund- Volunteer firemen are covered by the Fire Department Relief Association Disability and Pension Fund, which is established by state law, is governed by an independent board and is not considered a component unit of the City. To meet the actuarial amount of \$103,876 to pay the Fire Relief Association in 2016-2017, the City levied 11.878 mills, totaling \$108,429 for budgeted tax revenue, \$14,451 for Insurance Premium Apportionment, with the remainder coming from cash on hand in fiscal 2017 to pay the City's share of fire relief pension. To meet the actuarial amount of \$103,876 to pay the Fire Relief Association in 2017-2018, the City levied 8.26 mills, totaling \$80,000 for budgeted tax revenue, \$14,632 for Insurance Premium Apportionment, with the remainder coming from cash on hand in fiscal 2018 to pay the City's share of fire relief pension.

## PUBLIC EMPLOYEE RETIREMENT SYSTEM (PERS)

For Fiscal Year 2017, payroll for the Bitterroot Public Library (The Library) is prepared by the Finance Department of the City of Hamilton, Montana (City). The Library is a special district, and is reported as an agency fund on the City's financial statements. The actuarial report issued by the State of Montana from which the pension liability and associated numbers are drawn includes the Library payroll and pension contributions in its calculation of the City's pension liability. For the financial statements, the Library's portion of the net pension liability and associated elements was segregated from those of the City. However, the amounts shown in this note to the financial statement include the Library's portion because some of reported amounts cannot be separated for the two entities. Therefore, the amounts in the notes to the financial statements support the amounts on the face of the financial statements, though the amounts themselves do not agree since the amounts in the disclosure include the Library while the amounts on the face of the financial statements do not. The adjustments made to segregate the Library's pension liability and associated elements from those of the City's were based on the ratio of the Library's gross PERS covered payroll to the City's PERS covered payroll. The Library's PERS covered payroll for the 2017 fiscal year was \$265,570, or 15.91 percent of the total \$1,669,081 covered payroll amount used by the State in its actuarial analysis. The Library's net pension liability share is \$334,434 of the City's share of the total \$2,101,882 net pension liability for PERS used by the State but is not disclosed in the financial statements in the fiduciary statements.

### 7. a. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS)

The PERS-Defined Benefit Retirement Plan (DBRP), administered by the Montana Public Employee Retirement Administration (MPERA), is a multiple-employer, cost-sharing plan established July 1, 1945, and governed by Title 19, chapters 2 & 3, Montana Code Annotated (MCA). This plan provides retirement benefits to covered employees of the State, local governments, and certain employees of the Montana University System, and school districts.

The PERS-DBRP provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are established by state law and can only be amended by the Legislature. Benefits are based on eligibility, years of service, and highest average compensation. Member rights are vested after five years of service.

7. a. 1. TOTAL PENSION AMOUNTS FOR THE CITY – PERS and MPORS

Reporting Date 6/30/18	City's Proportionate	City's Proportionate	City's Total
	Share Associated With MPORS	Share Associated With PERS	
Total Pension Liability	\$ 2,319,229	\$ 7,921,221	\$ 10,240,450
Fiduciary Net Position	1,584,994	5,842,078	7,427,072
Net Pension Liability	\$ 734,235	\$ 2,079,143	\$ 2,813,378
Deferred Outflows of Resources	\$ 166,144	\$ 449,900	\$ 616,044
Deferred Inflows of Resources	\$ 25,052	\$ 214,493	\$ 239,545
Pension Expense	\$ 280,044	\$ 195,161	\$ 475,205

Reporting Date 6/30/17	City's Proportionate	City's Proportionate	City's Total
	Share Associated With MPORS	Share Associated With PERS	
Total Pension Liability	\$ 2,010,916	\$ 8,312,211	\$ 10,323,127
Fiduciary Net Position	1,319,616	6,210,329	7,529,945
Net Pension Liability	\$ 691,300	\$ 2,101,882	\$ 2,793,182
Deferred Outflows of Resources	\$ 133,757	\$ 319,930	\$ 453,687
Deferred Inflows of Resources	\$ 28,344	\$ 12,276	\$ 40,620
Pension Expense	\$ 220,404	\$ 184,792	\$ 405,196

7. a. 2. SUMMARY OF BENEFITS – PERS

PERS' benefits are based on member's highest average compensation (HAC), which varies depending on the member's hire date. For those hired prior to July 1, 2011, the HAC is computed based on compensation during any consecutive 36 months. For member's hired on or after July 1, 2011 HAC is figured based on any consecutive 60 months and, if the hire date is on or after July 1, 2013 there is a 110% annual cap on compensation considered as part of a member's HAC.

Eligibility for benefits also depends on hire dates. Members hired prior to July 1, 2011 are eligible to retire at age 60 with 5 years of membership service or at age 65, regardless of membership service, or with 30 years of membership service regardless of age. Members hired on or after July 1, 2011 are eligible to retire at age 65, with 5 years of membership service or at age 70 regardless of membership service.

Early retirement at an actuarially reduced amount is available to members hired prior to July 1, 2011 at age 50 with 5 years of membership service or at any age with 25 years of membership service. For members hired on or after July 1, 2011, early retirement is offered at age 55 with 5 years of membership service.

The monthly benefit formula is a percentage applied to the HAC. For members hired prior to July 1, 2011 who retire with less than 25 years of service that percentage is 1.785% per year of service credit; with 25 years of service or more, the percentage increases to 2%. For members hired on or after July 1, 2011 with less 10 year of membership service, the formula applies 1.5% of HAC per year of service credit; with 10 years or more but less than 30 years of service, the percentage is 1.785% and with over 30 years of service, members receive 2% of HAC per year of service credit.

After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, inclusive of other adjustments to the member's benefit. Increases are between 0% and 3% each year, depending on the member's hire date and on the funding status of the plan.

**7. a. 3. OVERVIEW OF CONTRIBUTIONS – PERS**

Rates are specified by state law for periodic employer and employee contributions. The State legislature has the authority to establish and amend contribution rates to the plan. For **2018** and **2017** members are required to contribute 7.9% of member’s compensation. The City, as a local government entity, is required to contribute 8.47% for **2018** and 8.37% for **2017** of member’s compensation. Rates are subject to change depending on the funding status of the plan.

The State contributes 0.1% of members’ compensation on behalf of the City in a special funding situation as defined by GASB 68. The State makes additional contributions from the Coal Tax Severance fund but these additional contributions are not considered special funding as per GASB 68.

**7. a. 4. ACTUARIAL ASSUMPTIONS - PERS**

**For 2018**, the Total Pension Liability (TPL) for the June 30, 2017 measurement date is based on the results of an actuarial valuation date of June 30, 2016 with update procedures to roll forward the TPL to June 30, 2017. There were several significant assumptions and other inputs used to measure the TPL. The actuarial assumptions used in the June 30, 2017 valuation were based on the results of the last actuarial experience study, dated May 2017 for the six-year period July 1, 2010 to June 30, 2016.

**For 2017**, the Total Pension Liability (TPL) for the June 30, 2016 measurement date is based on the results of an actuarial valuation date of June 30, 2015 with update procedures to roll forward the TPL to June 30, 2016. There were several significant assumptions and other inputs used to measure the TPL. The actuarial assumptions used in the June 30, 2015 valuation were based on the results of the last actuarial experience study, dated June 2010 for the six-year period July 1, 2003 to June 30, 2009.

Among those assumptions were the following:

<b>PERS</b>	<b>Reporting Date</b>	<b>Reporting Date</b>
	<b>June 30, 2017</b>	<b>June 30, 2018</b>
Investment Return (net of administrative expense)	7.75%	7.65%
Administrative Expenses as a Percentage of Payroll	0.27%	0.26%
General Wage Growth (included inflation at 3.00%, 2.75% effective 7/1/17)	4.00%	3.50%
Merit Increases	0.0% to 6.0%	0.0% to 4.8%
Postretirement Benefit Increases		
For members hired prior to July 1, 2007	3.0%	3.0%
For members hired between July 1, 2007 and June 30, 2013	1.50%	1.50%
For members hired on or after July 1, 2013	0% to 1.5% #	0% to 1.5% #
	# depending on the funding status of the plan	

- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA for **2017** and 2020 with scale BB, males set back 1 year for **2018**.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Mortality Tables with no projections for both **2018** and **2017**.

#### 7. a. 5. DISCOUNT RATE - PERS

The discount rate used to measure the Total Pension Liability was 7.65% for 2018 and 7.75% for 2017. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non- employer contributing entities will be made based on the Board's funding policy, which establishes the contractually required rates under Montana Code Annotated. Based on those assumptions, the System's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2121 for 2018 and year 2122 for 2017. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL. No municipal bond rate was incorporated in the discount rate.

#### 7. b. MUNICIPAL POLICE OFFICERS' RETIREMENT SYSTEM (MPORS)

The Municipal Police Officers' Retirement System (MPORS), administered by the Montana Public Employee Retirement Administration (MPERA), is a multiple-employer, cost-sharing defined-benefit public pension plan that covers all municipal police officers employed by first- and second-class cities and other cities that adopt the plan. Benefits are established by state law and can only be amended by the Legislature. The MPORS provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service, and final average compensation. Member rights for death and disability are vested immediately. All other rights are vested after five years of service.

##### 7. b. 1. SUMMARY OF BENEFITS – MPORS

The monthly benefit formula is 2.5% of final average compensation (FAC). For those hired prior to July 1, 1977, FAC is the average monthly compensation of the final year of service; for employees hired on or after July 1, 1977, FAC is the final average compensation of the last consecutive 36 months; for those hired on or after July 1, 2013, there is a 110% annual cap on compensation considered as a part of a member's final average compensation.

Members are eligible for benefits after 20 years of service, regardless of age, or at age 50, with five years of membership service.

A guaranteed annual benefit adjustment (GABA) is available for those hired on or after July 1, 1997 or those electing the GABA. The member's benefit increases by a maximum of 3% each January. For those not electing the GABA, a minimum benefit adjustment is applied, which guarantees that the benefit may not be less than one-half of the compensation of a newly confirmed officer in the city that the member was last employed.

Beginning July 2002, eligible members of MPORS can participate in the Deferred Retirement Option Plan (DROP) by filing a one-time irrevocable election with the Board. A member must have completed at least twenty years of membership service to be eligible. They may elect to participate in the DROP for a minimum of one month and a maximum of 60 months and may participate in the DROP only once. A participant remains a member of the MPORS, but will not receive membership service or service credit in the system for the duration of the member's DROP period. During participation in the DROP, all mandatory contributions continue to the retirement system. A monthly benefit is calculated based on salary and years of service to the date of the beginning of the DROP period. The monthly benefit is paid into the member's DROP account until the end of the DROP period. At the end of the DROP period, the participant may receive the balance of the DROP account in a lump-sum payment or in a direct rollover to another eligible plan, as allowed by the IRS. If the participant continues employment after the DROP period ends, they will again accrue membership service and service credit. The DROP account cannot be distributed until employment is formally terminated.

## 7. b. 2. OVERVIEW OF CONTRIBUTIONS – MPORS

Rates are specified by state law for periodic employer and employee contributions. The State legislature has the authority to establish and amend contribution rates to the plan. Member contribution rates are dependent upon the date of hire.

For fiscal year 2017 and 2016, for those employed on or before June 30, 1975, member contributions as a percentage of salary are 5.8%; for those employed after June 30, 1975 and prior to July 1, 1979, the contribution is 7.0%; if employed after June 30, 1979 and prior to July 1, 1997, the rate is 8.5%; and for those employed after July 1, 1997 and electing GABA, member contributions as a percentage of salary were 9.0%. Employer contributions to the system are 14.41% of member's compensation. The State contributes 29.37% of member's compensation from the general fund.

## 7. b. 3. ACTUARIAL ASSUMPTIONS - MPORS

For 2018, the Total Pension Liability (TPL) for the June 30, 2017 measurement date is based on the results of an actuarial valuation date of June 30, 2016 with update procedures to roll forward the TPL to June 30, 2017. There were several significant assumptions and other inputs used to measure the TPL. The actuarial assumptions used in the June 30, 2017 valuation were based on the results of the last actuarial experience study, dated May 2017 for the six-year period July 1, 2010 to June 30, 2016.

For 2017, the Total Pension Liability for the measurement date of June 30, 2016, is based on the results of an actuarial valuation date of June 30, 2015, with update procedures to roll forward the TPL to June 30, 2016. There were several significant assumptions and other inputs used to measure the TPL. The actuarial assumptions used in the June 30, 2015 valuation were based on the results of the last actuarial experience study, dated June 2010 for the six-year period July 1, 2003 to June 30, 2009.

Among those assumptions were the following:

MPORS	Reporting Date	Reporting Date
	June 30, 2017	June 30, 2018
Investment Return (net of administrative expense)	7.75%	7.65%
Administrative Expenses as a Percentage of Payroll	0.20%	0.24%
General Wage Growth (included inflation at 3.00%, 2.75% effective 7/1/17)	4.00%	3.50%
Merit Increases	0.0% to 7.3%	0.0% to 6.6%
Postretirement Benefit Increases		
For members hired prior to July 1, 1997 who did elect Guaranteed Annual Benefit Adjustment (GABA)	#	#
# May not be less than 1/2 the compensation of a newly confirmed officer in the City that the member was last employed.		
For members hired on or after July 1, 1997 or those electing GABA	3.0%	3.0%

Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA for 2016 and 2020 using scale BB for 2017, set back one year for males.

- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Mortality Tables.

7. b. 4. DISCOUNT RATE - MPORS

The discount rate used to measure the Total Pension Liability was 7.65% for 2017 and 7.75% for 2016. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non- employer contributing entities will be made based on the Board’s funding policy, which establishes the contractually required rates under Montana Code Annotated. Based on those assumptions, the System’s fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2124 for 2017 and 2122 for 2016. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability. No municipal bond rate was incorporated in the discount rate.

7. c. TARGET ALLOCATIONS – PERS AND MPORS

**PERS and MPORS - Reporting Date June 30, 2018**

Asset Class	Target Asset Allocation (a)	Real Rate of Return Arithmetic Basis (b)	Long-Term Expected Real Rate of Return (a) X (b)
Cash Equivalents	2.60%	4.00%	0.10%
Domestic Equity	36.00%	4.55%	1.65%
Foreign Equity	18.00%	6.35%	1.14%
Fixed Income	23.40%	1.00%	0.23%
Private Equity	12.00%	7.75%	0.93%
Real Estate	8.00%	4.00%	0.32%
	<u>100.00%</u>		<u>4.37%</u>
		Inflation	<u>2.75%</u>
		Expected Arithmetic nominal return	<u>7.12%</u>

**PERS and MPORS - Reporting Date June 30, 2017**

Asset Class	Target Asset Allocation (a)	Real Rate of Return Arithmetic Basis (b)	Long-Term Expected Real Rate of Return (a) X (b)
Cash Equivalents	2.60%	4.00%	0.10%
Domestic Equity	36.00%	4.55%	1.64%
Foreign Equity	18.00%	6.35%	1.14%
Fixed Income	23.40%	1.00%	0.23%
Private Equity	12.00%	7.75%	0.93%
Real Estate	8.00%	4.00%	0.32%
	<u>100.00%</u>		<u>4.36%</u>
		Inflation	<u>3.00%</u>
		Expected Arithmetic nominal return	<u>7.36%</u>

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the System.

For 2018, the most recent analysis, performed for the period covering fiscal years 2010 through 2016, is outlined in a report dated May 2017 and can be located on the MPERA website.

For 2017, the most recent analysis, performed for the period covering fiscal years 2003 through 2009, is outlined in a report dated June 2010 and can be located on the MPERA website.

Several factors are considered in evaluating the long-term rate of return assumption including rates of return adopted by similar public sector systems, and by using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. Best estimates are presented as the arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2017, and June 30, 2016, as summarized in the tables above.

**7. d. SENSITIVITY ANALYSIS – PERS AND MPORS**

**Reporting Date June 30, 2018**

	1.0% Decrease (6.65%)	Current Discount Rate	1.0% Increase (8.65%)
PERS' Employer Proportion	\$3,028,094	\$2,079,143	\$1,282,570
MPORS' Employer Proportion	\$1,069,075	\$734,235	\$465,765

The above table presents the Net Pension Liability calculated using the discount rate of 7.65% as well as what the NPL would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate.

**Reporting Date June 30, 2017**

	1.0% Decrease (6.75%)	Current Discount Rate	1.0% Increase (8.75%)
PERS' Employer Proportion	\$3,049,986	\$2,101,882	\$1,285,183
MPORS' Employer Proportion	\$930,798	\$691,300	\$430,049

The above table presents the Net Pension Liability calculated using the discount rate of 7.75% as well as what the NPL would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate.

**7. e. NET PENSION LIABILITY – PERS AND MPORS**

In accordance with GASB Statement 68, Accounting and Financial Reporting for Pensions, employers are required to recognize and report certain amounts associated with their participation in the PERS and MPORS. Statement 68, which became effective June 30, 2015, includes requirements to record and report their proportionate share of the collective Net Pension Liability, Pension Expense, Deferred Inflows and Deferred Outflows of resources associated with pensions.

In accordance with Statement 68, PERS and MPORS have special funding situations in which the State of Montana is legally responsible for making contributions directly to PERS and MPORS on behalf of the employers. Due to the existence of this special funding situation, local governments and school districts are required to report the portion of the State of Montana's proportionate share of the collective Net Pension Liability that is associated with the non-State employer.

MPERA prepares its financial statements using the accrual basis of accounting. For purposes of measuring the Net Pension Liability, Deferred Inflows of Resources and Deferred Outflows of Resources related to pensions, Pension Expense, information about the Fiduciary Net Position and additions to/deductions from Fiduciary Net Position have been determined on the same basis as they are reported by MPERA. For this purpose, member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Revenues are recognized in the accounting period they are earned and become measurable. Benefit payments and refunds are recognized in the accounting period when due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred. Investments are reported at fair value. MPERA adheres to all applicable Governmental Accounting Standards Board (GASB) statements.

For 2017 - The table below displays the employer proportionate share of the NPL and the employer's proportion of NPL for June 30, 2016 and 2017. The employer's proportion of the NPL was based on the employer's contributions received by PERS and MPORS during the measurement period July 1, 2016 through June 30, 2017, relative to the total employer contributions received from all of PERS' and MPORS' participating employers.

<b>PERS</b>					
<b>Reporting Date June 30, 2018</b>	NPL as of	NPL as of	% of Collective	% of Collective	Change in
	6/30/2017	6/30/2016	NPL as of	NPL as of	Percent of
			6/30/2017	6/30/2016	Collective NPL
City's Proportionate Share	\$ 2,079,143	\$ 2,101,882	0.1068%	0.1234%	-0.0166%
State of Montana's Proportionate					
Share Associated with the City	26,449	25,683	0.1348%	0.1577%	-0.0229%
<b>Total</b>	<b>\$ 2,105,592</b>	<b>\$ 2,127,565</b>	<b>0.2416%</b>	<b>0.2811%</b>	<b>-0.0395%</b>

<b>MPORS</b>					
<b>Reporting Date June 30, 2018</b>	NPL as of	NPL as of	% of Collective	% of Collective	Change in
	6/30/2017	6/30/2016	NPL as of	NPL as of	Percent of
			6/30/2017	6/30/2016	Collective NPL
City's Proportionate Share	\$ 734,235	\$ 691,300	0.4127%	0.3840%	0.0287%
State of Montana's Proportionate					
Share Associated with the City	1,496,488	1,372,260	0.8411%	0.7623%	0.0788%
<b>Total</b>	<b>\$ 2,230,723</b>	<b>\$ 2,063,560</b>	<b>1.2538%</b>	<b>1.1463%</b>	<b>0.1075%</b>

**For 2017 - Changes in actuarial assumptions and methods:** The following changes in assumptions or other inputs that affected the measurement of the TPL have been made since the previous measurement date.

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

- Lowered the interest rate from 7.75% to 7.65%.
- Lowered the inflation rate from 3.00% to 2.75%.
- Updated non-disabled mortality to the RP-2000 combined Employee and Annuitant Mortality Table projected to 2020 using scale BB, males set back 1 year.
- Increased rates of withdrawal.
- Lowered the merit component of the total salary increase.
- Lowered the wage base component of the total salary increase from 4.00% to 3.50%.
- For PERS - Decreased the administrative expense load from 0.27% to 0.26%.
- For MPORS – Increased the administrative expense load from 0.20% to 0.24%.

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

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



**For 2017 - Changes in benefit terms:** The following changes in benefit terms that affected the measurement of the TPL have been made since the previous measurement date.

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

- The interest rate credited to member accounts increased from 0.25% to 0.77%.
- Lump sum payouts in all systems are limited to the member's accumulated contribution rather than the present value of the member's benefit.
- For MPORS – Working Retiree Limitations applies to retirement system members who return on or after July 1, 2017 to covered employment in the system from which they retired.
- For MPORS – Second Retirement Benefit applies to retirement system members who return on or after July 1, 2017 to active service covered by the system from which they retired.

**For 2017 - Changes in proportionate share:** There were no changes between the measurement date of the collective NPL and the employer's reporting date that are expected to have a significant effect on the employer's proportionate share of the collective NPL.

For 2016 - The table below displays the employer proportionate share of the NPL and the employer's proportion of NPL for June 30, 2015 and 2016. The employer's proportion of the NPL was based on the employer's contributions received by PERS and MPORS during the measurement period July 1, 2015 through June 30, 2016, relative to the total employer contributions received from all of PERS' and MPORS' participating employers.

<b>PERS</b>			% of Collective	% of Collective	Change in
<b>Reporting Date June 30, 2017</b>	NPL as of	NPL as of	NPL as of	NPL as of	Percent of
	6/30/2016	6/30/2015	6/30/2016	6/30/2015	Collective NPL
City's Proportionate Share	\$ 2,101,882	\$ 1,744,893	0.1234%	0.1248%	-0.0014%
State of Montana's Proportionate Share Associated with the City	25,683	21,433	0.1577%	0.0015%	0.1562%
<b>Total</b>	<b>\$ 2,127,565</b>	<b>\$ 1,766,326</b>	<b>0.2811%</b>	<b>0.1263%</b>	<b>0.1548%</b>

<b>MPORS</b>			% of Collective	% of Collective	Change in
<b>Reporting Date June 30, 2017</b>	NPL as of	NPL as of	NPL as of	NPL as of	Percent of
	6/30/2016	6/30/2015	6/30/2016	6/30/2015	Collective NPL
City's Proportionate Share	\$ 691,300	\$ 676,881	0.3840%	0.4092%	-0.0252%
State of Montana's Proportionate Share Associated with the City	1,372,260	1,371,426	0.7623%	0.8291%	-0.0668%
<b>Total</b>	<b>\$ 2,063,560</b>	<b>\$ 2,048,307</b>	<b>1.1463%</b>	<b>1.2383%</b>	<b>-0.0920%</b>

**For 2016 - Changes in actuarial assumptions and methods:** There were no changes in assumptions or other inputs that affected the measurement of the Total Pension Liability.

**For 2016 - Changes in benefit terms:** There have been no changes in benefit terms since the previous measurement date.

**For 2016 - Changes in proportionate share:** For both PERS and MPORS, between the measurement date of the collective NPL and the employer's reporting date there were some changes in proportion that may have an effect on the employer's proportionate share of the collective NPL.

7. f. PENSION EXPENSE – PERS AND MPORS

Pension Expense as of:	JUNE 30, 2018		JUNE 30, 2017	
	PERS	MPORS	PERS	MPORS
City's Proportionate Share	\$ 164,008	\$ 98,787	\$ 145,815	\$ 73,360
State of Montana Proportionate Share Associated with the City - Grant Revenue	1,410	181,257	2,152	147,044
State of Montana Proportionate Share Associated with the City - Coal Tax	29,743		36,825	
<b>Total</b>	<b>\$ 195,161</b>	<b>\$ 280,044</b>	<b>\$ 184,792</b>	<b>\$ 220,404</b>

At June 30, 2018, the employer recognized a Pension Expense of \$164,008 (PERS) and \$98,787 (MPORS) for its proportionate share of the Pension Expense. The employer also recognized grant revenue of \$1,410 (PERS) and \$181,257 (MPORS) for the support provided by the State of Montana for its proportionate share of the Pension Expense that is associated with the employer. For PERS, the employer also recognized grant revenue of \$29,743 for support provided by the State of Montana from the Coal Tax Severance Fund.

At June 30, 2017, the employer recognized a Pension Expense of \$145,815 (PERS) and \$73,360 (MPORS) for its proportionate share of the Pension Expense. The employer also recognized grant revenue of \$2,152 (PERS) and \$147,044 (MPORS) for the support provided by the State of Montana for its proportionate share of the Pension Expense that is associated with the employer. For PERS, the employer also recognized grant revenue of \$36,825 for support provided by the State of Montana from the Coal Tax Severance Fund.

7. g. DEFERRED INFLOWS AND OUTFLOWS – PERS AND MPORS

At June 30, 2017, the District reported its proportionate share of PERS and MPORS deferred outflows of resources and deferred inflows of resources related to PERS and MPORS from the following sources:

Reporting Date June 30, 2018	PERS		MPORS	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	\$ 51,203	\$ 3,009	\$ -	\$ 25,052
Changes in actuarial assumptions	284,197	-	49,559	-
Difference between projected and actual earnings on plan investments	-	13,964	638	-
Changes in proportion & differences between actual and expected contributions	-	197,520	24,416	-
Contributions paid subsequent to the measurement date (FY 18 Contributions)	\$ 114,590	-	91,531	-
<b>TOTAL</b>	<b>\$ 449,990</b>	<b>\$ 214,493</b>	<b>\$ 166,144</b>	<b>\$ 25,052</b>

At June 30, 2016, the District reported its proportionate share of PERS and MPORS deferred outflows of resources and deferred inflows of resources related to PERS and MPORS from the following sources:

**Reporting Date June 30, 2017**

	<b>PERS</b>		<b>MPORS</b>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between actual and expected experience	\$ 11,341	\$ 6,958	\$ -	\$ 14,084
Changes in actuarial assumptions	-	-	-	-
Difference between projected and actual earnings on plan investments	197,745	-	44,825	-
Changes in proportion & differences between actual and expected contributions	-	5,318	-	14,260
Contributions paid subsequent to the measurement date (FY 17 Contributions)	\$ 110,844	-	88,932	-
<b>TOTAL</b>	<b>\$ 319,930</b>	<b>\$ 12,276</b>	<b>\$ 133,757</b>	<b>\$ 28,344</b>

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in Pension Expense as follows:

**Reporting Date June 30, 2018**

<b>Year ended June 30:</b>	<b>PERS</b>	<b>MPORS</b>
2019	\$ 9,374	\$ 9,601
2020	\$ 93,396	\$ 22,377
2021	\$ 62,390	\$ 28,411
2022	\$ (44,254)	\$ (10,828)
2023	\$ -	\$ -
Thereafter	\$ -	\$ -

**Reporting Date June 30, 2017**

<b>Year ended June 30:</b>	<b>PERS</b>	<b>MPORS</b>
2018	\$ 9,574	\$ (1,412)
2019	\$ 9,574	\$ (1,412)
2020	\$ 112,371	\$ 19,043
2021	\$ 70,610	\$ 14,523
2022	\$ -	\$ -
Thereafter	\$ -	\$ -

**Note 8 – Leases and Contracts**

The City leases the library building to the Bitterroot Public Library. The library was leased in 1987 for 70 years at a nominal rent of \$1 per year.

In November of 2012, the City entered into an agreement with the Hamilton Rural Fire District, which requires the City's Volunteer Fire Department to continue to furnish fire protection service to the District and the District will be required to pay the City a base rate of \$159,919 with an annual increase dependent on the Consumer Price Index of the prior calendar year end. The funds are used for operations and maintenance of the City's Fire Department, and for the purchase of equipment and support to the Hamilton Fire Department Relief Association. During 2017 and 2018, \$168,378, and \$136,381, respectively was received from this agreement. The agreement is effective January 1, 2013 and runs through December 31, 2017. From January 2018 through June 30, 2018, no formal agreement existed, but the terms of the most recent agreement were adhered to.

## Note 9 – Inter-Local Agreement

The City has an inter-local agreement with the Hamilton Rural Fire District (District) to provide mutually beneficial services. Important provisions, in addition to the lease portion of the agreement explained in Note 9, include: income from the District to the City is deposited in a capital improvement account for use of the City Fire Department; the City Fire Chief is in charge of all operations; each party is responsible for maintaining employee benefits and liability coverage for its employees and volunteers, maintaining insurance on each party's owned facilities and equipment; the City jurisdiction first, providing fire prevention and education, motor vehicle accident response and hazardous materials response, equip, man and utilize the rural stations, providing for training and recruitment of firefighters; the District is responsible for providing upkeep and utilities for the District stations. The agreement in effect for the year ended June 30, 2015, began January 1, 2013, continues in effect for a five year period, until December 31, 2017, or until terminated by either party in accordance to contract.

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

## Note 10 – Other Post Employment Benefits (OPEB)

In accordance with state law, employees on the City's health insurance plan who retire prior to age 65 (at which time they become eligible to receive Medicare) may opt to remain on the City's health insurance, as long as the employee reimburses the City of Hamilton for the insurance premium. The City purchases health insurance for employees from a private insurer. In the event that employees failed to reimburse the City it is estimated that the maximum period of liability for the City would be one to two month's premiums before the retiree was dropped from the plan. Beginning with the year ended June 30, 2010 the City implemented Governmental Accounting Standards Board statement 45. GASB 45 requires the City to estimate and record an estimated future liability for the imputed extra insurance cost of making a post-employment benefit available. In the fiscal year ended June 30, 2017, OPEB was decreased in the governmental liabilities by \$16,978, water fund liabilities by \$4,706, and sewer liabilities by \$2,617. Of the 43 participating in the plan there were no retirees on the plan during each fiscal year. Although the amounts are not considered material, these decreases are reflected on the Government Wide Statement of Net Position and Statement of Activities; and the Proprietary Fund Statement of Net Position and Statement of Revenues, Expenses and Changes in Fund Net Position. For fiscal year end June 30, 2018, the City obtained actuarial consulting services to provide an OPEB liability amount, which were reviewed by the City and determined that the amounts provided were immaterial overall to the financial statements and would not impair the financial statements and were excluded.

## Note 11 – Risk Management

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

Coverage information, as well as audited financial statements for the plan, is available from Montana Municipal Insurance Authority, PO Box 6669, Helena, Montana, 59604-6669, (406)443-0907 or (800)635-3089; or [mmia.net](http://mmia.net). See Note 2 for a discussion of cash risk management.

## Note 12 – Subsequent Events

For 2018-2019, the City continued making improvements on the Fairgrounds Road pathway, and street lights, budgeting \$721,000 in the General fund, Gas Tax fund, and Gas Tax – Road/Street Special Allocation fund. There are one or two phases remaining for paving, curb and storm drainage and landscaping and it will be looked at in the budget process for 2019-2020. In 2018-2019 the City has provided \$100,800 to the State of Montana in accordance with the agreement, whereby the State will construct a shared path, lighting, walls and fencing on Fairgrounds Road, using Transportation Alternatives funding with that total project totaling near \$600,000. The State is projecting a March or April 2019 construction date.

In 2018-2019, final costs of \$68,000 were incurred in assembling a new fire vehicle unit started in the current 2018 year with reported costs of \$57,000 spent, so total costs, rounded, was \$125,000.

In 2018-2019, the City budgeted nearly \$2.5 million to renovate the former Armory building, into the City's Justice Center. Construction began in September 2018, and is projected to be finished in April 2019. The City has a loan of \$1 million to offset the total cost, with the City providing the remainder with available money.

The Water fund in 2018-2019 is sharing the SCADA costs with the Sewer fund, totaling \$340,000, and also within the Water fund is budgeted \$700,000 for a transmission line on the Big Corral Road. The Sewer fund in 2018-2019 has budgeted \$1.28 million for improvements such as the SCADA system upgrade, New York lift station upgrade, a solar project, a screw pump replacement, a sewer jet truck, and a WAS pump.

In 2018-2019, the City adopted an ordinance to form the North Hamilton Urban Renewal District (NHURD), comprised of areas on and around North 1<sup>st</sup> Street. The purpose of the district is to raise funds for improvements to infrastructure in the area to address the blight issues identified. No new taxes are levied for this district, but rather any increase in tax revenue from a determined base year will be segregated and used for purposes of infrastructure improvement. Infrastructure projects include a possible stoplight, extension of water and sewer or other utilities as they develop or when systems fail, and transportation improvements including pedestrian/bike path on Old Corvallis Road. This district will first begin the tax incremental process in 2019-2020.

In 2018-2019, the City budgeted \$20,000 for a preliminary architect's review for a new fire station, to be tentatively built on previously purchased property on Foxfield Road. Preliminary estimates are \$5 million, but the City is evaluating getting costs more in the \$3 million-dollar range. The City is hoping to minimize the amount of potential loans for this by transferring money to a Fire Station CIP fund. And in light of no official approval for this facility yet, no timeline has been set as to when construction would actually begin.

**CITY OF HAMILTON, MONTANA**

**REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
FOR THE LAST TEN FISCAL YEARS \*  
PUBLIC EMPLOYEES RETIREMENT SYSTEM**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
City's proportion of the NPL as a percentage	0.1068%	0.1234%	0.1248%	0.1236%
City's proportion of the NPL as an amount	\$ 2,079,143	\$ 2,101,882	\$ 1,744,893	\$ 1,539,910
State of Montana's proportionate share of the NPL associated with the City	\$ 26,449	\$ 25,683	\$ 21,433	\$ 18,805
<b>Total</b>	<b>\$ 2,105,592</b>	<b>\$ 2,127,565</b>	<b>\$ 1,766,326</b>	<b>\$ 1,558,715</b>
 City's Pensionable Payroll	 \$ 1,324,286	 \$ 1,478,083	 \$ 1,456,732	 \$ 1,411,938
City's proportionate share of the NPL as a percentage of its pensionable payroll	157.00%	142.20%	119.78%	111.22%
Plan fiduciary net position as a percentage of the Total Pension Liability	73.75%	74.71%	78.40%	79.87%

**SCHEDULE OF CONTRIBUTIONS  
FOR THE LAST TEN FISCAL YEARS \***

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually Required Contributions	\$ 114,590	\$ 110,844	\$ 128,731	\$ 126,423
Contributions in Relation to the Contractually Required Contributions	\$ 114,590	\$ 110,844	\$ 128,731	\$ 126,423
Contribution Deficiency (Excess)	a	\$ -	\$ -	\$ -
 City's Pensionable Payroll	 \$ 1,352,889	 \$ 1,324,286	 \$ 1,478,083	 \$ 1,456,732
Contributions as a percentage of Pensionable Payroll	8.47%	8.37%	8.71%	8.68%

\* The amounts presented for each fiscal year were determined as of June 30. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

**CITY OF HAMILTON, MONTANA**

**REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
FOR THE LAST TEN FISCAL YEARS \*  
MUNICIPAL POLICE OFFICERS' RETIREMENT SYSTEM**

	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
City's proportion of the NPL as a percentage	0.4127%	0.3840%	0.4092%	0.3883%
City's proportion of the NPL as an amount	\$ 734,235	\$ 691,300	\$ 676,881	\$ 610,181
State of Montana's proportionate share of the NPL associated with the District	\$ 1,496,488	\$ 1,372,260	\$ 1,371,426	\$ 1,232,638
<b>Total</b>	<b>\$ 2,230,723</b>	<b>\$ 2,063,560</b>	<b>\$ 2,048,307</b>	<b>\$ 1,842,819</b>
 City's Pensionable Payroll	 \$ 617,149	 \$ 542,119	 \$ 566,324	 \$ 521,015
City's proportionate share of the NPL as a percentage of its pensionable payroll	118.97%	127.52%	119.52%	117.11%
Plan fiduciary net position as a percentage of the Total Pension Liability	68.34%	65.62%	66.90%	67.01%

**SCHEDULE OF CONTRIBUTIONS  
FOR THE LAST TEN FISCAL YEARS \***

	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Contractually Required Contributions	\$ 91,531	\$ 88,932	\$ 79,413	\$ 82,094
Contributions in Relation to the Contractually Required Contributions	\$ 91,531	\$ 88,932	\$ 79,413	\$ 82,094
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -
 City's Pensionable Payroll	 \$ 635,188	 \$ 617,149	 \$ 542,119	 \$ 566,324
Contributions as a percentage of Pensionable Payroll	14.41%	14.41%	14.65%	14.50%

\* The amounts presented for each fiscal year were determined as of June 30. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

CITY OF HAMILTON, MONTANA

Notes to Proportionate Share and Contributions Schedules  
Pension Plan Changes  
For the Year ended June 30, 2018

Public Employees Retirement System (PERS)

*Changes of Benefit Terms:* The following changes to the plan provision were made as identified:

**2017 Legislative Changes:**

- Working Retiree Limitations – If a PERS retiree returns as an independent contractor to what would otherwise be PERS-covered employment, general contractor overhead costs are excluded from PERS working retiree limitations.
- Terminating Employers – Employers who terminate participation in PERS must pay the actuarial liability associated with that termination and pay for the cost of the actuarial study used to determine that liability.
- Refunds – terminating members eligible to retire may, in lieu of receiving a monthly retirement benefit, refund their accumulated contributions in a lump sum. Terminating members with accumulated contributions between \$200 and \$1,000 who wish to rollover their refunds must do so within 90 days of termination of service.
- Family Law Order (FLO) – If a FLO is silent regarding the apportionment of post-retirement benefit adjustments such as the GABA, the FLO is presumed to require apportionment of the post-retirement benefit adjustment in the same percentage as the monthly retirement benefit is apportioned.
- PERS Statutory Appropriation – Revenue from the coal severance taxes and interest income from the coal severance tax permanent fund previously statutory-appropriated to the PERS defined benefit trust fund will be replaced with the following statutory appropriations:
  1. FY 2018 - \$31.386 million
  2. FY 2019 - \$31.958 million
  3. Beginning July 1, 2019 through at least June 30, 2025, 101% of the contribution from the previous year from the general fund to the PERS defined benefit trust fund, as follows:
    - a. FY 2020 - \$32.277 million
    - b. FY 2021 - \$32.6 million
    - c. FY 2022 - \$32.926 million
    - d. FY 2023 - \$33.255 million
    - e. FY 2024 - \$33.588 million
    - f. FY 2025 - \$33.924 million

*Changes in Actuarial Assumptions and Methods:*

Effective July 1, 2017, the following assumptions were used:

Administrative Expenses as a Percent of Payroll	0.26%
General Wage Growth (includes inflation at 2.75%)	3.50%
Merit Increase	0% to 4.8%
Investment Rate of Return (includes inflation at 2.75%)	7.65%
Asset Valuation Method	4-year smoothed market
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level % of Pay, Open



## CITY OF HAMILTON, MONTANA

### Notes to Proportionate Share and Contributions Schedules For the Year ended June 30, 2018

#### Municipal Police Officers' Retirement System (MPORS)

##### Changes in Actuarial Assumptions and Methods

Methods and assumptions used in calculations of actuarially determined contributions. The following actuarial assumptions were adopted from the June 30, 2017 actuarial valuation:

Effective July 1, 2017, the following assumptions were used:

Administrative Expenses as a Percent of Payroll	0.24%
General Wage Growth (includes inflation at 2.75%)	3.50%
Merit Increase	0% to 6.60%
Investment Rate of Return (includes inflation at 2.75%)	7.65%
Asset Valuation Method	4-year smoothed market
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level % of Pay, Open

**Changes of Benefit Terms:** The following changes to the plan provision were made as identified:

##### 2017 Legislative Changes:

General Revisions – House Bill 101, effective July 1, 2017

##### Working Retiree Limitations:

- Applies to retirement system members who return on or after July 1, 2017 to covered employment in the system from which they retired.
- Members who return for less than 480 hours in a calendar year may not become an active member in the system and are subject to a \$1 reduction in their retirement benefit for each \$3 earned in excess of \$5,000 in the calendar year.
- Members who return for 480 or more hours in a calendar year must become an active member in the system, will stop receiving a retirement benefit from the system, and will be eligible for a second retirement benefit if they earn 5 or more years of service credit through their second employment.
- Employee, employer, and State contributions, if any, apply as follows: (a) Employer contributions and State contributions (if any) must be paid on all working retirees; and (b) Employee contributions must be paid on working retirees who return to covered employment for 480 or more hours in a calendar year.

##### Second Retirement Benefit:

- Applies to retirement system members who return on or after July 1, 2017 to covered employment in the system from which they retired.
- If the member works more than 480 hours in a calendar year and accumulates less than 5 years of service credit before terminating again, the member: (a) Is not awarded service credit for the period of reemployment; (b) Is refunded the accumulated contributions associated with the period of reemployment; (c) Starting the first month following termination of service, receives the same retirement benefit previously paid to the member; and (d) Does not accrue post-retirement benefit adjustments during the term of reemployment but receives a Guaranteed Annual Benefit Adjustment (GABA) in January immediately following second retirement.

**CITY OF HAMILTON, MONTANA**

**Notes to Proportionate Share and Contributions Schedules  
For the Year ended June 30, 2018**

**Municipal Police Officers' Retirement System (MPORS)**

- If the member works more than 480 hours in a calendar year and accumulates at least 5 years of service credit before terminating again, the member: (a) Is awarded service credit for the period of reemployment; (b) Starting the first month following termination of service, receives the same retirement benefit previously paid to the member and a second retirement benefit for the period of reemployment calculated based on the laws in effect as of the member's rehire date; and (c) Does not accrue post-retirement benefit adjustments during the term of reemployment but receives a GABA on the initial retirement benefit in January immediately following second retirement and on the second retirement benefit starting in January after receiving that benefit for at least 12 months.
- A member who returns to covered service is not eligible for a disability benefit.

**Terminating Employers – Recovery of Actuary Costs:**

- Employers who terminate participation in MPORS must pay the actuarial liability associated with that termination. The terminating employer must also pay for the cost of the actuarial study used to determine that liability.

**Refund:**

- Terminating members eligible to retire may, in lieu of receiving a monthly retirement benefit, refund their accumulated contributions in a lump sum.
- Terminating members with accumulated contributions between \$200 and \$1,000 who wish to rollover their refund must do so within 90 days of termination of service.
- Trust, estates, and charitable organizations listed as beneficiaries are entitled to receive only lump-sum payments.

**Family Law Orders (FLO):**

- If a FLO is silent regarding the apportionment of post-retirement benefit adjustments such as the GABA, the FLO is presumed to require apportionment of the post-retirement benefit adjustment in the same percentage as the monthly retirement benefit is apportioned.

**CITY OF HAMILTON, MONTANA**

**Notes to Proportionate Share and Contributions Schedules  
Pension Plan Changes  
For the Year ended June 30, 2017**

**Public Employees Retirement System (PERS)**

**2013 Legislative Changes:**

- Working Retirees – The law now requires employers to make contributions on working retiree compensation.
- Highest Average Compensation (HAC) Cap – All PERS members hired on or after July 1, 2013 are subject to a 110% annual cap on compensation considered as part of a member’s highest or final average compensation. All bonuses paid to PERS members on or after July 1, 2013 will not be treated as compensation for retirement purposes.
- Guaranteed Annual Benefit Adjustment (GABA) – Annual adjustment increases are limited depending on the member’s hire date and the funded ratio of the system.

**2015 Legislative Changes:**

- Second Retirement Benefit – Terms for members who retire and return to active service were revised depending on the date the member returns to service and on how many years of service credit are accumulated after that date.
- Employer contributions and the Defined Contribution Plan – Effective March 2016 the Plan Choice Rate (PCR) liability was declared paid off and the contributions of 2.37%, .47% and the 1.0% increase previously redirected from DC members’ accounts to the DB trust fund are now paid directly to DC member’s accounts. However, the previous PCR payments that had been so redirected will remain in the DB trust fund, this diversion of funds not considered by the Montana Supreme Court to have violated the DC members’ constitutional rights.

• ***Changes in Actuarial Assumptions and Methods:***

Adopted in 2014 based on the implementation of GASB 68:

Administrative Expenses as a Percentage of Payroll	0.27%
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No changes made following the 2013 Economic Experience study.

Adopted from the June 2010 Experience Study:

General Wage Growth (includes inflation at 3.00%)	4.00%
Merit Increase	0% to 6.0%
Investment Rate of Return*	7.75%
Asset Valuation Method	4-year smoothed market
Actuarial Cost Method	Entry Age
Amortization Method	Level % of Pay, Open

\* Net of pension plan investment expense, and including inflation.

**CITY OF HAMILTON, MONTANA**

**Notes to Proportionate Share and Contributions Schedules  
For the Year ended June 30, 2017**

**Municipal Police Officers' Retirement System (MPORS)**

**Changes in Actuarial Assumptions and Methods**

**Methods and assumptions used in calculations of actuarially determined contributions.** The following addition to the actuarial assumptions was adopted in 2014 based upon implementation of GASB Statement 68:

Adopted in 2014 based on the implementation of GASB 68:

Administrative Expenses as a Percentage of Payroll	0.20%
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No changes made following the 2013 Economic Experience study.

Adopted from the June 2010 Experience Study:

General Wage Growth (includes inflation at 3.00%)	4.00%
Merit Increase	0% to 7.30%
Investment Rate of Return *	7.75%
Asset Valuation Method	4-year smoothed market
Actuarial Cost Method	Entry Age
Amortization Method	Level % of Pay, Open

\* Net of pension plan investment expense, and including inflation.

**Changes of Benefit Terms:**

The following changes to the plan provision were made as identified:

**2015 Legislative Changes:**

General Revisions – House Bill 101, effective January 1, 2016

MPORS DROP Survivor Benefits – Allow statutory beneficiary of a deceased DROP participant to receive a DROP benefit and a survivorship benefit rather than accumulated contributions or a lump sum payment.

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

To the City Council  
City of Hamilton  
Hamilton, Montana

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hamilton, Montana, as of and for the year ended June 30, 2017 and June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued my report thereon dated July 18, 2019.

**Internal Control Over Financial Reporting**

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

*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.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. I did identify a certain deficiency in internal control described below as item 2018-001 that I consider to be a significant deficiency.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed one instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described as item 2018-002.

### 2018-001 – Accounting Records

**Condition** – During the audit, the following was noted:

- The Annual Financial Report (AFR) submitted to the State contained a number of errors. For example, the supporting schedules for the long-term debt were not updated. In addition, matured interest for bonds payable was not correct. However, total payables was correct. The corrections were made to the notes and/or financial statements accordingly.
- During the audit, I noted bank reconciliations were completed. However, the cash reconciliation indicated differences of approximately \$65,264 at June 30, 2017 and \$52,818 at June 30, 2018. However, it should be noted that the differences indicate more cash in the bank than the financial statements. The explanation for the differences was not determined.

JW  
TOTAL,  
WAS  
OR ON  
FS.

**Criteria** - Cash reconciliations should be made with explanations for all differences noted.

**Effect** – The lack of accurately completed cash reconciliations increases the vulnerability for improper disbursements.

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

**Recommendation** - I recommend the Council continue to monitor and approve the City's activities. This should include review of accurately completed cash reconciliations. Consideration should be made to make an adjustment to the financial statements for starting in the beginning of the fiscal year and try to isolate the issue. The cash reconciliation reports should be presented to Council on a periodic basis or timeframe agreeable to the Council. In addition, I recommend the Annual Financial Report be completed accurately in the prescribed format and agree with the underlying financial statements.

### 2018-002 – Minutes

**Condition** – During the audit, I noted:

- Minutes for a number of council meetings did not always indicate the check numbers to be paid. For example, June 6, 2017 minutes indicated claims to be paid on June 7, 2017 without any indication of the numbers.
- It was difficult to determine that minutes with check numbers were all accounted for. For example, the June 20, 2017 minutes indicated #80116 - #80246. However, the subsequent minutes indicated #80290-#80394. There appears to be an unaccounted gap for #80247-#80289. In addition, total amounts are not always indicated with the range.
- I noted Minutes for a number of council meetings were not always approved in subsequent meetings. For example, it appears that March 5, April 2, May 21, June 4, and June 18, 2019 were not presented for approval in subsequent meetings.

EXAMPLE

MAY 16 2017  
JUN 6  
JUN 20 - 2017  
COULD NOT  
DETERMINE  
WHAT CLAIMS  
CLAIMS WERE  
BUT GAP

**Criteria** – A requirement of effective internal control is ongoing monitoring of the City's activities. as evidenced by approval of the completed and accurate minutes and financial reports.

**Effect** – Lack of accurately reported minutes, i.e., providing claim numbers in sequential order, increases the vulnerability for improper disbursements.

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

**Recommendation** - I recommend the City Council ensure all minutes are accurate and approved in subsequent meetings. The minutes should address the issues noted above in the Condition.

### **Entity's Response to Findings**

The City's response to audit findings identified in my audit is described on page 78. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

### **Purpose of this Report**

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



July 18, 2019

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**REPORT ON PRIOR AUDIT RECOMMENDATIONS**

To the City Council  
City of Hamilton  
Hamilton, Montana

The prior audit report contained two audit recommendations. The action taken on the recommendations are as follows:

**16-1 – Monitoring – No concerns noted in the current audit.**

**16-2 – Minutes – Repeated.**



July 18, 2019





# City of Hamilton

223 South Second Street  
Hamilton, Montana 59840

July 26, 2019

To Readers of the 2017 and 2018 Audit Report:

The City of Hamilton responds to the Auditor's Findings of Compliance and Other Matters as follows:

**2018-001 – Accounting Records:**

**Condition 1:** The Annual Financial Report (AFR) submitted to the State contained a number of errors.

**Response 1:** As noted in the Auditor's Findings, the corrections have already been made.

**Condition 2:** The bank and cash reconciliations indicated differences of a nonmaterial amount (*i.e.* more money in the bank than is shown on the cash reconciliation).

**Response 2:** This is an outstanding oversight of which the City was already aware. Although the exact cause of the discrepancy has not been determined, the City and Auditor believe this is likely a result of delay caused by electronic and online transactions. Starting in July, 2019, the City will move the excess funds into a separate account and reconcile the bank and cash statements going forward. This will allow the City to better identify the source of the discrepancy while the funds remain accessible in the separate account.

**2018-002 - Minutes:**

**Condition 1:** Council minutes did not always indicate the claim numbers to be paid.

**Response 1:** Council minutes now contain the claim numbers to be paid.

**Condition 2:** Council minutes appear to contain an unaccounted gap in claim numbers.

**Response 2:** The Bitterroot Public Library processes its claims on the same Black Mountain system and Library claims are assigned consecutive claim numbers that are approved by the Library Board, not the City Council. The Library claim numbers can be compared to the City claims if needed to ensure that all claim numbers are accounted for.

**Condition 3:** The auditor noted Minutes for a number of City Council meetings were not approved in subsequent meetings.

**Response 3:** This is an outstanding oversight of which the City was already aware. The City Clerk will work with the Mayor to ensure that there are sufficient resources available to finalize the minutes in a timely manner in accordance with City Resolution.

Sincerely,

Craig Shepherd  
Financial Administrator, City of Hamilton

cc: Mayor Dominic Farrenkopf  
Hamilton City Council

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website: [www.cityofhamilton.net](http://www.cityofhamilton.net)