

CITY OF HAMILTON, MONTANA

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

**FOR THE YEAR ENDED
June 30, 2016**

TERRY JAMES BURKE
Certified Public Accountant

CITY OF HAMILTON, MONTANA

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CITY OF HAMILTON, MONTANA

Organization

June 30, 2016

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 Hanson
Public Works Director	Keith Smith
Cemetery/Parks Director.....	Keith Smith

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CERTIFIED PUBLIC ACCOUNTANT

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INDEPENDENT AUDITORS' REPORT

To the City Council
City of Hamilton
Hamilton, Montana

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hamilton, Montana, as of and for the year ended June 30, 2016, 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, 2016, 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 53 and 54 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.

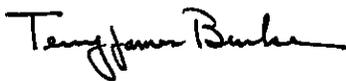
Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hamilton, Montana's basic financial statements. The schedule of expenditures of federal awards (page 57) is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements..

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated June 30, 2017, on my consideration of the City's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's control over financial reporting and compliance.



June 30, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2016

Our discussion of the City of Hamilton's ("City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2016.

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 position. You can think of the City's net position as the difference between assets, what the City owns, and liabilities, what the City owes, as one way to measure the City's financial health or *financial position*. Over time, increases or decreases in the City's net position are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as short term variations, or long-term commitments to assess the *overall health* of the City.

Reporting the City's most Significant Funds

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

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

All funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds. The fund financial statements provide detailed information about the City's major funds; the general fund, the SID 18 DHBID Streetscape, SID 19 Sidewalk Project, and SID 21 Kurtz Lane, (all SIDs are debt service and governmental funds), the water operating fund and the sewer operating fund (business-type funds); and other aggregated governmental, and aggregated fiduciary funds.

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

City of Hamilton, Montana

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2016

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

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

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

THE CITY AS A WHOLE

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

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

Table I

	2016	2015
Assets		
Current and other assets	\$ 5,360,610	\$ 4,980,850
Capital assets		
Non-depreciable	524,758	665,695
Depreciable (Net)	7,237,564	7,259,154
Total assets	<u>13,122,932</u>	<u>12,905,699</u>
Deferred outflows of resources	<u>198,936</u>	<u>163,755</u>
Liabilities		
Current liabilities	442,176	625,042
Noncurrent liabilities	2,911,829	2,898,030
Total liabilities	<u>3,354,005</u>	<u>3,523,072</u>
Deferred inflows of resources	<u>130,712</u>	<u>320,217</u>
Net position		
Net investment in capital assets	6,652,322	6,734,850
Restricted net position	820,770	700,180
Unrestricted net position	2,364,059	1,791,135
Total net position	<u>\$ 9,837,151</u>	<u>\$ 9,226,165</u>

City of Hamilton, Montana

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2016

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

Table II

Assets	<u>2016</u>	<u>2015</u>
Current and other assets	\$ 2,782,266	\$ 3,423,683
Capital assets		
Non-depreciable	651,733	1,350,267
Depreciable (Net)	<u>16,667,141</u>	<u>14,445,513</u>
Total assets	<u>20,101,140</u>	<u>19,219,463</u>
Deferred outflows of resources	<u>37,439</u>	<u>33,389</u>
 Liabilities		
Current liabilities	254,658	706,095
Noncurrent liabilities	<u>1,847,627</u>	<u>1,958,432</u>
Total liabilities	<u>2,102,285</u>	<u>2,664,527</u>
Deferred inflows of resources	<u>41,330</u>	<u>99,705</u>
 Net position		
Net investment in capital assets	15,796,875	14,127,833
Restricted net position	253,844	253,844
Unrestricted net position	<u>1,944,245</u>	<u>2,106,943</u>
Total net position	<u>\$ 17,994,964</u>	<u>\$ 16,488,620</u>

City of Hamilton, Montana

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2016

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

Table III

Revenues	<u>2016</u>	<u>2015</u>
Program revenues:		
Charges for services, fines, licenses & permits	\$ 855,327	\$ 703,870
Operating grants and contributions	437,423	433,481
Capital grants and contributions	387,760	-
General revenues:		
Property taxes	2,086,619	1,967,517
Local option taxes	111,058	105,094
Unrestricted federal/state shared revenue	1,062,264	1,038,236
Unrestricted investment earnings	1,950	1,657
Miscellaneous	15,466	21,676
Gain (Loss) on sale of capital assets	-	-
Transfers in (out)	163,960	184,912
Total revenues & transfers	<u>5,121,827</u>	<u>4,456,443</u>
Expenses		
General government	1,047,866	1,062,783
Public safety	1,533,368	1,607,458
Public works	876,215	974,432
Public health	10,000	10,000
Culture and recreation	150,760	161,275
Housing and community development	387,760	-
Interest on long-term debt	52,188	54,925
Miscellaneous	452,684	21,121
Total expenses	<u>4,510,841</u>	<u>3,891,994</u>
Changes in net position	<u>610,986</u>	<u>564,449</u>
Net position, July 1	9,226,165	10,843,335
Changes in beginning equity	-	(1,763,631)
Net position, July 1 restated	<u>9,226,165</u>	<u>9,079,704</u>
Net position, June 30	<u>\$ 9,837,151</u>	<u>\$ 9,644,153</u>

City of Hamilton, Montana

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2016

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

Table IV

Revenues	<u>2016</u>	<u>2015</u>
Program revenues:		
Charges for services	\$ 2,564,026	\$ 2,452,059
Capital grants and contributions	972,262	-
General revenues:		
Unrestricted federal/state shared revenues	10,524	10,909
Unrestricted investment earnings	1,402	1,503
Transfers	(163,960)	(184,912)
Total revenues	<u>3,384,254</u>	<u>2,279,559</u>
Expenses		
Public works	1,840,015	1,668,347
Debt service	37,896	41,634
Total expenses	<u>1,877,911</u>	<u>1,709,981</u>
Changes in net position	<u>1,506,344</u>	<u>569,578</u>
Transfers		
Net position, July 1	16,488,620	16,385,512
Changes in beginning equity	-	(466,470)
Net position, July 1 restated	<u>16,488,620</u>	<u>15,919,042</u>
Net position, June 30	<u>\$ 17,994,964</u>	<u>\$ 16,488,620</u>

THE CITY'S FUNDS

Changes in Fund Balances

Table V

	Major Funds **				Other Governmental Funds
	General Fund	Debt Service Funds			
		SID 18 - Streetscape	SID 19 - Sidewalk	SID 21 - Kurtz Lane	
Beginning balances July 1, 2015	\$ 1,399,742	\$ 62,533	16,913	\$ 137,365	\$ 1,774,479
Fiscal year 16 revenue	3,061,683	65,103	32,393	37,221	1,184,119
Fiscal year 16 expenditures	(2,967,158)	(66,205)	(32,895)	(33,088)	(1,275,047)
Fiscal year 16 transfers & other financing sources(uses)	(20,158)	-	-	-	571,878
Changes in beginning equity	-	-	-	-	-
Ending balances June 30, 2016	<u>\$ 1,474,109</u>	<u>\$ 61,431</u>	<u>16,411</u>	<u>\$ 141,498</u>	<u>\$ 2,255,429</u>

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

City of Hamilton, Montana

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2016

GENERAL FUND BUDGETARY HIGHLIGHTS

Budget Summary
Table VI

Year Ended June 30,	Revenues			Expenditures		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
2015	\$ 3,280,528	\$ 3,280,528	\$ 3,309,400	\$ 3,818,980	\$ 3,818,980	\$ 3,225,564
2016	\$ 3,207,324	\$ 3,207,324	\$ 3,241,525	\$ 3,719,527	\$ 3,743,527	\$ 3,167,158

*Totals include Other Financing Sources (Uses)

CAPITAL ASSETS AND LONG TERM DEBT

Capital Assets

Governmental Activities Capital Assets
Table VII

	2016	2015
Land	\$ 503,734	\$ 503,734
Buildings	1,748,034	1,748,034
Other improvements	6,277,420	5,827,529
Machinery and equipment	4,084,136	4,113,282
Construction in progress	21,023	161,960
Total	\$ 12,634,348	\$ 12,354,539
Less accumulated depreciation	(4,872,026)	(4,429,690)
Net capital assets	\$ 7,762,322	\$ 7,924,849

Business-type Activities Capital Assets
Table VIII

	2016	2015
Land	\$ 651,733	\$ 651,733
Wells-source of supply	2,680,101	1,376,198
Construction in progress	-	698,534
General plant	502,806	501,526
Sewer treatment plant	10,842,551	9,408,183
Transmission and distribution	9,355,585	9,281,852
Treatment equipment	639,782	638,502
Buildings	773,396	773,396
Total capital assets	\$ 25,445,954	\$ 23,329,924
Less accumulated depreciation	(8,127,080)	(7,534,144)
Net capital assets	\$ 17,318,874	\$ 15,795,780

The City's investment in capital assets for its governmental and business-type activities of June 30, 2016 was \$25,081,195 (net of accumulated depreciation). These assets include land, building, improvements, wells, sewer treatment equipment and facilities, and machinery and equipment.

Additional information on the City's capital assets can be found in note 5 to the financial statements.

City of Hamilton, Montana

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2016

Long-term Liabilities

Tables IX and X show the outstanding long term liabilities for both the governmental and business-type activities. The changes in long-term debt is shown in Note 6.

Governmental Activities Outstanding Long Term Liabilities

Table IX

	<u>2016</u>	<u>2015</u>
Bonds payable	\$ 1,110,000	\$ 1,190,000
Compensated absences	267,330	269,380
OPEB	16,978	93,904
Net pension liability	<u>1,751,185</u>	<u>1,559,435</u>
Total	<u>\$ 3,145,493</u>	<u>\$ 3,112,720</u>

Business-type Activities Outstanding Long Term Liabilities

Table X

	<u>2016</u>	<u>2015</u>
Water revenue bonds	\$ 735,000	\$ 818,000
Sewer revenue bonds	787,000	836,000
Sewer capital lease	-	13,948
Compensated absences	44,325	49,150
OPEB	4,706	26,028
Net pension liability	<u>435,759</u>	<u>385,830</u>
Total	<u>\$ 2,006,790</u>	<u>\$ 2,128,956</u>

ECONOMIC FACTORS

The City of Hamilton and the Bitterroot Valley continue to recover from the 2008 recession. The Ravalli County unemployment rate still exceeds that of the state and national average. However, Ravalli County is a desirable destination for people wanting to relocate to this area, and offers a variety of amenities that appeal to a variety of citizens.

The City of Hamilton administration continues to move forward on pending street improvement projects and upgrades to the City's water and sewer systems that seem to be ongoing, in response to evolving federal and state environmental standards.

The 2015-2016 City budget included \$855,923 for (water) Well #5 improvements for which \$809,833 in engineering and construction was expended at fiscal year-end. Total costs over two years amounted to \$1,270,000 by the end of June 2016. The funding for this project included \$100,000 RRGL Grant from the State's DNRC Division, \$170,000 from the Water Impact Fees Fund (both received and expended in this 2015-2016 fiscal year), and remainder funded by the Water Fund. The Well #5 improvements project was completed April 2016.

The City budgeted \$1,388,538 in Fiscal Year 2015-2016 for the wastewater treatment plant UV project with funding from a \$322,000 TSEP Grant, \$450,000 in CDBG funding, and \$100,000 in DNRC RRGL Grant and \$230,000 from the Sewer Impact Fees Fund (all received in this 2015-2016 fiscal year) with the remainder from the Sewer Fund.

City of Hamilton, Montana

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2016

This sewer project over a period of two fiscal years is complete as of June 2016 at a cost of \$1,434,368.

In the fiscal year ended June 30, 2016, the City budgeted \$448,778 for phases 2 and 3 of the Fairgrounds Road Project and expended \$194,452 and \$17,807 respectively, carrying phase 3 forward to the 2016-2017 fiscal year. The first phase consisted of a shared use path and the second phase was of improvements to the area immediately around the Ravalli County Fairgrounds entrance area near the intersection of Fairgrounds Road and Old Corvallis Road with phase 3 consisting of the reconstruction of Fairgrounds Road between U.S. Highway 93 and Old Corvallis Road. Phases 4 through 6 were tentatively being budgeted for further road and shared path work in 2016-2017 including funding from the State's Transportation Alternative Program in the amount of \$571,994. Future work on the Fairgrounds Road roadway project will present financial and engineering challenges currently being analyzed.

In the fiscal year ended June 30, 2016, the Honey Lane street improvement project was completed at a cost of \$104,430. The water main replacement projects are to be an annual project with hopes of funding this replacement program two to three blocks at a time each year, depending on cost but this was held off for this fiscal year end. Some preliminary engineering work has been done on Ravalli Street improvements as well, but this project has been moved into the next fiscal year. Other street projects are being considered and some have been delayed due to budget constraints.

The City police sold a used patrol car and replaced it with a new one for \$29,382. The City's cemetery and parks department purchased a Kubota tractor for \$23,750. During the fiscal year, the City was approached by the Montana National Guard to purchase the Armory building, and property currently used as the Driscoll Park, for \$1,200,000. After looking at methods of financing this purchase, the City opted to put the purchase of the property to the vote of the citizens of Hamilton, which would not be decided until March 2017. The total amount of the general obligation bond would be \$1.35 million, with \$1.2 million for the building and property and the remaining \$150,000 for park improvements on the property and costs of issuance. The City is currently having the building evaluated for the purposes of using the building to house the police department, and future improvements possibly for City Court and City Attorney, but no decisions have yet been made, pending the outcome of the bond election.

There is some slight growth in the City, in terms of population and business activity. Finding the right balance of growth and to provide the services and maintenance of City operations each year is challenging. The resources of the City has its limitations, for current year operations and for future projects, and the City strives to use those resources in a frugal and efficient manner. Certain administrative costs go up annually that have to be funded for in some way.

The Administration and Council strive to find the right balance of growth within the City and how to fund the operations for the increasing service demands on City operations. The public safety and public works and parks and cemetery departments are challenged making do with the resources they have. As those services increase, so will the cost of administration over these departments.

The City will continue to consider establishing additional special improvement districts to pay for sidewalk, curb and street improvements within the City. The infrastructure of the City is used more extensively as the population both in and outside of the City increases and new property is annexed into the City. City water and sewer infrastructure improvements are continual, street work improvements are always needed and addressed on a prioritized basis. Cemetery and Park improvements are also planned.

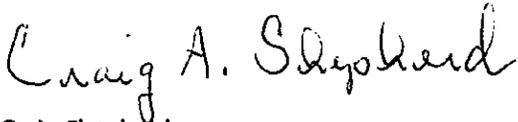
City of Hamilton, Montana

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2016

Overall, the City is prepared for the challenges it faces for the future. Citizens of the City offer diverse backgrounds, and the City welcomes the different perspectives and solutions for the City of Hamilton. The workforce of the City is committed to offering a quality service to the City, and we appreciate the talent and loyalty that each of the employees offers.

Signed:

A handwritten signature in black ink that reads "Craig A. Shepherd". The signature is written in a cursive style with a large initial 'C'.

Craig Shepherd
Financial Administrator

City of Hamilton, Montana
Statement of Net Position
June 30, 2016

	Governmental Activities	Business-type Activities	Total
Assets			
Current Assets			
Cash and Investments	\$ 3,859,420	\$ 2,289,310	\$ 6,148,730
Receivables			
Property Taxes Receivable	276,531	-	276,531
Assessments Receivable	926,590	-	926,590
Accounts Receivable	100	239,112	239,212
Due From Other Governments	218,339	-	218,339
Total Current Assets	<u>5,280,980</u>	<u>2,528,422</u>	<u>7,809,402</u>
Non-Current Assets			
Cash and Investments	79,630	253,844	333,474
Capital Assets, Depreciable, Net	7,237,564	16,667,141	23,904,705
Capital Assets, Construction in Progress	21,023	-	21,023
Capital Assets, Land	503,735	651,733	1,155,468
Total Noncurrent Assets	<u>7,841,952</u>	<u>17,572,718</u>	<u>25,414,670</u>
Total Assets	<u>13,122,932</u>	<u>20,101,140</u>	<u>33,224,072</u>
Deferred Outflows of Resources			
Pension Contributions	198,936	37,439	236,375
Total Deferred Outflows of Resources	<u>198,936</u>	<u>37,439</u>	<u>236,375</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 13,321,868</u>	<u>\$ 20,138,579</u>	<u>\$ 33,460,447</u>
Liabilities			
Current Liabilities			
Accounts Payable	\$ 110,839	\$ 71,793	\$ 182,632
Accrued Payables	97,672	23,703	121,375
Current Portion of Compensated Absences	133,665	22,162	155,827
Long-Term Liabilities - Due Within One Year	100,000	137,000	237,000
Total Current Liabilities	<u>442,176</u>	<u>254,658</u>	<u>696,834</u>
Noncurrent Liabilities			
Long-Term Portion of Compensated Absences	133,665	22,163	155,828
Long-Term Liabilities - Due in More Than One Year	2,778,164	1,825,464	4,603,628
Total Noncurrent Liabilities	<u>2,911,829</u>	<u>1,847,627</u>	<u>4,759,456</u>
Total Liabilities	<u>3,354,005</u>	<u>2,102,285</u>	<u>5,456,290</u>
Deferred Inflows of Resources			
Pension Investment Earnings Premium	130,712	41,330	172,042
Total Deferred Inflows of Resources	<u>130,712</u>	<u>41,330</u>	<u>172,042</u>
Net Position			
Net Invested in Capital Assets	6,652,323	15,796,875	22,449,198
Restricted for Debt Service	301,385	253,844	555,229
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	2,364,058	1,944,245	4,308,302
Total Net Position	<u>9,837,151</u>	<u>17,994,964</u>	<u>27,832,115</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 13,321,868</u>	<u>\$ 20,138,579</u>	<u>\$ 33,460,447</u>

See Notes to Financial Statements.

City of Hamilton, Montana
Statement of Activities
For the Year Ended June 30, 2016

	Program Revenues-----			-Net (Expense) Revenue and Changes in Net Position		
	Charges For	Operating Grants	Capital Grants	Governmental	Business-Type	Total
	Expenses	Services	& Contributions	Activities	Activities	Activities
Governmental Activities						
General Government	\$ 1,047,866	\$ 154,664	\$ 13,526	\$ (879,676)	\$ -	\$ (879,676)
Public Safety	1,533,368	35,423	313,140	(1,184,805)	-	(1,184,805)
Public Works	876,215	665,240	108,747	(102,228)	-	(102,228)
Public Health	10,000	-	-	(10,000)	-	(10,000)
Culture & Recreation	150,760	-	2,010	(148,750)	-	(148,750)
Housing and Community Development	387,760	-	387,760	-	-	-
Interest on Long-term Debt	52,188	-	-	(52,188)	-	(52,188)
Miscellaneous	452,684	-	-	(452,684)	-	(452,684)
Total Governmental	4,510,841	855,327	437,423	(2,830,331)	-	(2,830,331)
Business-Type Activities						
Water	798,444	1,364,888	100,000	-	666,444	666,444
Sewer	1,079,466	1,199,138	872,262	-	991,934	991,934
Total Business-Type Activities	1,877,910	2,564,026	972,262	-	1,658,378	1,658,378
Total Activities	\$ 6,388,751	\$ 3,419,353	\$ 437,423	(2,830,331)	1,658,378	(1,171,953)
General Revenues						
Property Taxes				2,086,619	-	2,086,619
Local Option				111,058	-	111,058
Intergovernmental Revenue				1,062,264	10,524	1,072,788
Investment Earnings				1,950	1,402	3,352
Other				15,466	-	15,466
Transfers				163,960	(163,960)	-
Total General Revenues and Transfers				3,441,317	(152,034)	3,289,283
Change in Net Position				610,986	1,506,344	2,117,330
Net Position						
Beginning of the Year				<u>9,226,165</u>	<u>16,488,620</u>	<u>25,714,785</u>
End of the Year				<u>\$ 9,837,151</u>	<u>\$ 17,994,964</u>	<u>\$ 27,832,115</u>

See Notes to Financial Statements.

City of Hamilton, Montana

Balance Sheet

Governmental Funds

June 30, 2016

	General	SID # 18	SID # 19	SID # 21	Other	
	Fund	DHBID	Sidewalk	Kurtz Lane	Governmental	
		Debt Service	Debt Service	Debt Service	Funds	Total
Assets						
Cash and Investments	\$ 1,385,557	\$ 8,826	\$ 13,385	\$ 108,999	\$ 2,342,653	\$ 3,859,420
Restricted Cash and Investments	-	46,250	-	32,500	880	79,630
Receivables:						
Property Taxes	195,790	-	-	-	80,741	276,531
Assessments	-	396,533	210,711	292,245	27,101	926,590
Accounts and Other Receivables	-	-	-	-	100	100
Due from Other Governments	137,284	6,355	3,027	-	71,673	218,339
Advances to Other Funds	95,140	-	-	-	-	95,140
Total Assets	\$ 1,813,771	\$ 457,964	\$ 227,123	\$ 433,744	\$ 2,523,148	\$ 5,455,750
Liabilities						
Accounts Payable	\$ 68,950	\$ -	\$ -	\$ -	\$ 41,889	\$ 110,839
Accrued Payables	74,924	-	-	-	22,748	97,672
Advances From Other Funds	-	-	-	-	95,140	95,140
Total Liabilities	143,874	-	-	-	159,777	303,651
Deferred Inflows of Resources						
Property Taxes/Assessments	195,790	396,533	210,711	292,245	107,942	1,203,221
Total Deferred Inflows of Resources	195,790	396,533	210,711	292,245	107,942	1,203,221
Fund Balances						
Restricted:						
General Government	-	-	-	-	26,958	26,958
Public Safety	-	-	-	-	41,608	41,608
Public Works	-	-	-	-	450,262	450,262
Culture and Recreation	-	-	-	-	880	880
Special Assessments Debt/Other	-	61,431	16,412	141,499	82,044	301,386
Committed:						
Public Safety	-	-	-	-	757,462	757,462
Public Works	-	-	-	-	944,866	944,866
Other	-	-	-	-	48,993	48,993
Unassigned	1,474,107	-	-	-	(97,645)	1,376,462
Total Fund Balance	1,474,107	61,431	16,412	141,499	2,255,428	3,948,877
Total Liabilities, Deferred Inflows						
of Resources and Fund Balances	\$ 1,813,771	\$ 457,964	\$ 227,123	\$ 433,744	\$ 2,523,147	\$ 5,455,749
Reconciliation to the Statement of Net Position						
Total fund balance reported above						\$ 3,948,877
Add capital assets not reported above					\$ 12,634,347	
Less accumulated Depreciation					(4,872,025)	7,762,322
Less Liabilities not reported above:						
Compensated Absences						(267,330)
Bonds Payable						(1,110,000)
OPEB						(16,978)
Deferred Inflows of Resources - Property Taxes and Assessment Receivables						1,203,221
Deferred Inflows of Resources - Pension Investment Earnings Premium						(130,712)
Deferred Outflows of Resources - Pension Contributions						198,936
Net Pension Liability						(1,751,185)
Net Position						\$ 9,837,151

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, 2016

	<u>General Fund</u>	<u>SID # 18 DHBID Debt Service</u>	<u>SID # 19 Sidewalk Debt Service</u>	<u>SID # 21 Kurtz Lane Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total</u>
REVENUES:						
Property Taxes and Assessments	\$ 1,576,033	\$ 65,063	\$ 32,381	\$ 37,161	\$ 908,738	\$ 2,619,376
Intergovernmental	1,162,103	-	-	-	559,507	1,721,610
Fine and Forfeitures	122,701	-	-	-	700	123,401
Licenses and Permits	89,456	-	-	-	56,736	146,192
Charges for Services	100,008	-	-	-	40,335	140,343
Investment Earnings	874	40	13	61	961	1,949
Other	10,506	-	-	-	4,901	15,407
Total Revenues	<u>3,061,681</u>	<u>65,103</u>	<u>32,394</u>	<u>37,222</u>	<u>1,571,878</u>	<u>4,768,278</u>
EXPENDITURES:						
Current Operations:						
General Government	899,266	-	-	-	101,906	1,001,172
Public Safety	1,144,865	-	-	-	106,561	1,251,426
Public Works	410,052	-	-	-	234,870	644,922
Public Health	10,000	-	-	-	-	10,000
Culture and Recreation	128,257	-	-	-	477	128,734
Housing and Community Development	-	-	-	-	387,760	387,760
Miscellaneous	3,616	-	-	-	442,192	445,808
Capital Outlay	371,102	-	-	-	1,281	372,383
Debt Service:						
Principal	-	45,000	20,000	15,000	-	80,000
Interest	-	21,205	12,895	18,088	-	52,188
Total Expenditures	<u>2,967,158</u>	<u>66,205</u>	<u>32,895</u>	<u>33,088</u>	<u>1,275,047</u>	<u>4,374,393</u>
EXCESS OF REVENUES OVER EXPENDITURES	94,523	(1,102)	(501)	4,134	296,831	393,885
OTHER SOURCES (USES):						
Sale of Capital Assets	-	-	-	-	-	-
Transfers In (Out)	(20,158)	-	-	-	184,118	163,960
Net Change in Fund Balances	<u>74,365</u>	<u>(1,102)</u>	<u>(501)</u>	<u>4,134</u>	<u>480,949</u>	<u>557,845</u>
FUND BALANCES:						
Beginning of the Year	1,399,742	62,533	16,913	137,365	1,774,479	3,391,032
End of the Year	<u>\$ 1,474,107</u>	<u>\$ 61,431</u>	<u>\$ 16,412</u>	<u>\$ 141,499</u>	<u>\$ 2,255,428</u>	<u>\$ 3,948,877</u>

See Notes to Financial Statements.

City of Hamilton, Montana
Reconciliation of the
Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2016

Changes in Fund Balances as Reported in the Government Funds Statement	\$ 557,845
Increase in Current Property Taxes and Special Assessments Receivable Not Included on the Governmental Fund Statements	
Increase in Taxes and Assessments Receivables	23,755
State Pension - On-behalf	165,838
Amounts Reported as Expenditures/(Other Financing Sources) on the Governmental Funds Statements Not Included as Expenses on the Government-wide Statements	
Capital Outlay	372,383
Decrease in Compensated Absences	2,051
Disposal of Assets/Adjustment	(6,880)
Principal Payments on Long-Term Debt	80,000
	<u>447,554</u>
Amounts Reported on the Government-wide Statements of Activities Not Included on the Governmental Fund Statements	
Depreciation Expense	(528,031)
Decrease in Other Post Employment Benefit Obligations	76,926
Pension Expense	(132,901)
	<u>(584,006)</u>
Change in Net Position Reported on the Statement of Activities	\$ <u>610,986</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, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES:				
Property Taxes and Assessments	\$ 1,553,531	\$ 1,553,531	\$ 1,576,033	\$ 22,502
Intergovernmental	1,153,803	1,153,803	1,162,103	8,300
Fines and Forfeitures	135,750	135,750	122,701	(13,049)
Licenses and Permits	79,600	79,600	89,456	9,856
Charges for Services	95,450	95,450	100,008	4,558
Investment Earnings	500	500	874	374
Other	11,748	11,748	10,506	(1,242)
	<u>3,030,382</u>	<u>3,030,382</u>	<u>3,061,681</u>	<u>31,301</u>
Total Revenues				
EXPENDITURES:				
Current Operations:				
General Government	931,557	931,557	899,266	32,291
Public Safety	1,272,148	1,272,148	1,144,865	127,283
Public Works	455,404	462,789	410,052	52,737
Public Health	10,000	10,000	10,000	-
Culture and Recreation	148,818	154,611	128,257	26,354
Miscellaneous	54,042	40,864	3,616	37,248
Capital Outlay	647,558	671,558	371,102	300,456
	<u>3,519,527</u>	<u>3,543,527</u>	<u>2,967,158</u>	<u>576,369</u>
Total Expenditures				
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES				
	(489,145)	(513,145)	94,523	607,668
OTHER SOURCES (USES):				
Sale of Capital Assets	-	-	-	-
Transfers In (Out)	(23,060)	(23,060)	(20,158)	2,902
	<u>(23,060)</u>	<u>(23,060)</u>	<u>(20,158)</u>	<u>2,902</u>
Total Other Sources (Uses)				
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES				
	\$ (512,205)	\$ (536,205)	\$ 74,365	\$ 610,570

See Notes to Financial Statements.

City of Hamilton, Montana
Statement of Net Position
Enterprise Funds
June 30, 2016

	Water Fund	Sewer Fund	Total
Assets			
Current Assets			
Cash and Investments	\$ 1,176,438	\$ 1,112,872	\$ 2,289,310
Accounts Receivable	<u>169,475</u>	<u>69,637</u>	<u>239,112</u>
Total Current Assets	<u>1,345,913</u>	<u>1,182,509</u>	<u>2,528,422</u>
Non-Current Assets			
Cash and Investments	111,086	142,758	253,844
Capital Assets, Depreciable, Net	7,020,556	9,646,585	16,667,141
Capital Assets, Construction in Progress	-	-	-
Capital Assets, Land	<u>159,596</u>	<u>492,137</u>	<u>651,733</u>
Total Noncurrent Assets	<u>7,291,238</u>	<u>10,281,480</u>	<u>17,572,718</u>
Total Assets	<u>8,637,151</u>	<u>11,463,989</u>	<u>20,101,140</u>
Deferred Outflows of Resources			
Pension Contributions	<u>16,325</u>	<u>21,114</u>	<u>37,439</u>
Total Deferred Outflows of Resources	<u>16,325</u>	<u>21,114</u>	<u>37,439</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 8,653,476</u>	<u>\$ 11,485,103</u>	<u>\$ 20,138,579</u>
Liabilities			
Current Liabilities			
Accounts Payable	40,906	30,887	71,793
Accrued Payables	10,691	13,012	23,703
Current Portion of Compensated Absences	10,186	11,976	22,162
Long-Term Liabilities - Due Within One Year	<u>87,000</u>	<u>50,000</u>	<u>137,000</u>
Total Current Liabilities	148,783	105,875	254,658
Noncurrent Liabilities			
Noncurrent Portion of Compensated Absences	10,187	11,976	22,163
Long-Term Liabilities - Due in More Than One Year	<u>840,125</u>	<u>985,339</u>	<u>1,825,464</u>
Total Noncurrent Liabilities	<u>850,312</u>	<u>997,315</u>	<u>1,847,627</u>
Total Liabilities	<u>999,095</u>	<u>1,103,190</u>	<u>2,102,285</u>
Deferred Inflows of Resources			
Pension Investment Earnings Premium	<u>17,189</u>	<u>24,141</u>	<u>41,330</u>
Total Deferred Inflows of Resources	<u>17,189</u>	<u>24,141</u>	<u>41,330</u>
Net Position			
Net Invested in Capital Assets	6,445,152	9,351,723	15,796,875
Restricted for Debt Service	111,086	142,758	253,844
Unrestricted	<u>1,080,954</u>	<u>863,291</u>	<u>1,944,245</u>
Total Net Position	<u>7,637,192</u>	<u>10,357,772</u>	<u>17,994,964</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 8,653,476</u>	<u>\$ 11,485,103</u>	<u>\$ 20,138,579</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, 2016

	<u>Water Fund</u>	<u>Sewer Revenue</u>	<u>Total</u>
OPERATING REVENUES:			
Charges for Services	\$ 1,364,888	\$ 1,199,138	\$ 2,564,026
Total	<u>1,364,888</u>	<u>1,199,138</u>	<u>2,564,026</u>
OPERATING EXPENSES:			
Personal Services	246,964	315,922	562,886
Supplies and Materials	110,274	127,328	237,602
Purchased Services	209,493	203,218	412,711
Fixed Charges	8,851	25,028	33,879
Depreciation	<u>204,918</u>	<u>388,018</u>	<u>592,936</u>
Total	<u>780,500</u>	<u>1,059,514</u>	<u>1,840,014</u>
OPERATING INCOME:	584,388	139,624	724,012
NON-OPERATING REVENUE (EXPENSE)			
Intergovernmental Revenue	104,713	878,073	982,786
Interest Revenue	716	686	1,402
Interest Expense	<u>(17,944)</u>	<u>(19,952)</u>	<u>(37,896)</u>
Total Non-Operating Revenue (Expenses)	<u>87,484</u>	<u>858,807</u>	<u>946,292</u>
Income Before Transfers	671,873	998,431	1,670,304
Transfers	<u>(76,490)</u>	<u>(87,470)</u>	<u>(163,960)</u>
CHANGES IN NET POSITION	595,383	910,961	1,506,344
NET POSITION:			
Beginning of the Year	<u>7,041,809</u>	<u>9,446,811</u>	<u>16,488,620</u>
End of the Year	\$ <u>7,637,192</u>	\$ <u>10,357,772</u>	\$ <u>17,994,964</u>

See Notes to Financial Statements.

City of Hamilton, Montana
Statement of Cash Flows
Enterprise Funds
For the Year Ended June 30, 2016

	Water Fund	Sewer Revenue	Total
Cash Flows From Operations			
Receipts From Customers	\$ 1,361,024	\$ 1,194,886	\$ 2,555,910
Payments to Suppliers	(727,681)	(397,351)	(1,125,032)
Payments to Employees	(243,491)	(325,850)	(569,341)
Net Cash Provided (Used) by Operations	389,852	471,685	861,537
Cash Flows From Noncapital Financing Activities			
Transfers From (To) Other Funds	(76,490)	(87,470)	(163,960)
Net Cash Provided (Used) by Noncapital Financing Activities	(76,490)	(87,470)	(163,960)
Cash Flows From Capital and Related Financing Activities			
Purchases of Capital Assets	(854,998)	(1,261,032)	(2,116,030)
Other	(24,522)	(6,903)	(31,425)
Proceeds From Grants	104,713	878,073	982,786
Principal Paid on Debt	(83,000)	(62,947)	(145,947)
Interest Paid on Debt	(17,944)	(19,952)	(37,896)
Net Cash Provided (Used) by Capital and Related Financing Activities	(875,751)	(472,761)	(1,348,512)
Cash Flows From Investing Activities			
Interest Revenue	716	686	1,402
Net Cash Provided (Used) by Investing Activities	716	686	1,402
Net Increase (Decrease) in Cash	(561,673)	(87,860)	(649,533)
Cash and Cash Equivalents			
Beginning of the Year	1,849,197	1,343,490	3,192,687
End of the Year	\$ 1,287,524	\$ 1,255,630	\$ 2,543,154
Reconciliation of Operating Income to Net Cash Provided by Operations			
Operating Income	\$ 584,388	\$ 139,624	\$ 724,012
Adjustments to Reconcile to Cash Flow			
Depreciation Expense	204,918	388,018	592,936
(Increase) Decrease in Accounts Receivable	(3,864)	(4,252)	(8,116)
Increase (Decrease) in Accounts Payable	(399,063)	(41,777)	(440,840)
Increase (Decrease) in Accrued Payable	197	568	765
Increase (Decrease) in Compensated Absences	(6,187)	1,362	(4,825)
Increase (Decrease) in OPEB Payable	(9,463)	(11,858)	(21,321)
Pension Adjustments	18,926	-	18,926
Net Cash Provided (Used) by Operations	\$ 389,852	\$ 471,685	\$ 861,537

See Notes to Financial Statements.

City of Hamilton, Montana
Statement of Fiduciary Net Position
Agency Funds
June 30, 2016

Assets

Cash and Investments	\$ 737,242
Property Taxes Receivable	57,704
Due From Other Governments	<u>6,835</u>

Total Assets \$ 801,781

Liabilities

Warrants Payable	\$ 13,054
Due to Other Governments	<u>788,727</u>

Total Liabilities \$ 801,781

See Notes to Financial Statements.

CITY OF HAMILTON, MONTANA
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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 year 2016, the City adopted the following:

- GASB Statement No. 72 – *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
- GASB Statement No. 76 – *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. – The objective of this Statement is to identify, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles (GAAP).

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.

CITY OF HAMILTON, MONTANA
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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.

CITY OF HAMILTON, MONTANA
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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:

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.

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

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

Budgets – Budgets are adopted for the general, special revenue, debt service, capital projects, and enterprise funds. The annual budget is a plan of financial operation with an estimate of expenditures and means of financing them. A preliminary budget is prepared in July, budget hearings are held, and the final budget is adopted by the second Monday in August. The adopted budget constitutes the appropriations for the City and is the maximum limit of expenditures in each budgeted fund. The adopted budget may be amended for emergencies and other matters as provided by state law. There was one budget amendment in 2016 for \$24,000 for the purchase of a mowing tractor for the Cemetery and Parks Department. The budget is prepared on the basis of accounting described for its governmental funds. Tax levies are set by expenditure requirements, but are authorized and limited by state law. Expenditures are classified as required by state law. Transfers of budget authority within a fund are permitted. Appropriations lapse at June 30, except for encumbrances, which represent commitments to expend funds under current budget appropriations. There were no encumbrances in fiscal year 2014. State law requires only that a fund's total expenditures not exceed total budgeted expenditures. The level of budgetary control is the fund level.

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

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

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

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

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

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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.

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

Deferred Inflows of Resources – 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.

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JUNE 30, 2016

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>2016</u>
Governmental Activities	\$ 3,939,050
Business-type Activities	2,543,154
Fiduciary Funds	<u>737,242</u>
Total	<u>\$ 7,219,446</u>

CITY OF HAMILTON, MONTANA
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JUNE 30, 2016

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

	2016
Demand Deposits	\$ 17,401
Certificates of Deposits	321,625
Bank Repurchase Agreements	6,583,879
Savings	279,961
Cash on Hand	300
Total	<u>7,203,166</u>
 Investments (Fair Value):	
Short Term Investment Pool	<u>16,280</u>
 Total Cash and Deposits	 \$ <u>7,219,446</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. At June 30, 2016, .002% 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, 2016.

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, 2016.

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.

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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.

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) include \$217,831 collected by the county in June and remitted to the City in July. 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 \$239,113 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.

Community Development Block Grant (CDBG) funds were provided as a deferred loan to the Hamilton Affordable Housing Project in prior fiscal year with a 1% simple interest rate. Interest does not start until the first mortgage loan described below is paid in full. The funds (\$382,000) were used to assist in financing the acquisition of the Parkside Apartments. The loan is secured with a deed of trust. The loan is subordinated to a first mortgage loan by the Montana Board of Housing (MBOH). The loan agreement states the amount of \$1,811 per month shall commence after the payment in full of the MBOH loan (scheduled for 2049), but that such payments shall be due from net cash flow only after all operating costs, including the funding of capital and operating reserves, have been paid. Because of the 1% interest rate, deferral of payments until after the first mortgage is paid and because payments are not required unless all other cash requirements are met, the City has reduced the carrying value of the loan to \$100.

CITY OF HAMILTON, MONTANA
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Note 5 – Capital Assets

The changes in capital assets used in governmental activities during 2016 were as follows:

	Balance				Balance June 30, 2016
	June 30, 2015	Additions	Disposals	Adjustments	
Cost of Assets					
Land	\$ 503,735	\$ -	\$ -	\$ -	\$ 503,735
Buildings	1,748,034	-	-	-	1,748,034
Improvements	5,827,529	298,885	(7,738)	158,744	6,277,420
Machinery & Equipment	4,113,281	55,691	(84,836)	-	4,084,136
Construction Work in Progress	161,960	17,807	-	(158,744)	21,023
Total	<u>12,354,539</u>	<u>372,383</u>	<u>(92,574)</u>	<u>-</u>	<u>12,634,348</u>
Accumulated Depreciation					
Building	(674,108)	(38,094)	-	-	(712,202)
Improvements	(1,411,560)	(207,049)	258	-	(1,618,351)
Machinery & Equipment	(2,344,022)	(282,888)	84,837	600	(2,541,473)
Total	<u>(4,429,690)</u>	<u>(528,031)</u>	<u>85,095</u>	<u>600</u>	<u>(4,872,026)</u>
Capital Assets - Net	<u>\$ 7,924,849</u>	<u>\$ (155,648)</u>	<u>\$ (7,479)</u>	<u>\$ 600</u>	<u>\$ 7,762,322</u>

Depreciation expense was charged to expense as follows:

Governmental Activities:

General Government	\$ 77,413
Public Safety	174,040
Public Works	245,545
Culture and Recreation	<u>31,033</u>
Total Depreciation Expense	<u>\$ 528,031</u>

CITY OF HAMILTON, MONTANA
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

The changes in capital assets used in business activities during 2016 were as follows:

	Balance June 30, 2015	Additions	Disposals/ Other Changes	Balance June 30, 2016
Water Fund - Cost of Assets				
Land	\$ 159,596	-	-	\$ 159,596
Construction in Progress	523,918	-	(523,918)	-
Buildings & System	577,428	-	-	577,428
Source of Supply	1,376,197	809,833	494,070	2,680,100
Transmission & Distribution	5,766,398	43,885	29,848	5,840,131
General Plant	501,526	1,280	-	502,806
Total	<u>8,905,063</u>	<u>854,998</u>	<u>-</u>	<u>9,760,061</u>
Accumulated Depreciation				
Buildings & System	\$ (140,992)	(10,532)	-	\$ (151,524)
Source of Supply	(260,908)	(42,882)	-	(303,790)
Transmission & Distribution	(1,632,309)	(123,171)	-	(1,755,480)
General Plant	(340,782)	(28,333)	-	(369,115)
Total	<u>(2,374,991)</u>	<u>(204,918)</u>	<u>-</u>	<u>(2,579,909)</u>
Capital Assets - Net	<u>\$ 6,530,072</u>	<u>\$ 650,080</u>	<u>\$ -</u>	<u>\$ 7,180,152</u>

CITY OF HAMILTON, MONTANA
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

	<u>Balance</u>		<u>Disposals/</u>	<u>Balance</u>
	<u>June 30, 2015</u>	<u>Additions</u>	<u>Other Changes</u>	<u>June 30, 2016</u>
Sewer Fund - Cost of Assets				
Land	\$ 492,137	-	-	\$ 492,137
Buildings & System	195,968	-	-	195,968
Construction in Progress	174,616	-	(174,616)	-
Sewer Treatment Plant	9,408,183	1,259,752	174,616	10,842,551
Treatment Equipment	638,502	1,280	-	639,782
Transmission & Distribution	<u>3,515,455</u>	<u>-</u>	<u>-</u>	<u>3,515,455</u>
Total	<u>14,424,861</u>	<u>1,261,032</u>	<u>-</u>	<u>15,685,893</u>
Accumulated Depreciation				
Buildings & System	\$ (15,676)	(3,919)	-	\$ (19,595)
Sewer Treatment Plant	(3,462,361)	(284,109)	-	(3,746,470)
Treatment Equipment	(506,588)	(29,681)	-	(536,269)
Transmission & Distribution	<u>(1,174,528)</u>	<u>(70,309)</u>	<u>-</u>	<u>(1,244,837)</u>
Total	<u>(5,159,153)</u>	<u>(388,018)</u>	<u>-</u>	<u>(5,547,171)</u>
Capital Assets - Net	<u>\$ 9,265,708</u>	<u>\$ 873,014</u>	<u>\$ -</u>	<u>\$ 10,138,722</u>

CITY OF HAMILTON, MONTANA
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Note 6 – Long-Term Debt

Changes in long-term debt during 2016 are as follows:

	Balance June 30, 2015	Additions	Reductions	Balance June 30, 2016	Due Within One Year
Government Activities					
Bonds Payable	\$ 1,190,000	\$ -	\$ (80,000)	\$ 1,110,000	\$ 100,000
Compensated Absences	269,381	-	(2,051)	267,330	133,665
Net Pension Liability - PERS	949,254	125,050	-	1,074,304	-
Net Pension Liability - MPORS	610,181	66,700	-	676,881	-
Other Post Employment Benefits	93,904	-	(76,926)	16,978	-
Business Activities					
Water System Revenue Bonds	818,000	-	(83,000)	735,000	87,000
Sewer System Revenue Bonds	836,000	-	(49,000)	787,000	50,000
Sewer Capital Lease	13,947	-	(13,947)	-	-
Compensated Absences	49,150	-	(4,825)	44,325	22,163
Other Post Employment Benefits	26,028	-	(21,322)	4,706	-
Net Pension Liability - PERS	385,830	49,929	-	435,759	-
Total	<u>\$ 5,241,675</u>	<u>\$ 241,679</u>	<u>\$ (331,071)</u>	<u>\$ 5,152,283</u>	<u>\$ 392,828</u>

	Balance June 30, 2016
Revenue Bonds-Business-Type Activities	
\$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.	88,000
\$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.	218,000
\$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.	152,000
\$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.	181,000
\$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.	96,000
\$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.	239,000
\$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>548,000</u>
Total Revenue Bonds-Business-Type Activities	<u>\$ 1,522,000</u>

CITY OF HAMILTON, MONTANA
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Special Assessment Bonds-Governmental Activities- Special Assessment debt is payable from annual assessments-the government is not obligated for these amounts.

\$925,000 Special Improvement District No. 18 Bond issued March 2004, 1.2% to 4.5%, due in varying amounts to July 2024; repayment from special assessments.	\$ 460,000
\$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.	235,000
\$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>415,000</u>
Total Special Assessment Bonds-Governmental Activities	<u>\$ 1,110,000</u>

Liability for Compensated Absences, Other Post Employment Liabilities, and Pension Liabilities

Compensated Absences- Governmental-type activities	\$ 267,330
Compensated Absences- Business-type activities	44,325
OPEB- Governmental-type activities	16,978
OPEB- Business-type activities	4,706
Net Pension Liability - Government-type Activities - PERS	1,074,304
Net Pension Liability - Government-type Activities - MPORS	676,881
Net Pension Liability - Business-type Activities	<u>435,759</u>
Total Liability for Compensated Absences and OPEB	<u>\$ 2,520,283</u>
Total Long-Term Debt	<u><u>5,152,283</u></u>

CITY OF HAMILTON, MONTANA
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JUNE 30, 2016

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
2017	\$ 50,000	\$ 19,190	\$ 20,000	\$ 11,605
2018	50,000	17,290	20,000	10,665
2019	55,000	15,340	20,000	9,685
2020	55,000	13,140	20,000	8,705
2021	60,000	10,885	25,000	7,725
2022-2026	190,000	17,075	130,000	20,000
2027-2031	-	-	-	-
	460,000	\$ 92,920	235,000	\$ 68,385
Less current portion	(50,000)		(20,000)	
	\$ 410,000		\$ 215,000	
Fiscal Year Ending June 30th	\$640,000 SID 21		Total Principal	Total Interest
	Principal	Interest		
2017	\$ 30,000	\$ 17,119	\$ 100,000	\$ 47,914
2018	30,000	15,882	100,000	43,837
2019	35,000	14,644	110,000	39,669
2020	35,000	13,200	110,000	35,045
2021	35,000	11,756	120,000	30,366
2022-2026	210,000	34,857	530,000	71,932
2027-2031	40,000	1,650	40,000	1,650
	415,000	\$ 109,108	1,110,000	\$ 270,413
Less current portion	(30,000)		(100,000)	
	\$ 385,000		\$ 1,010,000	

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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
2017	\$ 12,000	\$ 1,913	\$ 27,000	\$ 4,759
2018	13,000	1,643	28,000	4,140
2019	14,000	1,339	28,000	3,510
2020	14,000	1,024	29,000	2,880
2021	14,000	709	30,000	2,217
2022-2026	21,000	473	76,000	2,588
2027-2031	-	-	-	-
	<u>88,000</u>	<u>\$ 7,101</u>	<u>218,000</u>	<u>\$ 20,094</u>
Less current portion	<u>(12,000)</u>		<u>(27,000)</u>	
	<u>\$ 76,000</u>		<u>\$ 191,000</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
2017	\$ 18,000	\$ 3,319	\$ 21,000	\$ 3,960
2018	18,000	2,914	22,000	3,477
2019	18,000	2,509	22,000	2,982
2020	18,000	2,104	22,000	2,487
2021	19,000	1,699	22,000	1,992
2022-2026	61,000	2,430	72,000	2,835
2027-2031	-	-	-	-
	<u>152,000</u>	<u>\$ 14,975</u>	<u>181,000</u>	<u>\$ 17,733</u>
Less current portion	<u>(18,000)</u>		<u>(21,000)</u>	
	<u>\$ 134,000</u>		<u>\$ 160,000</u>	

CITY OF HAMILTON, MONTANA
NOTES TO FINANCIAL STATEMENTS

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Business-Type Activities (Continued)

Fiscal Year Ending June 30th	\$128,000 Drinking Water Bond Series 2006		Total	
	Principal	Interest	Principal	Interest
2017	\$ 9,000	\$ 2,115	\$ 87,000	\$ 16,066
2018	10,000	1,902	91,000	14,076
2019	10,000	1,677	92,000	12,017
2020	10,000	1,452	93,000	9,947
2021	10,000	1,227	95,000	7,844
2022-2026	47,000	2,723	277,000	11,049
2027-2031	-	-	-	-
	<u>96,000</u>	<u>\$ 11,096</u>	<u>735,000</u>	<u>\$ 70,999</u>
Less current portion	<u>(9,000)</u>		<u>(87,000)</u>	
	<u>\$ 87,000</u>		<u>\$ 648,000</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
2017	\$ 18,000	\$ 1,759	\$ 32,000	\$ 14,850
2018	18,000	1,624	33,000	13,970
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
2022-2026	90,000	4,069	197,000	40,123
2027-2031	59,000	784	181,000	11,454
	<u>239,000</u>	<u>\$ 12,298</u>	<u>548,000</u>	<u>\$ 116,698</u>
Less current portion	<u>(18,000)</u>		<u>(32,000)</u>	
	<u>\$ 221,000</u>		<u>\$ 516,000</u>	

CITY OF HAMILTON, MONTANA
NOTES TO FINANCIAL STATEMENTS

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Fiscal Year Ending June 30th	Total Principal	Total Interest
2017	\$ 50,000	\$ 16,609
2018	51,000	15,594
2019	52,000	14,538
2020	53,000	13,468
2021	54,000	12,357
2022-2026	287,000	44,192
2027-2031	240,000	12,238
	<u>787,000</u>	<u>\$ 128,996</u>
	<u>(50,000)</u>	
	<u>\$ 737,000</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, 2016.

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

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

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

CITY OF HAMILTON, MONTANA
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Capital lease

On December 15, 2013, the City entered into a lease for a Sewer camera. The lease term is three years payable in annual installments of \$14,862 including interest at 6.55%. The total amount capitalized of \$41,900 represents the present value of the future lease payments. The payment of this obligation was being recorded in the Sewer Fund. The City paid this off during the fiscal year 2016.

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.

June 30, 2016		
Fund	Transfers In	Transfers Out
	<u> </u>	<u> </u>
General Fund	\$ 179,842	\$ 200,000
Non-Major Governmental	379,993	195,875
Water Fund	-	76,490
Sewer Fund	-	87,470
Total Transfers	<u>\$ 559,835</u>	<u>\$ 559,835</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 (MPERA) and Municipal Police Officers Retirement System (MPORS). The plans are established by State law and are administered by the State of Montana. The plans provide retirement, disability, and death benefits to plan members and beneficiaries.

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

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

CITY OF HAMILTON, MONTANA
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Fire Department Relief Association Disability and Pension Fund- Volunteer fireman 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 2015-2016 and into the subsequent year, the City levied 7.88 mills, totaling \$78,554 for budgeted tax revenue, \$18,630 for Insurance Premium Apportionment, with the remainder coming from cash on hand in fiscal 2016 to pay the City's share of fire relief pension.

PUBLIC EMPLOYEE RETIREMENT SYSTEM (PERS)

Payroll for the Bitterroot Public Library (The Library) is prepared by the City of Hamilton 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 2016 fiscal year was \$249,822, or 15 percent of the total \$1,706,678 covered payroll amount used by the State in its actuarial analysis. The Library's net pension liability share is \$234,830 of the City's share of the total \$1,744,893 net pension liability for PERS used by the State but is not disclosed in the financial statements in the fiduciary statements.

7. a. 1. 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.

CITY OF HAMILTON, MONTANA
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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 1.75% and with over 30 years of service, members receive 2% of HAC per year of service credit.

7. a. 2. **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. Members are required to contribute 7.9% of member’s compensation. The City, as a local government entity, is required to contribute 8.27% 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. 3. **ACTUARIAL ASSUMPTIONS - PERS**

The Total Pension Liability (TPL) for the June 30, 2015 measurement date is based on the results of an actuarial valuation date of June 30, 2014, with update procedures to roll forward the TPL to June 30, 2015. 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:

Investment Return (net of administrative expense)	7.75%
Administrative Expenses as a Percentage of Payroll	0.27%
General Wage Growth (included inflation at 3.00%)	4.00%
Merit Increases	0% to 6%
Postretirement Benefit Increases	
For members hired prior to July 1, 2007	3%
For members hired between July 1, 2007 and June 30, 2013	1.50%
For members hired on or after July 1, 2013	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.

• Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

CITY OF HAMILTON, MONTANA
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

7. a. 4. DISCOUNT RATE - PERS

The discount rate used to measure the Total Pension Liability was 7.75%. 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 2123. 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.

Asset Class	Target Asset Allocation	Long-Term Expected Portfolio Real Rate of Return
Cash Equivalents	2.00%	-0.25%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.10%
Fixed Income	24.00%	1.25%
Private Equity	12.00%	8.00%
Real Estate	8.00%	4.25%

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the System. The most recent analysis, performed for the period covering fiscal years 2003 through 2009, is outlined in a report dated June 2010, which is 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 by the investment consultant 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. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. 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, 2015, as summarized in the table above.

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.

CITY OF HAMILTON, MONTANA
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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. The balance held by MPORA for MPORS DROP participants as of June 30, 2016 was approximately \$7 million.

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 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.

CITY OF HAMILTON, MONTANA
NOTES TO FINANCIAL STATEMENTS

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7. b. 3. ACTUARIAL ASSUMPTIONS - MPORS

The Total Pension Liability for the measurement date of June 30, 2015, is based on the results of an actuarial valuation date of June 30, 2014, with update procedures to roll forward the TPL to June 30, 2015. 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:

General Wage Growth (includes inflation at 3%)	4.00%
Price Inflation	3.25%
Investment Return	7.75%
Administrative Expenses as a Percentage of Payroll	0.20%
Postretirement Benefit Increases	
For members hired prior on or after July 1, 1997	3%
For members hired before July 1, 1997 not electing GABA	#
# not less than 1/2 the compensation of a newly confirmed officer in the city the member was last employed	

- 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.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

7. b. 4. DISCOUNT RATE - MPORS

The discount rate used to measure the Total Pension Liability was 7.75%. 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 2123. 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.

CITY OF HAMILTON, MONTANA
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

7. b. 5. TARGET ALLOCATIONS - MPORS

Asset Class	Target Asset Allocation	Long-Term Expected Portfolio Real Rate of Return
Cash Equivalents	2.00%	-0.25%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.10%
Fixed Income	24.00%	1.25%
Private Equity	12.00%	8.00%
Real Estate	8.00%	4.25%

The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the System. The most recent analysis, performed for the period covering fiscal years 2003 through 2009, is outlined in a report dated June 2010, which is 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 by the investment consultant 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. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. 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, 2015, as summarized in the above table.

7. c. SENSITIVITY ANALYSIS – PERS AND MPORS

	1.0% Decrease (6.75%)	Current Discount Rate	1.0% Increase (8.75%)
PERS's Employer Proportion	\$2,690,247	\$1,744,893	\$946,563
MPORS's Employer Proportion	\$955,653	\$676,881	\$429,401

The above table presents the Net Pension Liability was 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. d. 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.

CITY OF HAMILTON, MONTANA
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JUNE 30, 2016

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.

The table on the following page 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, 2014 through June 30, 2015, relative to the total employer contributions received from all of PERS' and MPORS' participating employers.

The employers' proportion of the NPL was based on the employers' contributions received by PERS and MPORS during the measurement period July 1, 2014 through June 30, 2015, relative to the total employer contributions received from all of PERS and MPORS participating employers. As of the employers' reporting dates, the employer recoded a liability of \$1,744,893 (PERS) and \$676,881 (MPORS) and the employer's proportionate share was 0.124825% (PERS) and 0.409188% (MPORS).

CITY OF HAMILTON, MONTANA
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

PERS	Net Pension Liability as of 6/30/16	Net Pension Liability as of 6/30/15	Percent of Collective NPL as of 6/30/2016	Percent of Collective NPL as of 6/30/2015	Change in Percent of Collective NPL
Employer Proportionate Share	\$1,744,893	\$1,539,910	0.12483%	0.12359%	0.00124%
State of Montana Proportionate Share associated with Employer	\$21,433	\$18,805	0.00153%	0.00151%	0.00002%
Total	\$1,766,326	\$1,558,715	0.12636%	0.12510%	0.00126%

MPORS

Employer Proportionate Share	\$678,881	\$610,181	0.40919%	0.38831%	0.02087%
State of Montana Proportionate Share associated with Employer	\$1,371,426	\$1,232,638	0.82905%	0.78444%	0.04461%
Total	\$2,050,307	\$1,842,819	1.23824%	1.17276%	0.06549%

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

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

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. e. PENSION EXPENSE -- PERS and MPORS

	Pension Expense as of 6/30/2016	
	PERS	MPORS
Employer's Proportionate Share	\$119,174	\$77,871
State of Montana Proportionate Share Associated with the Employer	1,332	139,478
Total	\$120,506	\$217,349

At June 30, 2016, the employer recognized a Pension Expense of \$120,506 (PERS) and \$217,349 (MPORS) for its proportionate share of the Pension Expense. The employer also recognized grant revenue of \$1,332 and \$139,478 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 and MPORS, respectively. For PERS, the employer also recognized grant revenue of \$41,876 for support provided by the State of Montana from the Coal Tax Fund.

CITY OF HAMILTON, MONTANA
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

7. f. DEFERRED INFLOWS AND OUTFLOWS – PERS and MPORS

At June 30, 2015, 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:

	PERS		MPORS	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Actual vs Expected Experience	\$ -	\$ 10,557	\$ -	\$ 6,182
Changes in Assumptions	-	-	-	-
Actual vs. Expected Investment Earnings	-	147,724	-	25,429
Changes in Proportion Share and Differences between Employer Contributions and Proportionate Share of Contributions	15,185	-	27,620	-
Employers contributions subsequent to the measurement date - (FY 16 Contributions)	\$ 128,551	-	79,510	-
TOTAL	\$ 143,736	\$ 158,281	\$ 107,130	\$ 31,611

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2017.

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

Year ended June 30:	PERS	MPORS
2017	\$ (60,429)	\$ (4,145)
2018	\$ (60,429)	\$ (4,145)
2019	\$ (60,657)	\$ (4,145)
2020	\$ 38,420	\$ 8,444
2021	\$ -	\$ -
Thereafter	\$ -	\$ -

CITY OF HAMILTON, MONTANA
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

7. g. **PENSION AMOUNTS TOTAL FOR EMPLOYER – EMPLOYER’S PROPORTION OF PERS AND MPORS PENSION AMOUNTS**

	Employer's Proportionate Share Associated With PERS	Employer's Proportionate Share Associated With MPORS	Employer's Total Pension Amounts
Total Pension Liability	\$ 8,062,360	\$ 2,047,894	\$ 10,110,254
Fiduciary Net Position	6,317,467	1,371,013	7,688,480
Net Pension Liability	<u>\$ 1,744,893</u>	<u>\$ 676,881</u>	<u>\$ 2,421,774</u>
Deferred Outflows of Resources	\$ 143,735	\$ 107,130	\$ 250,865
Deferred Inflows of Resources	\$ 158,280	\$ 31,611	\$ 189,891
Pension Expense	\$ 120,506	\$ 217,349	\$ 337,855

Note 9 – Leases and Contracts

The City leases the library building to the Bitterroot Public Library. The library was leased in 1987 for 70 years at a nominal rent 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 2016, \$168,378 was received from this agreement. The agreement is effective January 1, 2013 and runs through December 31, 2017.

Note 10 – Inter-Local Agreement

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

CITY OF HAMILTON, MONTANA
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Note 11 – Other Post Employment Benefits (OPEB)

In accordance with state law, employees on the City's health insurance plan who retire prior to age 65 (at which time they become eligible to receive Medicare) may opt to remain on the City's health insurance, as long as the employee reimburses the City of Hamilton for the insurance premium. The City purchases health insurance for employees from a private insurer. In the event that employees failed to reimburse the City it is estimated that the maximum period of liability for the City would be one to two month's premiums before the retiree was dropped from the plan. Beginning with the year ended June 30, 2010 the City implemented Governmental Accounting Standards Board statement 45. GASB 45 requires the City to estimate and record an estimated future liability for the imputed extra insurance cost of making a post-employment benefit available. In the current fiscal year ended June 30, 2016, OPEB was decreased in the governmental liabilities by \$76,926, water fund liabilities by \$9,463, and sewer liabilities by \$11,858. Of the 43 participating in the plan in fiscal year 2016, there were no retirees on the plan. Although the amounts are not considered material, these increases are reflected on the Government Wide Statement of Net Position and Statement of Activities; and the Proprietary Fund Statement of Net Position and Statement of Revenues, Expenses and Changes in Fund Net Position.

Note 12 – Risk Management

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

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

Note 12 – Subsequent Events

In May of 2016, the City entered into agreement with the State of Montana, whereby the State, using Transportation Alternatives funding, will construct a \$571,994 shared path, with lighting, walls and fencing on Fairgrounds Road. The City will be responsible for \$70,038 in matching and \$50,105 in additional amounts. Though this was budgeted for in the 2016-2017 fiscal year, it is likely to not proceed until the 2017-2018 fiscal year.

The City is purchasing the National Guard Armory building and adjoining property of nearly six acres, referred to as Claudia Driscoll Park, for \$1,200,000 from the State Department of Military Affairs. Continued use of the property will be for park facilities and a possibility for a future public safety facility (Justice Center) for the Hamilton Police Department, Hamilton City Court, and City Attorney. The funding is a result of the City taxpayers approving the purchase in a special election March 21, 2017.

**CITY OF HAMILTON
REQUIRED SUPPLEMENTARY INFORMATION
HAMILTON, MONTANA
June 30, 2016**

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

	<u>2016</u>	<u>2015</u>
Employer's proportion of the NPL as a percentage	0.12483%	0.12359%
Employer's proportion of the NPL as an amount	\$ 1,744,893	\$ 1,539,910
State of Montana's proportionate share of the NPL associated with the employer	\$ 21,433	\$ 18,805
Total	\$ 1,766,326	\$ 1,558,715
Employer's Pensionable Payroll	\$ 1,456,732	\$ 1,399,005
Employer's proportionate share of the NPL as a percentage of its pensionable payroll	119.781%	110.072%
Plan fiduciary net position as a percentage of the Total Pension Liability	78.4%	79.9%

** The amounts presented above for each fiscal year were determined as of June 30th, the measurement date. Schedule is intended to show information for 10 years. Additional years will be displayed as they became available.*

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

	<u>2016</u>	<u>2015</u>
Contractually Required Contributions	\$ 128,551	\$ 126,423
Contributions in Relation to the Contractually Required Contributions	\$ 128,551	\$ 126,423
Contribution Deficiency (Excess)	\$ -	\$ -
Employer's Pensionable Payroll	\$ 1,478,083	\$ 1,456,732
Contributions as a percentage of Pensionable Payroll	8.697%	8.679%

The amounts presented above for each fiscal year were determined as of June 30th, the employer's most recent fiscal year end. Schedule is intended to show information for 10 years. Additional years will be displayed as they became available.

**CITY OF HAMILTON
REQUIRED SUPPLEMENTARY INFORMATION
HAMILTON, MONTANA
June 30, 2016**

**SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY *
FOR THE LAST TEN FISCAL YEARS**

MUNICIPAL POLICE OFFICERS' RETIREMENT SYSTEM

	<u>2016</u>	<u>2015</u>
Employer's proportion of the NPL as a percentage	0.40919%	0.38831%
Employer's proportion of the NPL as an amount	\$ 676,881	\$ 610,181
State of Montana's proportionate share of the NPL associated with the employer	\$ 1,371,426	\$ 1,232,638
Total	\$ 2,048,307	\$ 1,842,819
Employer's Pensionable Payroll	\$ 566,324	\$ 521,015
Employer's proportionate share of the NPL as a percentage of its pensionable payroll	119.522%	117.114%
Plan fiduciary net position as a percentage of the Total Pension Liability	66.9%	67.0%

** The amounts presented above for each fiscal year were determined as of June 30th, the measurement date. Schedule is intended to show information for 10 years. Additional years will be displayed as they became available.*

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

	<u>2016</u>	<u>2015</u>
Contractually Required Contributions	\$ 79,510	\$ 82,094
Contributions in Relation to the Contractually Required Contributions	\$ 79,510	\$ 82,094
Contribution Deficiency (Excess)	\$ -	\$ -
Employer's Pensionable Payroll	\$ 542,119	\$ 566,324
Contributions as a percentage of Pensionable Payroll	14.667%	14.496%

The amounts presented above for each fiscal year were determined as of June 30th, the employer's most recent fiscal year end. Schedule is intended to show information for 10 years. Additional years will be displayed as they became available.

**CITY OF HAMILTON
HAMILTON, MONTANA
Notes to Proportionate Share and Contributions Schedules
Pension Plan Changes
For the Year ended June 30, 2016**

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%
--	-------

Adopted in 2013 based on the 2013 Economic Experience study:

General Wage Growth (includes inflation at 3.00%)	4.00%
Investment Rate of Return*	7.75%

Actuarial Assumptions from the June 2010 Experience Study

General Wage Growth (includes inflation at 3.00%)	4.25%
Merit Increase	0% to 7.3%
Investment Rate of Return*	8.00%
Asset Valuation Method	4-year smoothed market
Amortization Method	Level % of Pay, Open

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

**CITY OF HAMILTON
HAMILTON, MONTANA
Notes to Proportionate Share and Contributions Schedules
For the Year ended June 30, 2016**

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%
--	-------

Adopted in 2013 based on the 2013 Economic Experience study:

General Wage Growth (includes inflation at 3.00%)	4.00%
Investment Rate of Return*	7.75%

Actuarial Assumptions from the June 2010 Experience Study

General Wage Growth (includes inflation at 3.00%)	4.25%
Merit Increase	0% to 7.3%
Investment Rate of Return*	8.00%
Asset Valuation Method	4-year smoothed market
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:

2013 Legislative Changes:

Highest Average Compensation (HAC) Cap – House Bill 97, effective July 1, 2013

- o All MPORS 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.
- o All bonuses paid to MPORS members on or after July 1, 2013 will not be treated as compensation for retirement purposes.

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.

CITY OF HAMILTON, MONTANA

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2016

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
Department of Housing and Urban Development				
State Administered				
Montana Department of Commerce				
Community Development Block Grant (Public Facility Grant)	14.228	MT-CDGB-14PF-01	\$ -	\$ 450,000
Community Development Block Grant (Econ Develop Grant)	14.228	MT-CDBG-ED14-03	387,760	387,760
Total Department of Housing and Urban Development			<u>387,760</u>	<u>837,760</u>
Department of Agriculture				
State Administered				
Department of Natural Resources and Conservation				
Cooperative Forestry Assistance (Urban & Community Forestry)	10.664	UCF-15-108	-	8,000
Total Department of Agriculture			<u>-</u>	<u>8,000</u>
Total Expenditures of Federal Awards			\$ <u>387,760</u>	\$ <u>845,760</u>

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

CITY OF HAMILTON, MONTANA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

JUNE 30, 2016

NOTE 1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes federal award activity of the City under programs of the federal government for the year ended June 30, 2016. The information is presented in accordance with requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes on net position, or cash flows of the City.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported the same as those used in the preparation of the fund financial statements as described in Note 1 to the financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursement. Pass-through entity indentifying numbers are presented where available. The City does not use the 10 % de minimis indirect cost rate described under the Uniform Guidance.

TERRY JAMES BURKE
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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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued my report thereon dated June 30, 2017.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. I did identify a certain deficiency in internal control described below as item 2016-001 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 2016-002.

Entity's Response to Findings

The City's response to audit findings identified in my audit is described on page 66. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

Purpose of this Report

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



June 30, 2017

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the City Council
City of Hamilton
Hamilton, Montana

Report on Compliance for Each Major Federal Program

I have audited the City of Hamilton, Montana's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of Hamilton, Montana's major federal programs for the year ended June 30, 2016. City of Hamilton, Montana's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

My responsibility is to express an opinion on compliance for each of the City of Hamilton, Montana's major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Hamilton, Montana's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major federal program. However, my audit does not provide a legal determination of the City of Hamilton, Montana's compliance.

Opinion on Each Major Federal Program

In my opinion, the City of Hamilton, Montana, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

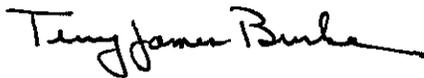
Report on Internal Control over Compliance

Management of the City of Hamilton, Montana, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered the City of Hamilton, Montana's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the City of Hamilton, Montana's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of my testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



June 30, 2017

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Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2016

Section I – Summary of the Auditor’s Results

Financial Statements

1. Type of auditor's report issued: Unmodified
2. Internal control over financial reporting:
- Material weaknesses identified? ___ yes X no
- Significant deficiencies identified? X yes ___ none reported
3. Noncompliance material to the financial statements noted? ___ yes X no

Federal Awards

4. Internal control over major programs:
- Material weaknesses identified? ___ yes X no
- Significant deficiencies identified? ___ yes X none reported
5. Type of auditor's report issued on compliance for major programs: Unqualified opinion
- Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133,? ___ yes X no
7. Identification of major programs:
- U.S. Department of Housing and Urban Development
- Community Development Block Grant CFDA No. 14.228
8. Dollar threshold used to distinguish between Type A and Type B programs: \$750,000
9. Auditee qualified as low-risk auditee? ___ yes X no

Schedule of Findings and Questioned Costs (Continued)

Section II – Financial Statement Findings

FINDING – SIGNIFICANT DEFICIENCY

2016-001 – Monitoring

Condition – The City does not monitor deferred assessment receivable. Although current assessment revenue was monitored to ensure that actual receipts were as expected to be received from the county, deferred assessment receivables as reported by the City did not reconcile with the County's records. For example, the deferred assessment receivable is adjusted by principle only. However, the principal amount did not reconcile with the current charges that were billed (which includes both principle and interest).

Criteria – The City assessment receivables should be monitored for reasonableness.

Effect – The lack of reconciling the accounting records by the City increases the likelihood for inaccurate financial reporting and the vulnerability for improper disbursements.

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

Recommendation - It is my understanding that the City is in the process of monitoring assessment receivable on a regular basis for reasonableness.

FINDING – NONCOMPLIANCE

2016-002 – Minutes

Condition – During the audit, I noted Minutes for a number of council meetings were not always approved in subsequent meetings. For example, it appears that January 19, February 16, May 3, and October 18, 2016 were not presented for in subsequent meeting. In addition, payroll reconciliation reports are not always presented in the next subsequent meeting. For example, payroll reconciliation reports for January 2017 along with November and December 2016 were presented at the February 7, 2017 meeting.

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

Effect – Increased exposure to risk from liability to meet public right to information for approved minutes

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

Recommendation - It is my understanding that this has been addressed. In the future, I recommend the City Council ensure all minutes and payroll reconciliation reports are approved in the next subsequent meeting or in a timely manner.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

Prior Year Audit Findings

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

15-1 – Building Permits – No concerns noted in the current audit.

15-2 – Minutes – Repeated.



City of Hamilton

223 South Second Street
Hamilton, Montana 59840

July 7, 2017

To Readers of the 2015-2016 Audit Report:

The City of Hamilton responds to the June 30, 2016, Auditor's Findings of Compliance and Other Matters in;

2016-001 Monitoring:

1) **Condition:** The City does not monitor deferred assessment receivable. Although current assessment revenue was monitored to ensure that actual receipts were as expected to be received from the county, deferred assessment receivables as reported by the City did not reconcile with the County's records. For example, the deferred assessment receivable is adjusted by principle only. However, the principal amount did not reconcile with the current charges that were billed (which includes both principle and interest).

1) **Response:** For clarification, it is noted that there is a difference in assessment receivables and deferred assessment receivables.

The *assessment receivables* are those amounts that have been charged out to the taxpayers but not yet collected, and when collected is recorded as assessment revenue which is used to pay the principal and interest on the SID debt. The assessment receivables of each SID are reconciled to the County's records.

The *deferred assessment receivable* is the collective amount of taxpayers' principal portion they pay to the City not yet charged out. A normal year end adjustment to the ledger is made to reflect this deferred assessment (principal) balance yet owed by taxpayers. This deferred assessment receivable amount cannot be directly reconciled to any County balance.

The audit condition of not monitoring deferred assessment receivables had not been noted in prior audits. However, the City will concur with the audit finding and monitor the deferred assessment receivable on a regular basis for reasonableness.

2016-002 Minutes:

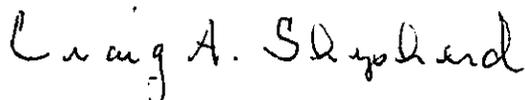
2) **Condition:** During the audit, I noted Minutes for a number of council meetings were not always approved in subsequent meetings. For example, it appears that January 19, February 16, May 3, and October 18, 2016 were not presented at the subsequent meeting. In addition, payroll reconciliation reports are not always timely presented in the next subsequent meeting. For example, on February 7, 2017, payroll reconciliation reports were submitted for January 2017, November and December 2016.

2) Response: As stated in the City's response to a prior similar finding, the City Council adopted Resolution 1267 (copy attached) that specifies that all Council minutes will be presented for approval no later than 2 regular Council meetings after the minutes have been taken. At the time of finalization of this audit, the auditor had received all relevant minutes approved by the Council. The City will continue to comply with its procedure as set forth in Resolution 1267.

Monthly payroll reconciliations are prepared following the issuance of the payroll voucher (per City finance policy) and there may be timing issues in that it cannot be presented at the first meeting of the next month. The City has generally thought the Council President should review and sign off on the payroll reconciliation summary, and this individual is not always available by the time the City Council packets are to be distributed in the councilperson's mailboxes, and again there can be a timing issue.

The instances noted of the November, December and January payroll reconciliations in the February minutes were due to both timing and oversight. The City will timely present the payroll reconciliation reports per City policy and in the event the Council President is not available, will have another authorized official review and sign off on the payroll reconciliation summary to be able to get into the Council packets by the deadline for doing so.

Sincerely,



Craig Shepherd
Financial Administrator, City of Hamilton

cc: Mayor Jerry Steele

RESOLUTION NO. 1267

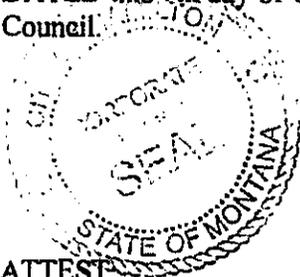
**A RESOLUTION OF THE HAMILTON CITY COUNCIL AMENDING
PART II, SECTION 2 OF THE CITY COUNCIL RULES OF PROCEDURE**

WHEREAS, Section 7-5-4103 MCA and Section 2.04.080 of the Hamilton Municipal Code authorizes the Council to determine the rules of its proceedings; and

WHEREAS, the Committee of the Whole of the City of Hamilton has recommended adoption of an amendment to the *Council Rules of Procedure dated July 2008*, herewith marked Exhibit "A".

NOW THEREFORE, BE IT RESOLVED, the Hamilton City Council does hereby adopt the amendment to the *Council Rules of Procedure dated July 2008*, herewith marked Exhibit "A".

DATED this 7th day of October 2014, after motion and second at a regular meeting of the City Council.



By 
Jerry E. Steele, Mayor

ATTEST:

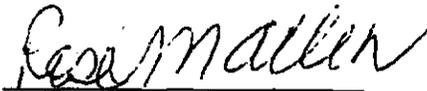

Rose M. Allen, City Clerk

EXHIBIT "A"

CITY OF HAMILTON

AMENDMENT TO COUNCIL RULES OF PROCEDURE

October 7, 2014

PART II. Presiding Officer and Clerk

Section 2. Clerk

The City Clerk, Deputy Clerk, or City Clerk's designee will record and maintain the minutes of the Council's proceedings, showing the vote of each member upon every question, or if failing to vote, indicating that fact; will keep records of its examinations and other official actions; will summarize briefly and accurately the substance of all matters proposed, discussed or decided; will record the names and addresses of all persons appearing before the Council; will file said minutes and records in the office of the Council, which minutes and records will be a public record; and will be the custodian of the files and records of the Council.

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PART IV. Council Meeting Agenda

Section 1. Order of Business

1. Meeting Called to Order
2. Roll Call of the Council
3. Pledge of Allegiance
4. Approval of Minutes from Previous Meetings***
5. Consent Agenda*
6. Comments from the Public
7. Public Presentations **
8. City Reports
9. Committee Reports
10. Board and Commission Reports
11. Correspondence
12. Unfinished Business (Public hearings conducted or public comment taken regarding each agenda item)
13. New Business (Public hearings conducted or public comment taken regarding each agenda item)
14. Non-agenda Items: Topics for Consideration
15. Comments from the Council, Mayor and Staff
16. Schedule Meetings
17. Adjourn

The order of business may be adjusted by consent of the Council, but items will not be added without required public notice.

**The consent agenda is a portion of the regular Council meeting where routine items are approved as a group without Council discussion.*

Prior to the consent agenda vote, the presiding officer will ask if any Council member would like a separate vote or discussion on any consent agenda item. The presiding officer will schedule such discussion and vote as the first item of New Business.

***Whenever feasible, public presentations will be limited to one per meeting.*

****Council minutes will ordinarily be approved by the Council at the next regular Council meeting, but in no event will minutes be presented for approval more than two (2) regular Council meetings after when the minutes were originally taken. Minutes will be given to Council members at least two days prior to the meeting at which approval is scheduled.*

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Section 7. Committee Reports

1. The City Clerk, Deputy Clerk, or the City Clerk's designee will take notes of Committee proceedings and transcribe into minutes. A summary of the recommendations will be given to the Committee chairperson to review and to present during meetings of the full Council
2. Committee minutes will ordinarily be approved by the Committee at the next regular Committee meeting, but in no event will minutes be presented for approval more than two (2) regular Committee meetings after when the minutes were originally taken. Minutes will be given to committee members at least two days prior to the meeting at which approval is scheduled.
3. All Councilors, the Mayor and any Staff persons affected by the recommendations will receive a copy of the recommendations.