

CITY OF POLSON
Lake County, Montana

AUDITED FINANCIAL STATEMENTS AND
REPORTS REQUIRED BY
GOVERNMENT AUDITING STANDARDS

June 30, 2014

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City of Polson
Lake County, Montana

TABLE OF CONTENTS

Independent Auditor's Report	Pages 1-2
Organization	Page 3
Management's Discussion and Analysis	Pages 4-13
Financial Statements	
Government-Wide Statement of Net Position, As of June 30, 2014	Page 14
Government-Wide Statement of Activities, For the Fiscal Year Ended June 30, 2014	Page 15
Balance Sheet-Governmental Funds, As of June 30, 2014	Page 16
Reconciliation: Governmental Funds Balance Sheet to the Statement of Net Position, As of June 30, 2014	Page 16
Statement of Revenues, Expenditures, and Changes in Fund Balances- Governmental Funds, For the Fiscal Year Ended June 30, 2014	Page 17
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds to the Government-Wide Statement of Activities, For the Fiscal Year Ended June 30, 2014	Page 18
Statement of Fund Net Position-Proprietary Funds, As of June 30, 2014	Page 19
Statement of Revenues, Expenses and Changes in Fund Net Position-Proprietary Funds, For the Fiscal Year Ended June 30, 2014	Page 20
Statement of Cash Flows-Proprietary Funds, For the Fiscal Year Ended June 30, 2014	Page 21
Statement of Fiduciary Net Position, As of June 30, 2014	Page 22
Notes to the Financial Statements	Pages 23-45
Required Supplementary Information	
General Fund-Schedule of Revenues, Expenditures and Changes in Fund Balance- Budget and Actual, (Non-GAAP Budgetary Basis) for the Fiscal Year Ended June 30, 2014	Page 46
Tax Increment District-Schedule of Revenues, Expenditures and Changes in Fund Balance- Budget and Actual, (Non-GAAP Budgetary Basis) for the Fiscal Year Ended June 30, 2014	Page 47
Report on Internal Control over Financial Reporting and on Compliance and other matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	Pages 48-49
Schedule of Findings and Questioned Costs and Report on Prior Findings	Pages 50-51

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INDEPENDENT AUDITOR'S REPORT

City Commission
City of Polson
Lake County, Montana

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City'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 City'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, business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2014 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the budgetary comparison information on pages 4-13 and 46-47 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 inquires of management about the methods of preparing information and comparing the information for consistency with management's responses to my inquires, 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 an assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated July 31, 2015, on my consideration of the City's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, 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 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 internal control over financial reporting and compliance.

Cote & Associates, CPA, PLLC

July 31, 2015
Missoula, Montana

City of Polson
Lake County, Montana

ORGANIZATION

For the fiscal year ended June 30, 2014

Mayor	Heather Knutson (Jan 2014-Current)
Mayor	Patricia DeVries (Jul 2013-Dec 2013)
Commissioner/President	Michael Lies (Jul 2013-Dec 2013)
Commissioner/President	John Campbell
Commissioner	Todd Erickson
Commissioner	Stephen Turner
Commissioner	Jill Southerland (Nov 2013-Current)
Commissioner	Ken Siler
Commissioner	Fred Funke (Jul 2013-Dec 2013)
Commissioner	Dan Morrison (Deceased)
City Manager	Mark Shrives (Oct 2013-Current)
Interim City Manager	Karen Sargeant (Jul 2013-Sept 2013)
Attorney	James Raymond (Jul 2013-Dec 2013)
Attorney	Richard Gebhardt (Jan 2014-Current)
Chief of Police	Wade Nash
Fire Chief	John Fairchild
City Clerk	Cora Pritt
Finance Officer	Cindy Dooley
City Judge	A. Doug Olson
Building and Planning Official	Sands Surveying (Erica Wirtala)
Building Inspector	Michael Howke
Water/Sewer Superintendent	Anthony Porrazzo
Director of Golf	Links Management, Inc (Roger Wallace)
Golf Maintenance Supervisor	Pat Nowlen
Streets Superintendent	Terry Gembala
Parks Superintendent	Karen Sargeant
Utility Billing	Forrest Niemeyer
Office Manager/Payroll Clerk	Ardrene Sarracino

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Polson
Management's Discussion and Analysis
June 30, 2014

The City of Polson (City) management discussion and analysis provides an overview of the City's financial activities for the fiscal year ended June 30, 2014. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with additional information we have furnished in the City's financial statements, which follow this narrative, to garner a greater understanding of the City's financial performance.

Financial Highlights

- The assets of the City exceeded its liabilities at June 30, 2014 by \$23,567,525 (net position) compared with \$23,242,890 at June 30, 2013. Of this amount, \$3,776,021 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens, vendors and creditors.
- The City's total net position increased by \$324,635 representing a 1.4% increase from 2013 as previously presented.
- As of the close of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$1,379,609, an increase of \$101,423 from the prior year as previously presented. Of the fund balance amount, \$351,981 is available for spending at the government's discretion (unassigned fund balance) on behalf of its citizens.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$407,590, or 17.41% of total general fund expenditures and other financing uses.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains required and other supplementary information in addition to the basic financial statements themselves.

The *Statement of Net Position and Statement of Activities* provide information about all City activities, presenting both an aggregate view of the City's finances and a longer-term view of those assets. The fund financial statements (governmental, proprietary and fiduciary) provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what resources remain for future spending. The fund financial statements also look at the City's most significant funds individually with all other funds presented in aggregate in a single column.

The government-wide perspective of the City of Polson

Statement of Net Position and the Statement of Activities

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. To answer the question, "How did the City do financially during the year?", we turn to the *Statement of Net Position and the Statement of Activities*. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private sector companies with the difference between the two reported as *net position*. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid. For example, property taxes that have been billed out but not paid are reported as revenue in the government-wide statements but are not considered revenue in the governmental funds statements until paid.

City of Polson
Management's Discussion and Analysis
June 30, 2014

These two statements report the City's net position and the change in that position during the most recent fiscal year. The change in net position is an important indicator of whether the City's financial position as a whole is improving or deteriorating over time. However, in evaluating the overall position of the City, nonfinancial information such as changes in the City's tax base should also be evaluated.

The Statement of Net Position and the Statement of Activities, divide the City into three activities:

- Governmental Activities—These activities are principally supported by taxes and intergovernmental revenues. Most of the City's services are reported here including general government, public safety, public works, housing and community development, culture and recreation and conservation of natural resources.
- Business-Type Activities—These activities charge a usage fee to recover all or a significant portion of their costs. The business-type activities of the City include a golf course, water utility, sewer utility and associated stormwater utility.
- Component Units—The City does not have any component units for fiscal year 2014.

The fund-level perspective of the City of Polson

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. In addition to the General Fund, the City has established other funds to account for the various services provided to our citizens. These funds normally have a restriction on how monies can be spent so the use of separate funds maintains the necessary control. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds. Fund financial reports provide detailed information about the City's major funds. The nonmajor funds are reported in aggregate.

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the *long-term* impact of the City's near-term financing decisions. Both the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains thirty five individual governmental funds. Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, Fund 2310 – Tax Increment Financing District, Fund 3542 – SID #42 Streetscape Main Street Improvement debt service Fund and Fund 4530 – Tax Increment Financing District City Dock and Walkpath Project construction fund which is considered a major fund. Major funds are determined by a formula that considers the percentage of total governmental assets, liabilities, revenues and expenditures contained in each individual fund. Data from the other governmental funds are combined into a single, aggregated presentation.

City of Polson
Management's Discussion and Analysis
June 30, 2014

Proprietary Funds – The City maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City has six enterprise funds; the golf course, water utility and associated impact fees (combined for reporting purposes), sewer utility and associated impact fees (combined for reporting purposes), and stormwater utility.

Enterprise funds provide the same type of information as the government-wide financial statements, only in more detail. Enterprise funds use the full accrual basis of accounting which uses total (current and long-term) financial resources to measure its change in financial position. The enterprise fund financial statements provide detailed information for the Golf Fund, Water Fund (including Water Impact Fees), and the Sewer Fund (including Sewer Impact Fees) which are considered to be major funds for the City. Data from the other enterprise fund, stormwater is combined in a single, aggregated presentation.

Fiduciary Funds – These funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23-45 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report also includes required supplementary information to further enhance the user's understanding of the City's financial position. The City adopts annual appropriated budgets for its governmental and proprietary funds. A schedule providing budgetary comparison has been provided to demonstrate compliance with both the original and final budgets. Required supplementary information can be found beginning on page 46 of this report.

Government-wide Financial Analysis

Net Position – As noted earlier, net position may serve as a useful indicator of a government's financial position over time. In the case of the City, net position was \$23,567,525 and represents the amount that assets exceeded liabilities at the close of the most recent fiscal year.

Governmental Funds

The following table provides a summary comparison of the City's governmental net position for fiscal years 2014 and 2013 and changes in the assets and liabilities.

	Governmental activities		Change	%
	2014	2013		
Current and other assets	\$ 2,277,223	\$ 2,143,797	\$ 133,426	6%
Capital assets	4,560,690	3,968,663	592,027	15%
Total assets	\$ 6,837,913	\$ 6,112,460	\$ 725,453	12%
Current and other liabilities	\$ 418,929	\$ 342,178	\$ 76,751	22%
Long-term liabilities	1,318,861	647,419	671,442	104%
Total liabilities	\$ 1,737,790	\$ 989,597	\$ 748,193	76%
Net Position:				
Net investment in capital assets	\$ 3,170,840	\$ 3,318,199	\$ (147,359)	-4%
Restricted	1,572,659	1,498,581	74,078	5%
Unrestricted	356,624	306,083	50,541	17%
Total net position	\$ 5,100,123	\$ 5,122,863	\$ (22,740)	0%

City of Polson
Management's Discussion and Analysis
June 30, 2014

By far the largest portion of the City's governmental net position (62 percent) reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery and equipment) net of depreciation, less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens. Consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional \$1,572,659 of the City's governmental net position (31 percent) represents resources that are subject to external restrictions on how it may be used. The remaining balance of unrestricted net position, \$356,624 (7 percent) may be used to meet the government's ongoing obligations to its citizens, vendors and creditors.

The increase in current assets is due mainly to an increase in amounts due from Lake County – a greater portion of the second half revenue was not received until July. The increase in capital assets is due mainly to construction that is progressing on the new City Dock and the walkpath under the bridge. See Note 7 for more information on capital asset activity. The increase in current liabilities is due to slight increase in wages payable, retainage payable and the liability for TIFD personal property taxes which is a reclassification of tax receivables that is made due to a negative increment for personal property. Long-term liabilities increased significantly due to TIFD urban renewal bonds issued for construction of the City dock and walkpath under the bridge. See Note 8 for more information on long-term debt activity.

Business-type Funds

The following table provides a summary comparison of the City's business-type net position for fiscal years 2014 and 2013 and changes in the assets and liabilities.

	Business-type activities		Change	%
	2014	2013		
Current and other assets	\$ 3,768,436	\$ 3,753,714	\$ 14,722	0%
Capital assets	15,446,077	15,266,363	179,714	1%
Total assets	<u>\$ 19,214,513</u>	<u>\$ 19,020,077</u>	<u>\$ 194,436</u>	1%
Deferred outflows of resource	\$ 12,300	\$ -	\$ 12,300	100%
Total deferred outflows	<u>\$ 12,300</u>	<u>\$ -</u>	<u>\$ 12,300</u>	100%
Current and other liabilities	\$ 277,539	\$ 307,165	\$ (29,626)	-10%
Long-term liabilities	481,872	592,885	(111,013)	-19%
Total liabilities	<u>\$ 759,411</u>	<u>\$ 900,050</u>	<u>\$ (140,639)</u>	-16%
Net Position:				
Net investment in capital assets	\$ 14,846,620	\$ 14,573,497	\$ 273,123	2%
Restricted	201,385	63,239	138,146	0%
Unrestricted	3,419,397	3,483,291	(63,894)	-2%
Total net position	<u><u>\$ 18,467,402</u></u>	<u><u>\$ 18,120,027</u></u>	<u><u>\$ 347,375</u></u>	2%

By far the largest portion of the City's business-type net position (80 percent) reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery and equipment) net of depreciation, less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens. Consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Polson
Management's Discussion and Analysis
June 30, 2014

Restricted assets in the amount of \$201,385 represent 1% of the total net position. The restrictions are due to debt service requirements and inventory which is considered a non-spendable asset. The remaining balance of *unrestricted net position*, \$3,419,397 (19 percent) may be used to meet the government's ongoing obligations to its citizens, vendors and creditors.

There was not much change in the overall assets and liabilities of the enterprise funds. Construction continues on the Water and Sewer utility shop building but there is not much activity beyond this. The City is carrying a deferred outflow of resources in the amount of \$12,300. This is due to a contingent liability that required an advance payment in order to appeal the judgement. See Note 20 for more information. The decrease in liabilities is due mainly to debt service payments. See Note 8 for more information on long-term debt activity.

Changes in Net Position

Governmental Funds

Governmental activities decreased the City's net position by \$22,740 in fiscal year 2014. The following table provides a summary comparison of the City's governmental change in net position for fiscal years 2014 and 2013.

	Governmental activities		Change	%
	2014	2013		
Revenues				
Program revenues				
Charges for services	\$ 413,934	\$ 385,172	\$ 28,762	7%
Operating grants & contributions	119,949	117,703	2,246	2%
Capital grants & contributions	80,598	34,968	45,630	130%
General revenues				
Property taxes	1,692,324	1,626,790	65,534	4%
Impact fees	14,121	5,772	8,349	145%
Intergovernmental revenue	662,939	619,928	43,011	7%
Investment earnings	4,668	5,588	(920)	-16%
Gain (loss) on asset disposal	3,736	(736)	4,472	608%
Other revenues	62,218	60,133	2,085	3%
Total revenues	<u>\$ 3,054,487</u>	<u>\$ 2,855,318</u>	<u>\$ 199,169</u>	7%
Program expenses				
General government	\$ 741,989	\$ 769,869	\$ (27,880)	-4%
Public safety	1,596,549	1,542,244	54,305	4%
Public works	449,719	393,516	56,203	14%
Social and economic services	-	1,600	(1,600)	-100%
Culture & recreation	231,311	218,247	13,064	6%
Housing/community development	11,463	2	11,461	573050%
Conservation of natural resources	628	2,475	(1,847)	-75%
Interest on long-term debt	45,568	25,552	20,016	78%
Total expenses	<u>\$ 3,077,227</u>	<u>\$ 2,953,505</u>	<u>\$ 123,722</u>	4%
Changes in net position before restatements and transfers				
Restatements	\$ (22,740)	\$ (98,187)	\$ 75,447	77%
Restatements	-	21,141	(21,141)	-100%
Change in net position	<u>\$ (22,740)</u>	<u>\$ (77,046)</u>	<u>\$ 54,306</u>	-70%
Total net position reported July 1, 2013	<u>\$ 5,122,863</u>	<u>\$ 5,199,909</u>	<u>\$ (77,046)</u>	-1%
Total net position June 30, 2014	<u>\$ 5,100,123</u>	<u>\$ 5,122,863</u>	<u>\$ (22,740)</u>	0%

City of Polson
Management's Discussion and Analysis
June 30, 2014

As the economy has started to recover building activity has increased with the City receiving over twice the amount of building permit fees than the prior year. Tax collections also increased. The decrease in operating grants is due mainly to the final closeout of the COPS grant while the increase in capital grants is due mainly to the receipt of a MACI grant from the Montana Department of Transportation for equipment purchases.

Impact fees more than doubled due to the increase in building activity. Investment earnings continue to remain flat due to lower interest rates available when money is being re-invested. The City's entitlement share from the State of Montana increased which contributed to the increase in intergovernmental revenues.

Program expenses increased overall. The main increases are in the cost of personnel including the increase in the cost of medical insurance for all functions. Expenses for social and economic services decreased as the program was discontinued. Public works expense increased due to increased expenses for street paving and winter chemical supplies. Interest on long-term debt increased due to the issuance of the TIFD urban renewal bond debt which began payments in fiscal year 2014. See Note 8 for information on long-term debt.

Business-type Funds

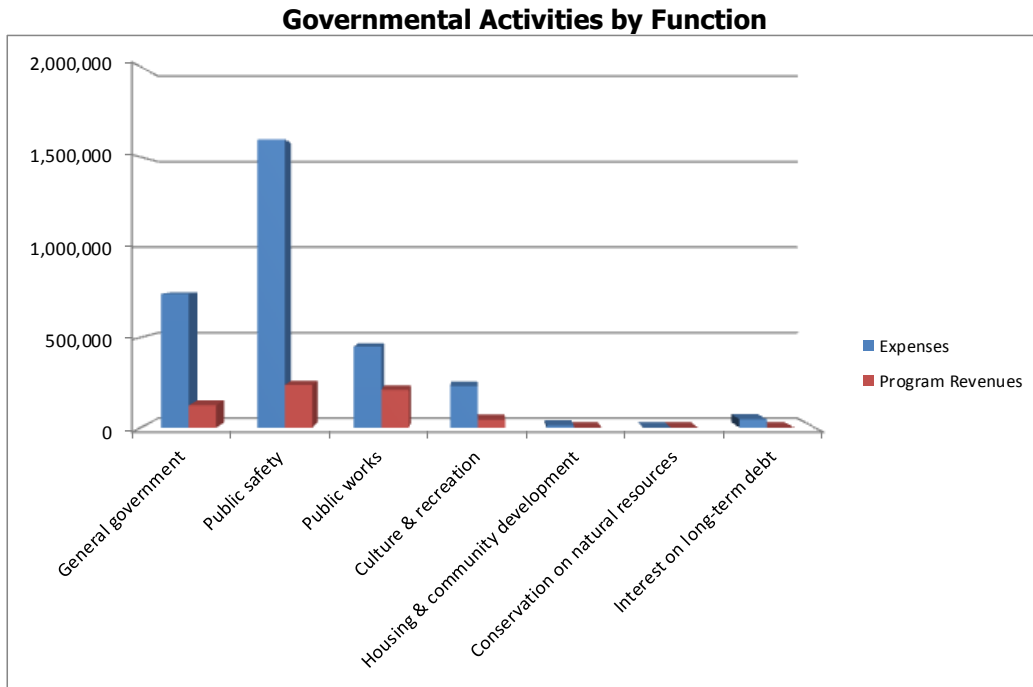
Business-type activities increased the City's net position by \$347,375 in fiscal year 2014. The following table provides a summary comparison of the City's business-type change in net position for fiscal years 2014 and 2013.

	Business-type activities		Change	%
	2014	2013		
Revenues				
Program revenues				
Charges for services	\$ 2,651,681	\$ 2,626,006	\$ 25,675	1%
Capital grants & contributions	15,000	-	15,000	100%
General revenues				
Impact fees	25,215	5,695	19,520	343%
Investment earnings	14,148	24,816	(10,668)	-43%
Gain (loss) on asset disposal	2,500	15,800	(13,300)	-84%
Other revenues	8,027	4,624	3,403	74%
Total revenues	<u>\$ 2,716,571</u>	<u>\$ 2,676,941</u>	<u>\$ 39,630</u>	1%
Program expenses				
Golf	\$ 1,011,174	\$ 1,013,472	\$ (2,298)	0%
Water	795,291	831,893	(36,602)	-4%
Sewer	562,731	628,570	(65,839)	-10%
Total expenses	<u>\$ 2,369,196</u>	<u>\$ 2,473,935</u>	<u>\$ (104,739)</u>	-4%
Changes in net position before restatements and transfers	\$ 347,375	\$ 203,006	\$ 144,369	71%
Restatements	-	6,157	(6,157)	-100%
Change in net position	<u>\$ 347,375</u>	<u>\$ 209,163</u>	<u>\$ 138,212</u>	66%
Total net position reported July 1, 2013	<u>\$ 18,120,027</u>	<u>\$ 17,910,864</u>	<u>\$ 209,163</u>	1%
Total net position June 30, 2014	<u>\$ 18,467,402</u>	<u>\$ 18,120,027</u>	<u>\$ 347,375</u>	2%

City of Polson
 Management's Discussion and Analysis
 June 30, 2014

Golf course revenues were down due to a slow start to the golf season in 2014. Water revenue increased due to more connections and summer watering. Investment earnings decreased due to the maturity of higher interest investments and having to re-invest at lower rates. The interest allocation method was also changed with decreased earnings in the enterprise funds. The program expenses decreased for all three enterprise funds which contributed to the increase in net position.

The following graph shows total expenses and program revenue by function. Total general revenues (primarily property taxes) required for each function is generally the difference between total expenses and program revenues for each function:



Capital Assets and Debt Administration

Capital Assets

The City's capital assets consist of land, construction in progress, buildings, improvements, infrastructure, equipment and machinery. Infrastructure assets placed in service in 2005 and after are reported in capital assets. The City's investment in capital assets (net of accumulated depreciation and outstanding debt) was \$18,017,460 at June 30, 2014. Capital asset activity is presented in Note 7 of the financial statements.

Significant activity in capital assets for fiscal year 2014 includes:

- The City completed the construction of a new City dock at Salish Point for a cost of \$321,705. Construction is nearing completion on the walkpath under the bridge which connects Sacajawea and Riverside Parks. A total of \$484,983 has been spent thus far. This combined project is being constructed with \$800,000 of Tax Increment Financing (TIF) urban renewal bonds purchased by five local banks and a contribution from the Polson Redevelopment Agency tax increment financing district.
- The fire department replaced the remaining 20 SCBA oxygen tank packs at cost of \$13,580. This was funded by general fund revenues. One new police vehicle was purchased at a cost of \$34,291. This was paid from tax revenues collected for the Municipal Services Levy.
- A Toro weed sprayer was purchased with the cost shared by five departments – streets, parks, fire, water and sewer. The total cost was \$15,000 and paid with general revenues and water and sewer fees.

City of Polson
Management's Discussion and Analysis
June 30, 2014

- The Golf shop building was re-roofed at a cost of \$9,175. Equipment upgrades were made totaling \$51,777. The Golf course also purchased a driving range ball dispenser machine at a cost of \$10,583. The machine will accept credit card payments and should significantly increase the driving range revenue.
- Engineering work continues on the "Downtown Looping Project" which is an upgrade to water mains in the downtown area north of highway 93 and is scheduled for completion in FY15. The total cost to date is \$127,134 paid from the Water fund. The Water and Sewer utility shop is nearing completion. The total cost to date is \$307,907 (\$117,412 in FY14) paid from the Water and Sewer funds.
- The Sewer department incurred engineering costs in the amount of \$155,885 for planning services for the wastewater mechanical treatment plant. This is a task order contract for the various stages of planning, design and construction which will occur over the next three fiscal years. These costs were in part paid by a \$15,000 TSEP/RRGL planning grant from the State of Montana.

See Note 7 for further capital asset information and details of the City's capital activity for 2014.

Debt Administration

The City's long-term debt totaled \$1,923,628 at June 30, 2014 and short-term debt totaled \$8,062. Total debt, exclusive of compensated absences, increased \$587,296, which is comprised of the issuance of \$800,000 of Tax Increment Financing urban renewal bonds and principal payments on all debt of (\$212,704). The liability for compensated absences increased \$13,000. Additional information regarding long-term debt can be found in Note 8 to the financial statements.

The following table shows outstanding debt by type:

Total Outstanding Debt

Special assessment bonds	\$	585,481
Tax increment urban renewal bonds		772,038
Revenue bonds		566,109
Other notes and contracts payable		8,062
Compensated absences liability		318,226
	\$	<u>2,249,916</u>

Fund Level Financial Analysis—Governmental Funds

For the fiscal year ended June 30, 2014, the City's governmental funds reported combined fund balance totaling \$1,379,609 compared with \$1,278,186 in 2013. Approximately, \$455,191 of this amount constitutes unrestricted (categorized as committed, assigned and unassigned) fund balance, which is available to spend for current needs. The remaining balance is restricted for specific purposes. The governmental funds had a combined increase in fund balance totaling \$101,423.

The general fund is the chief operating fund of the City. For fiscal year 2014, total fund balance decreased \$89,247 to \$407,590 all of which was unassigned. As a measure of the general fund's total liquidity, it may be useful to compare total unassigned fund balance to total general fund expenditures. Total unassigned general fund, fund balance represents 17.41% of total expenditures compared to 21.97% in 2013. The decline in the percentage is a continual problem for the general fund and will need to be addressed either through increased revenues or major reductions in general fund expenditures.

Fund 2310 – Tax Increment Financing District (TIFD) is a special revenue fund which receives tax increment revenue from the TFID district. Tax increments are taxes generated from the difference between the base year value of property in the district compared to the current year value of the property. The increase in growth is applied against the mill value

City of Polson
Management's Discussion and Analysis
June 30, 2014

and the amount is set aside in a special fund for capital improvement projects in the district. Most personal property in the TIFD has declined below the base year value due to changes in State Law regarding personal property. This creates a negative increment that goes back to the district's other taxing jurisdictions including the County, State of Montana, the school districts and special districts. The TIFD has restricted fund balance amounts of \$177,482 to be used for future capital improvement projects and \$66,606 in debt service restrictions for use in re-payment of the \$800,000 tax increment urban renewal bonds issued in FY2014.

Fund 3542 – SID #42 Streetscape Debt Service Fund is used to collect special assessments from the special improvement district to make payments on the bonds that were used in construction of the Main Street Streetscape project. Total fund balance at June 30, 2014 was \$48,497 compared with \$47,330 in 2013. All of the fund balance is considered restricted for debt service. The fund balance represents 73.29% of expenditures for 2014 compared to 70.46% in 2013.

Fund 4530 – TIFD City dock and walkpath project is a capital improvement fund created to receive proceeds of the TIF urban renewal bonds in the amount of \$800,000 and a contribution from the TIFD fund of \$51,500 and to spend those funds on the construction of a new City dock at Salish Point and to create a walkpath under the bridge which connects Sacajawea Park and Riverside Park as part of the trails plan for the City. Total fund balance at June 30, 2014 is \$72,316. This fund balance is restricted for the remaining construction that will take place in FY15. Any remaining fund balance after construction is complete will be transferred to fund 2310 to assist in debt service payments.

City of Polson General Fund Budget Highlights

The City's budget is prepared on the basis of cash receipts, disbursements and certain receivables. During the year, the City Commission can amend the budget in accordance with state law. The original approved general fund expenditure budget including transfers out was \$2,383,241 and there were no amendments to the general fund budget. Actual expenditures were \$2,379,444 including transfers out. Significant budget variances in the General fund include:

- A negative variance of \$33,615 in the legal services department was due in part to severance payments made to the former City Attorney and interim City Attorney costs.
- A positive variance of \$11,599 in the planning department budget due mainly to reduced personnel costs.
- A positive variance of \$15,401 in the fire protection services budget for supplies, materials and capital outlay that were not purchased.

Economic Factors and Fiscal Year 2015 Budget

The City is a Third Class city with a current estimated population of 4,604. The City is the county seat for Lake County. In the 1980s and 1990s, the Polson area transitioned from an economy based on agriculture and wood products to an economy based on retail and service, government, healthcare, and manufacturing. In the last decade the City saw growth in tourism and residential real estate development fueled by the construction of retirement or second homes. Following the great recession, the City is starting to see improvement in the retail construction industry with the hope that residential construction will also increase. As of 2009 statistics, trade center/service type activities constituted 52% of the labor force in the City and surrounding areas with the health care services industry comprising 14% of that total. The manufacturing industry comprises 14% of the City's labor force. Government labor forces comprised 34% of total employment in the City (which includes the County government). The Montana Department of Labor and Industry predicts that some of the fastest growing sectors in the state over the next 5-10 years will be Arts, Entertainment and Recreation. The City's proximity to recreational opportunities and natural amenity will continue to attract tourists and retirees making recreation, retail, real estate, construction, retirement-related industries and health-care an even larger share of the economy.

The United States Census Bureau estimates that as of 2010 there was an 11% increase in population in Polson over the 2000 census statistics. The total population estimate was 4,488 citizens. The state Department of Labor and Industry

City of Polson
Management's Discussion and Analysis
June 30, 2014

expects the population of Polson to increase to 5,755 by the year 2025. This is an average annual growth rate of 1.42%. The area outside of Polson, on Flathead Lake more than doubles the area population during the summer months.

The City Commission's budget priorities include the continued maintenance of strong cash reserves through better budgeting and increased sources of revenue.

Other fiscal year 2015 budget items worth noting:

- The budget provides a 25 cent COLA (cost of living adjustment) for all permanent, full-time city employees.
- The budget provides for an increase in the Permissive Medical Mill Levy of 2 mills which will raise an additional \$93,053 for health-care cost assistance for the governmental funds. Total healthcare premium cost is estimated at \$279,066 for the year.
- The citizens voted to study the form of the City's government in June, 2014 and the expenditure budget has been set at \$14,500 for that study.
- The City has applied for CDBG (Community Development Block Grant) grant funds up to \$20,000 to update the Growth Policy.
- The budget contains an appropriation of \$7,840 for the City to purchase two de-icer units through the MACI grant program managed by the State of Montana. The grant will provide \$48,160 of the cost.
- The budget includes expenditures for additional lighting and installation of interpretive signs along Sacajawea Park and the walkpath. This will be paid for by donations and construction funds.
- The budget includes an expenditure of \$180,000 for a new cart storage shed at the Golf Course.
- Budget expenditures have been included for the Water department for upgrades to the water system in the downtown area labeled as "the downtown looping project" and for construction of a well on the east side of the City. Anticipated grant revenues for this project have been budgeted along with the City's match. The Sewer department has budgeted for engineer costs related to the upcoming construction of a headworks facility and a mechanical wastewater treatment plant in fiscal years 2015-2018.
- All of the voted and non-voted levies are approved at their maximum levels in the budget due to need.

Contacting the City's Financial Management

This financial report is designed to provide a general overview of the City's finances for its citizens, taxpayers, creditors, and investors and to show the City's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Cindy M. Dooley, Finance Officer, 106 1st Street E, Polson, Montana 59860.

BASIC FINANCIAL STATEMENTS

City of Polson
Lake County, Montana

Government-Wide Statement of Net Position
As of June 30, 2014

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,230,092	\$ 589,294	\$ 1,819,386
Petty cash	300	947	1,247
Taxes/assessments receivable-current	151,683	-	151,683
Accounts receivable	4,848	173,252	178,100
Due from other governments	157,117	15,000	172,117
Inventories	-	138,267	138,267
Assessments receivable-noncurrent	592,031	-	592,031
Restricted assets:			
Cash, cash equivalents and investments	141,152	2,851,676	2,992,828
Capital assets not being depreciated:			
Land	86,915	2,238,751	2,325,666
Construction in progress	498,754	657,465	1,156,219
Capital assets being depreciated (net of accumulated depreciation)	3,975,021	12,549,861	16,524,882
Total assets	\$ 6,837,913	\$ 19,214,513	\$ 26,052,426
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources	\$ -	\$ 12,300	\$ 12,300
Total deferred outflows of resources	\$ -	\$ 12,300	\$ 12,300
LIABILITIES			
Accounts payable	\$ 79,991	\$ 57,908	\$ 137,899
Accrued interest payable	9,268	2,573	11,841
Deposits/retainage payable	15,400	32,905	48,305
Due to other governments	49,240	-	49,240
Contracts/loans/notes payable	8,062	-	8,062
Current portions of long term debt	256,968	184,153	441,121
Noncurrent liabilities:			
Long term portions of long term debt	1,318,861	481,872	1,800,733
Total liabilities	\$ 1,737,790	\$ 759,411	\$ 2,497,201
NET POSITION			
Net investment in capital assets	\$ 3,170,840	\$ 14,846,620	\$ 18,017,460
Restricted for:			
Debt service	705,241	44,139	749,380
Bond indenture requirement	77,500	18,979	96,479
General government	10,787	-	10,787
Public safety	138,397	-	138,397
Public works	151,339	-	151,339
Culture/recreation	214,083	-	214,083
Housing and community development	271,762	-	271,762
Conservation of natural resources	3,550	-	3,550
Non-spendable (other than permanent fund)	-	138,267	138,267
Unrestricted	356,624	3,419,397	3,776,021
Total net position	\$ 5,100,123	\$ 18,467,402	\$ 23,567,525

The accompanying notes are an integral part of these financial statements.

City of Polson
Lake County, Montana

Government-Wide Statement of Activities
For the Fiscal Year Ended June 30, 2014

	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services, Fines, Forfeitures, etc.	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
				Governmental Activities	Business-type Activities		
Governmental activities:							
General government	\$ 741,989	\$ 118,685	\$ 5,874	\$ -	\$ (617,430)	-	\$ (617,430)
Public safety	1,596,549	152,297	82,486	2,275	(1,359,491)	-	(1,359,491)
Public works	449,719	137,298	1,146	70,708	(240,567)	-	(240,567)
Culture & recreation	231,311	5,654	30,443	7,615	(187,599)	-	(187,599)
Housing & community development	11,463	-	-	-	(11,463)	-	(11,463)
Conservation on natural resources	628	-	-	-	(628)	-	(628)
Interest on long-term debt	45,568	-	-	-	(45,568)	-	(45,568)
Total governmental activities	\$ 3,077,227	\$ 413,934	\$ 119,949	\$ 80,598	\$ (2,462,746)	\$ -	\$ (2,462,746)
Business-type activities:							
Golf	\$ 1,011,174	\$ 1,024,988	\$ -	\$ -	\$ -	\$ 13,814	\$ 13,814
Water	795,291	942,981	-	-	-	147,690	147,690
Sewer (& Stormwater)	562,731	683,712	-	15,000	-	135,981	135,981
Total business-type activities	\$ 2,369,196	\$ 2,651,681	\$ -	\$ 15,000	\$ -	\$ 297,485	\$ 297,485
	\$ 5,446,423	\$ 3,065,615	\$ 119,949	\$ 95,598	\$ (2,462,746)	\$ 297,485	\$ (2,165,261)
General revenues							
Property taxes					\$ 1,591,610	-	\$ 1,591,610
Local option tax					100,714	-	100,714
Impact fees					14,121	25,215	39,336
Unrestricted federal/state shared revenues					662,939	-	662,939
Unrestricted grants and contributions					-	600	600
Unrestricted investment earnings					4,668	14,149	18,817
Miscellaneous					62,218	7,426	69,644
Gain/(loss) on sale of capital assets					3,736	2,500	6,236
Total general revenues and transfers					\$ 2,440,006	\$ 49,890	\$ 2,489,896
Change in net position					(22,740)	347,375	324,635
Total net position reported July 1, 2013					\$ 5,122,863	\$ 18,120,027	\$ 23,242,890
Total net position-June 30, 2014					\$ 5,100,123	\$ 18,467,402	\$ 23,567,525

The accompanying notes are an integral part of these financial statements.

City of Polson
Lake County, Montana

Balance Sheet-Governmental Funds
As of June 30, 2014

	Major Fund				Other Governmental Funds	Total Governmental Funds
	General Fund	Tax Increment Financing District	SID #42 Streetscape	TIFD City Dock & Walkpath Project		
ASSETS						
Cash and cash equivalents	\$ 313,665	\$ 212,097	\$ -	\$ 82,316	\$ 616,413	\$ 1,224,491
Petty cash	300	-	-	-	-	300
Restricted: cash and cash equivalents	-	66,606	43,101	-	37,046	146,753
Taxes/assessments receivable	107,976	11,964	599,852	-	23,922	743,714
Accounts/other receivables	625	-	-	-	4,222	4,847
Due from other funds	55,778	-	-	-	-	55,778
Due from other governments	107,556	23,190	6,289	-	20,082	157,117
Total assets	\$ 585,900	\$ 313,857	\$ 649,242	\$ 82,316	\$ 701,685	\$ 2,333,000
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 5,894	\$ 220	\$ -	\$ -	\$ 3,376	\$ 9,490
Other accrued payables	64,040	8,345	893	-	6,491	79,769
Due to other funds	-	-	-	-	55,778	55,778
Due to other governments	-	49,240	-	-	-	49,240
Deposits payable	400	-	-	10,000	5,000	15,400
Total liabilities	\$ 70,334	\$ 57,805	\$ 893	\$ 10,000	\$ 70,645	\$ 209,677
Deferred inflows	\$ 107,976	\$ 11,964	\$ 599,852	\$ -	\$ 23,922	\$ 743,714
Fund balances:						
Nonspendable:	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted:						
General government	-	177,482	-	72,316	500,969	750,767
Debt service	-	66,606	48,497	-	58,548	173,651
Committed:	-	-	-	-	7,082	7,082
Assigned:	-	-	-	-	96,128	96,128
Unassigned:						
General fund	407,590	-	-	-	-	407,590
Fund deficits	-	-	-	-	(55,609)	(55,609)
Total fund balance	\$ 407,590	\$ 244,088	\$ 48,497	\$ 72,316	\$ 607,118	\$ 1,379,609
Total liabilities and fund balances	\$ 585,900	\$ 313,857	\$ 649,242	\$ 82,316	\$ 701,685	

Reconciliation: Governmental Funds Balance Sheet to the Statement of Net Position, As of June 30, 2014

AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET POSITION ARE DIFFERENT BECAUSE:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported on the governmental funds balance sheet.	\$ 4,560,690
Taxes and assessment receivables are not recorded as revenue until they are received and, therefore, are deferred in the governmental funds.	743,714
The liability for compensated absences is not due and payable in the current periods and, therefore, is not reported in the governmental funds balance sheet.	(218,309)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds balance sheet.	(1,365,581)
Net position of governmental activities	<u>\$ 5,100,123</u>

The accompanying notes are an integral part of these financial statements.

City of Polson
Lake County, Montana

Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds
For the Fiscal Year Ended June 30, 2014

	Major Fund				Other Governmental Funds	Total Governmental Funds
	General Fund	Tax Increment Financing District	SID #42 Streetscape	TIFD City Dock & Walkpath Project		
REVENUES						
Taxes and assessments	\$ 1,262,996	\$ 130,778	\$ 67,135	\$ -	\$ 283,676	\$ 1,744,585
Licenses and permits	17,206	-	-	-	72,853	90,059
Intergovernmental revenues	692,268	13,081	-	-	188,370	893,719
Charges for services	139,527	-	-	-	16,220	155,747
Fines and forfeiture	40,585	-	-	-	4,611	45,196
Miscellaneous	63,191	-	-	-	48,566	111,757
Investment and royalty earnings	856	702	203	799	2,107	4,667
Total revenues	<u>\$ 2,216,629</u>	<u>\$ 144,561</u>	<u>\$ 67,338</u>	<u>\$ 799</u>	<u>\$ 616,403</u>	<u>\$ 3,045,730</u>
EXPENDITURES						
General government	\$ 701,220	\$ -	\$ -	\$ -	\$ -	\$ 701,220
Public safety	1,252,318	-	-	-	234,086	1,486,404
Public works	209,865	-	-	-	116,296	326,161
Culture and recreation	158,637	-	-	-	18,471	177,108
Housing and community development	-	740	-	-	-	740
Conservation of natural resources	-	-	-	-	628	628
Debt service:						
Principal	-	27,961	41,036	-	15,885	84,882
Interest	-	20,293	25,135	-	140	45,568
Capital outlay	63,626	-	-	777,049	90,144	930,819
Miscellaneous	-	-	-	-	4,105	4,105
Total expenditures	<u>\$ 2,385,666</u>	<u>\$ 48,994</u>	<u>\$ 66,171</u>	<u>\$ 777,049</u>	<u>\$ 479,755</u>	<u>\$ 3,757,635</u>
Excess of revenues over (under) expenditures	\$ (169,037)	\$ 95,567	\$ 1,167	\$ (776,250)	\$ 136,648	\$ (711,905)
OTHER FINANCING SOURCES (USES):						
Bond issued	\$ -	\$ -	\$ -	\$ 800,000	\$ -	\$ 800,000
Proceeds from sale of capital assets	13,328	-	-	-	-	13,328
Transfers in (out)	66,462	(48,450)	-	48,450	(66,462)	-
Total other financing sources (uses)	<u>\$ 79,790</u>	<u>\$ (48,450)</u>	<u>\$ -</u>	<u>\$ 848,450</u>	<u>\$ (66,462)</u>	<u>\$ 813,328</u>
Net change in fund balances	\$ (89,247)	\$ 47,117	\$ 1,167	\$ 72,200	\$ 70,186	\$ 101,423
Fund balances-July 1, 2013	\$ 496,837	\$ 196,971	\$ 47,330	\$ 116	\$ 536,932	\$ 1,278,186
Fund balances-June 30, 2014	<u>\$ 407,590</u>	<u>\$ 244,088</u>	<u>\$ 48,497</u>	<u>\$ 72,316</u>	<u>\$ 607,118</u>	<u>\$ 1,379,609</u>

The accompanying notes are an integral part of these financial statements.

City of Polson
Lake County, Montana

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances-
Governmental Funds to the Government-Wide Statement of Activities
For the Fiscal Year Ended June 30, 2014

Net change in fund balance - total governmental funds (page 17)	\$ 101,423
Amounts reported for governmental activities in the statement of activities (page 15) are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:	
Capital assets purchased	153,770
Construction of capitalized infrastructure	777,050
Depreciation expense	(329,201)
In the statement of activities, the loss or gain on the sale or disposal of capital assets is recognized. The governmental funds recognize only the proceeds from the sale of these assets:	
Proceeds from the sale of capital assets	(13,328)
Gain on the disposal of capital assets	3,736
Property taxes and SID revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds:	
Real estate taxes	43,393
Maintenance and special improvement district assessments	(38,374)
The increase in expenses due to the increase in the liability for compensated absences reported in the statement of activities does not use current financial resources and, therefore, is not reported in the the governmental funds.	(6,092)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term consumes current financial resources of governmental funds. Neither transaction, however, has any effect on net assets:	
Issuance of debt	(800,000)
Principal payments on long-term debt	<u>84,883</u>
Change in net position in governmental activities (page 15)	\$ <u><u>(22,740)</u></u>

The accompanying notes are an integral part of these financial statements.

City of Polson
Lake County, Montana

Statement of Fund Net Position-Proprietary Funds
As of June 30, 2014

	Business-type Activities				
	Major Enterprise Funds				Totals
	Golf Fund	Water Fund	Sewer Fund	Non-major Fund	
ASSETS					
Current assets					
Cash and cash equivalents	\$ 168,338	\$ 992,122	\$ 1,745,900	\$ 139,952	\$ 3,046,312
Petty cash	747	200	-	-	947
Accounts receivable	3,600	87,651	69,212	12,789	173,252
Due from other governments	-	-	15,000	-	15,000
Inventories	37,939	100,328	-	-	138,267
Total current assets	<u>\$ 210,624</u>	<u>\$ 1,180,301</u>	<u>\$ 1,830,112</u>	<u>\$ 152,741</u>	<u>\$ 3,373,778</u>
Noncurrent assets					
Restricted assets:					
Cash, cash equivalents and investments	\$ 26,197	\$ 304,622	\$ 63,839	\$ -	\$ 394,658
Capital assets:					
Land	2,042,231	177,064	19,456	-	2,238,751
Construction in progress	10,775	321,278	324,543	869	657,465
Buildings	550,275	-	-	-	550,275
Improvements other than buildings	437,697	-	-	-	437,697
Machinery and equipment	1,145,843	-	-	-	1,145,843
Utility plant	-	13,625,714	7,141,241	359,051	21,126,006
Less: accumulated depreciation	(1,328,657)	(4,584,204)	(4,768,375)	(28,724)	(10,709,960)
Total noncurrent assets	<u>\$ 2,884,361</u>	<u>\$ 9,844,474</u>	<u>\$ 2,780,704</u>	<u>\$ 331,196</u>	<u>\$ 15,840,735</u>
Total assets	<u>\$ 3,094,985</u>	<u>\$ 11,024,775</u>	<u>\$ 4,610,816</u>	<u>\$ 483,937</u>	<u>\$ 19,214,513</u>
DEFERRED OUTFLOWS OF RESOURCES					
Deferred outflows of resources	\$ 12,300	\$ -	\$ -	\$ -	\$ 12,300
Total deferred outflows of resources	<u>\$ 12,300</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,300</u>
LIABILITIES					
Current liabilities					
Accounts payable	\$ 16,108	\$ 584	\$ 402	\$ -	\$ 17,094
Accrued interest payable	1,587	986	-	-	2,573
Accrued payroll payable	25,044	8,235	7,534	-	40,813
Current portion of compensated absences	31,008	19,659	18,551	-	69,218
Current portion of bonds payable	98,936	16,000	-	-	114,936
Deposits payable	-	32,905	-	-	32,905
Total current liabilities	<u>\$ 172,683</u>	<u>\$ 78,369</u>	<u>\$ 26,487</u>	<u>\$ -</u>	<u>\$ 277,539</u>
Noncurrent liabilities					
Compensated absences	\$ 13,217	\$ 9,622	\$ 7,860	\$ -	\$ 30,699
Bonds payable	204,173	247,000	-	-	451,173
Total noncurrent liabilities	<u>\$ 217,390</u>	<u>\$ 256,622</u>	<u>\$ 7,860</u>	<u>\$ -</u>	<u>\$ 481,872</u>
Total liabilities	<u>\$ 390,073</u>	<u>\$ 334,991</u>	<u>\$ 34,347</u>	<u>\$ -</u>	<u>\$ 759,411</u>
NET POSITION					
Net investment in capital assets	\$ 2,542,694	\$ 9,255,865	\$ 2,716,865	\$ 331,196	\$ 14,846,620
Restricted for: debt service	26,197	37,071	-	-	63,268
Unrestricted	148,321	1,396,848	1,859,604	152,741	3,557,514
Total net position	<u>\$ 2,717,212</u>	<u>\$ 10,689,784</u>	<u>\$ 4,576,469</u>	<u>\$ 483,937</u>	<u>\$ 18,467,402</u>

The accompanying notes are an integral part of these financial statements.

City of Polson
Lake County, Montana

Statement of Revenues, Expenses, and Changes in Fund Net Position-Proprietary Funds
For the Fiscal Year Ended June 30, 2014

	Business-type Activities				
	Major Enterprise Funds				Totals
	Golf Fund	Water Fund	Sewer Fund	Non-major Fund	
OPERATING REVENUES					
Charges for services	\$ 1,026,051	\$ 943,254	\$ 552,712	\$ 116,587	\$ 2,638,604
Miscellaneous sales	644	23	650	-	1,317
Total operating revenues	<u>\$ 1,026,695</u>	<u>\$ 943,277</u>	<u>\$ 553,362</u>	<u>\$ 116,587</u>	<u>\$ 2,639,921</u>
OPERATING EXPENSES					
Personal services	\$ 442,492	\$ 244,429	\$ 196,257	\$ -	\$ 883,178
Supplies	216,734	80,861	37,205	349	335,149
Purchased services	205,252	114,594	136,710	9,001	465,557
Building materials	8,627	-	-	-	8,627
Fixed charges	34,953	48,592	42,500	-	126,045
Depreciation	93,429	300,216	130,228	7,181	531,054
Total operating expenses	<u>\$ 1,001,487</u>	<u>\$ 788,692</u>	<u>\$ 542,900</u>	<u>\$ 16,531</u>	<u>\$ 2,349,610</u>
OPERATING INCOME/(LOSS)	\$ 25,208	\$ 154,585	\$ 10,462	\$ 100,056	\$ 290,311
NONOPERATING REVENUES/(EXPENSES)					
Intergovernmental revenue	\$ -	\$ -	\$ 15,000	\$ -	\$ 15,000
Impact fees	-	16,863	8,352	-	25,215
Contributions and donations	-	600	-	-	600
Building/land rental	3,600	-	13,763	-	17,363
Investment earnings	1,122	5,073	7,723	231	14,149
Gain/(loss) on sale of capital assets	(2,940)	-	2,500	-	(440)
Debt service interest expense	(7,810)	(2,003)	-	-	(9,813)
Other nonoperating revenue (expense)	3,038	(4,870)	(3,178)	-	(5,010)
Total nonoperating revenues/(expenses)	<u>\$ (2,990)</u>	<u>\$ 15,663</u>	<u>\$ 44,160</u>	<u>\$ 231</u>	<u>\$ 57,064</u>
INCOME/(LOSS) BEFORE TRANSFERS AND CAPITAL CONTRIBUTIONS	\$ 22,218	\$ 170,248	\$ 54,622	\$ 100,287	\$ 347,375
Capital contribution	-	-	-	-	-
Changes in net position	\$ 22,218	\$ 170,248	\$ 54,622	\$ 100,287	\$ 347,375
Total net position-July 1, 2013	<u>\$ 2,694,994</u>	<u>\$ 10,519,536</u>	<u>\$ 4,521,847</u>	<u>\$ 383,650</u>	<u>\$ 18,120,027</u>
Total net position-June 30, 2014	<u>\$ 2,717,212</u>	<u>\$ 10,689,784</u>	<u>\$ 4,576,469</u>	<u>\$ 483,937</u>	<u>\$ 18,467,402</u>

The accompanying notes are an integral part of these financial statements.

City of Polson
Lake County, Montana

Statement of Cash Flows-Proprietary Funds
For the Fiscal Year Ended June 30, 2014

	Business-type Activities				
	Major Enterprise Funds				Totals
	Golf Fund	Water Fund	Sewer Fund	Non-major Funds	
Cash flows from operating activities:					
Cash received from customers	\$ 1,026,695	\$ 937,710	\$ 550,740	\$ 114,694	\$ 2,629,839
Cash paid to suppliers	(408,407)	(206,141)	(177,841)	(10,167)	(802,556)
Cash paid for employees	(435,950)	(249,775)	(196,411)	-	(882,136)
Cash paid for interfund services used	(30,000)	(43,900)	(42,500)	-	(116,400)
Net cash provided/(used) by operating activities	<u>\$ 152,338</u>	<u>\$ 437,894</u>	<u>\$ 133,988</u>	<u>\$ 104,527</u>	<u>\$ 828,747</u>
Cash flows from noncapital and related activities					
Contract incentives	\$ 2,916	-	-	-	\$ 2,916
Justice Court-contingent judgement deposit	(12,300)	-	-	-	(12,300)
EPA fine-second and final installment	-	-	(20,200)	-	(20,200)
Contributions	-	600	-	-	600
Net cash provided/(used) by noncapital and related activities	<u>\$ (9,384)</u>	<u>\$ 600</u>	<u>\$ (20,200)</u>	<u>\$ -</u>	<u>\$ (28,984)</u>
Cash flows from capital and related financing activities:					
Acquisition and construction of capital assets & purchase of equipment	\$ (86,792)	\$ (317,845)	\$ (308,203)	\$ (869)	\$ (713,709)
Sale of capital assets	-	-	2,500	-	2,500
Impact fees	-	16,863	8,352	-	25,215
Principal payments on debt	(111,821)	(16,000)	-	-	(127,821)
Interest payments on debt	(8,389)	(2,062)	-	-	(10,451)
Impact fee/latecomes payback agreement	-	(4,870)	(3,300)	-	(8,170)
Rental income	-	-	33,109	-	33,109
Net cash provided/(used) by capital financing activities	<u>\$ (207,002)</u>	<u>\$ (323,914)</u>	<u>\$ (267,542)</u>	<u>\$ (869)</u>	<u>\$ (799,327)</u>
Cash flows from investing activities:					
Equity dividends-CHS	\$ 122	-	122	-	\$ 244
Interest on investments	1,122	5,074	7,723	230	14,149
Net cash provided/(used) by investing activities	<u>\$ 1,244</u>	<u>\$ 5,074</u>	<u>\$ 7,845</u>	<u>\$ 230</u>	<u>\$ 14,393</u>
Net increase/(decrease) in cash, cash equivalents and investments	\$ (62,804)	\$ 119,654	\$ (145,909)	\$ 103,888	\$ 14,829
Cash, cash equivalents and investments reported July 1, 2013	\$ 258,086	\$ 1,177,291	\$ 1,955,647	\$ 36,065	\$ 3,427,089
Cash, cash equivalents and investments June 30, 2014	<u>\$ 195,282</u>	<u>\$ 1,296,945</u>	<u>\$ 1,809,738</u>	<u>\$ 139,953</u>	<u>\$ 3,441,918</u>
RECONCILIATION TO CASH IN STATEMENT OF NET ASSETS:					
Cash and cash equivalents	\$ 168,337	\$ 992,123	\$ 1,745,900	\$ 139,953	\$ 3,046,313
Petty cash	747	200	-	-	947
Restricted assets:					
Cash and cash equivalents	26,197	304,622	63,839	-	394,658
Total cash and cash equivalents and investments	<u>\$ 195,281</u>	<u>\$ 1,296,945</u>	<u>\$ 1,809,739</u>	<u>\$ 139,953</u>	<u>\$ 3,441,918</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED/(USED) BY OPERATING ACTIVITIES:					
Net operating income/(loss)	\$ 25,208	\$ 154,585	\$ 10,462	\$ 100,056	\$ 290,311
Adjustments to reconcile operating income to net cash					
Provided/(used) by operating activities:					
Depreciation expense	93,429	300,216	130,228	7,181	531,054
(Increase)/decrease in receivables	-	(4,643)	(2,610)	(1,893)	(9,146)
(Increase)/decrease in inventories	11,561	(3,055)	-	-	8,506
Increase/(decrease) in accounts payables	15,598	(2,939)	(3,926)	(817)	7,916
Increase/(decrease) in customer deposits	-	(751)	-	-	(751)
Increase/(decrease) in refunds payable	-	(173)	(12)	-	(185)
Increase/(decrease) in compensated absences	11,131	(3,797)	(426)	-	6,908
Increase/(decrease) in wages payable	(4,589)	(1,549)	272	-	(5,866)
Net cash provided/(used) by operating activities	<u>\$ 152,338</u>	<u>\$ 437,894</u>	<u>\$ 133,988</u>	<u>\$ 104,527</u>	<u>\$ 828,747</u>
Schedule of Non-Cash Items:					
Capital asset trade-ins	\$ 4,700	\$ -	\$ -	\$ -	\$ 4,700

The accompanying notes are an integral part of these financial statements.

City of Polson
Lake County, Montana

Statement of Fiduciary Net Position
As of June 30, 2014

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 48,365
Total assets	\$ <u>48,365</u>
LIABILITIES	
Due to other governments	\$ 48,365
Total liabilities	\$ <u>48,365</u>
FIDUCIARY NET POSITION	\$ <u>-</u>

The accompanying notes are an integral part of these financial statements.

City of Polson
Notes to the Financial Statements
June 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. ORGANIZATION

The City of Polson, (City) was incorporated in 1910 in accordance with the provisions of the State of Montana. The City provides a wide range of municipal services that include public safety (police and fire), public works (streets, water and sewer), public health (animal control), community development, culture and recreation (golf and parks), and general government services (finance and administration). The City has a Commission-City Manager form of government consisting of six City Commissioners, a Mayor and City Manager. The City Commissioners are elected for a 4 year term from three different wards on a staggered two year cycle. The Mayor is elected for a 4 year term. The most recent population estimate is 4,604.

B. FINANCIAL REPORTING ENTITY

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

In determining the financial reporting entity, the City complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*, and includes all component units of which the City appointed a voting majority of the unit's board; the City is either able to impose its will on the unit or a financial benefit or burden relationship exists.

Primary Government

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 accompanying financial statements present the primary government and its component units, entities for which the government is considered to be financially accountable. These financial statements include all funds, agencies, boards, commissions and authorities which meet the criteria for inclusion in the City's financial report. These criteria include financial accountability, appointment of a majority of the secondary government and the financial benefit or burden derived by the primary government from a secondary government.

Discretely Presented Component Units

Discretely presented component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending of their financial statement information with the primary government's financial information. As of June 30, 2014, the City had no discretely presented component units.

C. BASIS OF FINANCIAL STATEMENT PRESENTATION

The City's basic financial statements consists of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

NOTE 1: SUMMARY OF SIGNIFANT ACCOUNTING POLICES, continued

C. BASIS OF FINANCIAL STATEMENT PRESENTATION, continued

Government-wide Financial Statements

The government-wide financial statements (the statement of net position and the statement of activities) display information about the reporting government as a whole and its component units. They include all funds of the City except fiduciary funds and component units. For the most part, the effect of inter-fund activity has been removed from these statements to avoid overstating revenues and expenses. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, charges for services and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The statement of net position presents the financial condition of the governmental and business-type activities for the City at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities. Direct expenses are those that are specifically associated with a service, program or department. 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 activities. The types of transactions reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity and 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Generally, restricted revenues are used first to pay expenses incurred when both restricted and unrestricted funds are available. Revenues that are not classified as program revenues, including all real and personal property taxes, are presented as general revenues.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to inter-fund activities, payables and receivables. All internal balances in the statement of net position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column.

Fund Financial Statements

During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and proprietary fund financial statements is on major funds. Each major fund is presented in a separate column. Fiduciary funds are reported by type.

A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

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

The City can also choose to treat specific funds as major funds although they may not meet the above criteria, if the additional information would create better reporting transparency.

City of Polson
Notes to the Financial Statements
June 30, 2014

NOTE 1: SUMMARY OF SIGNIFANT ACCOUNTING POLICES, continued

C. BASIS OF FINANCIAL STATEMENT PRESENTATION, continued

Fund Accounting

The accounts of the City are organized on the basis of separate accounting entities referred to as funds. Each fund's operations are accounted for with a separate set of self-balancing accounts consisting of assets, liabilities, fund equity, revenues and expenditures/expenses. The minimum number of funds is maintained consistent with legal and managerial requirements. There are three categories of funds: governmental, proprietary and fiduciary.

Governmental Funds are those through which most governmental functions of the City are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

General Fund—The general fund is the City's primary operating fund and it accounts for all financial resources of the City except those required to be accounted for in other funds. Generally accepted accounting principles require that the general fund be reported as a major fund. The principal source of revenue for this fund is property taxes.

Tax Increment Financing District (TIFD)—As mentioned previously, this fund does not meet the criteria for reporting as a major fund but management has decided to include it for better reporting transparency. This is a special revenue fund established to account for tax increment revenue created by the difference between the base taxable value of property in the district and the current taxable value. The difference in taxable value is multiplied by the current mill levy and the taxes are then set aside in this fund to be spent on capital improvement projects for the TIFD. The Polson Redevelopment Agency which is currently an advisory board to the City Commission makes recommendations to the Commission regarding projects for the district. This fund is also servicing the debt on the 12 year Tax Increment Financing urban renewal bonds sold to construct the City dock and walkpath under the bridge.

SID #42 Streetscape Main Street Improvement Project—This is a debt service fund established to account for resources accumulated and payments made for principal and interest on the 15 year bonds sold to finance the construction of the Main Street Streetscape Project.

TIFD City Dock and Walkpath Project—This is a capital projects fund established to account for resources received and expenditures made for the construction of the City dock and walkpath under the bridge and associated lighting for Sacajawea Park. The construction was ongoing at June 30, 2014 with expected completion in the spring of 2015. Any remaining funds in the construction account will be transferred to the Tax Increment Financing District fund to help service the debt when the project is completed.

Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed. The City reports the following major enterprise funds:

City of Polson
Notes to the Financial Statements
June 30, 2014

NOTE 1: SUMMARY OF SIGNIFANT ACCOUNTING POLICES, continued

C. BASIS OF FINANCIAL STATEMENT PRESENTATION, continued

Golf Fund—The golf fund accounts for the activities of the City's 27-hole municipal golf course.

Water Fund—The water fund accounts for the activities of the City's water distribution operations.

Sewer Fund—The sewer fund accounts for the activities of the City's sewer and treatment operations.

D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

Government-wide Financial Statements

On the government-wide statement of net position and the statement of activities, both governmental and business-type activities are presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred regardless of the timing of the cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Fund Financial Statements

All governmental funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Measurable" means the amount of the transaction can be determined. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

The City defines the length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements to be upon receipt. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources. General capital assets acquisitions are reported as expenditures in governmental funds and proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, franchise fees, and licenses associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. All other revenue items are considered to be measurable and available only when cash is received by the government.

City of Polson
Notes to the Financial Statements
June 30, 2014

NOTE 1: SUMMARY OF SIGNIFANT ACCOUNTING POLICES, continued

D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING, continued

Enterprise funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred. Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the fund. Revenues which do not meet these criteria are considered non-operating and reported as such.

The Budget Process

The City follows rules provided in Montana state law to prepare and adopt its budget each year. The budget information for the governmental funds is prepared primarily on the cash basis of accounting. Revenues (except for property taxes) are budgeted in the year they are anticipated to be collected. Expenditures are budgeted in the year they are expected to be paid by warrant. The City includes in its budget the full amount of property taxes levied for the year. This approximates the cash basis because delinquencies of current year taxes are generally offset by collection of prior year's delinquencies. In addition, a budget is adopted for the enterprise funds on a full accrual basis.

Budget transfer may be made between and among the general classifications of salaries, operations, and capital outlay upon a resolution adopted by the governing body within each individually budgeted fund and across departments of the general fund. Expenditures may not legally exceed appropriations for an individual fund. The City's budget may be amended during the course of the year, following public notice, a public hearing, and a majority vote of the City Commission. The amounts reported as the original budget amounts represent the original adopted budget. The amounts reported as final budget amounts represent the final budget, including all amendments and transfers.

E. ASSETS, LIABILITIES AND NET POSITION OR EQUITY

1. Cash, Cash Equivalents, Investments and Investment Income

The City's cash is invested as permitted by law. State law restricts investments to certificates of deposit, bank repurchase agreements, direct obligations of the U.S. Government and investments in Montana's state short-term investment pool (STIP). The cash resources of the individual funds are combined to form a pool of cash and investments which is managed by the City Finance Officer. The City's investments include non-negotiable certificate of deposit, a repurchase agreement and U.S. governmental securities. Investments in the City's cash pool are considered cash equivalents in the governmental fund financial statements.

Investments are reported at cost; however the difference between cost and fair value is immaterial.

Investment income which includes the realized gains and losses on investments is recognized on the modified accrual basis. Investment income on pooled investments is allocated on the basis of prior month ending balances in relation to total pooled investments.

For the purpose of the statement of cash flows, the enterprise funds consider all highly liquid investments (including restricted assets) held in the City's cash management pool to be cash equivalents.

City of Polson
Notes to the Financial Statements
June 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICES, continued

E. ASSETS, LIABILITIES AND NET POSITION OR EQUITY, continued

2. Property Taxes

An allowance for uncollectible accounts was not maintained for real and personal property taxes and special assessments receivable. The direct write-off method is used for these accounts.

Property tax levies are set by the later of the first Thursday after the first Tuesday in September or within 30 calendar days after receiving certified taxable values of the State providing shared revenue figures, usually in August, in connection with the budget process. Real property (and certain attached personal property) taxes are billed within ten days after the third Monday in October and are due in equal amounts on November 30th and the following May 31st. After those dates, they become delinquent (and a lien on the property). After three years the City may exercise the lien and take title to the property.

Special assessments are billed in two installments due November 30th and the following May 31st. Personal property taxes (other than those billed with real estate) are generally billed no later than the second Monday in July (normally May and June), based on the prior November's levies. Personal property taxes, other than mobile homes, are due thirty days after billing. Mobile home taxes are billed in two halves, the first due thirty days after billing; the second due November 30th. The tax billings are considered past due after the respective due dates and are subject to penalty and interest charges.

Taxable valuations, mill values and mill levies for November 2013 and May 2014 property tax billings were as follows:

	<u>Taxable Valuation</u>		<u>Valuation of Tax Increment</u>		<u>Value of Mills</u>	<u>Mills Levied</u>
General Fund Levy	\$ 9,411,087	\$	258,939	\$	9,411	124.74
Permissive Medical Levy	\$ 9,411,087	\$	258,939	\$	9,411	7.50
Police Special Levy	\$ 9,411,087	\$	258,939	\$	9,411	19.95

The taxable valuation excludes the incremental value of property within the City's tax increment district. The incremental value of the tax increment district is \$258,939. Taxes on that value accrue to the tax increment district, not to the usual taxing authorities except the University millage (state-wide 6 mill voted levy); hence the value of a mill which it is budgeted against is reduced by that incremental value.

State law limits the number of mills the City can levy to the amount of property tax dollars levied in the prior fiscal year plus the amounts related to the taxable value for annexation of real property, new construction and improvements, debt service, one-half of the average rate of inflation for the past three years based on the Consumer Price Index (CPI), and certain other exceptions.

3. City Court Fines

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

4. Enterprise Accounts Receivable

No reserve for estimated uncollectible accounts receivable is maintained because uncollectible amounts are not considered material. Receivables are reported net of revenues collected in advance.

City of Polson
Notes to the Financial Statements
June 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

E. ASSETS, LIABILITIES AND NET POSITION OR EQUITY, continued

5. Inventories

Inventories of the governmental funds are expensed at the time of purchase. Enterprise fund inventories of materials and supplies are valued at cost and the first-in-first-out (FIFO) method is utilized.

6. Restricted Assets

Certain assets of the enterprise funds are restricted for specific uses as required by the bond indenture agreement covenants established with the issuance and sale of the revenue bonds representing a liability to the enterprise funds. These restricted assets represent cash, cash equivalents, and investments restricted for use to repay current debt and establish a reserve for future debt.

7. Capital Assets

The City's major infrastructure network-streets-that had been put in place prior to implementation of GASB Statement No. 34 have not been retroactively reported at this time which could have a material effect on the financial statements.

The City's assets are capitalized at historical cost or estimated historical cost. City policy has set the capitalization threshold for reporting capital assets at \$5,000. Gifts or contributions of capital assets are recorded at fair market value when received. The costs of normal maintenance and repairs are charged to operations as incurred.

Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable. Depreciation is recorded on a straight-line basis over the useful lives of the assets as follows (land is not depreciated):

<u>Assets</u>	<u>Years</u>
<u>Government Activities</u>	
Buildings	10-50
Land Improvements	10-40
Vehicle and Equipment	5-40
<u>Enterprise Activities</u>	
Buildings	40-50
Water Distribution and Sewer Collection Systems	10-50
Machinery, Vehicles and Equipment	10-25
Land Improvements	10-40

8. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditures) until then. The City only has one item that qualifies for reporting in this category. It is a contingent judgement liability that required a payment of the Justice Court judgement amount in order for the City to appeal to District Court. See Note 20 for additional, information on this case.

City of Polson
Notes to the Financial Statements
June 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

E. ASSETS, LIABILITIES AND NET POSITION OR EQUITY, continued

8. Deferred Outflows/Inflows of Resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has only one type of item, which arises under a modified accrual basis of accounting that qualifies for reporting in this category.

Accordingly, the item deferred tax revenue is reported only in the governmental funds balance sheet. The governmental funds report deferred tax revenue from two sources; property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

9. Compensated Absences

It is the City's policy and state law to permit employees to accumulate a limited amount of earned but unused vacation benefits, which will be paid to employees upon separation from City service. Employees are allowed to accumulate and carry over a maximum of two times their annual accumulation of vacation. Any vacation leave time accumulated over this maximum carryover must be used within 90 days of the new calendar year. There is no restriction on the amount of sick leave that may be accumulated. Upon separation, employees are paid 100 percent of accumulated vacation and 25 percent of accumulated sick leave based on the current hourly rate of pay.

The liability associated with governmental fund-type employees is reported in the governmental activities column of the statement of net position, while the liability associated with enterprise fund-type employees is recorded in the respective fund and the business-type activities column of the statement of net position. For the purposes of reporting these compensated absences payable as current or non-current, the City considers accrued vacation pay as current (payable within one year) and accrued sick leave as non-current.

10. Long-term Obligations

In the government-wide financial statements, and enterprise fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or enterprise fund type statement of net position.

In the fund financial statements, governmental funds recognize the face amount of the debt issued as other financing sources revenue.

11. Net Position/Fund Balance

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation/amortization, reduced by the outstanding balances of any borrowing used for acquisition, construction or improvements of those assets. Restricted net positions are those that have constraints placed on them either by external parties or imposed by law or enabling legislation.

City of Polson
Notes to the Financial Statements
June 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

E. ASSETS, LIABILITIES AND NET POSITION OR EQUITY, continued

The City implemented GASB Statement 54 in fiscal year 2011. This statement requires governmental fund balances to be categorized as follows:

- Non-spendable—funds that are not spendable in form (i.e. inventories) or are designated (i.e. corpus)
- Restricted—externally enforceable legal restrictions exist, such as state law or bond covenants
- Committed—constraint formally imposed by the City Commission by the end of the reporting period
- Assigned—constraint imposed at a level below the City Commission by the reporting date
- Unassigned—remaining balance

The City Commission is the highest governing body in the City and any constraints on funds set by it must be reported as committed if action is taken by fiscal year end. The City Manager, City Clerk and/or Finance Officer can impose constraints that would cause amounts to be assigned.

NOTE 2: CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash Composition—the total cash and cash equivalents, restricted cash and investments at June 30, 2014, are detailed as follows:

Cash on Hand	\$	1,247
Cash in Banks:		
Cash in linked Demand/Repurchase Deposits		4,206,056
Cash in Savings Deposits		481
Non-negotiable Certificates of Deposit		1,006,516
U.S. Government Securities		<u>4,692</u>
Total Cash on Hand & in Banks	\$	<u>5,218,992</u>
Plus: Deposits in Transit	\$	11,535
Less: Outstanding ACH not cleared bank		(2,914)
Less: Outstanding checks		<u>(365,787)</u>
Cash reported in Fund Financial Statements	\$	<u><u>4,861,826</u></u>

Cash On Hand—represents petty cash and change drawer amounts.

Cash in Bank Deposits and Custodial Credit Risk—cash in bank balances includes deposit items such as daily demand and savings accounts. The City minimizes custodial credit risk by restrictions set forth in state law. Custodial credit risk for deposits is the risk that in the event of a financial institution failure, the City's deposits may not be returned or the City will not be able to recover the collateral securities in the possession of the outside party. Types of securities that may be pledged as collateral are detailed in Section 17-6-103, Montana Code Annotated (MCA).

Of the bank balances, \$500,000 was covered by federal depository insurance, and \$4,232,022 was covered by securities held by the pledging bank's trust department but not in the City's name, \$986,969 was uncollateralized and uninsured. Montana statutes state that the City must have pledged securities equal to at least 50% of its total bank deposits that are not insured or guaranteed.

City of Polson
Notes to the Financial Statements
June 30, 2014

NOTE 2: CASH, CASH EQUIVALENTS, AND INVESTMENTS, continued

At June 30, 2014, the amount of collateral held for City deposits exceeded the amount required. In October 2008, the FDIC increased its insurance limit to \$250,000 which was extended permanently on December 31, 2012.

Repurchase Agreements—an agreement in which a governmental entity (buyer-lender) transfers cash to a broker-dealer or financial institution (seller-borrower); the broker-dealer or financial institution transfers securities to the City and promises to repay the cash plus interest in exchange for the same securities. Transfers occur approximately daily.

Pooled Investments—at June 30, 2014 the City’s pooled investment balances were as follows:

Investments	Maturity in Years					No Maturity	Total	Rating
	Less than 1	1-2	2-3	3-4	4-5			
Non-negotiable Certificates of Deposit	\$ 1,006,516	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,006,516	NR
U.S. Government Securities	4,692	-	-	-	-	-	4,692	A1
Repurchase Agreements	-	-	-	-	-	4,206,056	4,206,056	A3
Total Government Investments	<u>\$ 1,011,208</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,206,056</u>	<u>\$ 5,217,264</u>	

Interest Rate Risk—is defined as the risk that the fair value of investments could decrease in a rising interest rate environment. The government does not have a formal investment policy that limits maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk—as a means of limiting its exposure to credit risk (the risk that an issuer or other counter party to an investment will not fulfill its obligations), the City limits its investments to the safest type of securities and those allowed by Montana State statute. The City also diversifies the investment portfolio so that the impact of the potential losses from any one type of security or from any one individual issuer will be minimized.

NOTE 3: SPECIAL ASSESSMENTS RECEIVABLE

Special improvement districts (SIDs) are created to provide improvements; assessments are levied to service the SID bonds. SID assessments receivable are recorded when the bonds are issued. District residents have the option to pay their share of the SID debt early. The City also loans funds to residents to construct or repair sidewalks, curbs, gutters; has special assessment lighting districts and a weed cleanup district. Assessment receivables were as follows:

	<u>Issued</u>	<u>Term</u>	<u>Total</u>	<u>Current</u>	<u>Non-current</u>
SID #42 Streetscape	2010	15 years	\$ 599,851	\$ 7,820	\$ 592,031
Maintenance District Assessments			562	562	-
Weed Maintenance Assessments			925	925	-
Total			<u>\$ 601,338</u>	<u>\$ 9,307</u>	<u>\$ 592,031</u>

NOTE 4: INTERFUND RECEIVABLES AND PAYABLES

Interfund Transfers—the City uses interfund transfers for regular re-occurring internal charges, such as debt service, supplies and materials, capital project fund transfers, and services provided. The following is an analysis of operating transfers in and out during the fiscal year 2014:

City of Polson
Notes to the Financial Statements
June 30, 2014

NOTE 4: INTERFUND RECEIVABLES AND PAYABLES, continued

	Transfers In:			Total	Purpose
	General Fund	Tax Increment Financing District	TIFD City Dock & Walkpath		
Transfers Out:					
Tax Increment Financing District	\$ -	\$ -	\$ 51,500	\$ 51,500	Fund Reserve
Nonmajor governmental funds	66,462	-	-	66,462	Medical Levy Transfer
TIFD City Dock & Walkpath	-	3,050	-	3,050	City Contribution
Total Transfers Out	<u>\$ 66,462</u>	<u>\$ 3,050</u>	<u>\$ 51,500</u>	<u>\$ 121,012</u>	

Due To/Due From—the City general fund temporarily loaned \$54,390 to the building code fund and \$1,388 to the hanging basket maintenance fund at June 30, 2014 to cover cash deficits in those funds.

NOTE 5: DUE FROM (TO) OTHER GOVERNMENTS

The City had the following amount due from (to) other government entities as of June 30, 2014:

Fund	Paying Government	Due From Amount	Due (To) Amount
General Fund	Lake County	\$ 97,256	\$ -
General Fund	State of Montana	4,000	-
General Fund	CSKT	6,300	-
Police Municipal Services Levy	Lake County	14,068	-
Tax Increment District	Lake County	23,190	-
Tax Increment District	Lake County	-	(49,240)
Permissive Medical Mills	Lake County	5,289	-
Light Maintenance District #19	Lake County	70	-
Weed Cleanup Maintenance Fund	Lake County	655	-
SID #42 Streetscape Main Street Improvement Project	Lake County	6,289	-
Sewer Fund	State of Montana	15,000	-
Total		<u>\$ 172,117</u>	<u>\$ (49,240)</u>

NOTE 6: CAPITAL GRANT REVENUE

Governmental capital grants consist of the following:

Fund	Paying Government	Amount
Gas Tax	Montana Department of Transportation Highway Traffic Safety Grant	\$ 42,448
Total		<u>\$ 42,448</u>

Enterprise capital grants consist of the following:

Fund	Paying Government	Amount
Sewer	State of Montana TSEP/RRGL Planning Grant	\$ 15,000
Total		<u>\$ 15,000</u>

City of Polson
Notes to the Financial Statements
June 30, 2014

NOTE 7: CAPITAL ASSETS

Capital asset activity for the governmental funds for the year ended June 30, 2014 was as follows:

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Capital assets not being depreciated:				
Land	\$ 86,915	\$ -	\$ -	\$ 86,915
Construction in Progress	57,689	816,379	(375,314)	498,754
Total capital assets not being depreciated:	<u>\$ 144,604</u>	<u>\$ 816,379</u>	<u>\$ (375,314)</u>	<u>\$ 585,669</u>
Depreciable capital assets				
Buildings	\$ 478,514	\$ 5,625	\$ -	\$ 484,139
Machinery & Equipment	3,078,612	159,507	(23,979)	3,214,140
Improvements	796,256	321,705	-	1,117,961
Infrastructure	2,215,464	2,918	-	2,218,382
Total depreciable capital assets at historical cost	\$ 6,568,846	\$ 489,755	\$ (23,979)	\$ 7,034,622
Less: accumulated depreciation	(2,744,787)	(329,201)	14,387	(3,059,601)
Total depreciable capital assets at historical cost, net	<u>\$ 3,824,059</u>	<u>\$ 160,554</u>	<u>\$ (9,592)</u>	<u>\$ 3,975,021</u>
Net book value	<u>\$ 3,968,663</u>	<u>\$ 976,933</u>	<u>\$ (384,906)</u>	<u>\$ 4,560,690</u>

Governmental depreciation expense was charged to functions as follows:

Governmental Activities:	Depreciation
General Government	\$ 35,497
Public Safety	112,029
Public Works	122,949
Culture and Recreation	48,002
Housing and Community Development	10,724
Total governmental activities depreciation	<u>\$ 329,201</u>

Capital asset activity for the business-type funds for the year ended June 30, 2014 was as follows:

Golf Fund

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Capital assets not being depreciated:				
Land	\$ 2,042,231	\$ -	\$ -	\$ 2,042,231
Construction in Progress	-	10,775	-	10,775
Total capital assets not being depreciated:	<u>\$ 2,042,231</u>	<u>\$ 10,775</u>	<u>\$ -</u>	<u>\$ 2,053,006</u>
Other capital assets				
Buildings	\$ 541,101	\$ 9,174	\$ -	\$ 550,275
Machinery & Equipment	1,121,683	62,360	(38,200)	1,145,843
Improvements	428,515	9,182	-	437,697
Total other capital assets at historical cost	\$ 2,091,299	\$ 80,716	\$ (38,200)	\$ 2,133,815
Less: accumulated depreciation	(1,265,788)	(93,429)	30,560	(1,328,657)
Total other capital assets at historical cost, net	<u>\$ 825,511</u>	<u>\$ (12,713)</u>	<u>\$ (7,640)</u>	<u>\$ 805,158</u>
Net book value	<u>\$ 2,867,742</u>	<u>\$ (1,938)</u>	<u>\$ (7,640)</u>	<u>\$ 2,858,164</u>

City of Polson
Notes to the Financial Statements
June 30, 2014

NOTE 7: CAPITAL ASSETS, continued

Water Fund

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Capital assets not being depreciated:				
Land	\$ 177,064	\$ -	\$ -	\$ 177,064
Construction in Progress	1,378,062	249,533	(1,306,317)	321,278
Total capital assets not being depreciated:	<u>\$ 1,555,126</u>	<u>\$ 249,533</u>	<u>\$ (1,306,317)</u>	<u>\$ 498,342</u>
Other capital assets				
Source of Supply	\$ 2,457,821	\$ -	\$ -	\$ 2,457,821
Pumping Plant	190,204	-	-	190,204
Treatment System	15,678	-	-	15,678
Transmission and Distribution	9,504,447	1,335,244	-	10,839,691
General plant	82,935	39,385	-	122,320
Total other capital assets at historical cost	\$ 12,251,085	\$ 1,374,629	\$ -	\$ 13,625,714
Less: accumulated depreciation	(4,283,988)	(300,216)	-	(4,584,204)
Total other capital assets at historical cost, net	<u>\$ 7,967,097</u>	<u>\$ 1,074,413</u>	<u>\$ -</u>	<u>\$ 9,041,510</u>
Net book value	<u>\$ 9,522,223</u>	<u>\$ 1,323,946</u>	<u>\$ (1,306,317)</u>	<u>\$ 9,539,852</u>

Sewer Fund

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Capital assets not being depreciated:				
Land	\$ 19,456	\$ -	\$ -	\$ 19,456
Construction in Progress	241,962	241,570	(158,989)	324,543
Total capital assets not being depreciated:	<u>\$ 261,418</u>	<u>\$ 241,570</u>	<u>\$ (158,989)</u>	<u>\$ 343,999</u>
Other capital assets				
Pumping Plant	\$ 1,051,191	\$ 10,803	\$ -	\$ 1,061,994
Treatment System	2,077,376	-	-	2,077,376
Collection System	3,690,575	175,434	-	3,866,009
General plant	106,977	39,385	(10,500)	135,862
Total other capital assets at historical cost	\$ 6,926,119	\$ 225,622	\$ (10,500)	\$ 7,141,241
Less: accumulated depreciation	(4,648,647)	(130,228)	10,500	(4,768,375)
Total other capital assets at historical cost, net	<u>\$ 2,277,472</u>	<u>\$ 95,394</u>	<u>\$ -</u>	<u>\$ 2,372,866</u>
Net book value	<u>\$ 2,538,890</u>	<u>\$ 336,964</u>	<u>\$ (158,989)</u>	<u>\$ 2,716,865</u>

City of Polson
Notes to the Financial Statements
June 30, 2014

NOTE 7: CAPITAL ASSETS, continued

Stormwater Fund

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Capital assets not being depreciated:				
Land	\$ -	\$ -	\$ -	\$ -
Construction in Progress	-	869	-	869
Total capital assets not being depreciated:	<u>\$ -</u>	<u>\$ 869</u>	<u>\$ -</u>	<u>\$ 869</u>
Other capital assets				
Collection System	\$ 359,051	\$ -	\$ -	\$ 359,051
Total other capital assets at historical cost	\$ 359,051	\$ -	\$ -	\$ 359,051
Less: accumulated depreciation	(21,543)	(7,181)	-	(28,724)
Total other capital assets at historical cost, net	<u>\$ 337,508</u>	<u>\$ (7,181)</u>	<u>\$ -</u>	<u>\$ 330,327</u>
Net book value	<u>\$ 337,508</u>	<u>\$ (6,312)</u>	<u>\$ -</u>	<u>\$ 331,196</u>

NOTE 8: LONG TERM DEBT OBLIGATIONS

In the government-wide and enterprise funds financial statements, outstanding debt is reported as liabilities. The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures of the current period.

Legal Debt Margin—The City’s legal debt limitation is 2.5% of total assess value of taxable property, As of June 30, 2014 the debt margin was \$381,343,642.

Changes in Long-term Liabilities—During the year ended June 30, 2014, the following changes occurred in liabilities reported in long-term debt:

Governmental Activities:

	Balance July 1, 2013	Additions	Decreases	Balance June 30, 2014	Due Within One Year
Special Assessment Bonds	\$ 626,517	\$ -	\$ (41,036)	\$ 585,481	\$ 43,522
Street Wheel Loader Loan	23,947	-	(15,885)	8,062	8,062
Tax Increment Bonds, Series 2013	-	800,000	(27,962)	772,038	57,181
Compensated Absences	212,218	6,092	-	218,310	155,284
Total	<u>\$ 862,682</u>	<u>\$ 806,092</u>	<u>\$ (84,883)</u>	<u>\$ 1,583,891</u>	<u>\$ 264,049</u>

Business-type Activities:

	Balance July 1, 2013	Additions	Decreases	Balance June 30, 2014	Due Within One Year
Revenue Bonds, Series 2013 (Golf)	\$ 400,000	\$ -	\$ (96,891)	\$ 303,109	\$ 98,936
Golf cart loan	14,930	-	(14,930)	-	-
Revenue Bonds (Water)	279,000	-	(16,000)	263,000	16,000
Compensated Absences	93,008	6,908	-	99,916	69,217
Total	<u>\$ 786,938</u>	<u>\$ 6,908</u>	<u>\$ (127,821)</u>	<u>\$ 666,025</u>	<u>\$ 184,153</u>

City of Polson
Notes to the Financial Statements
June 30, 2014

NOTE 8: LONG TERM DEBT OBLIGATIONS, continued

Special Assessment Bond Debt

Special assessment bonds are payable from the collection of special assessments levied against benefited property owners within defined special improvement districts which become a lien on the property. The bonds are issued with specific maturity dates, but must be called and repaid earlier, at par plus accrued interest, if the related special assessments are collected. The bonds are backed by the full faith and credit of the City. The City maintains a reserve fund to cover defaults by property owners. The City issued one amortization bond on September 15, 2010 for \$750,000 to assist in construction on the Main Street Streetscape project. A reserve account in the amount of \$37,500 was established as required by the bond resolution. The bond is a special, limited obligation of the City and does not constitute a general obligation of the City. If there are insufficient funds in the reserve account and/or the SID revolving fund, the general fund will loan an amount as may be necessary to the SID revolving fund to ensure a minimum fund balance of 5% of the outstanding bond principal to ensure payments are made. Special assessment bonds outstanding reported in the governmental activities as of June 30, 2014 were as follows:

Purpose	Origination Date	Interest Rate	Bond Term	Maturity Date	Bond Amount	Annual Payment	Balance June 30, 2014
SID #42 Streetscape Project	09/15/2010	3.95%	15 yrs	07/01/2025	\$ 750,000	\$ 66,225	\$ 585,481
Total					<u>750,000</u>		<u>585,481</u>

Annual requirement to amortize special assessment bond debt:

For Fiscal Year Ended	Principal	Interest	Total Payments
2015	\$ 43,522	\$ 22,703	\$ 66,225
2016	45,202	21,023	66,225
2017	47,062	19,163	66,225
2018	48,939	17,286	66,225
2019	50,891	15,334	66,225
2020-2024	317,388	45,841	363,229
2025	32,477	636	33,113
Total	<u>\$ 585,481</u>	<u>\$ 141,986</u>	<u>\$ 727,467</u>

Revenue Bonds

Revenue Bonds (Golf Course)—On April 1, 2013, the City issued one \$400,000 amortized revenue bond with an interest rate of 2.1% to currently refund the series 1998 revenue bonds. This new debt matures on April 1, 2017. The City completed the current refunding to reduce its total debt service payments in the Golf fund by \$83,311.

Revenue Bonds (Water System)—In October 2009 the City issued water system revenue bonds series 2009B through the State of Montana’s Department of Natural Resources and Conservation (DNRC) Drinking Water State Revolving Loan Program. The bond requires semi-annual principal payments ranging from \$6,700 in 2010 to \$18,000 in 2029.

City of Polson
Notes to the Financial Statements
June 30, 2014

NOTE 8: LONG TERM DEBT OBLIGATIONS, continued

Revenue bonds outstanding reported in the business-type as of June 30, 2014 were as follows:

Purpose	Origination Date	Interest Rate	Bond Term	Maturity Date	Bond Amount	Annual Payment	Balance June 30, 2014
Revenue Bonds, Series 2013 (Golf)	04/01/2013	2.10%	4 yrs	04/01/2017	\$ 400,000	\$ 104,785	\$ 303,109
Revenue Bonds (Water)	10/16/2009	0.75%	20 yrs	07/01/2029	333,700	Varies	263,000
Total					<u>\$ 733,700</u>		<u>\$ 566,109</u>

Annual requirement for revenue bond debt (principal plus interest) equals the amount of charges for services for the year pledged to pay debt except in final year when reserve may be applied to debt.

Annual requirement to amortize revenue bond debt:

For Fiscal Year Ended	Revenue Bonds Golf Course, Series 2013		Revenue Bonds Water System		Total Bonds		Total Payments
	Principal	Interest	Principal	Interest	Principal	Interest	
2015	\$ 98,936	\$ 5,850	\$ 16,000	\$ 1,943	\$ 114,936	\$ 7,793	\$ 122,729
2016	101,016	3,771	16,000	1,823	117,016	5,594	122,610
2017	103,157	1,630	16,000	1,702	119,157	3,332	122,489
2018			16,000	1,582	16,000	1,582	17,582
2019			16,000	1,462	16,000	1,462	17,462
2020-2024			84,000	7,322	84,000	7,322	91,322
2025-2029			99,000	2,228	99,000	2,228	101,228
Total	<u>\$ 303,109</u>	<u>\$ 11,251</u>	<u>\$ 263,000</u>	<u>\$ 18,062</u>	<u>\$ 566,109</u>	<u>\$ 29,313</u>	<u>\$ 595,422</u>

The Golf Course and Water System revenue bonds impose certain requirements on operations including:

1. Segregated cash accounts with restrictions on their use.
2. Accounting for the water and golf funds in accordance with generally accepted accounting principles.
3. Net revenues of not less than 125% of the sum of the maximum amount of principal and interest due in any future fiscal year for the water revenue bond.
4. Monthly apportionment to the revenue bond account adequate to meet annual principal and interest requirements and to establish a reserve in the amount of \$52,393 for the golf fund and \$18,183 for the water fund.
5. A reserve account established in the amount of \$18,979 for the water system (no reserve required for the golf fund).
6. Carry property and liability insurance and surety bonds.

The City was in compliance with the above requirements.

Tax Increment Urban Renewal Bonds

On August 15, 2013 the City issued \$800,000 of tax increment urban renewal bonds to finance the construction of the City Dock and the walkpath under the bridge that connects Sacajawea Park and Riverside Park. Five bonds were issued in an amount of \$160,000 each to five local banks and bear interest at the rate of 2.987%. The bonds require semi-annual payments of \$79,818 on August 15th and February 15th each fiscal year. This new debt matures on August 15, 2025. Tax revenues from the tax increment financing district (TIFD) are pledged to pay the principal and interest on the bonds.

City of Polson
Notes to the Financial Statements
June 30, 2014

NOTE 8: LONG TERM DEBT OBLIGATIONS, continued

Tax increment Urban Renewal bonds outstanding reported in the governmental activities as of June 30, 2014 were as follows:

Purpose	Origination Date	Interest Rate	Bond Term	Maturity Date	Bond Amount	Annual Payment	Balance June 30, 2014
TIFD City Dock and Walkpath Project	08/15/13	2.99%	12 yrs	08/15/25	\$ 800,000	\$ 79,818	\$ 772,038
Total							<u>\$ 772,038</u>

Annual requirement to amortize the Tax Increment Urban Renewal Bonds:

For Fiscal Year Ended	Principal	Interest	Total Payments
2015	\$ 57,181	\$ 22,637	\$ 79,818
2016	58,902	20,916	79,818
2017	60,675	19,143	79,818
2018	62,501	17,317	79,818
2019	64,381	15,437	79,818
2020-2024	352,161	46,930	399,091
2025	116,238	3,490	119,728
Total	<u>\$ 772,039</u>	<u>\$ 145,870</u>	<u>\$ 917,909</u>

Other Loans/Contracted Debt

In May 2011, the City borrowed \$47,200 from the Montana Board of Investments Intercap Revolving Program under MCA 17-1604 to purchase a Case Wheel Loader for the street department. This is a variable rate loan program and the interest rate is adjusted on February 16th of each year. Principal and interest are due on each February 15th and August 15th. The current interest rate through February 15, 2015 is 1.00%. Prepayments are allowed without any prepayment penalty. The loan matures in less than one year and is no longer shown as long-term debt on the government-wide statement of net position.

Loans/contracted debt outstanding as of June 30, 2014 reported in both governmental activities and business type activities were as follows:

Purpose	Origination Date	Interest Rate	Term	Maturity Date	Principal Amount	Balance June 30, 2014
Streets-Wheel Loader	05/13/2011	1.00%	3 yrs	08/15/2014	\$ 47,200	\$ 8,062
Total					<u>\$ 47,200</u>	<u>\$ 8,062</u>

Annual requirement to amortize loan debt:

For Fiscal Year Ended	Intercap Loan Case Wheel Loader		Total
	Principal	Interest	Payments
2015	\$ 8,062	\$ 40	\$ 8,102
Total	<u>\$ 8,062</u>	<u>\$ 40</u>	<u>\$ 8,102</u>

City of Polson
Notes to the Financial Statements
June 30, 2014

NOTE 8: LONG TERM DEBT OBLIGATIONS, continued

Compensated Absences

See Note 1.9

Estimated Retiree Health Care Costs

See Note 10

NOTE 9: RETIREMENT AND PENSION PLANS

The City participates in the Montana Public Employees' Retirement System (PERS) plan which is a cost sharing multiple-employer defined benefit or defined contribution plan that provides retirement, disability and death benefits. The plan is established and administered by the State of Montana through the Montana Public Employees' Retirement Administration (MPERA). Beginning January 2014 the City also began participation in the Municipal Police Officers' Retirement System (MPORS) for the City police officers who elected out of their participation in PERS and into MPORS. This plan is a cost sharing multiple-employer defined benefit plan that provides retirement, disability and death benefits. This plan is established and administered by the State of Montana through MPERA. For those police officers that did not elect into MPORS the City set up a deferred compensation 457(b) plan also administered by MPERA for the difference in the employer rate between MPORS and PERS which was 6.24% for fiscal year 2014.

Contribution rates for the plan are required and determined by State law. The contribution rates, expressed as a percentage of covered payroll for the fiscal year ended June 30, 2014, were:

Paid by:	<u>Employer</u>	<u>Employee</u>	<u>State of MT</u>	<u>Total</u>
PERS	8.17%	7.9%	.1%	16.17%
MPORS	14.41%	9.0%	29.37%	52.78%

The amount contributed to PERS during the years ended June 30, 2012, 2013, and 2014 were equal to the required contribution for each year. The amounts contributed by the employee and City were as follows:

<u>Year</u>	<u>Employee</u>	<u>Employer</u>
2012	\$103,917	\$105,991
2013	\$104,684	\$107,263
2014	\$117,591	\$120,123

The amount contributed to MPORS during the years ended June 30, 2012, 2013, and 2014 were equal to the required contribution for each year. The amounts contributed by the employees and City were as follows.

<u>Year</u>	<u>Employee</u>	<u>Employer</u>
2012	\$0	\$0
2013	\$0	\$0
2014	\$13,245	\$21,206

The State contribution qualifies as an on behalf payment. The City recorded revenue of \$1,488 for PERS and \$43,222 for MPORS with an offsetting expenditure in the general fund to additional costs. The plan issues a publicly available financial report that includes financial statements and required supplementary information for the plan. The report may be obtained from the following:

City of Polson
Notes to the Financial Statements
June 30, 2014

NOTE 9: RETIREMENT AND PENSION PLANS, continued

Montana Public Employees Retirement Administration
PO Box 200131
100 North Park Avenue, Suite 200
Helena, Montana 59620-0131
Telephone: (406) 444-3154

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 part of the City. The City contributes to the fund in accordance with State law when it contains an amount less than 0.21% of the City's taxable valuation. The City made no contributions to the plan in FY 2014.

NOTE 10: ESTIMATED HEALTH CARE COSTS

The City implemented Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (OPEB) in fiscal year 2010. Since the first actuarial study was done in 2010, the City has changed insurance carriers. With the former carrier, the City was paying a level premium for all employees and any retirees that might continue on the plan. With the new carrier, the City is paying age-related premiums for each employee and any retirees would also pay the age-related premium. As a result of this change, the City has been advised by its actuary that there is no "implicit rate subsidy" for retirees and there is no need to accrue a liability.

Plan Description. The City has a single-employer group health plan through Blue Cross Blue Shield of Montana which provides medical, vision and dental benefits. For retirees to qualify for the City's health insurance plan, an employee must have attained age 50 and have completed 5 years of service (early retirement) or 25 years of service (normal retirement) and be on the City's plan at retirement. The health insurance plan has two options; one lower deductible health plan and one high deductible health plan (HDHP) which qualifies for Health Savings Account (HSA). The lower deductible plan has deductibles of \$750 per individual and \$1,500 per family. After the deductible is met, the plan pays 80% of eligible medical expenses. Premiums range from \$318 to \$731 for individual (currently there are no spouse or families on this plan). The employee pays \$37 for individual coverage and the City pays the remaining amount; the employee pays the full premium for spouse and family coverage. The HDHP has \$3,000 deductible for individuals and a \$6,000 deductible for families. After the deductible is met, the plan pays 100% of eligible medical expenses. The monthly premium cost ranges from \$238 for individuals to \$1,705 for families. The employee pays \$10 of the monthly premium and the City pays the remainder of the premium for each active eligible employee including spouse and family coverage.

The City has 30 active employees and no retired employees participating in the plan as of June 30, 2014.

NOTE 11: COMMITMENTS AND CONTINGENCIES

The City was committed to spend approximately \$5,000 for expenditures related to the completion of the Main Street Streetscape project when warranty work is completed on the sidewalks. Funding for this project is in part from the MDT CTEP program.

The City was awarded a \$625,000 Treasure State Endowment Program (TSEP) grant for upgrades to the water system in fiscal year 2014 and 2015 and was committed to spend those funds and a \$100,000 Department of Natural Resources grant awarded in the prior year in the amount of \$100,000 and local match money and debt financing in the estimated amount of \$370,733 for a total project budget of \$1,095,733.

City of Polson
Notes to the Financial Statements
June 30, 2014

NOTE 11: COMMITMENTS AND CONTINGENCIES, continued

The City and other taxing districts within the County are contingently liable for refunds of property taxes under various tax appeals proceedings. In general, the amount available in the County's protested tax fund is sufficient to provide for such potential refunds; however, it is possible that refunds could be required relative to taxes not deposited in the protest fund. The City's potential liability, should such refunds be necessary, is not determinable. As of June 30, 2014, the City's portion of taxes remaining under protest totaled \$65,141.

As of June 30, 2014, delinquent assessments on special improvement districts (SIDs) were \$8,382. The delinquencies are due from various residential and commercial property owners. The City anticipates payment of the delinquencies from the land owners and will proceed with tax deeds on the property if the assessments are not paid current before the end of the SID bond terms.

The City entered into a contractual agreement on December 12, 2012 to refund 50% of future water impact fee revenues to a private entity for excess service capacity that was installed in a designated service area. In addition, the City will forego 100% of water impact fees on future development in the Mission Bay and Ridgewater subdivisions which are owned by the private entity. The anticipated liability is capped at \$200,000 and will be paid over a period of 15 years with the impact fees refunded and forgone. Any liability remaining at the end of the 15 years will be forfeited. A total of \$5,201 has been paid per the agreement at June 30, 2014.

As of June 30, 2014, the City was party to a lawsuit from a former leasee of the City's golf course restaurant. This lawsuit will not be covered by insurance. The case was filed in Lake County Justice Court. This amount has not been accrued in the City's financial statements. The case was scheduled to go to trial in December 2013. See note on subsequent events for additional information.

NOTE 12: DEFICIT FUND BALANCES/NET POSITION

The following funds had deficit fund balances at year end:

Fund Name	Amount	Reason for Deficit	How Deficit will be Eliminated
Building Code Enforcement Fund	\$ (55,285)	Expenditures exceeded revenues for FY 2014	Future revenue source
Streetscape/Main St. Imp. Project	\$ (323)	Expenditures exceeded revenues for FY 2014	Future revenue source

NOTE 13: RESTATEMENTS

During the current fiscal year, there were no restatements to the financial statements. However, during the fiscal year 2013 audit it was confirmed by the auditor that the liability for other post retirement benefits (OPEB) was not required (see Note 10 for additional information). Restatements were made in the June 30, 2013 audited financial statements for a change in accounting estimate in the amount of \$14,254 in the governmental statement of activities and \$7,532 in the business-type statement of activities and statement of revenue, expenses and changes in fund net position-proprietary funds.

NOTE 14: JOINT VENTURES

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

City of Polson
Notes to the Financial Statements
June 30, 2014

NOTE 14: JOINT VENTURES, continued

City-County Airport

Lake County, the City of Polson, the City of Ronan, and the Town of St. Ignatius jointly operate and maintain airports at each of the three locations. Lake County assesses a county-wide levy to support the airports and has applied for airport improvement grants and accounted for the revenues and expenditures related to the grants. The finances of the joint City/County airports are accounted for by Lake County in a special revenue fund and the airport improvement grants are accounted for by the County in capital project funds. The City of Polson owns some equipment used by the airport and approximately 40 acres of land upon which the Polson airport is located. Approximately 27 acres of additional land is leased from the Confederated Salish and Kootenai Tribes.

NOTE 15: COUNTY PROVIDED SERVICES

The City is provided various financial services by Lake County. The County serves as the billing agent, cashier and treasurer for tax and assessment collections and other revenues received by the County which are subject to distribution to the various taxing jurisdictions including the City. The funds collected and held by the County for the City are accounted for in fiduciary funds and are periodically remitted to the City by the County Treasurer. Neither the City nor County has recorded any service charges for the services it provides other governmental entities.

NOTE 16: RISK MANAGEMENT

The City faces a considerable number of risks of loss, including (a) damage to and loss of property and contents, (b) employee torts, (c) professional liability, i.e., errors and omissions, (d) environmental damage, (e) workers' compensation, i.e., employee injuries, and (f) medical insurance costs of employees. Commercial insurance policies are purchased for health insurance. Coverage for the loss or damage to property, professional liability insurance and workers' compensation insurance coverage is provided by the Montana Municipal Insurance Authority (MMIA). The City is a member of MMIA which is an intergovernmental agency formed by Montana municipalities to provide comprehensive liability and workers' compensation insurance coverage on a pooled basis. Liability coverage limits are \$750,000 per claim and \$1,500,000 per occurrence. Settled claims resulting from these risks have not exceeded commercial insurance coverage in each of the past three fiscal years. Medical insurance costs for employees are provided by the Blue Cross Blue Shield of Montana.

NOTE 17: LITIGATION

The City is party to certain litigation under which it may be required to pay certain monies upon the decision of the courts. The office of the City Attorney reports various contingent liabilities based on the amount of damages alleged in various cases. However, it is the opinion of the City Attorney that the City's liability in the cases not covered by insurance may be material to the financial statements. The amount of that liability is not measurable at June 30, 2014 and accordingly, no provision has been made in the financial statements for these contingent liabilities. See note on subsequent events for additional information.

NOTE 18: SPENDING POLICY

The City receives inflows from revenue and other financial sources from numerous sources for use in its general fund. The fund will expend those resources on multiple purposes of the local government. The intention of this spending policy is to identify the expenditure order of resource categories for the general fund. Resources will be categorized according to Generally Accepted Accounting Principles (GAAP) for state and local governments. When both restricted and unrestricted resources are available in the general fund, the following spending policy will apply:

City of Polson
Notes to the Financial Statements
June 30, 2014

NOTE 20: SUBSEQUENT EVENTS

In April, 2015 the City was awarded a Treasure State Endowment Program grant in the amount of \$750,000 and a Department of Natural Resources grant in the amount of \$150,000 to be used in the construction of the mechanical wastewater treatment plant that will occur in fiscal years 2015-2018.

Subsequent to June 30, 2014, the City Commission approved a change in the proposed mechanical wastewater treatment plant from an MBD (membrane bioreactor) system to an SBR (sequencing batch reactor) system without filtration. This will save the City approximately \$1.5 million on the project. The change was made due to new information from the Environmental Protection Agency.

In December 2014 the City began charging new water and sewer utility rates. The increase for the basic 5,000 gallon consumer is \$3.16 for water and \$22.01 for sewer. The water increase will pay the debt service on the SRF loan package for the downtown looping project scheduled for completion in fiscal year 2015 and additional capital outlay in fiscal year 2016 and 2017. The sewer increase is an initial phase of increases that will occur over the next two fiscal years to pay the debt service and increased operating costs on the mechanical wastewater treatment plant.

Subsequent to June 30, 2014 the city became part of the Northwest Drug Task Force and is eligible to receive grant funding for drug detective wages. The City received a grant of \$11,630 for fiscal year 2015.

The City was named as defendant in a lawsuit involving a former lessee of the golf course restaurant. The case was tried in Lake County Justice Court in December 2013 and the Judge awarded the plaintiff the sum of \$12,300. This amount will not be covered by insurance. Management decided, on the advice of the City Attorney, to appeal this decision to Lake County District Court. In order to file the appeal the City had to deposit the judgement of \$12,300 with the Justice Court pending the outcome of the appeal. The trial is set for August 10, 2015. The amount had been recorded as a deferred outflow in the June 30, 2014 financial statements.

On June 23, 2015 the City completed the sale of its All Beverage Liquor License on behalf of the Golf Enterprise Fund. The sale proceeds were \$55,000. The City acquired a municipal golf course beer and wine license which has been in use since May of 2015.

On June 22, 2015 the City Commission passed Resolution No. 2015-017 raising impact fees. The increase went into effect on July 22, 2015. Water and Sewer impact fees were increased to 100% of the allowed collection level for both residential and commercial. For residential water development the fee will increase from \$1,655 to \$3,310. For residential sewer development the fee will increase from \$765.50 to \$1,531. Fire and Parks impact fees were increased to 60% of the allowed collection level for both residential and commercial (parks is residential only). For residential development the fire impact fee will increase from \$85.50 to \$582.60 and the park impact fee will increase from \$510 to \$612.

On June 1, 2015, the City Commission awarded the bid for construction of two golf car storage buildings in the amount of \$181,000 to be built during FY16. On July 6, 2015 the City Commission approved a bid of \$161,700 for a fleet of 60 golf cars to be purchased by the golf enterprise fund to replace the existing fleet of cars. The golf maintenance department also solicited bids for replacement of the Olde Nine irrigation system, but was unsuccessful in securing a bid. On July 6, 2015 the City Commission approved a six month loan from the sewer enterprise fund to the golf enterprise fund in the amount of \$342,700 to bridge an eventual loan package that would include financing for the Olde Nine irrigation system.

**REQUIRED
SUPPLEMENTARY
INFORMATION**

City of Polson
Lake County, Montana
General Fund-Schedule of Revenues, Expenditures and Changes in
Fund Balance-Budget and Actual, (Non-GAAP Budgetary Basis),
for the Fiscal Year Ended June 30, 2014

	Non-GAAP Budgetary Basis				Adjustment to Fund Financial Statements	Foot- note	GAAP Basis
	Original Budget	Final Budget	Actual	Variance with Final budget Over (Under)			Statement of Revenues, Expenditures and Changes in Fund Balance
REVENUES							
Taxes	\$ 1,282,119	\$ 1,282,119	\$ 1,262,996	\$ (19,123)			\$ 1,262,996
Licenses and permits	18,150	18,150	17,206	(944)			17,206
Intergovernmental revenue	595,024	595,024	692,268	97,244			692,268
Charges for services	137,550	137,550	139,527	1,977			139,527
Fines and forfeitures	54,200	54,200	40,585	(13,615)			40,585
Miscellaneous	85,456	85,456	63,191	(22,265)			63,191
Investment earnings	3,500	3,500	856	(2,644)			856
Total revenues	<u>\$ 2,175,999</u>	<u>\$ 2,175,999</u>	<u>\$ 2,216,629</u>	<u>\$ 40,630</u>			<u>\$ 2,216,629</u>
EXPENDITURES							
Executive services	\$ 25,061	\$ 25,061	\$ 25,041	\$ (20)	77	A	\$ 25,118
Judicial services	56,926	56,926	55,336	(1,590)	171	A	55,507
Administration services	126,598	126,598	136,486	9,888	422	A	136,908
Financial services	179,155	179,155	179,678	523	556	A	180,234
Legal services	45,850	45,850	79,465	33,615			79,465
Facilities administration	225,450	225,450	223,988	(1,462)			223,988
Law enforcement services	989,498	989,498	1,016,569	27,071	3,144	A	1,019,713
Detention & correction services	2,000	2,000	467	(1,533)			467
Fire protection & control	159,965	159,965	144,564	(15,401)	447	A	145,011
Protective inspections	98,457	98,457	86,858	(11,599)	269	A	87,127
Road & street services	192,706	192,706	209,218	16,512	647	A	209,865
Social & economic services	1,600	1,600	-	(1,600)			-
Parks	167,317	167,317	158,148	(9,169)	489	A	158,637
Miscellaneous	11,702	11,702	-	(11,702)			-
Capital outlay	100,956	100,956	63,626	(37,330)			63,626
Total expenditures	<u>\$ 2,383,241</u>	<u>\$ 2,383,241</u>	<u>\$ 2,379,444</u>	<u>\$ (3,797)</u>			<u>\$ 2,385,666</u>
Excess of revenues over (under) expenditures	<u>\$ (207,242)</u>	<u>\$ (207,242)</u>	<u>\$ (162,815)</u>	<u>\$ 44,427</u>			<u>\$ (169,037)</u>
Other financing sources/uses	<u>\$ 70,583</u>	<u>\$ 70,583</u>	<u>\$ 79,790</u>	<u>\$ 9,207</u>			<u>\$ 79,790</u>
Net change in fund balances	<u>\$ (136,659)</u>	<u>\$ (136,659)</u>	<u>\$ (83,025)</u>	<u>\$ 53,634</u>			<u>\$ (89,247)</u>
Fund Balance July 1, 2013	<u>496,837</u>						<u>496,837</u>
Fund Balance June 30, 2014	<u>360,178</u>						<u>\$ 407,590</u>

Explanation of Differences Between Budgetary Basis to GAAP Basis

A) Change in accrual for payroll, for earned but unpaid.

The accompanying notes are an integral part of these financial statements.

City of Polson
 Lake County, Montana
 Tax Increment District-Schedule of Revenues, Expenditures and Changes in
 Fund Balance-Budget and Actual, (Non-GAAP Budgetary Basis),
 for the Fiscal Year Ended June 30, 2014

	Non-GAAP Budgetary Basis				Adjustment to Fund Financial Statements	Foot- note	GAAP Basis
	Original Budget	Final Budget	Actual	Variance with Final budget Over (Under)			Statement of Revenues, Expenditures and Changes in Fund Balance
REVENUES							
Taxes	\$ 146,500	\$ 146,500	\$ 130,778	\$ (15,722)			\$ 130,778
Intergovernmental revenue	-	-	13,081	13,081			13,081
Investment earnings	200	200	702	502			702
Total revenues	<u>\$ 146,700</u>	<u>\$ 146,700</u>	<u>\$ 144,561</u>	<u>\$ (2,139)</u>			<u>\$ 144,561</u>
EXPENDITURES							
Housing and community development	\$ 44,910	\$ 44,910	\$ 48,994	\$ 4,084			\$ 48,994
Total expenditures	<u>\$ 44,910</u>	<u>\$ 44,910</u>	<u>\$ 48,994</u>	<u>\$ 4,084</u>			<u>\$ 48,994</u>
Excess of revenues over (under) expenditures	<u>\$ 101,790</u>	<u>\$ 101,790</u>	<u>\$ 95,567</u>	<u>\$ (6,223)</u>			<u>\$ 95,567</u>
Other financing sources/uses	\$ (51,500)	\$ (51,500)	\$ (48,450)	\$ 3,050			\$ (48,450)
Net change in fund balances	<u>\$ 50,290</u>	<u>\$ 50,290</u>	<u>\$ 47,117</u>	<u>\$ (3,173)</u>			<u>\$ 47,117</u>
Fund Balance July 1, 2013	<u>196,971</u>						<u>196,971</u>
Fund Balance June 30, 2014	<u>247,261</u>						<u>\$ 244,088</u>

The accompanying notes are an integral part of these financial statements.

REPORTS REQUIRED BY
GOVERNMENT AUDITING STANDARDS

COTE & ASSOCIATES, CPA, PLLC

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

INDEPENDENT AUDITOR'S REPORT

City Commission
City of Polson
Lake, County, Montana

I have audited, in accordance with the auditing standards generally accepted in the United State 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, business-type activities, each major fund and the aggregate remaining fund information of City of Polson (City), Lake County, Montana, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's financial statements and have issued my report thereon dated July 31, 2015.

Internal Control over Financial Reporting

In planning and performing my audit of the financial statements, I considered the City's internal control over financial reporting 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 over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's basic 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 over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during my audit I identified one deficiency in internal control that I consider to be a material weakness. See Finding 2014-1. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatements, 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 matters that are required to be reported under *Government Auditing Standards*. See Finding 2014-2.

Purpose of this Report

This report is intended 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.

Cote & Associates, CPA, PLLC

July 31, 2015
Missoula, Montana

Schedule of Findings and Questioned Costs and Report on Prior Findings

2014-1 INTERNAL CONTROL DEFICIENCY WITH POTENTIAL MATERIAL FINANCIAL EFFECT ON CITY

Criteria: The five components of internal control as outlined by COSO (Committee of Sponsoring Organizations) are:

- (1) Control Environment
- (2) Risk Assessment
- (3) Control Activities
- (4) Information and Communication
- (5) Monitoring

Internal control is a framework that provides checks and balances in a continuing cycle of assessment and adjustment to provide the ability to meet an entity's goals. Control activities (#3), when planned and implemented appropriately, should detect and correct errors on an ongoing basis before errors affect the City internally or externally.

Condition: During the fiscal year ended June 30, 2014 several errors occurred in the payroll administration which were not detected and corrected before payments were made resulting in duplicate pay and a large overpayment to the Montana Public Employment Retirement System. In addition, a payroll deposit was missed, more than one payroll report was submitted late, and Montana New Hire forms have not been submitted for several years for new employees.

Cause: Lack of segregation of duties and cross checking, lack of monitoring, and lack of a commitment to adequate training. Commonly used division of duties in which a second employee reviewed payroll preparation before finalization and review of reports and report dates by management would most likely have prevented these problems. Payroll administrator has not received specific training for the job. Fiscal officer does not have sufficient oversight over the payroll function and there was no backup for her function when she was forced to be gone frequently for several months. Even though there are sufficient employees in the financial functions for the City, duties tend to be vertically structured under one person instead of cross-trained and planned for checks and balances.

Effect: The fiscal officer was able to detect most financial errors through reconciliations in time to correct information for the Annual Financial Report; but this happened several months after occurrence of errors affected payments and reporting, instead of preventing occurrence. Immaterial errors probably still exist in payroll financial reporting, especially in compensated absence accruals.

Recommendation: Re-design financial functions to facilitate checks and balances. Commit resources to adequate training for all employees. Improve monitoring.

2014-2 POLSON REDEVELOPMENT AGENCY IMPLEMENTATION DOCUMENT AND ACTUAL FUNCTIONING OF POLSON REDEVELOPMENT AGENCY ARE NOT ALIGNED

Criteria: As part of adopting an urban renewal plan in March 1998 for the City of Polson, Chapter 9 established a Polson Redevelopment Agency (PRA) in accordance with Montana Code Annotated "(MCA)7-15-Parts 42 and 43". MCA 7-15-4232 offers two options "(1) such urban renewal project powers may be assigned to a department or other officers of the municipality or to any existing public body corporate: or (2) the legislative body of a city may create an urban renewal agency in such municipality, to be known as a public body corporate, to which such powers may be assigned." The urban renewal plan Article 9.2 states "As soon as funding can be developed, the PRA will fund its own staff." Article 9.4 states that "the Agency shall cause to be performed a bi-annual independent audit covering operations of the Agency in carrying out the Plan."

Chapter 9 references MCA 7-15-Parts 42 and 43 frequently but does not specify whether the PRA was expected to operate under MCA. 7-15-4232 option (1) or (2). However all the other language in Chapter 9 including the expectations of its own staff and requirement for bi-annual audit indicate to the auditor that the PRA was expected to operate under MCA. 7-15-4232 option (2). In practice the PRA has evolved by fiscal 2014 to be simply an advisory committee to the City Commission.

Schedule of Findings and Questioned Costs and Report on Prior Findings

Condition: During the year ended June 30, 2014 the PRA through the city issued \$800,000 in new tax increment revenue bonds and constructed a replacement city dock and a new pathway under the Highway 93 Bridge over the Flathead River. In researching the PRA and its authorization the auditor determined that the PRA probably should have been treated as a component unit of the City instead of as a department.

Cause: Ambiguity in the document creating the PRA and a city administration that for many years prior to October 2013 seems to have operated casually.

Effect: There are conflicting opinions on how the PRA should operate. The financial statements have been including the PRA activities under City activities when they possibly should have been displayed in a separate column.

Recommendation: The City needs to decide whether it wants a component unit PRA or a departmental PRA then revise the language in Chapter 9 of the urban renewal document to align with whichever choice is made. If a component unit PRA is chosen, financial reporting display will need to be revised in future years. If a component unit is not chosen, the requirement for bi-annual audits needs to be removed and staffing language clarified.

REPORT ON FISCAL 2013 FINDINGS

2013-1 PROBLEMS WITH MONITORING AND COMMUNICATION

This finding was similar to finding 2014-1 but related to lack of recording a material liability which could have been known for several years but was passed over, partly by a lack of communication. The new City Manager has improved communications and is working on other parts of internal control planning.

2013-2 NON-COMPLIANCE WITH FEDERAL REGULATIONS

This finding related to lack of or late reporting to the Environmental Protection Agency for sewer operations. Reporting for the year ended June 30, 2014 was complete and timely.

2013-3 NON-COMPLIANCE WITH STATE LAW

This finding related to lack of a bid for a project which ran over the \$80,000 bidding threshold under Montana law. No non-compliance with the bidding requirement was identified in the year ended June 30, 2014.