

CITY OF POLSON
Lake County, Montana

RE-ISSUED

AUDITED FINANCIAL STATEMENTS AND
REPORTS REQUIRED BY
GOVERNMENT AUDITING STANDARDS

June 30, 2013

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City of Polson
Lake County, Montana

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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, 2013, 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 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, 2013 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 4-12 and 44 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 21, 2014, 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 21, 2014
Missoula, Montana

City of Polson
Lake County, Montana

ORGANIZATION

For the fiscal year ended June 30, 2013

Mayor	Patricia DeVries
Commissioner/President	Michael Lies
Commissioner	John Campbell
Commissioner	Todd Erickson
Commissioner	Stephen Turner
Commissioner	Fred Funke
Commissioner	Dan Morrison
Interim City Manager	Karen Sargeant
Attorney	James Raymond
Chief of Police	Wade Nash
Fire Chief	John Fairchild
City Clerk	Cora Pritt
Finance Officer	Cindy Dooley
Treasurer	Bonnie Manicke (retired)
City Judge	A. Doug Olson
Building and Planning Official	Joyce Weaver
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/Mike Johnson
Utility Billing/Collection Clerk	Beth Smith
Office Manager/Payroll Clerk	Ardrene Sarracino

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Polson
Management's Discussion and Analysis
June 30, 2013

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, 2013. 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, 2013 by \$23,242,890 (net position) compared with \$23,110,773 at June 30, 2012. Of this amount, \$3,647,096 (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 \$104,819, including prior period adjustments of \$27,298, representing a .47% increase from 2012 as previously presented.
- As of the close of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$1,278,187, an increase of \$26,706 (including prior period adjustment) from the prior year as previously presented. Of the fund balance amount, \$442,696 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 \$496,837, or 21.98% 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, 2013

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, economic 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 2013.

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 three 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, and Fund 3542 – SID #42 Streetscape Main Street Improvement Project 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
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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.

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 22-43 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 44 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, assets exceeded liabilities by \$23,242,890 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 2013 and 2012 and changes in the assets and liabilities.

	Governmental activities		Change	%
	2013	2012		
Current and other assets	\$ 2,143,797	\$ 2,161,064	\$ (17,267)	-1%
Capital assets	3,968,663	4,057,035	(88,372)	-2%
Total assets	<u>\$ 6,112,460</u>	<u>\$ 6,218,099</u>	<u>\$ (105,639)</u>	-2%
Current and other liabilities	\$ 342,178	\$ 102,393	\$ 239,785	234%
Long-term liabilities	647,419	915,798	(268,379)	-29%
Total liabilities	<u>\$ 989,597</u>	<u>\$ 1,018,191</u>	<u>\$ (28,594)</u>	-3%
Net Position:				
Net investment in capital assets	\$ 3,318,199	\$ 3,349,372	\$ (31,173)	-1%
Restricted	1,498,581	1,287,924	210,657	16%
Unrestricted	306,083	562,613	(256,530)	-46%
Total net position	<u>\$ 5,122,863</u>	<u>\$ 5,199,909</u>	<u>\$ (77,046)</u>	-1%

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By far the largest portion of the City's governmental net position (65 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 \$1,498,581 of the City's governmental net position (29 percent) represents resources that are subject to external restrictions on how it may be used. The remaining balance of unrestricted net position, \$306,083 (6 percent) may be used to meet the government's ongoing obligations to its citizens, vendors and creditors.

The decrease in current assets is due mainly to a better collection of tax revenue. The decrease in capital assets is due mainly to the start of depreciation on the completed Main Street Streetscape project and no new capital initiatives. See Note 7 for more information on capital asset activity. The increase in current liabilities is due mainly to more accounts payable and a reclassification of tax receivable due to Lake County for the tax increment financing fund. Long-term liabilities decreased due to debt service payments. 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 2013 and 2012 and changes in the assets and liabilities.

	Business-type activities		Change	%
	2013	2012		
Current and other assets	\$ 3,753,714	\$ 4,411,109	\$ (657,395)	-15%
Capital assets	15,266,363	14,709,186	557,177	4%
Total assets	<u>\$ 19,020,077</u>	<u>\$ 19,120,295</u>	<u>\$ (100,218)</u>	-1%
Current and other liabilities	\$ 307,165	\$ 238,070	\$ 69,095	29%
Long-term liabilities	592,885	971,361	(378,476)	-39%
Total liabilities	<u>\$ 900,050</u>	<u>\$ 1,209,431</u>	<u>\$ (309,381)</u>	-26%
Net Position:				
Net investment in capital assets	\$ 14,573,497	\$ 13,755,553	\$ 817,944	6%
Restricted	63,239	-	63,239	0%
Unrestricted	3,483,291	4,155,311	(672,020)	-16%
Total net position	<u>\$ 18,120,027</u>	<u>\$ 17,910,864</u>	<u>\$ 209,163</u>	1%

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.

The remaining balance of *unrestricted net position*, \$3,483,291 (19 percent) may be used to meet the government's ongoing obligations to its citizens, vendors and creditors.

City of Polson
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The reduction in current assets and the increase in capital assets are due to payment of infrastructure upgrades as part of the County's TIGER grant project and the construction of a new Water and Sewer utility shop building using cash reserves and the use of matching funds to complete the Hillcrest Reservoir project. See Note 7 for more information on capital asset activity. The decrease in short-term payables is due to less purchasing activity at year-end. Long-term liabilities decreased due to a refunding of the golf course revenue bond, series 1998 and 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 \$(91,300) in fiscal year 2013. The following table provides a summary comparison of the City's governmental change in net position for fiscal years 2013 and 2012.

	Governmental activities		Change	%
	2013	2012		
Revenues				
Program revenues				
Charges for services	\$ 385,172	\$ 394,503	\$ (9,331)	-2%
Operating grants & contributions	117,703	106,269	11,434	11%
Capital grants & contributions	34,968	316,837	(281,869)	-89%
General revenues				
Property taxes	1,626,790	1,586,942	39,848	3%
Impact fees	5,772	2,549	3,223	126%
Intergovernmental revenue	619,928	574,935	44,993	8%
Investment earnings	5,588	6,358	(770)	-12%
Gain (loss) on asset disposal	(736)	3,200	(3,936)	-123%
Other revenues	60,133	59,526	607	1%
Total revenues	<u>\$ 2,855,318</u>	<u>\$ 3,051,119</u>	<u>\$ (195,801)</u>	-6%
Program expenses				
General government	\$ 769,869	\$ 691,492	\$ 78,377	11%
Public safety	1,542,244	1,421,037	121,207	9%
Public works	393,516	352,406	41,110	12%
Public health	-	20,029	(20,029)	-100%
Social and economic services	1,600	-	1,600	0%
Culture & recreation	218,247	199,187	19,060	10%
Housing/community development	2	-	2	0%
Conservation of natural resources	2,475	-	2,475	0%
Interest on long-term debt	25,552	20,177	5,375	27%
Other	-	13,046	(13,046)	-100%
Total expenses	<u>\$ 2,953,505</u>	<u>\$ 2,717,374</u>	<u>\$ 236,131</u>	9%
Changes in net position before restatements and transfers	\$ (98,187)	\$ 333,745	\$ (431,932)	-129%
Restatements	21,141	6,450	14,691	228%
Change in net position	<u>\$ (77,046)</u>	<u>\$ 340,195</u>	<u>\$ (417,241)</u>	-123%
Total net position reported July 1, 2012	<u>\$ 5,199,909</u>	<u>\$ 4,859,714</u>	<u>\$ 340,195</u>	7%
Total net position June 30, 2013	<u>\$ 5,122,863</u>	<u>\$ 5,199,909</u>	<u>\$ (77,046)</u>	-1%

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The decrease in charges for services is due mainly to an across the board decrease due to the current economic conditions.

An increase in donations is mainly the reason for the increase in operating grants. Capital grants and donations decreased because no large capital grants were received in FY 2013 compared to FY 2012.

Investment earnings decreased due to lower interest rates available when previously held investments matured. Tax collection efforts were increased at the County and shared revenues with the State of Montana also increased reflecting the largest increase in general 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 public health decreased as the animal control services were incorporated into the public safety budget.

Business-type Funds

Business-type activities increased the City's net position by \$201,630 in fiscal year 2013. The following table provides a summary comparison of the City's business-type change in net position for fiscal years 2013 and 2012.

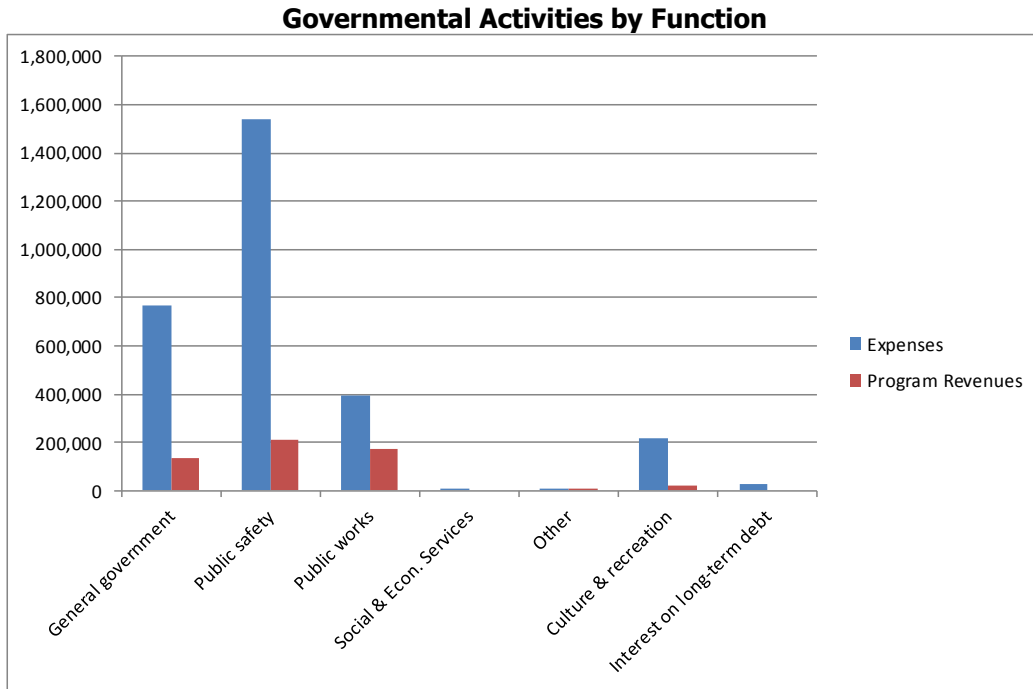
	Business-type activities		Change	%
	2013	2012		
Revenues				
Program revenues				
Charges for services	\$ 2,626,006	\$ 2,574,527	\$ 51,479	2%
Capital grants & contributions	-	29,746	(29,746)	-100%
General revenues				
Impact fees	5,695	3,896	1,799	46%
Investment earnings	24,816	31,880	(7,064)	-22%
Gain (loss) on asset disposal	15,800	5,302	10,498	198%
Other revenues	4,624	24,444	(19,820)	-81%
Total revenues	<u>\$ 2,676,941</u>	<u>\$ 2,669,795</u>	<u>\$ 7,146</u>	0%
Program expenses				
Golf	\$ 1,013,472	\$ 1,037,512	\$ (24,040)	-2%
Water	831,893	690,066	141,827	21%
Sewer	628,570	587,656	40,914	7%
Total expenses	<u>\$ 2,473,935</u>	<u>\$ 2,315,234</u>	<u>\$ 158,701</u>	7%
Changes in net position before restatements and transfers	\$ 203,006	\$ 354,561	\$ (151,555)	-43%
Restatements	6,157	-	6,157	0%
Change in net position	<u>\$ 209,163</u>	<u>\$ 354,561</u>	<u>\$ (145,398)</u>	-41%
Total net position reported July 1, 2012	<u>\$ 17,910,864</u>	<u>\$ 17,556,303</u>	<u>\$ 354,561</u>	2%
Total net position June 30, 2013	<u>\$ 18,120,027</u>	<u>\$ 17,910,864</u>	<u>\$ 209,163</u>	1%

Charges for services for the golf course operation increased approximately \$32,000 due to increases in rates and increased rounds of play. Sewer service fees increased. These increases were offset by a decrease in investment earnings that are attributable to the weak economy and a reduction in sewer land lease rental due to job incentive credits and a decrease in grant revenue.

Program expenses decreased for the golf fund due in part to better management of the golf course restaurant. Program expenses increased for the water and sewer funds due to increases in depreciation expense due to completed projects.

City of Polson
 Management's Discussion and Analysis
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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 services in 2005 and after are reported in capital assets. The City's investment in capital assets (net of accumulated depreciation and outstanding debt) was \$19,235,026 at June 30, 2013. Capital asset activity is presented in Note 7 of the financial statements.

Significant activity in capital assets for fiscal year 2013 includes:

- The Main Street Streetscape project was completed and transferred from Construction in Progress to Infrastructure in the amount of \$1,376,075. This project was completed with grant money from the State of Montana, local match money and an SID assessment.
- A new command vehicle was purchased for the fire department for \$31,539 using Impact Fee revenue received in the current and prior years for the majority of the cost. Two new police vehicles were purchased at a cost of \$70,763. This was paid from tax revenues collected for the Municipal Services Levy.
- The Golf department spent \$78,531 on equipment upgrades which was offset by a gain on the sale of old assets of \$14,400.
- The Water department paid \$369,766 and the Sewer department paid \$61,443 for upgrades on the Skyline Project (Lake County received a TIGER grant and the City is sharing in the costs not covered by the grant) using existing cash reserves. Construction was wrapping up at June 30, 2013. The rehab of the Skyline and Hillcrest Reservoirs was completed and transferred from Construction in Progress to Transmission and Distribution at a cost of \$1,917,758.
- The Water department paid \$163,331 for upgrades in the Riverside addition. Construction was ongoing at June 30, 2013. The construction of a new City Water and Sewer shop was started and \$167,787 had been spent as of June 30, 2013 from the Water and Sewer funds.

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See Note 7 for further capital asset information and details of the City's capital activity for 2013.

Debt Administration

Fund Level Financial Analysis—*Governmental Funds*

For the fiscal year ended June 30, 2013, the City's governmental funds reported combined net position totaling \$1,278,187 in 2013. Approximately, \$533,500 of this amount constitutes unrestricted (categorized as committed, assigned and unassigned) net position, which is available to spend for current needs. The remaining balance is restricted. The governmental funds had a combined increase in net position totaling \$26,706 for 2013.

The general fund is the chief operating fund of the City. For fiscal year 2013, total net position decreased \$79,923 to \$496,837 all of which was unassigned. As a measure of the general fund's total liquidity, it may be useful to compare total unassigned net position to total general fund expenditures. Total unassigned general fund net position represents 21.97% of total expenditures compared to 23.74% in 2012. The fiscal year 2013 budget was designed to decrease the net position approximately \$109,000 but lower than anticipated costs helped to lessen the decrease.

The SID #42 Streetscape Debt Service fund is used to collect special assessments from the district to make payments on the bonds that were used in construction of the Main Street Streetscape project. Total net position at June 30, 2013 was \$47,330 compared with \$28,695 in 2012. All of the net position is considered restricted for debt service. Net position represents 70.46% of expenditures for 2013 compared to 43.32% in 2012. The increase is due to collection of delinquent taxes.

The City's long-term debt totaled \$1,590,244 at June 30, 2013 and short-term debt totaled \$14,930. Total debt decreased \$296,915, which is comprised of a refunding of the golf course revenue bonds in the amount of (\$530,000), principal payments of (\$193,200); a new golf course revenue bond, series 2013 in the amount of \$400,000 used for the refunding and a \$26,285 increase in the liability for compensated absences. 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	\$ 626,517
Revenue bonds	679,000
Other notes and contracts payable	38,877
Compensated absences liability	238,994
	<u>\$ 1,583,388</u>

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 \$2,296,217 and the final amended budget was \$2,307,817, an increase of \$11,600. There was an increase of \$6,600 to correct the City's share of the light maintenance district cost and a \$5,000 increase to the parks personnel budget for additional maintenance work for the Water and Sewer departments. Actual expenditures were \$2,260,537 including transfers out. Significant budget variances in the General fund include:

- A negative variance of \$26,408 in the Administrative services department due in part to severance payments made to the former City Manager.
- A negative variance of \$24,603 in the capital outlay budget for the police department due in large part to the unplanned replacement of a police vehicle that was totaled out.

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June 30, 2013

- A positive variance of \$28,379 in the fire protection services budget for supplies, materials, and capital outlay that were not purchased.
- A positive variance of \$17,978 in the building inspection services supplies and purchased services expenditures due to the discontinued need for contracted inspection services.
- A positive variance of \$25,838 in the street department capital outlay budget for assets not purchased.

Economic Factors and Fiscal Year 2014 Budget

The City is a Third Class city. 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. The City has been hit hard economically just as the nation has by the downturn in construction and value of real estate and is just beginning to see a slight upturn. 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 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 2014 budget items worth noting:

- The budget provides a 1% COLA 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 \$19,720.
- 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 Golf Maintenance department has budgeted \$69,800 for equipment replacement and Pro Shop and Restaurant have budgeted \$10,000 for replacement of the Clubhouse roof.
- 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, 2013

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,200,046	\$ 3,052,385	\$ 4,252,431
Petty cash	250	950	1,200
Taxes/assessments receivable-current	105,751	-	105,751
Accounts receivable	32,775	179,852	212,627
Due from other governments	104,193	-	104,193
Inventories	-	146,773	146,773
Assessments receivable-noncurrent	632,943	-	632,943
Restricted assets:			
Cash, cash equivalents and investments	67,839	373,754	441,593
Capital assets not being depreciated:			
Land	86,915	2,238,751	2,325,666
Construction in progress	57,689	1,620,024	1,677,713
Capital assets being depreciated (net of accumulated depreciation)	3,824,059	11,407,588	15,231,647
 Total assets	\$ 6,112,460	\$ 19,020,077	\$ 25,132,537
 LIABILITIES			
Accounts payable	\$ 105,767	\$ 75,985	\$ 181,752
Accrued interest payable	1,035	3,211	4,246
Deposits/retainage payable	5,600	33,916	39,516
Due to other governments	14,513	-	14,513
Contracts/loans/notes payable	-	14,930	14,930
Current portions of long term debt	215,263	179,123	394,386
Noncurrent liabilities:			
Long term portions of long term debt	647,419	592,885	1,240,304
Total liabilities	\$ 989,597	\$ 900,050	\$ 1,889,647
 NET POSITION			
Net investment in capital assets	\$ 3,318,199	\$ 14,573,497	\$ 17,891,696
Restricted for:			
Debt Service	716,354	44,260	760,614
Bond indenture requirement	37,500	18,979	56,479
General government	92,889	-	92,889
Public safety	93,361	-	93,361
Public works	159,710	-	159,710
Culture/recreation	190,475	-	190,475
Economic development	204,129	-	204,129
Conservation of natural resources	4,163	-	4,163
Non-spendable (other than permanent fund)	-	137,588	137,588
Unrestricted	306,083	3,345,703	3,651,786
 Total net position	\$ 5,122,863	\$ 18,120,027	\$ 23,242,890

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, 2013

	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	\$ 769,869	\$ 116,894	\$ 15,000	\$ -	\$ (637,975)	\$ -	\$ (637,975)
Public safety	1,542,244	123,473	86,382	3,283	(1,329,106)	-	(1,329,106)
Public works	393,516	141,255	1,451	26,700	(224,110)	-	(224,110)
Social and economic services	1,600	-	-	-	(1,600)	-	(1,600)
Culture & recreation	218,247	3,167	14,870	4,985	(195,225)	-	(195,225)
Housing & community development	2	383	-	-	381	-	381
Conservation on natural resources	2,475	-	-	-	(2,475)	-	(2,475)
Interest on long-term debt	25,552	-	-	-	(25,552)	-	(25,552)
Total governmental activities	\$ 2,953,505	\$ 385,172	\$ 117,703	\$ 34,968	\$ (2,415,662)	\$ -	\$ (2,415,662)
Business-type activities:							
Golf	\$ 1,013,472	\$ 1,078,313	\$ -	\$ -	\$ -	\$ 64,841	\$ 64,841
Water	831,893	876,120	-	-	-	44,227	44,227
Sewer	628,570	671,573	-	-	-	43,003	43,003
Total business-type activities	\$ 2,473,935	\$ 2,626,006	\$ -	\$ -	\$ -	\$ 152,071	\$ 152,071
	\$ 5,427,440	\$ 3,011,178	\$ 117,703	\$ 34,968	\$ (2,415,662)	\$ 152,071	\$ (2,263,591)
General revenues							
Property taxes					\$ 1,529,571	\$ -	\$ 1,529,571
Local option tax					97,219	-	97,219
Impact fees					5,772	5,695	11,467
Unrestricted federal/state shared revenues					619,928	-	619,928
Unrestricted investment earnings					5,588	24,816	30,404
Miscellaneous					60,133	4,624	64,757
Gain/(loss) on sale of capital assets					(736)	15,800	15,064
Total general revenues and transfers					\$ 2,317,475	\$ 50,935	\$ 2,368,410
Change in net position					(98,187)	203,006	104,819
Prior period adjustment					21,141	6,157	27,298
Total net position reported July 1, 2012					\$ 5,199,909	\$ 17,910,864	\$ 23,110,773
Total net position-June 30, 2013					\$ 5,122,863	\$ 18,120,027	\$ 23,242,890

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, 2013

	Major Fund		Other Governmental Funds	Total Governmental Funds
	General Fund	SID #42 Streetscape		
	ASSETS			
Cash and cash equivalents	\$ 410,364	\$ -	\$ 789,682	\$ 1,200,046
Petty cash	250	-	-	250
Restricted: cash and cash equivalents	-	45,021	22,818	67,839
Taxes/assessments receivable	76,552	638,763	23,379	738,694
Accounts/other receivables	29,105	-	3,670	32,775
Due from other governments	126,197	3,256	30,907	160,360
Total assets	\$ 642,468	\$ 687,040	\$ 870,456	\$ 2,199,964
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 10,662	\$ -	\$ 30,685	\$ 41,347
Other accrued payables	57,817	947	6,693	65,457
Due to other funds/governments	-	-	70,679	70,679
Deposits payable	600	-	5,000	5,600
Total liabilities	\$ 69,079	\$ 947	\$ 113,057	\$ 183,083
Deferred inflows	\$ 76,552	\$ 638,763	\$ 23,379	\$ 738,694
Fund balances:				
Nonspendable:	\$ -	\$ -	\$ -	\$ -
Restricted:				
General government	-	-	697,296	697,296
Debt service	-	47,330	-	47,330
Committed:	-	-	3,616	3,616
Assigned:	-	-	87,249	87,249
Unassigned:				
General fund	496,837	-	-	496,837
Fund deficits	-	-	(54,141)	(54,141)
Total fund balance	\$ 496,837	\$ 47,330	\$ 734,020	\$ 1,278,187
Total liabilities and fund balances	\$ 565,916	\$ 48,277	\$ 847,077	

Reconciliation: Governmental Funds Balance Sheet to the Statement of Net Position

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 in the funds.

Capital assets	\$ 6,713,450
Accumulated depreciation	(2,744,787)

Other assets are not available to pay current-period expenditures and, therefore, are deferred in the funds.

738,694

Long-term liabilities, including compensated absences are not due and payable in the current period and therefore are not reported in the funds.

Long-term debt	(650,464)
Compensated absences liability	(212,217)

Net position of governmental activities	\$ 5,122,863
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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, 2013

	Major Fund		Other	Total
	General Fund	SID #42 Streetscape	Governmental Funds	Governmental Funds
REVENUES				
Taxes and assessments	\$ 1,266,222	\$ 85,738	\$ 414,001	\$ 1,765,961
Licenses and permits	16,007	-	42,801	58,808
Intergovernmental revenues	600,547	-	195,500	796,047
Charges for services	136,759	-	7,009	143,768
Fines and forfeiture	44,707	-	1,091	45,798
Miscellaneous	93,892	-	41,386	135,278
Investment and royalty earnings	2,699	68	2,821	5,588
Total revenues	\$ 2,160,833	\$ 85,806	\$ 704,609	\$ 2,951,248
EXPENDITURES				
General government	\$ 748,253	\$ -	\$ -	\$ 748,253
Public safety	1,126,347	-	275,977	1,402,324
Public works	174,638	-	99,828	274,466
Social and economic services	1,600	-	-	1,600
Culture and recreation	150,435	-	14,878	165,313
Housing and community development	-	-	3	3
Conservation of natural resources	-	-	2,475	2,475
Debt service:				
Principal	-	41,619	15,580	57,199
Interest	-	25,552	351	25,903
Capital outlay	59,264	-	180,220	239,484
Miscellaneous	-	-	6,244	6,244
Total expenditures	\$ 2,260,537	\$ 67,171	\$ 595,556	\$ 2,923,264
Excess of revenues over (under) expenditures	\$ (99,704)	\$ 18,635	\$ 109,053	\$ 27,984
OTHER FINANCING SOURCES (USES):				
Transfers in (out)	\$ 51,000	\$ -	\$ (51,000)	\$ -
Total other financing sources (uses)	\$ 51,000	\$ -	\$ (51,000)	\$ -
Net change in fund balances	\$ (48,704)	\$ 18,635	\$ 58,053	\$ 27,984
Prior period adjustment	(31,219)	-	29,941	(1,278)
Fund balances-July 1, 2012	\$ 576,760	\$ 28,695	\$ 646,026	\$ 1,251,481
Fund balances-June 30, 2013	\$ 496,837	\$ 47,330	\$ 734,020	\$ 1,278,187

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, 2013

Net change in fund balance - total governmental funds (page 15)	\$ 27,984
Amounts reported for governmental activities in the statement of activities (page 13) 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	204,820
Construction of capitalized infrastructure	34,665
Depreciation expense	(308,588)
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	(5,390)
Involuntary conversion	(13,142)
Loss on the disposal of capital assets	(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	(19,370)
Maintenance and special improvement district assessments	(57,292)
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.	(18,337)
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:	
Principal payments on long-term debt	<u>57,199</u>
Change in net position in governmental activities (page 13)	<u>\$ (98,187)</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, 2013

	Business-type Activities				
	Major Enterprise Funds				Totals
	Golf Fund	Water Fund	Sewer Fund	Non-major Funds	
ASSETS					
Current assets					
Cash and cash equivalents	\$ 231,139	\$ 884,792	\$ 1,900,389	\$ 36,065	\$ 3,052,385
Petty cash	750	200	-	-	950
Accounts receivable	-	83,009	85,948	10,895	179,852
Inventories	49,499	97,274	-	-	146,773
Total current assets	<u>\$ 281,388</u>	<u>\$ 1,065,275</u>	<u>\$ 1,986,337</u>	<u>\$ 46,960</u>	<u>\$ 3,379,960</u>
Noncurrent assets					
Restricted assets:					
Cash, cash equivalents and investments	\$ 26,197	\$ 292,299	\$ 55,258	\$ -	\$ 373,754
Capital assets:					
Land	2,042,231	177,064	19,456	-	2,238,751
Construction in progress	-	1,378,062	241,962	-	1,620,024
Buildings	541,101	-	-	-	541,101
Improvements other than buildings	428,515	-	-	-	428,515
Machinery and equipment	1,121,683	-	-	-	1,121,683
Utility plant	-	12,251,085	6,926,119	359,051	19,536,255
Less: accumulated depreciation	<u>(1,265,788)</u>	<u>(4,283,988)</u>	<u>(4,648,647)</u>	<u>(21,543)</u>	<u>(10,219,966)</u>
Total noncurrent assets	<u>\$ 2,893,939</u>	<u>\$ 9,814,522</u>	<u>\$ 2,594,148</u>	<u>\$ 337,508</u>	<u>\$ 15,640,117</u>
Total assets	<u>\$ 3,175,327</u>	<u>\$ 10,879,797</u>	<u>\$ 4,580,485</u>	<u>\$ 384,468</u>	<u>\$ 19,020,077</u>
LIABILITIES					
Current liabilities					
Accounts payable	\$ 511	\$ 3,448	\$ 4,328	\$ 818	\$ 9,105
Judgments payable	-	-	20,200	-	20,200
Contracts/loans/notes payable	14,930	-	-	-	14,930
Matured interest payable	2,166	1,045	-	-	3,211
Payroll and other accrued payables	29,634	9,785	7,261	-	46,680
Current portion of compensated absences	21,902	23,799	20,531	-	66,232
Current portion of bonds payable	96,891	16,000	-	-	112,891
Deposits payable	-	33,904	12	-	33,916
Total current liabilities	<u>\$ 166,034</u>	<u>\$ 87,981</u>	<u>\$ 52,332</u>	<u>\$ 818</u>	<u>\$ 307,165</u>
Noncurrent liabilities					
Compensated absences	\$ 11,191	\$ 9,279	\$ 6,306	\$ -	\$ 26,776
Bonds payable	303,109	263,000	-	-	566,109
Total noncurrent liabilities	<u>\$ 314,300</u>	<u>\$ 272,279</u>	<u>\$ 6,306</u>	<u>\$ -</u>	<u>\$ 592,885</u>
Total liabilities	<u>\$ 480,334</u>	<u>\$ 360,260</u>	<u>\$ 58,638</u>	<u>\$ 818</u>	<u>\$ 900,050</u>
NET POSITION					
Net investment in capital assets	\$ 2,467,742	\$ 9,222,176	\$ 2,538,890	\$ 344,689	\$ 14,573,497
Restricted for: debt service	26,197	37,042	-	-	63,239
Unrestricted	201,054	1,260,319	1,982,957	38,961	3,483,291
Total net position	<u>\$ 2,694,993</u>	<u>\$ 10,519,537</u>	<u>\$ 4,521,847</u>	<u>\$ 383,650</u>	<u>\$ 18,120,027</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
As of June 30, 2013

	Business-type Activities				
	Major Enterprise Funds			Non-major Funds	Totals
	Golf Fund	Water Fund	Sewer Fund		
OPERATING REVENUES					
Charges for services	\$ 1,079,030	\$ 874,165	\$ 542,827	\$ 116,257	\$ 2,612,279
Miscellaneous sales	4,126	135	12,712	-	16,973
Total operating revenues	<u>\$ 1,083,156</u>	<u>\$ 874,300</u>	<u>\$ 555,539</u>	<u>\$ 116,257</u>	<u>\$ 2,629,252</u>
OPERATING EXPENSES					
Personal services	\$ 437,846	\$ 257,549	\$ 195,165	\$ -	\$ 890,560
Supplies	218,645	130,546	63,564	-	412,755
Purchased services	196,162	162,118	142,600	10,659	511,539
Building materials	7,770	-	-	-	7,770
Fixed charges	34,203	-	42,500	-	76,703
Depreciation	93,385	272,195	125,168	7,181	497,929
Total operating expenses	<u>\$ 988,011</u>	<u>\$ 822,408</u>	<u>\$ 568,997</u>	<u>\$ 17,840</u>	<u>\$ 2,397,256</u>
OPERATING INCOME/(LOSS)	\$ 95,145	\$ 51,892	\$ (13,458)	\$ 98,417	\$ 231,996
NONOPERATING REVENUES/(EXPENSES)					
Interest revenue	\$ 3,399	\$ 9,377	\$ 12,067	\$ (26)	\$ 24,817
Gain/(loss) on sale of capital assets	14,400	1,400	-	-	15,800
Debt service interest expense	(26,178)	(3,229)	-	-	(29,407)
Special items expense	-	-	(40,200)	-	(40,200)
Total nonoperating revenues/(expenses)	<u>\$ (8,379)</u>	<u>\$ 7,548</u>	<u>\$ (28,133)</u>	<u>\$ (26)</u>	<u>\$ (28,990)</u>
INCOME/(LOSS) BEFORE TRANSFERS AND CAPITAL CONTRIBUTIONS	\$ 86,766	\$ 59,440	\$ (41,591)	\$ 98,391	\$ 203,006
Capital contribution	-	-	-	-	-
Changes in net position	\$ 86,766	\$ 59,440	\$ (41,591)	\$ 98,391	\$ 203,006
Total net position-July 1, 2012	\$ 2,606,849	\$ 10,457,596	\$ 4,846,420	\$ -	\$ 17,910,865
Reclassifications	-	-	(285,259)	285,259	-
Prior period adjustment	1,379	2,500	2,277	-	6,156
Beginning net position restated	<u>\$ 2,608,228</u>	<u>\$ 10,460,096</u>	<u>\$ 4,563,438</u>	<u>\$ 285,259</u>	<u>\$ 17,917,021</u>
Total net position-June 30, 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>

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, 2013

	Business-type Activities				Totals
	Major Enterprise Funds				
	Golf Fund	Water Fund	Sewer Fund	Non-major Funds	
Cash flows from operating activities:					
Cash received from customers	\$ 1,078,313	\$ 880,742	\$ 546,619	\$ 105,362	\$ 2,611,036
Cash paid to suppliers	(433,232)	(317,201)	(211,394)	(9,841)	(971,668)
Cash paid for employees	(439,041)	(248,854)	(186,540)	-	(874,435)
Cash received from miscellaneous	4,127	135	12,712	-	16,974
Cash paid for interfund services used	(30,000)	(43,900)	(42,500)	-	(116,400)
Net cash provided/(used) by operating activities	<u>\$ 180,167</u>	<u>\$ 270,922</u>	<u>\$ 118,897</u>	<u>\$ 95,521</u>	<u>\$ 665,507</u>
Cash flows from noncapital and related activities					
Transfers from (to) other funds	-	-	(285,259)	285,259	-
Payments/refunds to other individuals and government	-	-	(20,000)	-	(20,000)
Net cash provided/(used) by noncapital and related activities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (305,259)</u>	<u>\$ 285,259</u>	<u>\$ (20,000)</u>
Cash flows from capital and related financing activities:					
Purchase of capital assets	(78,531)	(754,134)	(224,640)	-	(1,057,305)
Transfer of capital assets	-	-	344,689	(344,689)	-
Proceeds from sale of capital assets	16,600	1,400	-	-	18,000
Proceeds from debt	400,000	-	-	-	400,000
Principal paid on debt	(664,508)	(16,000)	-	-	(680,508)
Interest paid on debt	(32,646)	(2,183)	-	-	(34,829)
Net cash provided/(used) by capital financing activities	<u>\$ (359,085)</u>	<u>\$ (770,917)</u>	<u>\$ 120,049</u>	<u>\$ (344,689)</u>	<u>\$ (1,354,642)</u>
Cash flows from investing activities:					
Interest earnings	3,399	9,377	12,067	(26)	24,817
Cash long/short	717	-	-	-	717
Net cash provided/(used) by investing activities	<u>\$ 4,116</u>	<u>\$ 9,377</u>	<u>\$ 12,067</u>	<u>\$ (26)</u>	<u>\$ 25,534</u>
Net increase/(decrease) in cash, cash equivalents and investments	<u>\$ (174,802)</u>	<u>\$ (490,618)</u>	<u>\$ (54,246)</u>	<u>\$ 36,065</u>	<u>\$ (683,601)</u>
Cash, cash equivalents and investments reported July 1, 2012	<u>\$ 432,888</u>	<u>\$ 1,667,909</u>	<u>\$ 2,009,893</u>	<u>\$ -</u>	<u>\$ 4,110,690</u>
Cash, cash equivalents and investments June 30, 2013	<u>\$ 258,086</u>	<u>\$ 1,177,291</u>	<u>\$ 1,955,647</u>	<u>\$ 36,065</u>	<u>\$ 3,427,089</u>
RECONCILIATION TO CASH IN STATEMENT OF NET ASSETS:					
Cash and cash equivalents	231,139	884,792	1,900,389	36,065	3,052,385
Petty cash	750	200	-	-	950
Restricted assets:					
Cash and cash equivalents	26,197	292,299	55,258	-	373,754
Total cash and cash equivalents and investments	<u>\$ 258,086</u>	<u>\$ 1,177,291</u>	<u>\$ 1,955,647</u>	<u>\$ 36,065</u>	<u>\$ 3,427,089</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED/(USED) BY OPERATING ACTIVITIES:					
Net operating income/(loss)	\$ 94,429	\$ 51,892	\$ (13,458)	\$ 98,417	\$ 231,280
Adjustments to reconcile operating income to net cash					
Provided/(used) by operating activities:					
Depreciation expense	93,385	272,195	125,168	7,181	497,929
(Increase)/decrease in receivables	-	6,225	4,292	(10,895)	(378)
(Increase)/decrease in inventories	(1,496)	(24,332)	-	-	(25,828)
Increase/(decrease) in customer deposits	-	352	(500)	-	(148)
Increase/(decrease) in accounts payables	(4,956)	(44,105)	(5,230)	818	(53,473)
Increase/(decrease) in compensated absences	(2,290)	8,038	8,001	-	13,749
Increase/(decrease) in wages payable	2,431	748	573	-	3,752
Prior period adjustments	(1,336)	(91)	51	-	(1,376)
Net cash provided/(used) by operating activities	<u>\$ 180,167</u>	<u>\$ 270,922</u>	<u>\$ 118,897</u>	<u>\$ 95,521</u>	<u>\$ 665,507</u>
Schedule of Non-Cash Items:					
Capital asset trade-ins	\$ 850	\$ -	\$ -	\$ -	\$ 850

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, 2013

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 4,651
Total assets	<u>\$ 4,651</u>
LIABILITIES	
Due to other governments	\$ 4,651
Total liabilities	<u>\$ 4,651</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, 2013

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 4,488.

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 units' 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, 2013, 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 balance 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 as 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.

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.

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.

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:

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.

NOTE 1: SUMMARY OF SIGNIFANT ACCOUNTING POLICES, continued

D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING, continued

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 be 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.

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.

NOTE 1: SUMMARY OF SIGNIFANT ACCOUNTING POLICES, continued

D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING, continued

The Budget Process, continued

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 treasurer. 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. CD's with maturities greater than 90 days are considered investments in the proprietary fund financial statements.

Investments are reported at cost; however the difference between cost and fair value is considered 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, all cash including investments is included.

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 within forty-five days 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.

City of Polson
Notes to the Financial Statements
June 30, 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICES, continued

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

2. Property Taxes, continued

Taxable valuations, mill values and mill levies for November 2012 and May 2013 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	\$ 9,247,833	\$	228,353	\$	9,248	124.97
Permissive Medical Levy	\$ 9,247,833	\$	228,353	\$	9,248	5.50
Police Special Levy	\$ 9,247,833	\$	228,353	\$	9,248	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 \$228,353. 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.

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.

City of Polson
Notes to the Financial Statements
June 30, 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

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. 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.

9. 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.

City of Polson
Notes to the Financial Statements
June 30, 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

10. 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.

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, 2013, are detailed as follows:

Cash on Hand	\$	1,200
Cash in Banks:		
Cash in linked Demand/Repurchase Deposits		3,684,732
Cash in Savings Deposits		481
Non-negotiable Certificates of Deposit		1,000,000
U.S. Government Securities		4,692
Total Cash on Hand & in Banks	\$	4,691,105
 Plus: Deposits in Transit	 \$	 27,639
Less: Outstanding ACH not cleared bank		(18,869)
Cash reported in Fund Financial Statements	\$	4,699,875

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).

City of Polson
Notes to the Financial Statements
June 30, 2013

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

Of the bank balances, \$500,000 was covered by federal depository insurance, and \$3,074,560 was covered by securities held by the pledging bank's trust department but not in the City's name, \$1,824,215 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. At June 30, 2013, 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, 2013 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	\$ -	\$ 1,000,000	\$ -	\$ -	\$ -	\$ -	\$ 1,000,000	NR
U.S. Government Securities	4,692	-	-	-	-	-	4,692	A1
Repurchase Agreements	-	-	-	-	-	3,684,732	3,684,732	A3
Total Government Investments	\$ 4,692	\$ 1,000,000	\$ -	\$ -	\$ -	\$ 3,684,732	\$ 4,689,424	

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:

	Issued	Term	Total	Current	Non-current
SID #42 Streetscape	2010	15 years	\$ 638,763	\$ 5,820	\$ 632,943
Maintenance District Assessments			348	348	-
Weed Maintenance Assessments			600	600	-
Total			\$ 639,711	\$ 6,768	\$ 632,943

City of Polson
Notes to the Financial Statements
June 30, 2013

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 2013:

	Transfers In:					Total
	General Fund	Nonmajor Governmental Funds	Water Fund	Sewer Fund	Nonmajor Enterprise Funds	
Transfers Out:						
Nonmajor Governmental Funds	\$ 51,000	\$ 15,000	\$ -	\$ -	\$ -	\$ 66,000
Total Transfers Out	\$ 51,000	\$ 15,000	\$ -	\$ -	\$ -	\$ 66,000

\$51,000 transfer to the general fund from nonmajor governmental fund (permissive levy fund) to partially cover health insurance costs.

\$15,000 transfer to the nonmajor governmental fund (TIF walkpath and city dock fund) from nonmajor governmental fund (tax increment district fund) to cover construction costs.

Due To/Due From—the City general fund temporarily loaned \$49,359 to the building code fund, \$2,104 to the hanging basket maintenance fund and \$4,704 to the COPS grant fund at June 30, 2013 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, 2013:

Fund	Paying Government	Due From Amount	Due (To) Amount
General Fund	Lake County	\$ 63,730	
General Fund	CSKT	6,300	
Police Municipal Services Levy	Lake County	8,878	
Tax Increment District	Lake County	-	(14,513)
Tax Increment District	State of Montana	6,541	
Permissive Medical Mills	Lake County	2,447	
Light Maintenance District #19	Lake County	77	
Light Maintenance District #20	Lake County	34	
Weed Cleanup Maintenance Fund	Lake County	464	
Police Federal COPS Grant	U.S. Government	12,466	
SID #42 Streetscape Main Street Improvement Project	Lake County	3,256	
Total		\$ 104,193	\$ (14,513)

NOTE 6: CAPITAL GRANT REVENUE

Governmental capital grants consist of the following:

Montana Department of Transportation Highway Traffic Safety Grant	\$ 17,425
Total	\$ 17,425

There were no enterprise capital grants.

City of Polson
Notes to the Financial Statements
June 30, 2013

NOTE 7: CAPITAL ASSETS

Capital asset activity for the governmental funds for the year ended June 30, 2013 was as follows:

	Balance July 1, 2012	Increases	Decreases	Balance June 20, 2013
Capital assets not being depreciated:				
Land	\$ 86,915	\$ -	\$ -	\$ 86,915
Construction in Progress	1,358,282	75,482	(1,376,075)	57,689
Total capital assets not being depreciated:	<u>\$ 1,445,197</u>	<u>\$ 75,482</u>	<u>\$ (1,376,075)</u>	<u>\$ 144,604</u>
Other capital assets				
Buildings	\$ 472,483	\$ 6,031	\$ -	\$ 478,514
Machinery & Equipment	3,065,457	141,962	(128,807)	3,078,612
Improvements	789,274	6,982	-	796,256
Infrastructure	830,361	1,385,103	-	2,215,464
Total other capital assets at historical cost	\$ 5,157,575	\$ 1,540,078	\$ (128,807)	\$ 6,568,846
Less: accumulated depreciation	(2,545,737)	(308,588)	109,538	(2,744,787)
Total other capital assets at historical cost, net	<u>\$ 2,611,838</u>	<u>\$ 1,231,490</u>	<u>\$ (19,269)</u>	<u>\$ 3,824,059</u>
Net book value	<u>\$ 4,057,035</u>	<u>\$ 1,306,972</u>	<u>\$ (1,395,344)</u>	<u>\$ 3,968,663</u>

Governmental depreciation expense was charged to functions as follows:

Governmental Activities:	Depreciation
General Government	\$ 35,498
Public Safety	104,518
Public Works	119,334
Culture and Recreation	49,238
Total governmental activities depreciation	<u>\$ 308,588</u>

Capital asset activity for the business-type funds for the year ended June 30, 2013 was as follows:

Golf Fund

	Balance July 1, 2012	Increases	Decreases	Balance June 20, 2013
Capital assets not being depreciated:				
Land	\$ 2,042,231	\$ -	\$ -	\$ 2,042,231
Total capital assets not being depreciated:	<u>\$ 2,042,231</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,042,231</u>
Other capital assets				
Buildings	\$ 541,100	\$ 1	\$ -	\$ 541,101
Machinery & Equipment	1,076,903	78,531	(33,751)	1,121,683
Improvements	428,515	-	-	428,515
Total other capital assets at historical cost	\$ 2,046,518	\$ 78,532	\$ (33,751)	\$ 2,091,299
Less: accumulated depreciation	(1,203,953)	(93,384)	31,549	(1,265,788)
Total other capital assets at historical cost, net	<u>\$ 842,565</u>	<u>\$ (14,852)</u>	<u>\$ (2,202)</u>	<u>\$ 825,511</u>
Net book value	<u>\$ 2,884,796</u>	<u>\$ (14,852)</u>	<u>\$ (2,202)</u>	<u>\$ 2,867,742</u>

City of Polson
Notes to the Financial Statements
June 30, 2013

NOTE 7: CAPITAL ASSETS, continued

Water Fund

	Balance July 1, 2012	Increases	Decreases	Balance June 20, 2013
Capital assets not being depreciated:				
Land	\$ 177,064	\$ -	\$ -	\$ 177,064
Construction in Progress	2,609,016	686,804	(1,917,758)	1,378,062
Total capital assets not being depreciated:	<u>\$ 2,786,080</u>	<u>\$ 686,804</u>	<u>\$ (1,917,758)</u>	<u>\$ 1,555,126</u>
Other capital assets				
Source of Supply	\$ 2,451,067	\$ 6,754	\$ -	\$ 2,457,821
Pumping Plant	190,204	-	-	190,204
Treatment System	15,678	-	-	15,678
Transmission and Distribution	7,561,565	1,942,882	-	9,504,447
General plant	47,483	35,452	-	82,935
Total other capital assets at historical cost	<u>\$ 10,265,997</u>	<u>\$ 1,985,088</u>	<u>\$ -</u>	<u>\$ 12,251,085</u>
Less: accumulated depreciation	<u>(4,011,793)</u>	<u>(272,195)</u>	<u>-</u>	<u>(4,283,988)</u>
Total other capital assets at historical cost, net	<u>\$ 6,254,204</u>	<u>\$ 1,712,893</u>	<u>\$ -</u>	<u>\$ 7,967,097</u>
Net book value	<u>\$ 9,040,284</u>	<u>\$ 2,399,697</u>	<u>\$ (1,917,758)</u>	<u>\$ 9,522,223</u>

Sewer Fund

	Balance July 1, 2012	Increases	Decreases	Balance June 20, 2013
Capital assets not being depreciated:				
Land	\$ 19,456	\$ -	\$ -	\$ 19,456
Construction in Progress	77,405	164,557	-	241,962
Total capital assets not being depreciated:	<u>\$ 96,861</u>	<u>\$ 164,557</u>	<u>\$ -</u>	<u>\$ 261,418</u>
Other capital assets				
Pumping Plant	\$ 1,051,192	\$ -	\$ (1)	\$ 1,051,191
Treatment System	2,077,376	-	-	2,077,376
Collection System	4,024,994	24,632	(359,051)	3,690,575
General plant	71,525	35,452	-	106,977
Total other capital assets at historical cost	<u>\$ 7,225,087</u>	<u>\$ 60,084</u>	<u>\$ (359,052)</u>	<u>\$ 6,926,119</u>
Less: accumulated depreciation	<u>(4,537,840)</u>	<u>(125,169)</u>	<u>14,362</u>	<u>(4,648,647)</u>
Total other capital assets at historical cost, net	<u>\$ 2,687,247</u>	<u>\$ (65,085)</u>	<u>\$ (344,690)</u>	<u>\$ 2,277,472</u>
Net book value	<u>\$ 2,784,108</u>	<u>\$ 99,472</u>	<u>\$ (344,690)</u>	<u>\$ 2,538,890</u>

City of Polson
Notes to the Financial Statements
June 30, 2013

NOTE 7: CAPITAL ASSETS, continued

Stormwater Fund

	Balance July 1, 2012	Increases	Decreases	Balance June 20, 2013
Capital assets not being depreciated:				
Land	\$ -	\$ -	\$ -	\$ -
Total capital assets not being depreciated:	\$ -	\$ -	\$ -	\$ -
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)	-	(21,543)
Total other capital assets at historical cost, net	\$ -	\$ 337,508	\$ -	\$ 337,508
Net book value	\$ -	\$ 337,508	\$ -	\$ 337,508

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.

Changes in Long-term Liabilities—During the year ended June 30, 2013, the following changes occurred in liabilities reported in long-term debt:

Governmental Activities:

	Balance July 1, 2012	Additions	Decreases	Balance June 30, 2013	Due Within One Year
Special Assessment Bonds	\$ 668,136	\$ -	\$ (41,619)	\$ 626,517	\$ 41,816
Street Wheel Loader Loan	39,527	-	(15,580)	23,947	15,885
Estimated Retiree Health Care Costs	14,254	-	(14,254)	-	N/A
Compensated Absences	193,880	18,338	-	212,218	157,562
Total	\$ 915,797	\$ 18,338	\$ (71,453)	\$ 862,682	\$ 215,263

Business-type Activities:

	Balance July 1, 2012	Additions	Decreases	Balance June 30, 2013	Due Within One Year
Revenue Bonds, Series 1998 (Golf)	\$ 650,000	\$ -	\$ (650,000)	\$ -	\$ -
Revenue Bonds, Series 2013 (Golf)	-	400,000	-	400,000	96,891
Golf cart loan	29,438	-	(14,508)	14,930	14,930
Revenue Bonds (Water)	295,000	-	(16,000)	279,000	16,000
Estimated Retiree Health Care Costs	7,533	-	(7,533)	-	N/A
Compensated Absences	79,259	13,749	-	93,008	66,232
Total	\$ 1,061,230	\$ 413,749	\$ (688,041)	\$ 786,938	\$ 194,053

City of Polson
Notes to the Financial Statements
June 30, 2013

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, 2013 were as follows:

Purpose	Origination Date	Interest Rate	Bond Term	Maturity Date	Bond Amount	Annual Payment	Balance June 30, 2013
SID #42 Streetscape Project	09/15/2010	3.95%	15 yrs	07/01/2025	\$ 750,000	\$ 66,225	\$ 626,517
Total					<u>750,000</u>		<u>626,517</u>

Annual requirement to amortize special assessment bond debt:

For Fiscal Year Ended	Principal	Interest	Total Payments
2014	\$ 41,816	\$ 24,409	\$ 66,225
2015	43,553	22,672	66,225
2015	45,234	20,991	66,225
2017	47,095	19,130	66,225
2018	48,973	17,252	66,225
2019-2023	275,737	55,388	331,125
2024-2025	124,109	6,137	130,246
Total	<u>\$ 626,517</u>	<u>\$ 165,979</u>	<u>\$ 792,496</u>

Revenue Bonds

Revenue Bonds (Golf Course)—In January 1998 the City issued series 1998 revenue bonds to assist with construction of the second 9 holes on the new course. The bonds bear interest at rates varying from 3.9% to 5.4% and required annual principal payments ranging from \$60,000 in 2004 to a \$125,000 final payment in fiscal year 2018. 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 with the addition of the revenue bond reserve in the amount of \$130,000 for a total of \$530,000. This new debt matures on April 1, 2017. The series, 1998 revenue bond debt has been removed from the Statement of Net Position. 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. In fiscal year 2013 \$64,438 was added to the principal of the outstanding debt. This was the final principal draw.

City of Polson
Notes to the Financial Statements
June 30, 2013

NOTE 8: LONG TERM DEBT OBLIGATIONS, continued

Revenue bonds outstanding reported in the business-type as of June 30, 2013 were as follows:

Purpose	Origination Date	Interest Rate	Bond Term	Maturity Date	Bond Amount	Annual Payment	Balance June 30, 2013
Revenue Bonds, Series 1998 (Golf)	01/01/1998	Varies	20 yrs	04/01/2018	\$ 1,600,000	Varies	\$ -
Revenue Bonds, Series 2013 (Golf)	04/01/2013	2.10%	4 yrs	04/01/2017	400,000	\$ 104,785	400,000
Revenue Bonds (Water)	10/16/2009	0.75%	20 yrs	07/01/2029	333,700	Varies	279,000
Total					<u>\$ 2,333,700</u>		<u>\$ 679,000</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. For fiscal 2013 charged to users pledged for debt was 12% for the golf course and 2% for the water users.

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	
2014	\$ 96,891	\$ 7,895	\$ 16,000	\$ 2,062	\$ 112,891	\$ 9,957	\$ 122,848
2015	98,936	5,850	16,000	1,943	114,936	7,793	122,729
2015	101,016	3,770	16,000	1,823	117,016	5,593	122,609
2017	103,157	1,630	16,000	1,702	119,157	3,332	122,489
2018			16,000	1,583	16,000	1,583	17,583
2019-2023			82,000	6,109	82,000	6,109	88,109
2024-2029			117,000	3,071	117,000	3,071	120,071
Total	<u>\$ 400,000</u>	<u>\$ 19,145</u>	<u>\$ 279,000</u>	<u>\$ 18,293</u>	<u>\$ 679,000</u>	<u>\$ 37,438</u>	<u>\$ 716,438</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.

Other Loans/Contracted Debt

In June 2009, the City borrowed \$69,500 from a bank to purchase 20 golf carts for use in its golf course operations. The note requires semi-annual payments of \$7,737 for principal and interest on December 15th and June 15th through June 2014. The loan matures in less than one year and is no longer shown as a long-term liability on the golf fund Statement of Net Position.

City of Polson
Notes to the Financial Statements
June 30, 2013

NOTE 8: LONG TERM DEBT OBLIGATIONS, continued

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, 2014 is 1.00%. Prepayments are allowed without any prepayment penalty.

Loans/contracted debt outstanding as of June 30, 2013 reported in both governmental activities and business type activities were as follows:

<u>Purpose</u>	<u>Origination Date</u>	<u>Interest Rate</u>	<u>Term</u>	<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Balance June 30, 2013</u>
Streets-Wheel Loader	05/13/2011	1.00%	3 yrs	08/15/2014	\$ 47,200	\$ 23,947
Loan-Golf Carts	06/15/2009	4.00%	5 yrs	06/15/2014	69,500	14,930
Total					<u>\$ 116,700</u>	<u>\$ 38,877</u>

Annual requirement to amortize loan debt:

<u>For Fiscal Year Ended</u>	<u>Bank Loan 2009 Golf Carts</u>		<u>Intercap Loan Case Wheel Loader</u>		<u>Total Bank Notes and Intercap Loans</u>		<u>Total Payments</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2014	\$ 14,930	\$ 496	\$ 15,885	\$ 349	\$ 30,815	\$ 845	\$ 31,660
2015	-	-	8,062	50	8,062	50	8,112
Total	<u>\$ 14,930</u>	<u>\$ 496</u>	<u>\$ 23,947</u>	<u>\$ 399</u>	<u>\$ 38,877</u>	<u>\$ 895</u>	<u>\$ 39,772</u>

Compensated Absences

See Note 1.8

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).

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, 2013, were:

<u>Paid by:</u>	<u>Employer</u>	<u>Employee</u>	<u>State of MT</u>	<u>Total</u>	
PERS	7.07%	6.9%	.1%	14.07%	Hired before July 1, 2011
PERS	7.07%	7.9%	.1%	15.07%	Hired after July 1, 2011

City of Polson
Notes to the Financial Statements
June 30, 2013

NOTE 9: RETIREMENT AND PENSION PLANS, continued

The amount contributed to PERS during the years ended June 30, 2011, 2012, 2013 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>
2011	\$105,953	\$107,820
2012	\$103,917	\$105,991
2013	\$104,684	\$107,263

The State contribution qualifies as an on behalf payment. These amounts have not been recorded in the City's financial statements. 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:

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 2013.

NOTE 10: ESTIMATED RETIREE HEALTH CARE COSTS AND OPEB

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 for OPEB. The reduction of liability is due to a change in accounting estimate and is accompanied by a prior period adjustment to net position as of June 30, 2013.

Annual required contribution	\$ -
Interest on net OPEB obligation	-
Adjustment to annual required contribution	<u>(21,786)</u>
Annual OPEB cost (expense)	\$ (21,786)
Contributions made toward funding	-
Increase in net OPEB obligation	\$ (21,786)
Net OPEB obligation, beginning of year	\$ 21,786
Net OPEB obligation, end of year	<u><u>\$ -</u></u>

City of Polson
Notes to the Financial Statements
June 30, 2013

NOTE 11: COMMITMENTS AND CONTINGENCIES

The City was committed to spend approximately \$20,000 on contracts for the completion of the Hillcrest Reservoir. Funding will be from the water fund operating revenues. The City was also 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 committed to pay the second and final installment on a judgment handed down by the United States government for an Environmental Protection Agency finding in the amount of \$20,200. This amount will be paid from the sewer fund operating revenues.

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 with additional local match money and debt financing in the estimated amount of \$890,000.

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, 2013, the City's portion of taxes remaining under protest totaled \$49,311.

As of June 30, 2013, delinquent assessments on special improvement districts (SIDs) were \$5,820. 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 designed 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.

As of June 30, 2013, 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	\$ (53,799)	Expenditures exceeded revenues for FY 2013	Future revenue source
Streetscape/Main St. Imp. Project	\$ (342)	Expenditures exceeded revenues for FY 2013	Future revenue source

City of Polson
Notes to the Financial Statements
June 30, 2013

NOTE 13: RESTATEMENTS

During the current fiscal year, the following adjustments relating to prior years' transactions were made to fund balance and net position:

Fund	Amount	Reason
General Fund	\$ (1,219)	Expenditure adjustment
General Fund	(30,000)	Residual equity transfer
Nonmajor governmental funds	30,000	Residual equity transfer
Nonmajor governmental funds	(60)	Expenditure adjustment
Total governmental activities	<u>\$ (1,279)</u>	
Golf fund	\$ (1,336)	Expenditure adjustment
Golf fund	2,715	Remove OPEB liability
Water fund	(91)	Expenditure adjustment
Water fund	2,591	Remove OPEB liability
Sewer fund	51	Expenditure adjustment
Sewer fund	2,226	Remove OPEB liability
Sewer fund	(285,156)	Residual equity transfer
Nonmajor enterprise fund	285,156	Residual equity transfer
Total enterprise activities	<u>\$ 6,156</u>	

For the governmental funds in government-wide statements a prior period adjustment of \$8,166 was made for special assessment payments.

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-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.

City of Polson
Notes to the Financial Statements
June 30, 2013

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, 2013 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:

1 st : Restricted	3 rd : Assigned
2 nd : Committed	4 th : Unassigned

The City receives inflows from revenue and other financial sources from numerous sources for use in its special revenue, debt service and capital projects funds. These funds will expend those resources on the specific purposes of the fund. The intention of this spending policy is to identify the expenditure order of resource categories for these funds. 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 these funds, the following spending policy will apply:

1 st : Restricted	3 rd : Assigned
2 nd : Committed	

NOTE 19: FUND EQUITY

Governmental funds fund balance can be classified into five categories. The categories are unspendable, restricted, committed, assigned and unassigned.

The following table displays the City's fund balances by major purposes as displayed on the Governmental Funds Balance Sheet. GASB Statement 54 requires the disclosure of the purpose of each major fund.

City of Polson
Notes to the Financial Statements
June 30, 2013

NOTE 19: FUND EQUITY, continued

	Major Funds		All Other Governmental Funds	Total Governmental Funds
	General Fund	SID #42		
Unspendable	\$ -	\$ -	\$ -	\$ -
Restricted				
General Government	\$ -	\$ -	\$ 2,453	\$ 2,453
Public Safety	-	-	81,160	81,160
Public Works	-	-	155,145	155,145
Culture & Recreation	-	-	190,475	190,475
Economic Development	-	-	197,087	197,087
Conservation & Natural Resources	-	-	4,162	4,162
Debt Service	-	47,330	66,814	114,144
Total Restricted	\$ -	\$ 47,330	\$ 697,296	\$ 744,626
Committed				
Public Works	\$ -	\$ -	\$ 3,616	\$ 3,616
Conservation & Natural Resources	-	-	-	-
Total Committed	\$ -	\$ -	\$ 3,616	\$ 3,616
Assigned				
Public Works	\$ -	\$ -	\$ 87,249	\$ 87,249
Total Assigned	\$ -	\$ -	\$ 87,249	\$ 87,249
Unassigned				
General Government	\$ 496,837	\$ -	\$ -	\$ 496,837
Public Safety	-	-	(53,799)	(53,799)
Public Works	-	-	(342)	(342)
Total Unassigned	\$ 496,837	\$ -	\$ (54,141)	\$ 442,696
Total Fund Balances	<u>\$ 496,837</u>	<u>\$ 47,330</u>	<u>\$ 734,020</u>	<u>\$ 1,278,187</u>

NOTE 20: SUBSEQUENT EVENTS

The City Manager's contract was not renewed at June 30, 2013 and the City undertook a nation-wide search to hire a new City Manager. The search was concluded in October, 2013 and a new City Manager was hired.

Subsequent to June 30, 2013, an agreement was made with the City Attorney to sever his contract with the City as of December 31, 2013. The City paid severance in the amount of \$21,600 which was not covered by insurance and has since contracted with another individual for legal services.

The City Council passed Ordinance No. 667 in September 2013 to allow the police department employees to join MPORS (Montana Peace Officers Retirement System). This will create an additional payroll tax burden on the City as the rate of employer contribution to MPORS is 7.34% higher than the rate of employer contribution to PERS. An estimate of the cost was budgeted in the FY 2014 budget in the amount of \$42,723.

On August 15, 2013 the City issued \$800,000 of Tax Increment Urban Renewal Revenue Bonds, Series 2013 to finance the replacement of the City Dock and the construction of a walkway connecting Sacajawea Park and Riverside Park along the shoreline and under the bridge. The debt bears interest at the rate of 2.987% for 12 years and will be paid from tax increment revenues. The construction is ongoing and expected to be completed by June, 2014.

City of Polson
Notes to the Financial Statements
June 30, 2013

NOTE 20: SUBSEQUENT EVENTS, continued

As listed in Note 11, the City was named as defendant in a lawsuit involving a former leasee 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 \$12,000. This amount will not be covered by insurance. Management has decided, on the advice of the City Attorney, to appeal the decision to Lake County District Court and recently a notice of appeal was filed with the court. No amount has been accrued in the financial statements.

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, 2013

	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	\$ 1,258,660	\$ 1,258,660	\$ 1,266,222	\$ 7,562			\$ 1,266,222
Licenses and permits	19,725	19,725	16,007	(3,718)			16,007
Intergovernmental revenue	600,261	600,261	600,547	286			600,547
Charges for services	132,160	132,160	136,759	4,599			136,759
Fines and forfeitures	59,750	59,750	44,707	(15,043)			44,707
Miscellaneous	53,150	53,150	93,892	40,742			93,892
Investment earnings	5,000	5,000	2,699	(2,301)			2,699
Total revenues	\$ 2,128,706	\$ 2,128,706	\$ 2,160,833	\$ 32,127			\$ 2,160,833
EXPENDITURES							
Executive services	\$ 24,961	\$ 24,961	\$ 22,251	\$ (2,710)			\$ 22,251
Judicial services	49,621	49,621	49,683	62			49,683
Administration services	163,554	163,554	189,962	26,408			189,962
Financial services	172,341	190,915	191,302	387			191,302
Legal services	45,200	45,200	44,934	(266)			44,934
Facilities administration	270,121	270,121	250,121	(20,000)			250,121
Law enforcement services	913,228	913,228	922,743	9,515			922,743
Detention & correction services	2,000	2,000	606	(1,394)			606
Fire protection & control	156,440	156,440	143,142	(13,298)			143,142
Protective inspections	76,915	76,915	59,856	(17,059)			59,856
Road & street services	173,844	180,444	174,638	(5,806)			174,638
Social & economic services	1,600	1,600	1,600	-			1,600
Parks	151,693	156,693	150,435	(6,258)			150,435
Capital outlay	73,625	73,625	59,264	(14,361)			59,264
Total expenditures	\$ 2,275,143	\$ 2,305,317	\$ 2,260,537	\$ (44,780)			\$ 2,260,537
Excess of revenues over (under) expenditures	\$ (146,437)	\$ (176,611)	\$ (99,704)	\$ 76,907			\$ (99,704)
Other financing sources/uses	\$ 49,175	\$ 49,175	\$ 51,000	\$ 1,825			\$ 51,000
Net change in fund balances	\$ (97,262)	\$ (127,436)	\$ (48,704)	\$ 78,732			\$ (48,704)
Fund Balance July 1, 2012	576,760						576,760
Prior period adjustment	(31,219)						(31,219)
Fund Balance June 30, 2013	448,279						\$ 496,837

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

City of Polson
Lake County, Montana

Other Post-Employment Benefits Plan
Retiree Health Insurance
Schedule of Funding Progress

	FY 2011 <u>06/30/2010</u>	FY 2012 <u>06/30/2010</u>	FY 2013 <u>N/A</u>
Actuarial Valuation Date			
Actuarial Value of Assets	\$ -	\$ -	\$ -
Actuarial Accrued Liability	\$ 30,932	\$ 32,461	\$ 32,460
Unfunded Actuarial Accrued Liability (UAAL)	\$ 30,932	\$ 32,461	\$ 32,460
Funded Ratio	0.00%	0.00%	0.00%
Annual Covered Payroll	\$ 1,286,635	\$ 1,311,767	\$ 1,668,857
Ratio of UAAL to Annual Covered Payroll	2.40%	2.47%	0.00%

Note: The Local Government implemented GASB Statement 45 for the fiscal year ending June 30, 2010. The City was scheduled for a second evaluation as of June 30, 2013. The actuary advised the City that a valuation was not necessary as the City is paying age-related premiums and it was their opinion that there was no implied subsidy which would be the only liability the City would have. The schedule will be expanded to include information for the most recent and two preceding valuations, if necessary and will include disclosure of any factors that significantly affect the identification of trends in the amounts reported. The City would have been required to have triennial actuarial valuations.

*For single-employer or (agent) individual-employer OPEB plans with a total membership of 200 or more an actuarial valuation is required at least biennially.

*For single-employer or (agent) individual-employer OPEB plans with a total membership of fewer than 200 an actuarial valuation is required at least triennially.

*The Alternative Measurement Method (AMM) may be used if your government is either a sole or agent employer with fewer than 100 total plan members.

**Plan members are defined as:

1. Employees in active services
2. Terminated employees who have accumulated benefits but are not yet receiving them
3. Retired employees and beneficiaries currently receiving benefits

REPORTS REQUIRED BY
GOVERNMENT AUDITING STANDARDS

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, 2013, and the related notes to the financial statements, which collectively comprise the City's financial statements and have issued my report thereon dated June 27, 2014.

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 material weaknesses. See 2013-1. 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 two instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. See 2013-2 and 2013-3.

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 21, 2014
Missoula, Montana

Schedule of Findings and Questioned Costs and Report on Prior Findings

2013-1 PROBLEMS WITH MONITORING AND COMMUNICATION

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. When one of the five components are incomplete or weak there is the potential either directly or indirectly to cause financial information to be incomplete, inaccurate or misleading.

Monitoring provides the assessment portion of internal control; it allows an entity to evaluate if the first four components are working and to catch unknown risks before they have financial implications. The two guiding principles of monitoring are (1) "The organization selects, develops,, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning" and (2) "The organization evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the governing body, as appropriate."

Condition: During fiscal 2013 the City encountered two situations in which the City was not or had not been in compliance with state or federal laws, rules or regulations; these are noted in findings 2013-2 and 2013-3. Both situations are indicators that monitoring of internal control activities did not detect an omission, or the omission was not communicated to governance in time for prevention.

Cause: The actions which led to finding 2013-2 actually occurred during periods prior to fiscal 2013 in which the City was in transition from a Council/Mayor to a Commission/City Manager form of government. It may not have been clear in the transition that while a City Manager is assigned many administrative and leadership duties, the commission still needs to require "separate evaluation to ascertain whether the components of internal control are present and functioning".

Effect: For finding 2013-2 the City recorded a liability and expense in fiscal 2013 of \$40,200, of which \$20,000 was paid in fiscal 2013 and the remainder was due in fiscal 2014; the events which caused the fine occurred in fiscal 2008 and 2009 and would have more appropriately been obligations of those years but the settlement of the amount occurred in fiscal 2013. Finding 2013-3 could have easily caused misclassification as current expense given the timing with which invoices were received but was ultimately appropriately reported as a capital activity.

Recommendation: The ultimate responsibility for the internal control cycle rests with governance which is the City Commission. It is the commission's responsibility to assign clear responsibility for monitoring and require communication to the commission which indicates monitoring is taking place. In designing internal control the commission may assign responsibility for designing and implementing any of the components of internal control and use consultants to determine adequacy of controls; however the commission would retain a need to know on a routine basis that controls are implemented and working.

Perspective: During the period in fiscal 2008 and 2009 the City was in transition to the new form of government with a Commission/City Manager structure which required some time to identify and hire a new City Manager. During fiscal 2013 the City was in transition between City Managers. The City may want to consider control activities and monitoring which would assure operations over a transition period.

2013-2 NON-COMPLIANCE WITH FEDERAL REGULATIONS

Criteria: As part of having a Pollutant Discharge Permit for the sewer system the City is required to provide certain reports to the Environmental Protection Agency (EPA) which provide information about monitoring for pollutants, amount of discharge and other items.

City of Polson
June 30, 2013
Schedule of Findings and Questioned Costs and Report on Prior Findings

Condition: For three months in 2007 and six months in 2008 the City failed to file or filed incomplete reports. In August 2008 the City was notified of the deficiency, ordered to supply missing reports and an administrative penalty was proposed. Such penalty proposals are subject to appeal and the City finally agreed to a \$40,200 final judgment signed in April 2013. The first payment was made April 8, 2013 for \$20,000 and \$20,200 was accrued as a payable at June 30, 2013.

Cause: Specific cause is unknown. Some breakdown occurred in internal monitoring.

Effect: Ratepayers in the sewer system will be affected the additional cost of the fine.

Recommendation: See recommendation in finding 2013-1

2013-3 NON-COMPLIANCE WITH STATE LAW

Criteria: Montana Code Annotated (MCA) 7-5-4302 –“ A contract for the purchase of any automobile, truck, other vehicle, road machinery, other machinery, apparatus, appliances, equipment, or materials or supplies or for construction, repair or maintenance in excess of \$50,000 (after March 31, 2013 \$80,000) must be let to the lowest bidder after advertisement for bids.” MCA 7-5-4305 “Public work or construction projects for which competitive bidding is required may not be divided into several contracts to circumvent the competitive bidding requirements.”

Condition: During fiscal 2013 the City paid a single cement company more than \$80,000 (more than \$50,000 before March 31, 2013) for materials for a single project repurposing an older structure to a new building.

Cause: Specific cause is unknown. Ultimate cause is a lack of internal monitoring

Effect: Non-compliance with Montana law

Recommendation: There were two points in the administration of this project where bidding could have occurred. The City served as its own general contractor to take a metal structure, which formerly covered water storage, dismantle the structure and rebuild it for a building to be used by water operations for storage and other purposes. The initial phase of this project occurred in fiscal 2012. At some point it became apparent that more work would need to be done to bring the building within building codes and/or structural integrity. This was point one that the City could have formulated a plan and advertised for bids for materials. If the City was unclear on the amount of work required it should have been monitoring the total payments to each sub-contractor or supplier and to see if it was approaching the bidding limit. This was point number two at which the City could have stopped, advertised for bids for the balance of the materials and proceeded in compliance.

As noted above, dividing a project into parts, whether intentionally or incidental to circumstances, does not relieve a governmental entity of the bidding requirements.

Perspective: This appears to be a small project that expanded beyond what was originally envisioned. Unless there is an emergency situation, governance and management can still call a temporary halt to a project, or other action, at a point at which it is necessary to re-plan the project for compliance or other reasons.

THERE WERE NO FINDINGS IN FISCAL 2012