CITY OF POLSON
Lake County, Montana

AUDITED FINANCIAL STATEMENTS AND REPORTS REQUIRED BY GOVERNMENT AUDITNG STANDARDS

June 30, 2015

Cote & Associates, CPA, PLLC
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City of Polson
Lake County, Montana

TABLE OF CONTENTS

TABLE OF CONTENTS, continued

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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, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In my opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2015 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in conformity accordance 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, the budgetary comparison information and net pension liability schedules 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 June 24, 2016, 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

Cote & Associates, CPA, PLLC

June 24, 2016
Missoula, Montana

City of Polson
Lake County, Montana

ORGANIZATION

For the fiscal year ended June 30, 2015

Mayor	Heather Knutson
Commissioner/President	John Campbell
Commissioner	Todd Erickson
Commissioner	Stephen Turner
Commissioner	Jill Southerland
Commissioner	Ian Donovan
Commissioner	Ken Siler
City Manager	Mark Shrives
Attorney	Richard Gebhardt
Chief of Police	Wade Nash
Fire Chief	John Fairchild
City Clerk	Cora Pritt
Finance Officer	Cindy Dooley
City Judge	A. Doug Olson
Building and Planning Official	Sands Surveying (Erica Wirtala)
Building Inspector	David Simons, Jr.
Water/Sewer Superintendent	Anthony Porrazzo
Director of Golf	Links Management, Inc (Roger Wallace)
Golf Maintenance Supervisor	Pat Nowlen
Streets Superintendent	Terry Gembala
Parks Superintendent	Karen Sargeant
Utility Billing	Forrest Niemeyer
Office Manager/Payroll Clerk	Ardrene Sarracino

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2015. 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 and deferred outflows of the City exceeded its liabilities and deferred inflows at June 30, 2015 by $23,285,911 (net position) compared with $23,567,524 at June 30, 2014. Of the current year net position, $3,006,064 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens, vendors and creditors.

- The City's total net position decreased by $281,613 representing a 1.2% increase from 2014.

- As of the close of the current fiscal year, the City's governmental funds reported a combined ending fund balance of $1,663,803, an increase of $284,194 from the prior year. Of the fund balance amount, $584,957 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 $598,913 or 26.37% of total general fund expenditures and other financing uses.

- The City's total debt increased by $1,923,129 (85.48%) due mainly to the implementation of GASB (Governmental Accounting Standards Board) Statements 68 and 71. This is explained more fully in the government-wide financial analysis and in Notes 10 and 11 of the notes to the financial statements.

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* which comprise the government-wide financial statements 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 notes to the financial statements provide the greatest amount of detail regarding individual components of the financial statements. The notes are an integral part of the financial statement presentation.

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 but not paid are reported as revenue in the government-wide statements but are not considered revenue in the governmental funds statements until money is received.

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

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

- Governmental Activities—These activities are principally supported by taxes and intergovernmental revenues. Most of the City's services are reported here including general government, public safety, public works, housing and community development, culture and recreation and conservation of natural resources.

- Business-Type Activities—These activities charge a usage fee to recover all or a significant portion of their costs. The business-type activities of the City include a golf course, water utility, sewer utility and associated stormwater utility.

- Component Units—The City does not have any component units for fiscal year 2015.

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. 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 nine individual governmental funds. Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, Fund 2310 – Tax Increment Financing District, Fund 3542 – SID #42 Streetscape Main Street Improvement debt service Fund and Fund 4530 – Tax Increment Financing District City Dock and Walkpath Project construction fund which are considered major funds. Major funds are determined by a formula that considers the percentage of total governmental assets, liabilities, revenues and expenditures contained in each individual fund. Although funds 2310 and 4530 are not major funds using the formula, management has decided to treat them as major funds for better reporting transparency. Data from the other governmental funds are combined into a single, aggregated presentation.

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

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

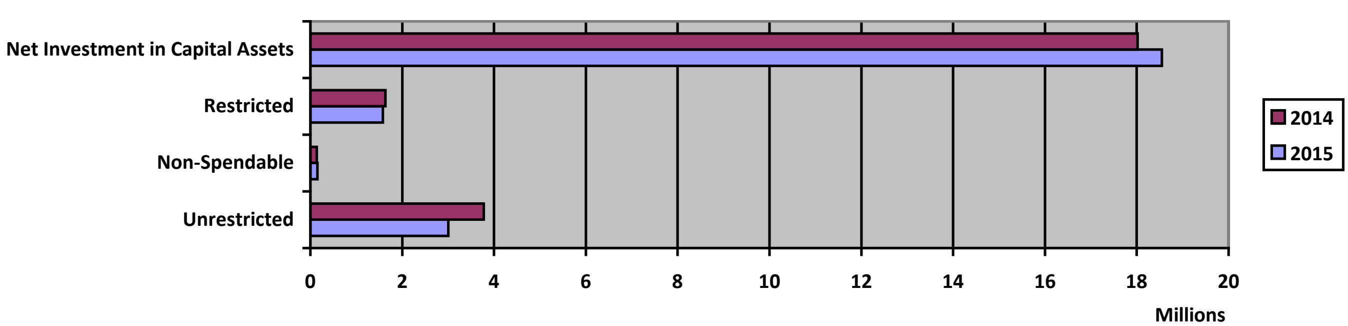
Fiduciary Funds – These funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used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

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements can be found on pages 25-60 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. Schedules providing budgetary comparison have been provided to demonstrate compliance with both the original and final budgets. Required supplementary information can be found beginning on page 61 of this report.

Government-wide Financial Analysis

Net Position – As noted earlier, net position may serve as a useful indicator of a government's financial position over time. In the case of the City, net position was $23,285,911 and represents the amount that assets and deferred outflows exceeded liabilities and deferred inflows at the close of the most recent fiscal year. The following chart provides a graphical representation of the various components of net position and the values for 2014 and 2015.



Governmental Funds

The following table provides a summary comparison of the City's governmental net position for fiscal years 2015 and 2014 and changes in the assets and liabilities.

	Governmental activities 2015	Governmental activities 2014	Change	%
Current and other assets	$ 2,485,696	$ 2,277,223	$ 208,473	9%
Capital assets	4,521,747	4,560,690	(38,943)	-1%
Total assets	$ 7,007,443	$ 6,837,913	$ 169,530	2%
Deferred outflow of resources	$ 114,712	$ -	$ 114,712	100%
Total deferred outflows	$ 114,712	$ -	$ 114,712	100%
Current and other liabilities	$ 483,012	$ 418,929	$ 64,083	15%
Long-term liabilities	1,212,006	1,318,861	(106,855)	-8%
Net pension liability	1,123,006			
Total liabilities	$ 2,818,024	$ 1,737,790	$ (42,772)	-2%
Deferred inflows of resources	$ 261,984	$ -	$ 261,984	100%
total deferred inflows	$ 261,984	$ -	$ 261,984	100%
Net Position:				
Net investment in capital assets	$ 3,270,554	$ 3,170,840	$ 99,714	3%
Restricted	972,472	1,572,659	(600,187)	-38%
Unrestricted	(200,879)	356,622	(557,501)	-156%
Total net position	$ 4,042,147	$ 5,100,121	$ (1,057,974)	-21%

By far the largest portion of the City's governmental net position, $3,258,696 (81 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 $1,536,780 of the City's governmental net position (38 percent) represents resources that are subject to external restrictions on how it may be used. The remaining balance which is *unrestricted net position* is a negative in the amount of $753,329 (-19 percent). The prior year unrestricted balance was a positive $356,622. With the new reporting change, the City has allocated its proportionate share of the Public Employees Retirement System (PERS) and Municipal Police Officers Retirement System (MPORS) net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense. A restatement to record the effects of the new reporting guidance decreased beginning unrestricted net position by $1,317,877. Decisions regarding the allocations are made by the administrators of the pension plan, not by the City's management. More information regarding the net pension liability can be found in Notes 10 and 11 of the notes to the financial statements.

The increase in current assets is due mainly to an improved cash position. The increase in current liabilities is due mainly to an increase in accounts payable for several large invoices that were not paid by the end of the fiscal year. Increases in deferred outflows and deferred inflows of resources are related to the account for GASB 68 and 71. More information regarding the pension related revenue and costs can be found in Notes 10 and 11 of the notes to the financial statements.

Business-type Funds

The following table provides a summary comparison of the City's business-type net position for fiscal years 2015 and 2014 and changes in the assets and liabilities.

	Business-type activities 2015	Business-type activities 2014	Change	%
Current and other assets	$ 4,899,076	$ 3,768,436	$ 1,130,640	30%
Capital assets	16,159,237	15,446,077	713,160	5%
Total assets	$ 21,058,313	$ 19,214,513	$ 1,843,800	10%
Deferred outflow of resources	$ 51,427	$ 12,300	$ 39,127	318%
Total deferred outflows	$ 51,427	$ 12,300	$ 39,127	318%
Current and other liabilities	$ 325,012	$ 277,539	$ 47,473	17%
Long-term liabilities	784,746	481,872	302,874	63%
Net pension liability	600,577	-	600,577	100%
Total liabilities	$ 1,710,335	$ 759,411	$ 350,347	46%
Deferred inflows of resources	$ 155,640	$ -	$ 155,640	100%
total deferred inflows	$ 155,640	$ -	$ 155,640	100%
Net Position:				
Net investment in capital assets	$ 15,286,119	$ 14,846,620	$ 439,499	3%
Restricted	43,693	201,385	(157,692)	-78%
Unrestricted	3,913,953	3,419,398	494,555	14%
Total net position	$ 19,243,765	$ 18,467,403	$ 776,362	4%

By far the largest portion of the City's business-type net position, $15,286,119 (79 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.

Restricted assets in the amount of $198,252 represent 1% of the total net position. The restrictions are due to debt service requirements and inventory which is considered a non-spendable asset.

The remaining balance of *unrestricted net position*, $3,759,393 (19.5 percent) may be used to meet the government's ongoing obligations to its citizens, vendors and creditors.

The beginning net position decreased by $727,044 due to the restatement for GASB 68 and 71 pension liability and costs. Notes 10 and 11 to the financial statements contains more information about the pension reporting. The increase in current and other assets is due mainly to an improved cash position. Capital assets and long-term debt increased due to the water department downtown looping project which was partly financed with revenue bonds. See Note 7 for information on capital assets and Note 8 for information on the City's debt.

Changes in Net Position – See next page

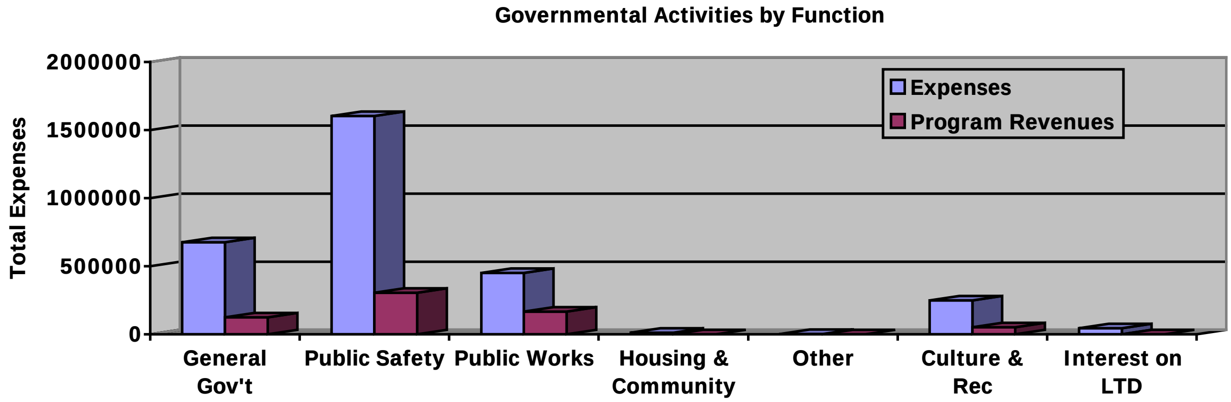
Governmental Funds

Governmental activities increased the City's net position by $259,903 in fiscal year 2015. The following table provides a summary comparison of the City's governmental change in net position for fiscal years 2015 and 2014.

	Governmental activities		Change	%
	2015	**2014**		
Revenues				
Program revenues				
Charges for services	$ 479,527	$ 413,935	$ 65,592	16%
Operating grants & contributions	99,999	119,948	(19,949)	-17%
Capital grants & contributions	68,426	80,598	(12,172)	-15%
General revenues				
Property taxes	1,689,687	1,591,609	98,078	6%
Local option taxes	106,048	100,714	5,334	5%
Franchise fees	38,923	37,008	1,915	5%
Impact fees	44,372	14,121	30,251	214%
Intergovernmental revenue	755,435	662,939	92,496	14%
Investment earnings	4,484	4,668	(184)	-4%
Gain (loss) on asset disposal	1,892	3,736	(1,844)	49%
Other revenues	6,528	25,210	(18,682)	-74%
Total revenues	$ 3,295,321	$ 3,054,486	$ 240,835	8%
Program expenses				
General government	$ 677,081	$ 741,988	$ (64,907)	-9%
Public safety	1,602,503	1,596,549	5,954	0%
Public works	451,159	449,720	1,439	0%
Culture & recreation	247,715	231,311	16,404	7%
Housing/community development	11,284	11,463	(179)	-2%
Conservation of natural resources	1,579	628	951	151%
Interest on long-term debt	44,097	45,568	(1,471)	-3%
Total expenses	$ 3,035,418	$ 3,077,227	$ (41,809)	-1%
Changes in net position before restatements and transfers	$ 259,903	$ (22,741)	$ 282,644	1243%
Restatements	(1,317,877)	-	(1,317,877)	100%
Change in net position	$ (1,057,974)	$ (22,741)	$ (1,035,233)	4552%
Total net position reported July 1, 2014	$ 5,100,121	$ 5,122,862	$ (22,741)	0%
Total net position June 30, 2015	$ 4,042,147	$ 5,100,121	$ (1,057,974)	-21%

The increase in net positon accounted for 15% of the total growth in the net positon of the City. This increase was due in part to an increase in tax revenue of $98,078. The increase was a combination of the growth in taxable value, a better than expected final taxable value calculated by the Department of Revenue and the settlement of protested taxes for prior years. HB124 entitlement share revenue also increased by approximately $25,000. This is the amount distributed to cities from the State of Montana to replace revenues lost in 2001/2002 by the passage of HB124. Due to continued growth the City, impact fee revenue increased 214% over the 2014 revenue. Intergovernmental revenues also include the amount contributed by the State of Montana for pensions. This revenue totaled $72,008 for the City but the money is not directly received by the City and is labeled as an on-behalf payment paid directly to the pension trust fund. City management has been focused on increasing the cash reserves for the last several years to bring them to an acceptable level. General government expenditures decreased 9% toward this effort. In addition, health insurance costs were re-evaluated and changes made that saved approximately $45,000 in costs for the governmental funds.

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:



Business-type Funds

Business-type activities increased the City's net position by $1,503,405 in fiscal year 2015. The following table provides a summary comparison of the City's business-type change in net position for fiscal years 2015 and 2014.

	Business-type activities		Change	%
	2015	2014		
Revenues				
Program revenues				
Charges for services	$ 3,127,742	$ 2,651,681	$ 476,061	18%
Capital grants & contributions	612,300	15,000	597,300	100%
General revenues				
Impact fees	70,864	25,215	45,649	181%
Intergovernmental revenue	16,982	-	16,982	100%
Investment earnings	15,689	14,148	1,541	11%
Gain (loss) on asset disposal	(16,007)	2,500	(18,507)	-740%
Other revenues	18,085	8,027	10,058	125%
Total revenues	$ 3,845,655	$ 2,716,571	$ 1,129,084	42%
Program expenses				
Golf	$ 963,273	$ 1,011,173	$ (47,900)	-5%
Water	808,237	795,291	12,946	2%
Sewer	562,068	546,200	15,868	3%
Stormwater	8,672	16,531		
Total expenses	$ 2,342,250	$ 2,369,195	$ (19,086)	-1%
Changes in net position before restatements and transfers	$ 1,503,405	$ 347,376	$ 1,156,029	333%
Restatements	(727,044)	-	(727,044)	-100%
Change in net position	$ 776,361	$ 347,376	$ 428,985	123%
Total net position reported July 1, 2014	$ 18,467,403	$ 18,120,027	$ 347,376	2%
Total net position June 30, 2015	$ 19,243,764	$ 18,467,403	$ 776,361	4%

Charges for services increased for the water and sewer funds following implementation of a water and sewer rate increase in December, 2014. The average customer's water bill increased $3.16 and the sewer bill increased $22.01. The increase in rates for the water department will cover debt service payments on debt related to the downtown looping project which installed new mains in the original downtown area of the City. The increase in the sewer rates will fund approximately $1.2 million in engineering, equipment procurement and bond reserve costs associated with the construction of the new wastewater treatment plant project. Current estimates for the cost of the project, which will be constructed over the next three fiscal years, are $16.8 million with approximately $13.9 million coming from new debt financing. Further increases in the sewer rates will take place in 2016 in anticipation of debt coverage that will need to be met and additional equipment procurement costs. The City also received $612,300 in State of Montana grant revenue to assist with the downtown looping project for the water department.

As mentioned previously the restatement of $727,044 for the prior year pension liability and costs did decrease the change in net position to a net amount of $428,985. See Notes 10 and 11 for more information on the pension liability and associated costs.

Overall program expenses were about even with the prior year. The golf course was able to reduce operating expenses by almost $48,000 by trimming expenses in the maintenance and pro-shop departments. Water and sewer expenses increased 2% and 3% respectively.

Fund Level Financial Analysis—*Governmental Funds*

For the fiscal year ended June 30, 2015, the City's governmental funds reported combined fund balance totaling $1,663,803 compared with $1,379,609 in 2014. Of this amount, $584,957 constitutes unassigned fund balance, which is available to spend for current needs. The remaining of the fund balance is either restricted, committed or assigned to indicate that it is 1) nonspendable ($-0-), 2) legally required to be maintained intact or restricted for particular purposes ($972,471), 3) committed for a particular purpose ($9,602), or 4) assigned for particular purposes ($96,773). The governmental funds had a combined increase in fund balance totaling $284,194.

The general fund is the chief operating fund of the City. For fiscal year 2015, total fund balance increased $191,323 to $598,913 all of which was unassigned. As a measure of the general fund's total liquidity, it may be useful to compare total unassigned fund balance to total general fund expenditures. Total unassigned general fund, fund balance represents 26.37% of total expenditures compared to 17.41% in 2014. The increase in this percentage is a proactive approach by management to cut expenses where possible while conserving increased revenues for capital projects.

Fund 2310 – Tax Increment Financing District (TIFD) is a special revenue fund which receives tax increment revenue from the TFID district. Tax increments are taxes generated from the difference between the base year value of property in the district (which was tax year 2002) compared to the current year value of the property. The increase in growth is applied against the mill value and the amount is set aside in a special fund for capital improvement projects in the district. Most personal property in the TIFD has declined below the base year value due to changes in State Law regarding personal property. This creates a negative increment that goes back to the district's other taxing jurisdictions including the County, State of Montana, the school districts and special districts. The TIFD has restricted fund balance amounts of $307,196 to be used for future capital improvement projects and administration costs of the district and $66,606 in debt service restrictions for use in re-payment of the $800,000 tax increment urban renewal bonds issued in FY2014.

Fund 3542 – SID #42 Streetscape Debt Service Fund is used to collect special assessments from the special improvement district to make payments on the bonds that were used in construction of the Main Street Streetscape project. Total fund balance at June 30, 2015 was $52,986 compared with $48,497 in 2014. All of the fund balance is considered restricted for debt service. The fund balance represents 74.65% of expenditures for 2015 compared to 73.29% in 2014.

Fund 4530 – TIFD City dock and walkpath project is a capital improvement fund created to receive proceeds of the TIF urban renewal bonds in the amount of $800,000 and a contribution from the TIFD fund of $51,500 and to spend those funds on the construction of a new City dock at Salish Point and to create a walkpath under the bridge which connects Sacajawea Park and Riverside Park as part of the trails plan for the City. Total fund balance at June 30, 2015 is $8,515 as the project is about 98% complete. This fund balance is restricted for the remaining construction that will take place in FY16. Any remaining fund balance after construction is complete will be transferred to fund 2310 to assist in debt service payments.

City of Polson General Fund Budget Highlights

The City's budget is prepared on the basis of cash receipts, disbursements and certain receivables. During the year, the City Commission can amend the budget in accordance with state law. The original approved general fund expenditure budget including transfers out was $2,454,747 and there were no amendments to the general fund budget. Actual expenditures were $2,270,877 including transfers out. Significant budget variances in the General fund include:

- A negative variance of $12,510 in the facilities budget due mainly to spending cuts in supplies, purchased services, engineer services and capital outlay.
- A positive variance of $31,744 in the planning department budget due mainly to the delayed hiring of a planning official.

Fund Level Financial Analysis—*Proprietary Funds*

The City's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the golf fund at the end of the fiscal year amounted to $30,243. The water fund and sewer fund unrestricted net position was $1,656,445 and $1,959,944 respectively. A total of $727,044 in restatements due to the implementation of GASB Statements 69 & 71 reduced unrestricted fund balance. See Notes 10 and 11 for more information on the pension liability and costs.

Capital Assets and Debt Administration

Capital Assets

The City's capital assets consist of land, construction in progress, buildings, improvements, infrastructure, equipment and machinery. Infrastructure assets placed in service in 2005 and after are reported in capital assets. The City's investment in capital assets (net of accumulated depreciation and outstanding debt) was $18,544,815 at June 30, 2015. Capital asset activity is presented in Note 7 of the financial statements.

Significant activity in capital assets for fiscal year 2015 includes:

- Construction has been completed on the walkpath under the bridge which connects Sacajawea Park and Riverside Park. However, the City had a change order to add lighting along the walkpath and city dock that is nearing completion. A total of $870,654 has been spent thus far. This project is being constructed with $800,000 of Tax Increment Financing (TIF) urban renewal bonds purchased by five local banks and contributions from the Polson Redevelopment Agency tax increment financing district.
- Upgrades were made to the City Shop by the police, streets and parks departments for a total cost of $87,066. This was funded by general fund revenues.
- A Polaris Brutus ATV with a power broom and snowblower attachment was purchased by the parks department to maintain the trail system. The cost of $30,340 was shared by general fund, park impact fee fund, and the parkland subdivision fee fund.
- Engineering costs in the amount of $5,441 were paid in connection with the construction in FY16 of the golf car storage building. This project is being funded internally by a loan from the sewer department. The golf department also purchased $80,777 in mowers and traded in two mowers on the purchase.

- The City's all-beverage liquor license that was being used in the golf restaurant was sold for $55,000. This was same price that the license was purchased for in 2002.
- The water department has substantially completed the downtown looping project. Final engineering costs will be paid in FY16. Project costs for FY15 were $951,495. This was funded by an RRGL grant in the amount of $100,000, a TSEP grant in the amount of $512,300, SRF revenue bonds in the amount of $412,450 and remaining amounts from water fund revenues. The remaining portion of this project is the construction of a well on the east side of the City. That construction will take place in FY16 and will be partially funded by the remaining TSEP grant in the amount of $112,700 and water fund revenues.
- The sewer department incurred administrative and engineering costs in the amount of $148,711 for planning and design services for the wastewater mechanical treatment plant. This is a task order contract for the various stages of planning, design and construction which will occur over the next three fiscal years. The total project costs as of June 30, 2015 are $324,152 and have been paid by a $15,000 TSEP/RRGL planning grant received in FY15 and sewer fund revenues.

See Note 7 for further capital asset information and details of the City's capital activity for 2015.

The table below provides a summary of the value of the City's capital assets net of depreciation with a comparison between 2015 and 2014.

	Governmental Activities		Business Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	$ 86,915	$ 86,915	$ 2,238,751	$ 2,238,751	$ 2,325,666	$ 2,325,666
Construction in Progress	582,585	498,754	1,473,173	657,465	2,055,758	1,156,219
Buildings	258,311	186,339	310,726	324,021	569,037	510,360
Improvements Other Than Buildings	467,013	505,183	118,452	180,257	585,465	685,440
Machinery & Equipment	1,362,944	1,450,371	282,764	300,880	1,645,708	1,751,251
Infrastructure	1,763,979	1,833,128	-	-	1,763,979	1,833,128
Utility Plant	-	-	11,735,371	11,744,703	11,735,371	11,744,703
Total	$ 4,521,747	$ 4,560,690	$ 16,159,237	$ 15,446,077	$ 20,680,984	$ 20,006,767

Debt Administration

The City's long-term debt totaled $4,173,045 at June 30, 2015. Total debt increased $1,923,129, which is comprised of the issuance of $419,950 of SRF revenue bonds, the recording of the City's share of the PERS and MPORS retirement system pension liability in the amount of $1,723,583 and debt service principal payments of ($229,324) and an increase in the compensated absences liability of $8,920. Additional information regarding long-term debt can be found in Note 8 to the financial statements.

The following table shows outstanding debt by type with a comparison between 2015 and 2104:

	Governmental Activities		Business Activities		Total	
	2015	2014	2015	2014	2015	2014
Special assessment bonds	$ 536,335	$ 585,481	$ -	$ -	$ 536,335	$ 585,481
Tax increment urban renewal bonds	714,858	772,038	-	-	714,858	772,038
Revenue bonds	-	-	871,123	566,109	871,123	566,109
Other notes and contracts payable	-	8,062	-	-	-	8,062
Compensated absence liability	228,522	218,309	98,624	99,917	327,146	318,226
Net pension liability	1,123,006	-	600,577	-	1,723,583	-
Total	$ 2,602,721	$ 1,583,890	$ 1,570,324	$ 666,026	$ 4,173,045	$ 2,249,916

Economic Factors and Fiscal Year 2016 Budget

The City is a Third Class city with a current estimated population of 4,604. The City is the county seat for Lake County. In the 1980s and 1990s, the Polson area transitioned from an economy based on agriculture and wood products to an economy based on retail and service, government, healthcare, and manufacturing. In the last decade the City saw growth in tourism and residential real estate development fueled by the construction of retirement or second homes. Following the great recession, the City is starting to see major improvement in the retail construction industry with the hope that residential construction will also increase. As of 2013 statistics, trade center/service type activities constituted 64% of the industries in the City and surrounding areas with the health care services industry comprising 16% of that total. The manufacturing and construction industries comprise 17% of the City's labor force. 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. Recent information from the Glacier County Tourism Bureau indicates that Polson is one of the primary travel corridors between Glacier National Park and Yellowstone National Park and the Junction of US 93 ant MT 35 (which is inside the city limits) sees an average of 9,000 vehicles per day. Bed tax collections are up and the City is poised for significant economic growth from tourism.

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 2010 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 2016 budget items worth noting:

- The budget provides a 30 cent COLA (cost of living adjustment) for all permanent, full-time city employees except police officers and those receiving merit increases.
- The police department instituted a salary matrix for the non-administrative police staff. The starting pay for the matrix is $19/hr. It has three lanes and 20 steps. Each step (for years of service longevity) increase 1% and each lane (patrol, corporal, sergeant) increase 5%. This will make it easier to set a fair wage for beginning officers as well as those hired with experience.
- The budget provides for an increase in the Permissive Medical Mill levy of 1 mill to a total of 10.5 mills which will raise $100,743 for health-care cost assistance for the governmental funds. Total healthcare premium cost is estimated at $279,815 for the year.
- A new indirect cost study was done to determine general fund costs to be shared with the City's other funds that use general fund services and property. The increase in indirect costs is being phased in over several budget years.
- The citizens voted to study the form of the City's government in June, 2014 and the remainder of the budget is being re-appropriated for FY2015.
- The City has budgeted for a CDBG (Community Development Block Grant) grant in the amount of $7,150 to help complete the Growth Policy.
- The budget includes expenditure of $181,000 for a new cart storage shed at the golf course and the purchase of a fleet of 60 golf cars. Originally this was to be funded by external loan financing but will now be financed with internal financing from the sewer fund.
- 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, CPA, Finance Officer, 106 1st Street E, Polson, Montana 59860.

Cindy Dooley CPA

Cindy Dooley CPA
Finance Officer
City of Polson

BASIC FINANCIAL STATEMENTS

City of Polson
Lake County, Montana

Government-Wide Statement of Net Position
As of June 30, 2015

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	$ 1,465,873	$ 3,506,422	$ 4,972,295
Petty cash	300	950	1,250
Taxes/assessments receivable-current	62,163	-	62,163
Accounts receivable, net	25,267	256,562	281,829
Interest receivable	182	764	946
Due from other governments	199,090	574,066	773,156
Inventories	-	154,559	154,559
Assessments receivable-noncurrent	544,426	-	544,426
Restricted assets:			
Cash, cash equivalents and investments	188,395	405,753	594,148
Capital assets not being depreciated:			
Land	86,915	2,238,751	2,325,666
Construction in progress	582,585	1,473,173	2,055,758
Capital assets being depreciated (net of accumulated depreciation)	3,852,247	12,447,313	16,299,560
Total assets	$ 7,007,443	$ 21,058,313	$ 28,065,756
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources	$ 114,712	$ 51,427	$ 166,139
Total deferred outflows of resources	$ 114,712	$ 51,427	$ 166,139
LIABILITIES			
Accounts payable	$ 76,459	$ 91,823	$ 168,282
Accrued interest payable	8,758	1,995	10,753
Accrued payroll payable	73,353	45,795	119,148
Deposits/retainage payable	7,086	398	7,484
Due to other governments	49,647	-	49,647
Current portions of long term debt	267,709	185,001	452,710
Noncurrent liabilities:			
Long term portions of long term debt	1,212,006	784,746	1,996,752
Net pension liability	1,123,006	600,577	1,723,583
Total liabilities	$ 2,818,024	$ 1,710,335	$ 4,528,359
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources	$ 261,984	$ 155,640	$ 417,624
Total deferred inflows of resources	$ 261,984	$ 155,640	$ 417,624
NET POSITION			
Net investment in capital assets	$ 3,270,554	$ 15,288,114	$ 18,558,668
Restricted for:			
Debt service	178,140	26,691	204,831
Bond indenture requirement	-	17,002	17,002
General government	474,308	-	474,308
Public safety	-	-	-
Public works	4,313	-	4,313
Housing and community development	315,711	-	315,711
Unrestricted	(200,879)	3,911,958	3,711,079
Total net position	$ 4,042,147	$ 19,243,765	$ 23,285,912

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, 2015

		Program Revenues			Net (Expense) Revenue and Changes in Net Position		
					Primary Government		
	Expenses	Charges for Services, Fines, Forfeitures, etc.	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	$ 677,081	$ 123,668	$ -	$ -	$ (553,413)	$ -	$ (553,413)
Public safety	1,602,503	214,322	85,479	6,056	(1,296,646)	-	(1,296,646)
Public works	451,159	135,840	5,815	25,881	(283,623)	-	(283,623)
Culture & recreation	247,715	5,697	8,705	36,489	(196,824)	-	(196,824)
Housing & community development	11,284	-	-	-	(11,284)	-	(11,284)
Conservation on natural resources	1,579	-	-	-	(1,579)	-	(1,579)
Interest on long-term debt	44,097	-	-	-	(44,097)	-	(44,097)
Total governmental activities	$ 3,035,418	$ 479,527	$ 99,999	$ 68,426	$ (2,387,466)	$ -	$ (2,387,466)
Business-type activities:							
Golf	$ 963,273	$ 1,110,912	$ -	$ -	$ -	$ 147,639	$ 147,639
Water	808,237	999,300	-	612,300	-	803,363	803,363
Sewer	562,068	901,340	-	-	-	339,272	339,272
Stormwater	8,672	116,190	-	-	-	107,518	107,518
Total business-type activities	$ 2,342,250	$ 3,127,742	$ -	$ 612,300	$ -	$ 1,397,792	$ 1,397,792
	$ 5,377,668	$ 3,607,269	$ 99,999	$ 680,726	$ (2,387,466)	$ 1,397,792	$ (989,674)
General revenues							
Property taxes					$ 1,689,687	$ -	$ 1,689,687
Motor vehicle local option tax					106,048	-	106,048
Franchise taxes					38,923	-	38,923
Impact fees					44,372	70,864	115,236
Unrestricted federal/state shared revenues					755,435	16,982	772,417
Unrestricted investment earnings					4,484	15,689	20,173
Miscellaneous					6,528	18,085	24,613
Gain/(loss) on sale of capital assets					1,892	(16,007)	(14,115)
Total general revenues and transfers					$ 2,647,369	$ 105,613	$ 2,752,982
Change in net position					259,903	1,503,405	1,763,308
Total net position reported July 1, 2014					$ 5,100,121	$ 18,467,403	$ 23,567,524
Prior period adjustments					(1,317,877)	(727,043)	(2,044,920)
Total net position reported July 1, 2014-restated					3,782,244	17,740,360	21,522,604
Total net position-June 30, 2015					$ 4,042,147	$ 19,243,765	$ 23,285,912

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, 2015

	Major Funds				Other	Total
	General Fund	Tax Increment Financing District	SID #42 Streetscape	TIFD City Dock & Walkpath Project	Governmental Funds	Governmental Funds
ASSETS						
Cash and cash equivalents	$ 536,966	$ 343,533	$ -	$ 11,608	$ 573,766	$ 1,465,873
Petty cash	300	-	-	-	-	300
Restricted: cash and cash equivalents	-	66,606	50,191	-	71,598	188,395
Taxes/assessments receivable	33,816	12,659	551,095	-	9,019	606,589
Accounts/other receivables	6,269	44	12	8	19,116	25,449
Due from other funds	12,923	-	-		-	12,923
Due from other governments	144,477	21,770	3,578	-	29,265	199,090
Total assets	$ 734,751	$ 444,612	$ 604,876	$ 11,616	$ 702,764	$ 2,498,619
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	$ 35,918	$ 541	$ -	$ -	$ 4,000	$ 40,459
Other accrued payables	65,504	7,963	795	-	7,849	82,111
Due to other funds	-	-	-	-	12,923	12,923
Due to other governments	-	49,647	-	-	-	49,647
Deposits payable	600	-	-	3,101	3,385	7,086
Total liabilities	$ 102,022	$ 58,151	$ 795	$ 3,101	$ 28,157	$ 192,226
Deferred inflows of tax revenue	$ 33,816	$ 12,659	$ 551,095	$ -	$ 9,020	$ 606,590
Fund balances:						
Nonspendable:	$ -	$ -	$ -	$ -	$ -	$ -
Restricted:						
Government	-	307,196	-	8,515	478,621	794,332
Debt service	-	66,606	52,986	-	58,548	178,140
Committed:	-	-	-	-	9,601	9,601
Assigned:	-	-	-	-	96,773	96,773
Unassigned:						
General fund	598,913	-	-	-	-	598,913
Fund deficits	-	-	-	-	(13,956)	(13,956)
Total fund balance	$ 598,913	$ 373,802	$ 52,986	$ 8,515	$ 629,587	$ 1,663,803
Total liabilities and fund balances	$ 734,751	$ 444,612	$ 604,876	$ 11,616	$ 666,764	$ 2,462,619

Reconciliation: Governmental Funds Balance Sheet to the Statement of Net Position, As of June 30, 2015

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

Fund Balance	$ 1,663,803
Capital assets used in governmental activities are not financial resources and, therefore, are not reported on the governmental funds balance sheet.	4,521,747
Taxes and assessment receivables are not recorded as revenue until they are received and, therefore, are deferred in the governmental funds.	606,589
The liability for compensated absences is not due and payable in the current periods and, therefore, is not reported in the governmental funds balance sheet.	(228,522)
Long-term liabilities are not due and payable in the current period and, therefore, are not not reported as liabilities in the governmental funds balance sheet.	(1,251,192)
The net pension liability is not due and payable in the current period and, therefore, is not reported in the governmental funds balance sheet.	(1,123,006)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds:	
Deferred outflow of 2015 employer contributions related to pensions	114,712
Deferred inflows of resources related to pensions	(261,984)
Net position of governmental activities	$ 4,042,147

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, 2015

	Major Fund				Other	Total
	General Fund	Tax Increment Financing District	SID #42 Streetscape	TIFD City Dock & Walkpath Project	Governmental Funds	Governmental Funds
REVENUES						
Taxes and assessments	$ 1,369,142	$ 196,015	$ 75,232	$ -	$ 341,744	$ 1,982,133
Licenses and permits	30,106	-	-	-	105,358	135,464
Intergovernmental revenues	735,717	13,081	-	-	180,970	929,768
Charges for services	145,543	-	-	-	46,160	191,703
Fines and forfeiture	41,714	-	-	-	32,821	74,535
Miscellaneous	47,292	-	-	-	65,175	112,467
Investment and royalty earnings	649	995	234	166	2,439	4,483
Total revenues	$ 2,370,163	$ 210,091	$ 75,466	$ 166	$ 774,667	$ 3,430,553
EXPENDITURES						
General government	$ 641,115	$ -	$ -	$ -	$ 3,907	$ 645,022
Public safety	1,147,257	-	-	-	369,993	1,517,250
Public works	218,820	-	-	-	109,836	328,656
Culture and recreation	178,048	-	-	-	15,017	193,065
Housing and community development	-	561	-	-	-	561
Conservation of natural resources	-	-	-	-	1,579	1,579
Debt service:						
Principal	-	57,181	49,145	-	8,062	114,388
Interest	-	22,255	21,832	-	10	44,097
Capital outlay	37,267	380	-	63,967	202,018	303,632
Total expenditures	$ 2,222,507	$ 80,377	$ 70,977	$ 63,967	$ 710,422	$ 3,148,250
Excess of revenues over (under) expenditures	$ 147,656	$ 129,714	$ 4,489	$ (63,801)	$ 64,245	$ 282,303
OTHER FINANCING SOURCES (USES):						
Proceeds from sale of capital assets	$ 1,892	$ -	$ -	$ -	$ -	$ 1,892
Transfers in (out)	42,776	-	-	-	(42,776)	-
Total other financing sources (uses)	$ 44,668	$ -	$ -	$ -	$ (42,776)	$ 1,892
Net change in fund balances	$ 192,324	$ 129,714	$ 4,489	$ (63,801)	$ 21,469	$ 284,195
Fund balances-July 1, 2014	$ 407,589	$ 244,088	$ 48,497	$ 72,316	$ 607,118	$ 1,379,608
Prior period adjustment	(1,000)	-	-	-	1,000	-
Fund balances-July 1, 2014	$ 406,589	$ 244,088	$ 48,497	$ 72,316	$ 608,118	$ 1,379,608
Fund balances-June 30, 2015	$ 598,913	$ 373,802	$ 52,986	$ 8,515	$ 629,587	$ 1,663,803

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, 2015

Net change in fund balance - total governmental funds (page 19)	$ 284,195
Amounts reported for governmental activities in the statement of activities (page 17) 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	206,765
Construction of capitalized infrastructure	96,867
Depreciation expense	(342,575)
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	(1,892)
Gain on the disposal of capital assets	1,892
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	(87,583)
Maintenance and special improvement district assessments	(49,540)
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.	(10,213)
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	114,388
Governmental funds report city pension contributions as expenditures. However in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension benefits earned net of employee contributions is reported as pension expense.	
City defined benefit pension contributions	114,712
Cost of benefits earned net of employee contributions (pension expense)	(67,113)
Change in net position in governmental activities (page 17)	$ 259,903

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, 2015

	Business-type Activities				
	Major Enterprise Funds				
	Golf Fund	Water Fund	Sewer Fund	Non-major Fund	Totals
ASSETS					
Current assets					
Cash and cash equivalents	$ 281,349	$ 923,596	$ 2,045,491	$ 255,986	$ 3,506,422
Petty cash	750	200	-	-	950
Accounts receivable	3,600	117,030	124,280	11,652	256,562
Interest receivable	35	310	383	36	764
Due from other governments	-	574,023	1	42	574,066
Inventories	47,184	107,375	-	-	154,559
Total current assets	$ 332,918	$ 1,722,534	$ 2,170,155	$ 267,716	$ 4,493,323
Noncurrent assets					
Restricted assets:					
Cash, cash equivalents and investments	$ 17,465	$ 305,186	$ 83,102	$ -	$ 405,753
Capital assets:					
Land	2,042,231	177,064	19,456	-	2,238,751
Construction in progress	25,141	1,122,241	324,152	1,639	1,473,173
Buildings	550,275	-	-	-	550,275
Improvements other than buildings	382,697	-	-	-	382,697
Machinery and equipment	1,166,850	-	-	-	1,166,850
Utility plant	-	13,860,958	7,345,225	359,051	21,565,234
Less: accumulated depreciation	(1,387,881)	(4,889,978)	(4,903,979)	(35,905)	(11,217,743)
Total noncurrent assets	$ 2,796,778	$ 10,575,471	$ 2,867,956	$ 324,785	$ 16,564,990
Total assets	$ 3,129,696	$ 12,298,005	$ 5,038,111	$ 592,501	$ 21,058,313
DEFERRED OUTFLOWS OF RESOURCES					
Deferred outflows of resources	$ 25,085	$ 14,655	$ 11,687	$ -	$ 51,427
Total deferred outflows of resources	$ 25,085	$ 14,655	$ 11,687	$ -	$ 51,427
LIABILITIES					
Current liabilities					
Accounts payable	$ 15,746	$ 34,169	$ 41,512	$ 396	$ 91,823
Accrued interest payable	1,069	926	-	-	1,995
Accrued payroll payable	27,786	10,022	7,987	-	45,795
Current portion of compensated absences	23,363	20,722	20,400	-	64,485
Current portion of bonds payable	101,016	19,500	-	-	120,516
Deposits payable	-	398	-	-	398
Total current liabilities	$ 168,980	$ 85,737	$ 69,899	$ 396	$ 325,012
Noncurrent liabilities					
Compensated absences	$ 13,765	$ 11,143	$ 9,231	$ -	$ 34,139
Bonds payable	103,157	647,450	-	-	750,607
Net pension liability	196,244	224,950	179,383	-	600,577
Total noncurrent liabilities	$ 313,166	$ 883,543	$ 188,614	$ -	$ 1,385,323
Total liabilities	$ 482,146	$ 969,280	$ 258,513	$ 396	$ 1,710,335
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows of resources	$ 50,857	$ 58,296	$ 46,487	$ -	$ 155,640
Total deferred inflows of resources	$ 50,857	$ 58,296	$ 46,487	$ -	$ 155,640
NET POSITION					
Net investment in capital assets	$ 2,575,140	$ 9,603,335	$ 2,784,853	$ 324,785	$ 15,288,113
Restricted for: debt service	17,465	26,228	-	-	43,693
Unrestricted	29,173	1,655,521	1,959,945	267,320	3,911,959
Total net position	$ 2,621,778	$ 11,285,084	$ 4,744,798	$ 592,105	$ 19,243,765

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

City of Polson
Lake County, Montana

Statement of Revenues, Expenses, and Changes in Fund Net Position-Proprietary Funds
For the Fiscal Year Ended June 30, 2015

	Business-type Activities				
	Major Enterprise Funds				
	Golf Fund	Water Fund	Sewer Fund	Non-major Fund	Totals
OPERATING REVENUES					
Charges for services	$ 1,110,912	$ 999,300	$ 901,340	$ 116,190	$ 3,127,742
Total operating revenues	$ 1,110,912	$ 999,300	$ 901,340	$ 116,190	$ 3,127,742
OPERATING EXPENSES					
Personal services	$ 415,762	$ 256,679	$ 214,200	$ -	$ 886,641
Supplies	207,392	55,519	57,893	226	321,030
Purchased services	240,998	153,582	154,255	1,266	550,101
Building materials	3,669	-	-	-	3,669
Fixed charges	4,598	115	115	-	4,828
Depreciation	85,522	305,773	135,605	7,181	534,081
Total operating expenses	$ 957,941	$ 771,668	$ 562,068	$ 8,673	$ 2,300,350
OPERATING INCOME/(LOSS)	$ 152,971	$ 227,632	$ 339,272	$ 107,517	$ 827,392
NONOPERATING REVENUES/(EXPENSES)					
Intergovernmental revenue	$ 5,548	$ 6,361	$ 5,073	$ -	$ 16,982
Impact fees	-	51,867	18,997	-	70,864
Contributions and donations	-	(34,686)	-	-	(34,686)
Building/land rental	3,600	-	14,058	-	17,658
Investment earnings	926	6,026	8,086	651	15,689
Gain/(loss) on sale of capital assets	(16,007)	-	-	-	(16,007)
Debt service interest expense	(5,332)	(1,882)	-	-	(7,214)
Other nonoperating revenue (expense)	427	-	-	-	427
Total nonoperating revenues/(expenses)	$ (10,838)	$ 27,686	$ 46,214	$ 651	$ 63,713
INCOME/(LOSS) BEFORE TRANSFERS AND CAPITAL CONTRIBUTIONS	$ 142,133	$ 255,318	$ 385,486	$ 108,168	$ 891,105
Capital contribution	-	612,300	-	-	612,300
Changes in net position	$ 142,133	$ 867,618	$ 385,486	$ 108,168	$ 1,503,405
Total net position-July 1, 2014	$ 2,717,212	$ 10,689,785	$ 4,576,469	$ 483,937	$ 18,467,403
Prior period adjustment	(237,567)	(272,319)	(217,157)		(727,043)
Total net position-July 1, 2014	$ 2,479,645	$ 10,417,466	$ 4,359,312	$ 483,937	$ 17,740,360
Total net position-June 30, 2015	$ 2,621,778	$ 11,285,084	$ 4,744,798	$ 592,105	$ 19,243,765

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, 2015

	Business-type Activities				
	Major Enterprise Funds				
	Golf Fund	Water Fund	Sewer Fund	Non-major Funds	Totals
Cash flows from operating activities:					
Cash received from customers	$ 1,110,913	$ 957,339	$ 846,270	$ 117,284	$ 3,031,806
Cash paid to suppliers	(436,266)	(138,702)	(128,653)	(1,095)	(704,716)
Cash paid for employees and related benefits	(417,818)	(249,676)	(208,428)	-	(875,922)
Cash paid for interfund services used	(30,000)	(43,900)	(42,500)	-	(116,400)
Net cash provided/(used) by operating activities	$ 226,829	$ 525,061	$ 466,689	$ 116,189	$ 1,334,768
Cash flows from noncapital and related activities					
Contract incentives	$ 427	$ -	$ -	$ -	$ 427
Net cash provided/(used) by noncapital and related activities	$ 427	$ -	$ -	$ -	$ 427
Cash flows from capital and related financing activities:					
Acquisition and construction of capital assets & purchase of equipment	$ (77,143)	$ (1,056,207)	$ (203,593)	$ (770)	$ (1,337,713)
Sale of capital assets	55,000	-	-	-	55,000
Cost associated with sale of liquor license	(535)	-	-	-	(535)
Impact fees	-	51,867	18,997	-	70,864
Grant proceeds	-	438,489	15,000		453,489
Debt proceeds	-	19,739	-		19,739
Principal payments on debt	(98,936)	(16,000)	-	-	(114,936)
Interest payments on debt	(5,850)	(1,943)	-	-	(7,793)
Impact fee/latecomers payback agreement	-	(34,686)	-	-	(34,686)
Rental income	3,600	-	14,058	-	17,658
Net cash provided/(used) by capital financing activities	$ (123,864)	$ (598,741)	$ (155,538)	$ (770)	$ (878,913)
Cash flows from investing activities:					
Interest on investments	$ 891	$ 5,717	$ 7,703	$ 614	$ 14,925
Net cash provided/(used) by investing activities	$ 891	$ 5,717	$ 7,703	$ 614	$ 14,925
Net increase/(decrease) in cash, cash equivalents and investments	$ 104,283	$ (67,963)	$ 318,854	$ 116,033	$ 471,207
Cash, cash equivalents and investments reported July 1, 2014	$ 195,281	$ 1,296,945	$ 1,809,739	$ 139,953	$ 3,441,918
Cash, cash equivalents and investments June 30, 2015	$ 299,564	$ 1,228,982	$ 2,128,593	$ 255,986	$ 3,913,125
RECONCILATION TO CASH IN STATEMENT OF NET ASSETS:					
Cash and cash equivalents	$ 281,349	$ 923,596	$ 2,045,491	$ 255,986	$ 3,506,422
Petty cash	750	200	-	-	950
Restricted assets:					
Cash and cash equivalents	17,465	305,186	83,102	-	405,753
Total cash and cash equivalents and investments	$ 299,564	$ 1,228,982	$ 2,128,593	$ 255,986	$ 3,913,125
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED/(USED) BY OPERATING ACTIVITIES:					
Net operating income/(loss)	$ 152,972	$ 227,632	$ 339,272	$ 107,518	$ 827,394
Adjustments to reconcile operating income to net cash Provided/(used) by operating activities:					
Depreciation expense	85,522	305,773	135,604	7,181	534,080
On-behalf payment State of MT for PERS	5,549	6,361	5,072	-	16,982
(Increase)/decrease in receivables	-	(29,378)	(55,069)	1,136	(83,311)
(Increase)/decrease in inventories	(9,245)	(7,046)	-	-	(16,291)
(increase)/decrease in due from other governments	-	(1)	1	(42)	(42)
Increase/(decrease) in accounts payables	(364)	33,661	41,110	396	74,803
Increase/(decrease) in deposits payable	-	(12,655)	-	-	(12,655)
Increase/(decrease) in refunds payable	-	72	-	-	72
Increase/(decrease) in net pension related receivables/payables	(3,252)	(3,728)	(2,973)	-	(9,953)
Increase/(decrease) in compensated absences	(7,096)	2,583	3,219	-	(1,294)
Increase/(decrease) in wages payable	2,743	1,787	453	-	4,983
Net cash provided/(used) by operating activities	$ 226,829	$ 525,061	$ 466,689	$ 116,189	$ 1,334,768
Schedule of Non-Cash Items:					
Capital asset trade-ins	$ 18,000	$ -	$ -	$ -	$ 18,000
On-behalf Revenue from State of Montana	$ 5,549	$ 6,361	$ 5,072	$	$ 16,982

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, 2015

	City Court Trust Account	Agency Funds
ASSETS		
Cash and cash equivalents	$ 5,219	$ 28,227
Total assets	$ 5,219	$ 28,227
LIABILITIES		
Due to other individuals/governments	$ 5,219	$ 28,227
Total liabilities	$ 5,219	$ 28,227

Statement of Changes in Net Position-Fiduciary Net Position
As of June 30, 2015

	City Court Trust Account
ADDITIONS	
Fines and forfeitures	$ 55,078
Total additions	$ 55,078
DEDUCTIONS	
Restitution to victims	$ 2,994
Payments to governments	52,084
Total deductions	$ 55,078

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. ORGANIZATION

The City of Polson, (City) was incorporated on April 5, 1910 in accordance with the provisions of the State of Montana. The City utilizes the Commission-City Manager form of government with six City Commissioners, a Mayor and City Manager and has self-governed powers through its Charter. The Commissioners are elected for a 4 year term from three different wards on a staggered two year cycle. The Mayor is elected for a 4 year term. The most recent population estimate is 4,604. The City provides a wide range of municipal services that include public safety (police, fire and animal control), public works (streets, water and sewer), community development, culture and recreation (golf and parks), and general government services (finance and administration).

B. FINANCIAL REPORTING ENTITY

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

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

The City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* in the 2015 fiscal year. These statements amend financial reporting for pensions. See Notes 10 and 11 for more information.

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, 2015, the City had no discretely presented component units.

C. BASIS OF FINANCIAL STATEMENT PRESENTATION

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

NOTE 1: SUMMARY OF SIGNIFANT ACCOUNTING POLICES, continued

C. BASIS OF FINANCIAL STATEMENT PRESENTATION, continued

Government-wide Financial Statements

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

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

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

Fund Financial Statements

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

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

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

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

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

NOTE 1: SUMMARY OF SIGNIFANT ACCOUNTING POLICES, continued

C. BASIS OF FINANCIAL STATEMENT PRESENTATION, continued

Fund Accounting

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

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

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

Tax Increment Financing District (TIFD)—As mentioned previously, this fund does not meet the criteria for reporting as a major fund but management has decided to include it for better reporting transparency. This is a special revenue fund established to account for tax increment revenue created by the difference between the base taxable value of property in the district and the current taxable value. The difference in taxable value is multiplied by the current mill levy and the taxes are then set aside in this fund to be spent on capital improvement projects for the TIFD. The base year for the TIFD is 2002. The Polson Redevelopment Agency which is currently an advisory board to the City Commission makes recommendations to the Commission regarding projects for the district. This fund is also servicing the debt on the 12 year Tax Increment Financing urban renewal bonds sold to construct the City dock and walkpath under the bridge.

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

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

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

NOTE 1: SUMMARY OF SIGNIFANT ACCOUNTING POLICES, continued

C. BASIS OF FINANCIAL STATEMENT PRESENTATION, continued

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

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

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

D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

Government-wide Financial Statements

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

Fund Financial Statements

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

The City defines the length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements to be upon receipt except for tax revenues which are considered revenue if received within 30 days of the year end. Expenditures are recorded when the related fund liability is incurred, except for un-matured 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.

NOTE 1: SUMMARY OF SIGNIFANT ACCOUNTING POLICES, continued

D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING, continued

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

The Budget Process

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

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

E. ASSETS, LIABILITIES AND NET POSITION OR EQUITY

1. Cash, Cash Equivalents, Investments and Investment Income

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

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

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

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICES, continued

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

2. Property Taxes

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

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

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

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

	Taxable Valuation	Valuation of Tax Increment	Value of Mills	Mills Levied
General Fund Levy	$ 9,795,099	$ 305,061	$ 9,795	123.85
Permissive Medical Levy	$ 9,795,099	$ 305,061	$ 9,795	9.50
Police Special Levy	$ 9,795,099	$ 305,061	$ 9,795	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 $305,061. 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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

5. Inventories

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

6. Restricted Assets

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

7. Capital Assets

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

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

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

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

8. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditures) until then. The City has two items in this category: Deferred pension expense (See Notes 10 and 11 for more information) and a judgment liability that required a payment of the Justice Court judgement amount in order for the City to appeal to District Court. See Note 19 for additional information on this case.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

8. Deferred Outflows/Inflows of Resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has two items of this type. Deferred pension revenue (See Notes 10 and 11 for more information) and deferred tax revenue.

The deferred tax revenue arises under a modified accrual basis of accounting, accordingly: the item deferred tax revenue is reported only in the governmental funds balance sheet. The governmental funds report deferred tax revenue from two sources; property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

9. Compensated Absences

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

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

10. Long-term Obligations

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

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

11. Net Position/Fund Balance

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

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

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

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

NOTE 2: CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash Composition—the total cash and cash equivalents, restricted cash and investments at June 30, 2015, are detailed as follows:

Cash on Hand	$	1,250
Cash in Banks:		
Cash in linked Demand/Repurchase Deposits		4,888,614
Cash in Savings Deposits		482
Non-negotiable Certificates of Deposit		1,003,971
U.S. Government Securities		4,692
Total Cash on Hand & in Banks	$	5,899,009
Plus: Deposits in Transit	$	86,086
Less: Outstanding checks		(383,956)
Cash reported in Fund Financial Statements	$	5,601,139

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

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

Of the bank balances, $500,000 was covered by federal depository insurance, and $3,354,453 was covered by securities held by the pledging bank's trust department but not in the City's name, $2,038,614 was uncollateralized and uninsured.

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

Montana statues 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, 2015, 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, 2015 the City's pooled investment balances were as follows:

	Maturity in Years							
Investments	Less than 1	1-2	2-3	3-4	4-5	No Maturity	Total	Rating
Non-negotiable Certificates of Deposit	$ 1,003,971	$ -	$ -	$ -	$ -	$ -	$ 1,003,971	NR
U.S. Government Securities	4,692	-	-	-	-	-	4,692	A1
Repurchase Agreements	-	-	-	-	-	4,877,971	4,877,971	A3
Total Government Investments	$ 1,008,663	$ -	$ -	$ -	$ -	$ 4,877,971	$ 5,886,634	

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 and 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 and 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	$ 551,095	$ 6,669	$ 544,426
Maintenance District Assessments			429	429	-
Weed Maintenance Assessments			275	275	-
Total			$ 551,799	$ 7,373	$ 544,426

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 2015:

	Transfers In:			
Transfers Out:	General Fund	Nonmajor Governmental Funds	Total	Purpose
General fund	$ -	$ 48,370	$ 48,370	Fund Reserve
Nonmajor governmental funds	91,146	-	91,146	Medical Levy Transfer
Total Transfers Out	$ 91,146	$ 48,370	$ 139,516	

Due To/Due From—the City general fund temporarily loaned $11,632 to the building fund and $1,291 to the hanging basket maintenance fund at June 30, 2015 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, 2015:

Fund	Paying Government	Due From Amount	Due (To) Amount
General Fund	Lake County	$ 122,530	$ -
General Fund	CSKT	6,150	-
General Fund	Rural Fire District	15,798	-
Police Municipal Services Levy	Lake County	18,160	-
Tax Increment District	Lake County	21,770	-
Tax Increment District	Lake County	-	(49,647)
Local Government Study Commission	Lake County	1,347	-
Permissive Medical Mills	Lake County	8,647	-
Drug Forfeiture Fund	Lake County	473	-
Light Maintenance District #19	Lake County	153	-
Light Maintenance District #20	Lake County	34	-
Weed Cleanup Maintenance Fund	Lake County	450	-
SID #42 Streetscape Main Street Improvement Project	Lake County	3,578	-
Water Fund	Lake County	1	-
Water Fund	State of Montana	173,811	-
Water Fund	State of Montana	400,211	-
Sewer Fund	Lake County	1	-
Stormwater Fund	Lake County	42	-
Total		$ 773,156	$ (49,647)

NOTE 6: CAPITAL GRANT REVENUE

There were no governmental capital grants for fiscal year 2015.

NOTE 6: CAPITAL GRANT REVENUE, continued

Enterprise capital grants consist of the following:

Fund	Paying Government		Amount
Water	State of Montana RRGL Capital Project Grant	$	100,000
Water	State of Montana TSEP Capital Project Grant		512,300
Total		$	612,300

NOTE 7: CAPITAL ASSETS

Capital asset activity for the governmental funds for the year ended June 30, 2015 was as follows:

		Balance July 1, 2014		Increases		Decreases		Balance June 30, 2015
Capital assets not being depreciated:								
Land	$	86,915	$	-	$	-	$	86,915
Construction in Progress		498,754		102,602		(18,771)		582,585
Total capital assets not being depreciated:	$	585,669	$	102,602	$	(18,771)	$	669,500
Depreciable capital assets								
Buildings	$	484,139	$	87,066	$	-	$	571,205
Machinery & Equipment		3,214,140		104,210		(72,410)		3,245,940
Improvements		1,117,961		7,736		-		1,125,697
Infrastructure		2,218,382		20,789		-		2,239,171
Total depreciable capital assets at historical cost	$	7,034,622	$	219,801	$	(72,410)	$	7,182,013
Less: accumulated depreciation		(3,059,601)		(342,575)		72,410		(3,329,766)
Total depreciable capital assets at historical cost, net	$	3,975,021	$	(122,774)	$	-	$	3,852,247
Net book value	$	4,560,690	$	(20,172)	$	(18,771)	$	4,521,747

Governmental depreciation expense was charged to functions as follows:

Governmental Activities:		Depreciation
General Government	$	35,498
Public Safety		116,303
Public Works		124,744
Culture and Recreation		55,307
Housing and Community Development		10,723
Total governmental activities depreciation	$	342,575

NOTE 7: CAPITAL ASSETS, continued

Capital asset activity for the business-type funds for the year ended June 30, 2015 was as follows:

Golf Fund

	Balance July 1, 2014	Increases	Decreases	Balance June 30, 2015
Capital assets not being depreciated:				
Land	$ 2,042,231	$ -	$ -	$ 2,042,231
Construction in Progress	10,775	14,366	-	25,141
Total capital assets not being depreciated:	$ 2,053,006	$ 14,366	$ -	$ 2,067,372
Other capital assets				
Buildings	$ 550,275	$ -	$ -	$ 550,275
Machinery & Equipment	1,145,843	80,777	(59,770)	1,166,850
Improvements	437,697	-	(55,000)	382,697
Total other capital assets at historical cost	$ 2,133,815	$ 80,777	$ (114,770)	$ 2,099,822
Less: accumulated depreciation	(1,328,657)	(85,522)	26,298	(1,387,881)
Total other capital assets at historical cost, net	$ 805,158	$ (4,745)	$ (88,472)	$ 711,941
Net book value	$ 2,858,164	$ 9,621	$ (88,472)	$ 2,779,313

Water Fund

	Balance July 1, 2014	Increases	Decreases	Balance June 30, 2015
Capital assets not being depreciated:				
Land	$ 177,064	$ -	$ -	$ 177,064
Construction in Progress	321,278	976,428	(175,465)	1,122,241
Total capital assets not being depreciated:	$ 498,342	$ 976,428	$ (175,465)	$ 1,299,305
Other capital assets				
Source of Supply	$ 2,457,821	$ -	$ -	$ 2,457,821
Pumping Plant	190,204	-	-	190,204
Treatment System	15,678	-	-	15,678
Transmission and Distribution	10,839,691	56,379	-	10,896,070
General plant	122,320	178,865	-	301,185
Total other capital assets at historical cost	$ 13,625,714	$ 235,244	$ -	$ 13,860,958
Less: accumulated depreciation	(4,584,204)	(305,774)	-	(4,889,978)
Total other capital assets at historical cost, net	$ 9,041,510	$ (70,530)	$ -	$ 8,970,980
Net book value	$ 9,539,852	$ 905,898	$ (175,465)	$ 10,270,285

NOTE 7: CAPITAL ASSETS, continued

Sewer Fund

	Balance July 1, 2014	Increases	Decreases	Balance June 30, 2015
Capital assets not being depreciated:				
Land	$ 19,456	$ -	$ -	$ 19,456
Construction in Progress	324,543	153,723	(154,114)	324,152
Total capital assets not being depreciated:	$ 343,999	$ 153,723	$ (154,114)	$ 343,608
Other capital assets				
Pumping Plant	$ 1,061,994	$ 6,592	$ -	$ 1,068,586
Treatment System	2,077,376	-	-	2,077,376
Collection System	3,866,009	39,878	-	3,905,887
General plant	135,862	157,514	-	293,376
Total other capital assets at historical cost	$ 7,141,241	$ 203,984	$ -	$ 7,345,225
Less: accumulated depreciation	(4,768,375)	(135,604)	-	(4,903,979)
Total other capital assets at historical cost, net	$ 2,372,866	$ 68,380	$ -	$ 2,441,246
Net book value	$ 2,716,865	$ 222,103	$ (154,114)	$ 2,784,854

Stormwater Fund

	Balance July 1, 2014	Increases	Decreases	Balance June 30, 2015
Capital assets not being depreciated:				
Land	$ -	$ -	$ -	$ -
Construction in Progress	869	770	-	1,639
Total capital assets not being depreciated:	$ 869	$ 770	$ -	$ 1,639
Other capital assets				
Collection System	$ 359,051	$ -	$ -	$ 359,051
Total other capital assets at historical cost	$ 359,051	$ -	$ -	$ 359,051
Less: accumulated depreciation	(28,724)	(7,181)	-	(35,905)
Total other capital assets at historical cost, net	$ 330,327	$ (7,181)	$ -	$ 323,146
Net book value	$ 331,196	$ (6,411)	$ -	$ 324,785

NOTE 8: LONG TERM DEBT OBLIGATIONS

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

Legal Debt Margin—The City's legal debt limitation is 2.5% of total assess value of taxable property, As of June 30, 2015 the debt margin was $10,290,173.

NOTE 8: LONG TERM DEBT OBLIGATIONS, continued

Changes in Long-term Debt Liabilities—During the year ended June 30, 2015, the following changes occurred in liabilities reported in long-term debt:

Governmental Activities:

	Balance July 1, 2014	Additions	Decreases	Balance June 30, 2015	Due Within One Year
Special Assessment Bonds	$ 585,481	$ -	$ (49,146)	$ 536,335	$ 47,299
Street Wheel Loader Loan	8,062	-	(8,062)	-	-
Tax Increment Bonds, Series 2013	772,039	-	(57,181)	714,858	58,902
Compensated Absences	218,309	10,213	-	228,522	161,508
Net Pension Liability	-	1,123,006	-	1,123,006	-
Total	$ 1,583,891	$ 1,133,219	$ (114,389)	$ 2,602,721	$ 267,709

Business-type Activities:

	Balance July 1, 2014	Additions	Decreases	Balance June 30, 2015	Due Within One Year
Revenue Bonds, Series 2013 (Golf)	$ 303,109	$ -	$ (98,936)	$ 204,173	$ 101,016
Revenue Bonds (Water)	263,000	419,950	(16,000)	666,950	19,500
Compensated Absences	99,917	6,929	(8,222)	98,624	64,485
Net Pension Liability	-	600,577	-	600,577	-
Total	$ 666,026	$ 1,027,456	$ (123,158)	$ 1,570,324	$ 185,001

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, 2015 were as follows:

Purpose	Origination Date	Interest Rate	Bond Term	Maturity Date	Bond Amount	Annual Payment	Balance June 30, 2015
SID #42 Streetscape Project	September 15, 2010	3.95%	15 yrs	July 1, 2025	$ 750,000	$ 66,225	$ 536,335
Total					750,000		536,335

NOTE 8: LONG TERM DEBT OBLIGATIONS, continued

Annual requirement to amortize special assessment bond debt:

For Fiscal Year Ended	Principal	Interest	Total Payments
2016	$ 45,484	$ 20,741	$ 66,225
2017	47,299	18,926	66,225
2018	49,186	17,039	66,225
2019	51,147	15,078	66,225
2020	53,187	13,038	66,225
2021-2025	290,032	31,615	321,647
Total	$ 536,335	$ 116,437	$ 652,772

Revenue Bonds

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

Revenue Bonds (Water System)—In October 2009 the City issued water system revenue bonds series 2009B through the State of Montana’s Department of Natural Resources and Conservation (DNRC) Drinking Water State Revolving Loan Program. The bond requires semi-annual principal payments ranging from $6,700 in 2010 to $18,000 in 2029. In May 2015 the City issued water system revenue bonds Series 2015 A and B through the State of Montana’s DNRC Drinking Water State Revolving Loan Program. The bonds require semi-annual payments ranging from $3,500 in 2016 to $13,000 in 2035. The State has indicated that if the City fulfills its requirements as outlined in the bond resolution, the Series 2015 A loan will be forgiven. This will be approximately $209,975.

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.

Revenue bonds outstanding reported in the business-type as of June 30, 2015 were as follows:

Purpose	Origination Date	Interest Rate	Bond Term	Maturity Date	Bond Amount	Annual Payment	Balance June 30, 2015
Revenue Bonds, Series 2013 (Golf)	April 1, 2013	2.10%	4 yrs	April 1, 2017	$ 400,000	$ 104,785	$ 204,173
Revenue Bonds, Series 2009 (Water)	October 16, 2009	0.75%	20 yrs	July 1, 2029	333,700	Varies	247,000
Revenue Bonds, Series 2015 (Water)	May 20, 2015	2.50%	20 yrs	July 1, 2035	419,950	Varies	419,950
Total					$ 1,153,650		$ 871,123

NOTE 8: LONG TERM DEBT OBLIGATIONS, continued

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

Annual requirement to amortize revenue bond debt:

For Fiscal Year Ended	Revenue Bonds Golf Course, Series 2013 Principal	Revenue Bonds Golf Course, Series 2013 Interest	Revenue Bonds Water System, Series 2009 & 2015 Principal	Revenue Bonds Water System, Series 2009 & 2015 Interest	Total Bonds Principal	Total Bonds Interest	Total Payments
2016	$ 101,026	$ 3,760	$ 19,500	$ 2,554	$ 120,526	$ 6,314	$ 126,840
2017	103,147	1,627	37,450	9,892	140,597	11,519	152,116
2018	-	-	33,000	9,402	33,000	9,402	42,402
2019	-	-	34,000	8,932	34,000	8,932	42,932
2020	-	-	34,000	8,452	34,000	8,452	42,452
2021-2025	-	-	182,000	34,851	182,000	34,851	216,851
2026-2030	-	-	190,000	21,334	190,000	21,334	211,334
2031-2035	-	-	124,000	8,245	124,000	8,245	132,245
2036	-	-	13,000	130	13,000	130	13,130
Total	$ 204,173	$ 5,387	$ 666,950	$ 103,792	$ 871,123	$ 109,179	$ 980,302

The City has pledged golf charges for services revenue to pay for the revenue bonds outstanding in the golf fund. The revenues are pledged until the revenue bonds are paid in full. During fiscal year 2015, principal and interest payments on the revenue bonds totaled $104,786 and charges for services revenue was $1,110,912. Debt service expense represents 9.43% of golf revenue charges for service revenue.

The City has pledged water charges for services revenue to pay for the revenue bonds outstanding in the water fund. The revenues are pledged until the revenue bonds are paid in full. During fiscal year 2015, principal and interest payments on the revenue bonds totaled $17,943 and charges for services revenue was $999,300. Debt service represents 1.80% of water charges for services revenue.

Tax Increment Urban Renewal Bonds

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

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

Purpose	Origination Date	Interest Rate	Bond Term	Maturity Date	Bond Amount	Annual Payment	Balance June 30, 2015
TIFD City Dock and Walkpath Project	08/15/13	2.987%	12 yrs	08/15/25	$ 800,000	$ 79,818	$ 714,858
Total							$ 714,858

NOTE 8: LONG TERM DEBT OBLIGATIONS, continued

Annual requirement to amortize the Tax Increment Urban Renewal Bonds:

For Fiscal Year Ended	Principal	Interest	Total Payments
2016	$ 58,902	$ 20,916	$ 79,818
2017	60,675	19,143	79,818
2018	62,501	17,317	79,818
2019	64,381	15,437	79,818
2020	64,381	15,437	79,818
2021-2025	404,018	34,983	439,001
Total	$ 714,858	$ 123,233	$ 838,091

Other Loans/Contracted Debt

In May 2011, the City borrowed $47,200 from the Montana Board of Investments Intercap Revolving Program under MCA 17-1604 to purchase a Case Wheel Loader for the street department. This is a variable rate loan program and the interest rate is adjusted on February 16th of each year. Principal and interest are due on each February 15th and August 15th. This loan was paid in full on August 15. 2014.

Compensated Absences

See Note 1.E.9

Net Pension Liability

See Notes 10 & 11

NOTE 9: RETIREMENT AND PENSION PLANS

The City participates in the Montana Public Employees' Retirement System (PERS) plan which is a cost sharing multiple-employer defined benefit or defined contribution plan that provides retirement, disability and death benefits. The plan is established and administered by the State of Montana through the Montana Public Employees' Retirement Administration (MPERA). Beginning January 2014 the City also began participation in the Municipal Police Officers' Retirement System (MPORS) for the City police officers who elected out of their participation in PERS and into MPORS. This plan is a cost sharing multiple-employer defined benefit plan that provides retirement, disability and death benefits. This plan is established and administered by the State of Montana through MPERA. For those police officers that did not elect into MPORS the City set up a deferred compensation 457(b) plan also administered by MPERA for the difference in the employer rate between MPORS and PERS which was 6.14% for fiscal year 2015.

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, 2015, were:

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

NOTE 9: RETIREMENT AND PENSION PLANS, continued

The amount contributed to PERS during the years ended June 30, 2013, 2014, and 2015 were equal to the required contribution for each year. The amounts contributed by the employee and City were as follows:

Year	Employee	Employer
2013	$104,684	$107,263
2014	$117,591	$120,123
2015	$ 96,983	$100,297

The amount contributed to MPORS during the years ended June 30, 2013, 2014, and 2015 were equal to the required contribution for each year. The amounts contributed by the employees and City were as follows.

Year	Employee	Employer
2013	$0	$0
2014	$13,245	$21,206
2015	$34,616	$55,425

The State contribution qualifies as an on behalf payment. The City recorded revenue of $42,713 for PERS including nonspecial funding from the State's Coal Severance Tax Fund and $46,277 for MPORS with an offsetting expenditure in the various to additional payroll costs. The plan issues a publicly available financial report that includes financial statements and required supplementary information for the plan. The report may be obtained from the following:

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 2015.

NOTE 10: PERS DEFINED BENEFIT PENSION PLAN

The City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* in the 2015 fiscal year. These statements amend financial reporting for pensions. The following are disclosures related to MPERA's defined benefit pension plans in which the City participates.

Plan Description

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

NOTE 10: PERS DEFINED BENEFIT PENSION PLAN, continued

All new members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to remain in the PERS-DBRP or join that PERS-DCRP by filing an irrevocable election. Members may not be members of both the defined contribution and defined benefit retirement plans. All new members from the universities also have a third option to join the university system's Montana University Retirement Program (MUS-RP). For members that choose to join the PERS-DCRP or the MUS-RP, a percentage of the employer contributions will be used to pay down the liability of the PERS-DBRP.

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

Summary of Benefits

Members highest average compensation (HAC):
- Hired prior to July 1, 2011—highest average compensation during any consecutive 36 months;
- Hired on or after July 1, 2011—highest average compensation during any consecutive 60 months;
- Hired on or after July 1, 2013—110% annual cap on compensation considered as part of a member's highest average compensation.

Eligibility for Benefits

Service Retirement:	
Hired prior to July 1, 2011:	Age 60, 5 years of membership Age 65, regardless of membership service; or Any age, 30 years of membership service
Hired on or after July 1, 2011:	Age 65, 5 years of membership service Age 70, regardless of membership service
Early Retirement, Actuarially Reduced:	
Hired prior to July 1, 2011:	Age 50, 5 years of membership service; or Any age, 25 years of membership service
Hired on or after July 1, 2011:	Age 55, 5 years of membership service
Vesting:	Age 55, 5 years of membership service

Monthly Benefit Formula

Members hired prior to July 1, 2011:
- Less than 25 years of membership service: 1.785% of HAC per year of service credit
- 25 years of membership service or more: 2% of HAC per year of service credit

Members hired on or after July 1, 2011:
- Less than 10 years of membership service: 1.5% of HAC per year of service credit;
- 10 years or more, but less than 30 years of membership service: 1.785% of HAC per year of service credit;
- 30 years or more of membership service: 2% of HAC per year of service credit.

NOTE 10: PERS DEFINED BENEFIT PENSION PLAN, continued

Guaranteed Annual Benefit Adjustment (GABA)

- 3% for members hired prior to July 1, 2007
- 1.5% for members hired on or after July 1, 2007

After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, inclusive of other adjustments to the member's benefit.

*At this time, as a result of a permanent injunction issued in the AMPRE vs State litigation, the GABA rate in effect is being used in the calculation. Clarification of the GABA rate for members hired on or after July 1, 2013 is pending.

Total number of members (employees) covered by benefit terms as of June 30, 2015:

1. Active plan members: 28,237
2. Inactive members entitled to but not yet receiving benefits or a refund:
   Vested: 2,925
   Non-Vested: 8,839
3. Inactive members and beneficiaries currently receiving benefits:
   Service Retirements: 20,080
   Disability Retirements: 176
   Survivor Benefits: 425

Overview of Contributions

1. Rates are specified by state law for periodic employer and employee contributions. The State legislature has the authority to establish and amend contribution rates to the plan.
2. Member contributions to the system:
   a. Plan members are required to contribute 7.9% of member's compensation. Contributions are deducted from each member's salary and remitted by participating employers.
   b. The 7.9% member contribution is temporary and will be decreasing to 6.95% on January 1 following actuary valuation results that show the amortization period has dropped below 25 years following the reduction of both the additional employer and additional member contribution rates.
3. Employer contributions to the system:
   a. State and University System employers are required to contribute 8.27% of members' compensation.
   b. Local government entities are required to contribute 8.17% of members' compensation.
   c. School district employers contribute 7.9% of members' compensation.
   d. Following the 2013 Legislative Session, PERS employer contributions were temporarily increased. Effective July 1, 2013, employer contributions increased 1.0%. Beginning July 1, 2014, employer contributions will increase an additional .1% a year over 10 years, through 2024. The employer additional contributions including the .25% added in 2007 and 2009, terminates on January 1 following actuary valuation results that show the amortization period of the PERS-DBRP has dropped below 25 years and would remain below 25 years following the reductions of both the additional employer and member contribution rates.
   e. Effective July 1, 2013, the additional employer contributions for DCRP and MUS-RP is allocated to the defined benefit plan's Plan Choice Rate unfunded liability.
   f. Effective July 1, 2013, employers are required to make contributions on working retiree's compensation. Member contributions for working retirees are not required.

4. Non-Employer Contributions
   a. Special Funding

      i. The State of Montana contributes 0.1% of members' compensation on behalf of local government entities.
      ii. The State of Montana contributes 0.37% of members' compensation on behalf of school district entities.
   b. Not Special Funding
      i. The State contributes from the Coal Tax Severance fund.

Stand-Alone Statements

The PERS financial information is reported in the Public Employees' Retirement Board's Comprehensive Annual Financial Report for the fiscal year ended. It is available from the PERB at 100 North Park, PO Box 200131, Helena, MT 59620-0131, 406-444-3154. The reports are also available on the MPERA website at http://mpera.mt.gov/annualReports.shtml. The latest actuarial valuation and experience study can be found at MPERA's website at http://mpera.mt.gov/actuarialValuations.shtml.

Actuarial Assumptions

The Total Pension Liability as of June 30, 2014, is based on the results of an actuarial valuation date of June 30, 2014. There were several significant assumptions and other inputs used to measure the Total Pension Liability. The actuarial assumptions used in the June 30, 2014 valuation were based on the results of the last actuarial experience study, dated May 2010 for the six year period July 1, 2003 to June 30, 2009. Among those assumptions were the following:

General Wage Growth*	4.00%
*Includes Inflation at	3.00%
Merit Increase	0% to 6.00%
Investment Return	7.75%

Postretirement Benefit Increases:
- 3% for members hired prior to July 1, 2007
- 1.5% for members hired on or after July 1, 2007

After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of other adjustments to the member's benefit.

*At this time as a result of a permanent injunction issued in the AMPRE vs State litigation, the GABA rate in effect is being used in the calculation. Clarification of GABA rate for members hired on or after July 1, 2013 is pending.

Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.

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

NOTE 10: PERS DEFINED BENEFIT PENSION PLAN, continued

Discount Rate

The discount rate used to measure the Total Pension Liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities will be made based on the PERB;s funding policy, which establishes the contractually required rates under Montana Code Annotated. The State contributes 0.1% of salaries for local governments and 0.37% for school districts. In addition, the State contributes coal severance tax and interest money from the general fund. The interest is contributed monthly and the severance tax is contributed quarterly. Based on those assumptions, the System's fiduciary net position was projected to be adequate to make all projected future benefit payments of current plan members through the year 2122. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability. No municipal bond rate was incorporated in the discount rate.

Target Allocations

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash Equivalents	2.00%	-0.25%
Domestic Equity	36.00%	4.80%
Foreign Equity	18.00%	6.05%
Fixed Income	24.00%	1.68%
Private Equity	12.00%	8.50%
Real Estate	8.00%	4.50%

The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the System. The most recent analysis, performed for the period covering fiscal years 2003 through 2009, is outlined in a report dated May 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption including rates of return adopted by similar public sector systems, and by using a building block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates are presented as the arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2014, is summarized in the above table.

Sensitivity Analysis

	1.0% Decrease -6.75%	Current Discount Rate	1.0% Increase -8.75%
PERS' Net Pension Liability	$ 1,982,274,732.00	$ 1,246,010,898.00	$ 625,044,646.00
Employer's Proportion	$ 2,403,230.23	$ 1,510,613.54	$ 757,779.01

In accordance with GASB Statement 68, *Accounting and Financial Reporting for Pensions*, employers are required to recognize and report certain amounts associated with their participation in the Public Employees' Retirement System (PERS). Statement 68 became effective June 30, 2015 and includes requirements to record and report their proportionate share of the collective Net Pension Liability, Pension Expense, Deferred Inflows and Deferred Outflows of Resources associated with pension.

NOTE 10: PERS DEFINED BENEFIT PENSION PLAN, continued

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

The State of Montana also has a funding situation that is not Special Funding whereby the State General Fund provides contributions from the Coal Severance Tax and interest. All employers are required to report the portion of Coal Severance Tax and interest attributable to the employer.

	Net Pension Liability as of June 30, 2013	Net Pension Liability as of June 30, 2014	Percent of Collective NPL
Employer Proportionate Share	$ 1,943,927.54	$ 1,510,613.54	0.1212360%
State of Montana Proportionate Share Associated with Employer	$ 23,738.24	$ 18,446.83	0.1540090%
Total	$ 1,967,665.78	$ 1,529,060.37	0.2752450%

At June 30, 2015, the City of Polson has employer recorded liability of $1,510,613.54 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2014, and the Total Pension Liability used to calculate the Net Pension Liability was determined by actuarial valuation as of July 1, 2014. The City's proportion of the Net Pension Liability was based on the City's contributions received by PERS during the measurement period of July 1, 2013 through June 30, 2014, relative to the total employer contributions received from all of PERS' participating employers.

At June 30, 2014, the City's proportion was 0.121236%.

Changes in actuarial assumptions and methods:

There were no changes in the assumptions or other inputs that affected the measurement of the Total Pension Liability.

Changes in benefit terms:

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

Changes in proportionate share:

There were no changes between the measurement date of the collective Net Pension Liability and the employer's reporting date that are expected to have a significant effect on the employer's proportionate share of the collective Net Pension Liability.

Pension Expense

	Pension Expense as of June 30, 2014
Employer's Proportionate Share	$ 73,378.63
State of Montana Proportionate Share Associated with the Employer	$ 42,713.73
Total	$ 116,092.36

NOTE 10: PERS DEFINED BENEFIT PENSION PLAN, continued

At June 30, 2015, the City recognized a Pension Expense of $116,092.36 for its proportionate share of the PERS' Pension Expense. The City also recognized grant revenue of $42,713.73 for the support provided by the State of Montana for its proportionate share of the Pension Expense that is associated with the City as employer.

Recognition of Beginning Deferred Outflow—GASB 71

At June 30, 2015, the City recognized a beginning deferred outflow of resources for the City's FY2014 contribution of $115,763.59.

Deferred Inflows and Outflows

At June 30, 2015, the City reported its proportionate share of PERS's deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between actual and expected experience	$ -	$ -
Changes in assumptions	$ -	$ -
Difference between projected and actual earnings on pension plan investments	$ -	$ 390,317.69
Changes in proportion difference between employer contributions and proportionate share of contributions	$ -	$ 1,159.82
Difference between actual and expected experience		
Contributions paid to PERS subsequent to the measurement date - FY 2015 Contributions	$ 98,414.00	$ -
Total	$ 98,414.00	$ 391,477.51

Amounts reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized as Pension Expense as follows:

Year Ended June 30,	Deferred Outflows of Resources	Deferred Inflows of Resources	Amount recognized in Pension Expense as an Increase or (Decrease) to Pension Expense
2016	$ -	$ 97,966.03	$ (97,966.03)
2017	$ -	$ 97,966.03	$ (97,966.03)
2018	$ -	$ 97,579.42	$ (97,579.42)
2019	$ -	$ -	$ -
Thereafter	$ -	$ -	$ -

NOTE 11: MPORS DEFINED BENEFIT PENSION PLAN

Plan Description

The Municipal Police Officers' Retirement System (MPORS), administered by the Montana Public Employee Retirement Administration (MPERA), is a multiple-employer, cost-sharing defined benefit plan that was established in 1974, and is governed by Title 19, chapters 2 & 9, Montana Code Annotated (MCA). This plan covers all municipal police officers employed by first and second class cities and other cities that adopt the plan. Benefits are established by state law and can only be amended by the Legislature.

NOTE 11: MPORS DEFINED BENEFIT PENSION PLAN, continued

The MPORS provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service, and final average compensation. Member rights for death and disability are vested immediately. All other rights are vested after five years of service.

Summary of Benefits

Member's final average compensation (FAC):

- Hired prior to July 1, 1977—average monthly compensation of final year of service;
- Hired on or after July 1, 1077—final average compensation (FAC) for last consecutive 30 months.
- Hired on or after July 1, 2013—110% annual cap on compensation considered as a part of a member's final average compensation.

Eligibility for Benefit

20 years of membership service, regardless of age.

Early Retirement

Age 50, 5 years of membership service

Vesting

5 years of membership

Monthly Benefit Formula

2.5% of FAC per year of service

Guaranteed Annual Benefit Adjustment (GABA)

Hired on or after July 1, 1997, or those electing GABA—after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other adjustments to the member's benefit.

Minimum Benefit Adjustment (Non-GABA)

If hired before July 1, 1997 and member did not elect GABA—the monthly retirement, disability or survivor's benefit may not be less than ½ of the compensation of an newly confirmed officer in the city that the member was last employed.

Deferred Retirement Option Plan (DROP):

Beginning July 2002, eligible members of MPORS can participate in the DROP by filing a one-time irrevocable election with the Board. The DROP is governed by Title 19, Chapter 9, Part 12, MCA. A member must have completed at least twenty years of membership service to be eligible. They may elect to participate in the DROP for a minimum of one month to a maximum of 60 months and may participate in the DROP only once. A participant remains a member of the MPORS, but will not receive membership service or service credit in the system during the duration of the members DROP period.

NOTE 11: MPORS DEFINED BENEFIT PENSION PLAN, continued

During participation in the DROP, all mandatory contributions continue to the retirement system. A monthly benefit is calculated based on salary and years of service to the date of the beginning of the DROP period. The monthly benefit is paid into the member's DROP account until the end of the DROP period. At the end of the DROP period, the participant may receive the balance of the DROP account in a lump sum payment or in a direct rollover to another eligible plan, as allowed by the IRS. If the participant continues employment after the DROP period ends, they will again accrue membership service and service credit. The DROP account cannot be distributed until employment is fully terminated.

Total number of members (employees) covered by benefit terms as of June 30, 2015:

1. Active plan members: 743
2. Inactive members entitled to but not yet receiving benefits or a refund:
   - Vested: 60
   - Non-Vested: 103
3. Inactive members and beneficiaries currently receiving benefits:
   - Service Retirements: 694
   - Disability Retirements: 21
   - Survivor Benefits: 29

Overview of Contributions

1. Rates are specified by state law for periodic employer and employee contributions. The State legislature has the authority to establish and amend contribution rates to the plan.
2. Member contributions to the system:
   a. Member contribution rates are dependent upon date of hire as a police officer. For fiscal year 2015:
      i. If employed on or before June 30, 1975, member contributions as a percentage of salary are 5.8%
      ii. If employed after June 30, 1975 and prior to July 1, 1979, member contributions as a percentage of salary are 7.0%
      iii. If employed after June 30, 1979 and prior to July 1, 1977, member contributions as a percentage of salary are 8.5% and,
      iv. If employed on or after July 1, 1997 and for members electing GABA, member contributions as a percentage of salary were 9.0%.
3. Employer contributions to the system:
   a. The employers are required to contribute 14.41% of member's base salary compensation.
   b. The State of Montana contributes 29.37% of member's compensation from the general fund.

Stand-Alone Statements

The MPORS financial information is reported in the Public Employees' Retirement Board's Comprehensive Annual Financial Report for fiscal year ended. It is available from the PERB at 100 North park, PO Box 200131, Helena, MT 59620-0131, 406-444-3154. The reports are also available on the MPERA website at http://mpera.mt.gov/annualReports.shtml. The latest actuarial valuation and experience study can be found at MPERA's website at http://mpera.mt.gov/actuarialValuations.shtml.

NOTE 11: MPORS DEFINED BENEFIT PENSION PLAN, continued

Actuarial Assumptions

The Total Pension Liability as of June 30, 2014, is based on the results of an actuarial valuation date of June 30, 2014. There were several significant assumptions and other inputs used to measure the Total Pension Liability. The actuarial assumptions used in the June 30, 2014 valuation were based on the results of the last actuarial experience study, dated May 2010 for the six year period July 1, 2003 to June 30, 2009. Among those assumptions were the following:

General Wage Growth*	4.00%
*Includes Inflation at	3.00%
Merit Increase	0% to 7.30%
Investment Return	7.75%

Postretirement Benefit Increases:
3% if electing GABA or hired on or after July 1, 1997

After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, inclusive of other adjustments to the member's benefit.

Minimum Benefit Adjustment	50% of a newly confirmed officer

Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.

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

Discount Rate

The discount rate used to measure the Total Pension Liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities will be made based on the PERB;s funding policy, which establishes the contractually required rates under Montana Code Annotated. The State contributes 29.37% of salaries pensionable payroll paid by employers. Based on those assumptions, the System's fiduciary net position was projected to be adequate to make all projected future benefit payments of current plan members through the year 2122. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability. No municipal bond rate was incorporated in the discount rate.

Target Allocations

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash Equivalents	2.00%	-0.25%
Domestic Equity	36.00%	4.80%
Foreign Equity	18.00%	6.05%
Fixed Income	24.00%	1.68%
Private Equity	12.00%	8.50%
Real Estate	8.00%	4.50%

NOTE 11: MPORS DEFINED BENEFIT PENSION PLAN, continued

The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the System. The most recent analysis, performed for the period covering fiscal years 2003 through 2009, is outlined in a report dated May 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption including rates of return adopted by similar public sector systems, and by using a building block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates are presented as the arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2014, is summarized in the above table.

Sensitivity Analysis

	1.0% Decrease -6.75%	Current Discount Rate	1.0% Increase -8.75%
MPORS' Net Pension Liability	$ 226,560,623.00	$ 157,135,903.00	$ 102,022,702.00
Employer's Proportion	$ 307,061.80	$ 212,969.19	$ 138,273.25

In accordance with GASB Statement 68, regarding disclosure of the sensitivity of the Net Pension Liability to changes in the discount rate, the above table presents the Net Pension Liability calculated using the discount rate of 7.75%, as we ask what the Net Pension Liability would be if it were calculated using a discount rate that is 1.00% lower (6.75%) or 1.00% higher (8.75%) than the current rate.

Summary of Significant Accounting Policies

The Montana Public Employees Retirement Administration (MPERA) prepares its financial statements using the accrual basis of accounting. For the purposes of measuring the Net Pension Liability, deferred inflows of resources and deferred outflows of resources related to pension, Pension Expense, information about the fiduciary net position and additions to/deductions form fiduciary net position have been determined on the same accrual basis as they are reported by MPERA. For this purpose, member contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Revenues are recognized in the accounting period they are earned and become measurable. Benefit payments and refunds are recognized in the accounting period when due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred. Investments are reported at fair value. MPERA adheres to all applicable Governmental Accounting Standards Board (GASB) statements.

Net Pension Liability

In accordance with Statement 68, *Accounting and Financial Reporting for Pensions*, employers are required to recognize and report certain amounts associated with their participation in the Municipal Police Officers' Retirement System (MPORS). Statement 68 became effective June 30, 2015 and includes requirements to record and report their proportionate share of the collective Net Pension Liability, Pension Expense, Deferred Inflows and Deferred Outflows of resources associated with pension.

NOTE 11: MPORS DEFINED BENEFIT PENSION PLAN, continued

In accordance with Statement 68, MPORS has a special funding situation in which the State of Montana is legally responsible for making contributions directly to MPORS on behalf of the employers. Due to the existence of this special funding situation, employers are required to report the portion of the State of Montana's proportionate share of the collective Net Pension Liability that is associated with the employer.

	Net Pension Liability as of June 30, 2013	Net Pension Liability as of June 30, 2014	Percent of Collective NPL
Employer Proportionate Share	$ 242,648.25	$ 212,969.19	0.1355320%
State of Montana Proportionate Share Associated with Employer	$ 490,178.44	$ 430,223.20	0.6688873%
Total	$ 732,826.69	$ 643,192.39	0.8044193%

At June 30, 2015, the City of Polson has employer recorded liability of $212,969.19 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2014, and the Total Pension Liability used to calculate the Net Pension Liability was determined by actuarial valuation as of July 1, 2014. The City's proportion of the Net Pension Liability was based on the City's contributions received by MPORS during the measurement period of July 1, 2013 through June 30, 2014, relative to the total employer contributions received from all of MPORS' participating employers.

At June 30, 2014, the City's proportion was 0.135532%.

Changes in actuarial assumptions and methods:

There were no changes in the assumptions or other inputs that affected the measurement of the Total Pension Liability.

Changes in benefit terms:

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

Changes in proportionate share:

There were no changes between the measurement date of the collective Net Pension Liability and the employer's reporting date that are expected to have a significant effect on the employer's proportionate share of the collective Net Pension Liability.

Pension Expense

	Pension Expense as of June 30, 2014
Employer's Proportionate Share	$ 22,908.05
State of Montana Proportionate Share Associated with the Employer	$ 46,276.99
Total	$ 69,185.04

At June 30, 2015, the City recognized a Pension Expense of $69,185.04 for its proportionate share of the MPORS' Pension Expense. The City also recognized grant revenue of $46,276.99 for the support provided by the State of Montana for its proportionate share of the Pension Expense that is associated with the City as employer.

NOTE 11: MPORS DEFINED BENEFIT PENSION PLAN, continued

Recognition of Beginning Deferred Outflow—GASB 71

At June 30, 2015, the City recognized a beginning deferred outflow of resources for the City's FY2014 contribution of $26,440.13.

Deferred Inflows and Outflows

At June 30, 2015, the City reported its proportionate share of MPORS' deferred outflows of resources and deferred inflows of resources related to MPORS from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between actual and expected experience	$ -	$ -
Changes in assumptions	$ -	$ -
Difference between projected and actual earnings on pension plan investments	$ -	$ 26,146.98
Changes in proportion difference between employer contributions and proportionate share of contributions	$ -	$ -
Difference between actual and expected experience		
Contributions paid to MPORS subsequent to the measurement date - FY 2015 Contributions	$ 55,424.86	$ -
Total	$ 55,424.86	$ 26,146.98

Amounts reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized as Pension Expense as follows:

Year Ended June 30,	Deferred Outflows of Resources	Deferred Inflows of Resources	Amount recognized in Pension Expense as an Increase or (Decrease) to Pension Expense
2016	$ -	$ 6,536.75	$ (6,536.75)
2017	$ -	$ 6,536.75	$ (6,536.75)
2018	$ -	$ 6,536.75	$ (6,536.75)
2019	$ -	$ -	$ -
Thereafter	$ -	$ -	$ -

NOTE 12: ESTIMATED HEALTH CARE COSTS

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

NOTE 12: ESTIMATED HEALTH CARE COSTS, continued

Plan Description. The City has a single-employer group health plan through Blue Cross Blue Shield of Montana which provides medical, vision and dental benefits. For retirees to qualify for the City's health insurance plan, an employee must have attained age 50 and have completed 5 years of service (early retirement) or 25 years of service (normal retirement) and be on the City's plan at retirement. The health insurance plan has two options; one lower deductible health plan and one high deductible health plan (HDHP) which qualifies for Health Savings Account HSA). The lower deductible plan has deductibles of $1,000 per individual and $2,000 per family. After the deductible is met, the plan pays 80% of eligible medical expenses. Premiums range from $330 to $885 for individual (currently there are no spouse or families on this plan). The employee pays $47 for individual coverage and the City pays the remaining amount; the employee pays the full premium for spouse and family coverage. The HDHP has $5,000 deductible for individuals and a $10,000 deductible for families. After the deductible is met, the plan pays 80% of eligible medical expenses. The monthly premium cost ranges from $223 for individuals to $1,324 for families. The employee pays $15 of the monthly premium and the City pays the remainder of the premium for each active eligible employee including spouse and family coverage.

The City has 35 active employees and no retired employees participating in the plan as of June 30, 2015.

NOTE 13: COMMITMENTS AND CONTINGENCIES

The City was committed to spend the remaining water system TSEP grant which was awarded in the amount of $625,000. Of the amount, $112,700 remains for construction of well #8 on the east side of the City. At June 30, 2015, a site had been selected for drilling the test well. The City is committing $234,320 of local reserves for the well construction and well housing.

At June 30, 2015, the City was committed to the construction of two golf car storage buildings at the golf course shop in the amount of $181,000.

At June 30, 2015, the City was committed to purchase a fleet of 60 golf cars from the golf fund. The current fleet of 65 cars will be traded in on the purchase for a net cost of $161,700.

In April, 2015 the City was awarded a Treasure State Endowment Program grant in the amount of $750,000 and a Department of Natural Resources grant in the amount of $150,000 to be used in the construction of the mechanical wastewater treatment plant that will occur in fiscal years 2015 – 2018. Start-up conditions are being worked on related to grants.

The timeline is moving forward on the Wastewater Treatment Plant project. At June 30, 2015, the City was committed for engineering costs related to the design of equipment and the plant.

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, 2015, the City had no protested taxes.

As of June 30, 2015, delinquent assessments on SIDs were $6,669. The delinquencies are due from various residential and commercial property owners. The City anticipates payment of the delinquencies from the land owners and will proceeds with tax deeds on the property if the assessments are not paid current before the end of the SID bond terms.

NOTE 13: COMMITMENTS AND CONTINGENCIES, continued

The City entered into a contractual agreement on December 12, 2012 to refund 50% of future water impact fee revenues to a private entity for excess service capacity that was installed in a designated service area. In addition, the City will forego 100% of water impact fees on future development in the Mission Bay and Ridgewater subdivisions which are owned by the private entity. The anticipated liability is capped at $200,000 and will be paid over a period of 15 years with the impact fees refunded and forgone. Any liability remaining at the end of the 15 years will be forfeited. A total of $33,740.10 has been paid per the agreement at June 30, 2015.

As of June 30, 2015, 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 been recorded as a deferred outflow of resources in the golf fund. See Note 22 on subsequent events.

NOTE 14: 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	$	(13,956)	Prior year expenditures exceeded revenues	Future revenue source

NOTE 15: RESTATEMENTS

During the current fiscal year the following restatements (prior period adjustments) were recorded. For additional information on the pension related restatements see Notes 10 and 11.

Fund		Amount	Reason
General Fund	$	(1,000)	Expenditure adjustment
Nonmajor governmental funds		1,000	Expenditure adjustment
Government-wide funds		(1,413,725)	Pension liability adjustment
Government-wide funds		95,848	Deferred inflows adjustment
Total governmental activities	$	(1,317,877)	
Golf fund	$	(252,535)	Pension liability adjustment
Golf fund		14,967	Deferred inflows adjustment
Water fund		(289,476)	Pension liability adjustment
Water fund		17,157	Deferred inflows adjustment
Sewer fund		(230,839)	Pension liability adjustment
Sewer fund		13,682	Deferred inflows adjustment
Total enterprise activities	$	(727,044)	
Total prior period adjustments	$	(2,044,921)	

NOTE 16: 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.

NOTE 16: JOINT VENTURES, continued

City-County Airport

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

NOTE 17: COUNTY PROVIDED SERVICES

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

NOTE 18: 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 19: 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, 2015 and accordingly, no provision has been made in the financial statements for these contingent liabilities. See note on subsequent events for additional information.

NOTE 20: 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:

NOTE 20: SPENDING POLICY, continued

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

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

NOTE 21: 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.

	Major Funds				All Other Governmental Funds	Total Governmental Funds
	General Fund	Tax Increment Financing District	SID #42 Streetscape	TIFD City & Dock & Walkpath Project		
Unspendable	$ -	$ -	$ -	$ -	$ -	$ -
Restricted						
General Government	$ -	$ -	$ -	$ -	$ 474,308	$ 474,308
Public Safety	-	-	-	-	-	-
Public Works	-	-	-	-	4,313	4,313
Culture & Recreation	-	-	-	-	-	-
Economic Development	-	307,196	-	8,515	-	315,711
Conservation & Natural Resources	-	-	-	-	-	-
Debt Service	-	66,606	52,986	-	58,548	178,140
Total Restricted	$ -	$ 373,802	$ 52,986	$ 8,515	$ 537,169	$ 972,472
Committed						
Public Works	$ -	$ -	$ -	$ -	$ 9,601	$ 9,601
Total Committed	$ -	$ -	$ -	$ -	$ 9,601	$ 9,601
Assigned						
Public Works	$ -	$ -	$ -	$ -	$ 96,773	$ 96,773
Total Assigned	$ -	$ -	$ -	$ -	$ 96,773	$ 96,773
Unassigned						
General Government	$ 598,913	$ -	$ -	$ -	$ -	$ 598,913
Public Safety	-	-	-	-	(13,956)	(13,956)
Total Unassigned	$ 598,913	$ -	$ -	$ -	$ (13,956)	$ 584,957
Total Fund Balances	$ 598,913	$ 373,802	$ 52,986	$ 8,515	$ 629,587	$ 1,663,803

NOTE 22: SUBSEQUENT EVENTS

Due to unforeseen problems with construction of the foundation for the golf car storage buildings, a change order was approved in the amount of $38,705 which brought the final construction cost to $219,705.

In September 2015, the City was awarded a CDBG (Community Development Block Grant program) grant in the amount of $450,000 for use in the construction of the wastewater treatment plant. Start-up conditions are being worked on.

Subsequent to June 30, 2015 the Commissioners approved an internal loan from the sewer fund to the golf fund in the amount of $342,700. This loan was used to repay the golf fund for the golf car fleet purchase and the construction of the golf car storage buildings. This loan was paid off in January 2016 and then re-borrowed for the same amount for a longer time period (April 15, 2017) at a higher interest rate.

The City was named as defendant in a lawsuit involving a former lessee of the golf course restaurant. The case was tried in Lake County Justice Court in December, 2013 and the Judge awarded the plaintiff the sum of $12,300. This amount was not covered by insurance. Management decided, on the advice of the City Attorney, to appeal the decision to Lake County District County. In order to file the appeal the City had to deposit the judgment of $12,300 with the Justice Court pending the outcome of the appeal. The bench trial took place on August 10, 2015. The City received the ruling in February, 2016 in favor of the plaintiff. In a negotiated settlement the City will pay the plaintiff $12,000. This will be paid out of the deposit that is currently in trust with the Justice Court. The remaining $300 will be returned to the City.

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, 2015

	Non-GAAP Budgetary Basis						GAAP Basis
REVENUES	Original Budget	Final Budget	Actual	Variance with Final budget Over (Under)	Adjustment to Fund Financial Statements	Foot-note	Statement of Revenues, Expenditures and Changes in Fund Balance
Taxes	$ 1,318,577	$ 1,318,577	$ 1,369,142	$ 50,565	$		$ 1,369,142
Licenses and permits	19,700	19,700	30,106	10,406			30,106
Intergovernmental revenue	669,070	669,070	735,717	66,647			735,717
Charges for services	140,100	140,100	145,543	5,443			145,543
Fines and forfeitures	46,200	46,200	41,714	(4,486)			41,714
Miscellaneous	44,700	44,700	47,292	2,592			47,292
Investment earnings	3,000	3,000	649	(2,351)			649
Total revenues	$ 2,241,347	$ 2,241,347	$ 2,370,163	$ 128,816			$ 2,370,163
EXPENDITURES							
Executive services	$ 23,251	$ 23,251	$ 24,337	$ 1,086			$ 24,337
Judicial services	53,631	53,631	50,732	(2,899)			50,732
Administration services	151,518	151,518	142,129	(9,389)			142,129
Financial services	204,404	204,404	190,526	(13,878)			190,526
Legal services	51,150	51,150	49,396	(1,754)			49,396
Facilities administration	191,504	191,504	183,994	(7,510)			183,994
Law enforcement services	951,351	946,454	959,691	13,237			959,691
Detention & correction services	1,000	1,000	63	(937)			63
Fire protection & control	138,527	138,527	122,426	(16,101)			122,426
Protective inspections	95,064	95,064	65,078	(29,986)			65,078
Road & street services	224,476	224,476	218,820	(5,656)			218,820
Social & economic services	2,200	2,200	-	(2,200)			-
Parks	181,874	179,474	178,047	(1,427)			178,047
Miscellaneous	11,702	11,702	-	(11,702)			
Capital outlay	124,725	132,022	37,268	(94,754)			37,268
Total expenditures	$ 2,406,377	$ 2,406,377	$ 2,222,507	$ (183,870)			$ 2,222,507
Excess of revenues over (under) expenditures	$ (165,030)	$ (165,030)	$ 147,656	$ 312,686			$ 147,656
Other financing sources/uses	$ 93,053	$ 44,683	$ 44,668	$ (15)			$ 44,668
Net change in fund balances	$ (71,977)	$ (120,347)	$ 192,324	$ 312,671			$ 192,324
Fund Balance July 1, 2014	406,589	406,589	406,589				406,589
Fund Balance June 30, 2015	334,612	286,242	598,913				$ 598,913

Explanation of Differences Between Budgetary Basis to GAAP Basis

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

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

City of Polson
Lake County, Montana
Tax Increment District-Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual, (Non-GAAP Budgetary Basis), for the Fiscal Year Ended June 30, 2015

	Non-GAAP Budgetary Basis						GAAP Basis
REVENUES	Original Budget	Final Budget	Actual	Variance with Final budget Over (Under)	Adjustment to Fund Financial Statements	Foot-note	Statement of Revenues, Expenditures and Changes in Fund Balance
Taxes	$ 146,500	$ 146,500	$ 196,015	$ 49,515	$		$ 196,015
Intergovernmental revenue	13,081	13,081	13,081	-			13,081
Investment earnings	200	200	995	795			995
Total revenues	$ 159,781	$ 159,781	$ 210,091	$ 50,310			$ 210,091
EXPENDITURES							
Housing and community development	$ 80,819	$ 80,819	$ 79,997	$ (822)			$ 79,997
Capital outlay	126,000	126,000	380	(125,620)			380
Total expenditures	$ 206,819	$ 206,819	$ 80,377	$ (126,442)			$ 80,377
Excess of revenues over (under) expenditures	$ (47,038)	$ (47,038)	$ 129,714	$ 176,752			$ 129,714
Net change in fund balances	$ (47,038)	$ (47,038)	$ 129,714	$ 176,752			$ 129,714
Fund Balance July 1, 2014	244,088	244,088	244,088				244,088
Fund Balance June 30, 2015	197,050	197,050	373,802				$ 373,802

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

City of Polson
Lake County

Public Employees' Retirement System
Schedule of Employer's Proportionate Share of the Net Pension Liability

		June 30, 2015
Employer's Proportionate Share of the Net Pension Liability	$	1,510,614
State's Proportionate Share of the Net Pension Liability associated with the employer		18,447
Total	$	1,529,061
Employer's Pensionable Payroll	$	1,372,389
Employer's Proportionate Share of the Net Pension Liability as a percentage of its Pensionable Payroll		110.072%
Plan Fiduciary Net Position as a percentage of the Total Pension Liability		79.90%

Schedule of Employer Contributions

		June 30, 2015
Employer's Contractually required DB contribution	$	115,764
Employer's Contribution allocated to PCR		-
Employer's Contribution allocated to DB-UAL		-
Employer's Total Contractually Required Contribution	$	115,764
Employer's Contributions in relation to the contractually required contribution	$	115,764
Employer's Contribution deficiency (excess)	$	-
Employer's Pensionable Payroll	$	1,372,389
Contributions as a percentage of Pensionable Payroll		8.435%

Municipal Police Officers' Retirement System
Schedule of Employer's Proportionate Share of the Net Pension Liability

		June 30, 2015
Employer's Proportionate Share of the Net Pension Liability	$	212,969
State's Proportionate Share of the Net Pension Liability associated with the employer		430,223
Total	$	643,192
Employer's Pensionable Payroll	$	181,848
Employer's Proportionate Share of the Net Pension Liability as a percentage of its Pensionable Payroll		117.114%
Plan Fiduciary Net Position as a percentage of the Total Pension Liability		67.00%

Schedule of Employer Contributions

		June 30, 2015
Employer's Contractually required DB contribution	$	26,440
Employer's Contribution allocated to PCR		-
Employer's Contribution allocated to DB-UAL		-
Employer's Total Contractually Required Contribution	$	26,440
Employer's Contributions in relation to the contractually required contribution	$	26,440
Employer's Contribution deficiency (excess)	$	-
Employer's Pensionable Payroll	$	181,848
Contributions as a percentage of Pensionable Payroll		14.540%

REPORTS REQUIRED BY

GOVERNMENT AUDITING STANDARDS

COTE & ASSOCIATES, CPA, PLLC

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P.O. Box 430
Missoula, MT 59806

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 States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, 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, 2015, and the related notes to the financial statements, which collectively comprise the City's financial statements and have issued my report thereon dated June 24,2016

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

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.

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

Cote & Associates, CPA, PLLC

June 24, 2016
Missoula, Montana

REPORT ON FISCAL 2014 FINDINGS

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

This finding was similar to finding 2013-1 but related to lack of recording a material liability which could have been known for several years but was passed over, partly by a lack of communication. The new City Manager has improved communications and is working on other parts of internal control planning.

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

The City of Polson has taken action to correct documentation that the Polson Redevelopment Agency is a department of the City instead of a legally separate agency.