

CITY OF POLSON
LAKE COUNTY, MONTANA
Fiscal Year Ended June 30, 2020 and June 30, 2021

AUDIT REPORT

Denning, Downey & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

CITY OF POLSON

LAKE COUNTY, MONTANA

Fiscal Year Ended June 30, 2020 and June 30, 2021

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CITY OF POLSON

LAKE COUNTY, MONTANA

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CITY OF POLSON
LAKE COUNTY, MONTANA
ORGANIZATION

Fiscal Year Ended June 30, 2020

Paul Briney

Mayor

CITY COUNCIL

Janice Howlett
Lou Marchello
Anthony Isbell
Robert Martin
Carolyn Pardini
Graydon Moll

Commissioner
Commissioner
Commissioner
Commissioner
Commissioner
Commissioner

CITY OFFICIALS

Wade Nash
Cynda M. Dooley
Clinton J. Fischer
Cora Pritt

Interim City Manager
Finance Officer
City Attorney
City Clerk

Fiscal Year Ended June 30, 2021

Paul Briney

Mayor

CITY COUNCIL

Janice Howlett
Lou Marchello
Anthony Isbell
Laura Dever
Carolyn Pardini
Graydon Moll

Commissioner
Commissioner
Commissioner
Commissioner
Commissioner
Commissioner

CITY OFFICIALS

Ed Meece
Cynda M. Dooley
Skyler Bagley (O'Neil Law Office PLLC)
Cora Pritt

City Manager
Finance Officer
City Attorney
City Clerk

City of Polson, Lake County, Montana
Management's Discussion and Analysis
For Fiscal Year Ending June 30, 2020

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, 2020. 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 the letter of transmittal and the financial statements to garner a greater understanding of the City's financial performance.

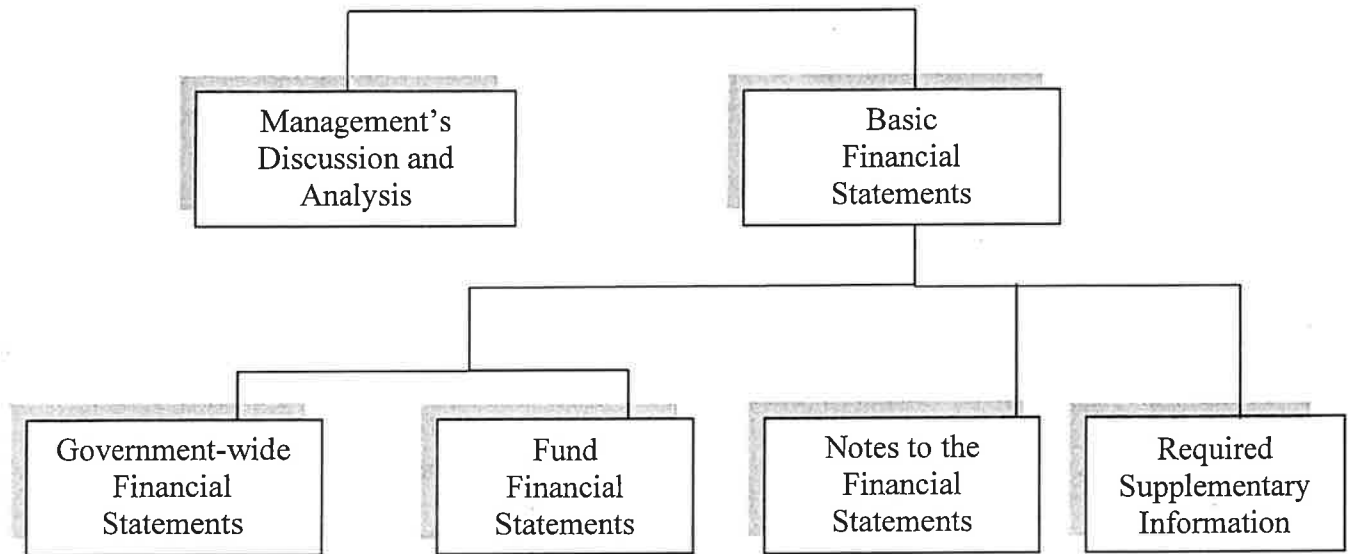
Financial Highlights

- The assets and deferred outflows of the City exceeded its liabilities and deferred inflows at June 30, 2020 by \$32,823,664 (*net position*) compared with \$31,236,431 at June 30, 2019. Of the current year net position, \$3,219,798 (*unrestricted net position*) may be used to meet the City's ongoing obligations to citizens, vendors and creditors.
- The City's total net position increased by \$1,587,233 representing a 5.08% increase from 2019.
- As of the close of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$3,942,831, an increase of \$771,369 from the prior year. Of the fund balance amount, \$1,081,212 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 \$1,082,849 or 35.44% of total general fund expenditures and other financing uses.
- The City's total debt decreased by \$336,397 (1.92%). Payments on outstanding debt were offset by new borrowing and increases in the net pension liability and other post-employment benefits (OPEB) liability. The net pension liability is the result of implementation of GASB (Governmental Accounting Standards Board) Statements 68 and 71 in FY2015. This is explained more fully in the government-wide financial analysis and in Notes 10 and 11 of the notes to the financial statements. The OPEB liability is more fully explained in Note 12 of the notes.

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 following chart illustrates the required components of the annual financial report.

City of Polson, Lake County, Montana
Management's Discussion and Analysis
For Fiscal Year Ending June 30, 2020



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 prospective 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.

City of Polson, Lake County, Montana
Management's Discussion and Analysis
For Fiscal Year Ending June 30, 2020

The Statement of Net Position and the Statement of Activities divide the City into two 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, and sewer utility. The stormwater utility was reclassified as a governmental fund in fiscal year 2018 as its function more closely aligns with governmental type activities.

The fund-level prospective 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 non-major 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 each provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

City of Polson, Lake County, Montana
Management's Discussion and Analysis
For Fiscal Year Ending June 30, 2020

The City maintains forty-five individual governmental funds. Information is presented separately in the Governmental Fund balance sheet and in the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances for the General fund which is considered a major fund. The City reports no other major funds for fiscal year 2020. Major funds are determined by a formula that considers the percentage of total governmental assets, liabilities, revenues and expenditures contained in each individual fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining schedules* elsewhere in this report.

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 five enterprise funds; the golf course, water utility and associated impact fees (combined for reporting purposes), and the sewer utility and associated impact fees (combined for reporting purposes).

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 net position. The enterprise fund financial statements provide detailed information for the Golf Fund, Water Fund and associated Water Impact Fees and Sewer Fund and associated Sewer Impact Fees which meet the criteria to be reported as major funds of the City.

Fiduciary funds – These funds are used to account for resources held for the benefit of parties outside the City of Polson. 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.

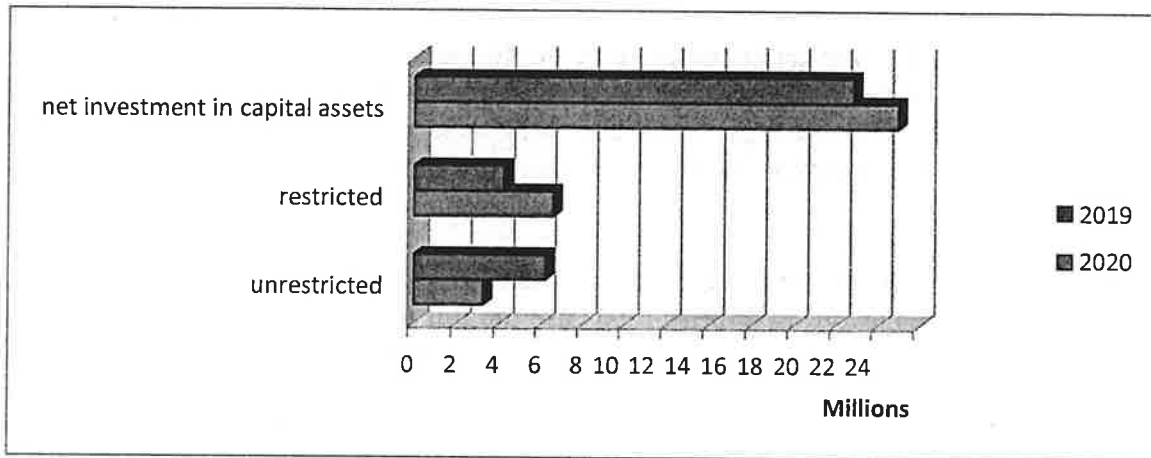
Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements presentation.

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 for major governmental funds has been provided to demonstrate compliance with both the original and final budgets. Required supplementary information can be found following the notes to the financial statements. The combining statements referred to earlier in connection with non-major governmental funds are presented immediately after the required supplementary information.

City of Polson, Lake County, Montana
 Management's Discussion and Analysis
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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, total net position was \$32,823,664 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 2019 (red) and 2020 (blue).



Governmental Activities

The following table provides a summary comparison of the City's governmental net position for fiscal years 2020 and 2019 and changes in the assets and liabilities.

	Governmental activities		Change %	
	2020	2019		
Current and other assets	\$ 4,800,563	\$ 3,999,298	\$ 801,265	20%
Capital assets	<u>4,648,060</u>	<u>4,460,186</u>	<u>187,874</u>	4%
Total assets	<u>\$ 9,448,623</u>	<u>\$ 8,459,484</u>	<u>\$ 989,139</u>	12%
Long-term debt outstanding	\$ 2,646,736	\$ 2,537,793	\$ 108,943	4%
Other liabilities	<u>417,641</u>	<u>331,052</u>	<u>86,589</u>	26%
Total liabilities	<u>\$ 3,064,377</u>	<u>\$ 2,868,845</u>	<u>\$ 195,532</u>	7%
Net investment in capital assets	\$ 3,826,456	\$ 3,614,794	\$ 211,662	6%
Restricted	3,168,230	2,812,156	\$ 356,074	13%
Unrestricted (deficit)	<u>(610,440)</u>	<u>(836,311)</u>	<u>\$ 225,871</u>	-27%
Total net position	<u>\$ 6,384,246</u>	<u>\$ 5,590,639</u>	<u>\$ 793,607</u>	14%

City of Polson, Lake County, Montana
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By far the largest portion of the City's governmental net position, \$3,826,456 (59.94%) reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery and equipment) net of depreciation, and 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 \$3,168,230 of the City's governmental net position (49.62%) 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 \$610,440 (-9.56%). The prior year unrestricted balance was a negative \$836,311. The unrestricted net position had a positive increase of \$225,871. The negative balance in unrestricted net position was created with the implementation of GASB 68 and 71 in FY2015. With the new reporting change, the City is 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 in FY2015. In fiscal year 2020 the net pension liability has increased \$84,292 which has a negative effect on net position. Decisions regarding the allocations are made by the administrators of the pension plan, not by the City's management.

The current assets increased 20% due to increases in grant revenues, property taxes and intergovernmental revenues while holding the line on spending in the various governmental funds.

Business-type Activities

The following table provides a summary comparison of the City's business-type net position for fiscal years 2020 and 2019 and changes in the assets and liabilities.

	<u>Business-type activities</u>		<u>Change</u>	<u>%</u>
	2020	2019		
Current and other assets	\$ 9,076,459	\$ 9,355,758	\$ (279,299)	-3%
Capital assets	32,875,425	32,717,972	157,453	0%
Total assets	<u>\$ 41,951,884</u>	<u>\$ 42,073,730</u>	<u>\$ (121,846)</u>	0%
Long-term debt outstanding	\$ 14,566,938	\$ 15,012,277	\$ (445,339)	-3%
Other liabilities	945,528	1,415,661	(470,133)	-33%
Total liabilities	<u>\$ 15,512,466</u>	<u>\$ 16,427,938</u>	<u>\$ (915,472)</u>	-6%
Net investment in capital assets	\$ 19,142,405	\$ 17,377,786	\$ 1,764,619	10%
Restricted	3,466,775	1,386,898	2,079,877	149%
Unrestricted	3,830,238	6,881,108	(3,050,870)	-44%
Total net position	<u>\$ 26,439,418</u>	<u>\$ 25,645,792</u>	<u>\$ 793,626</u>	3%

City of Polson, Lake County, Montana
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For Fiscal Year Ending June 30, 2020

By far the largest portion of the City's business-type net position \$19,142,405 (72.40%) reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery and equipment and utility plant) 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 \$3,466,775 represent 13.12% of the total net position. The restrictions are due to debt service requirements and future capital outlay projects.

The remaining balance of *unrestricted net position*, \$3,830,238 (14.48%) may be used to meet the government's ongoing obligations to its citizens, vendors and creditors.

Net position for the business-type activities increased \$793,626 (3%). This is mainly due to an increase in net position of the Sewer Fund to account for increases in sewer revenues in anticipation of debt repayment on bonds for construction of the wastewater resource recovery facility. The facility took longer to construct than anticipated which delayed debt service payments. Other liabilities decreased 33% from the prior year due to decreased construction activity.

Changes in Net Position

Governmental Activities

Governmental activities increased the City's net position by \$793,607 in fiscal year 2020. The following table provides a summary comparison of the City's governmental change in net position for fiscal years 2020 and 2019.

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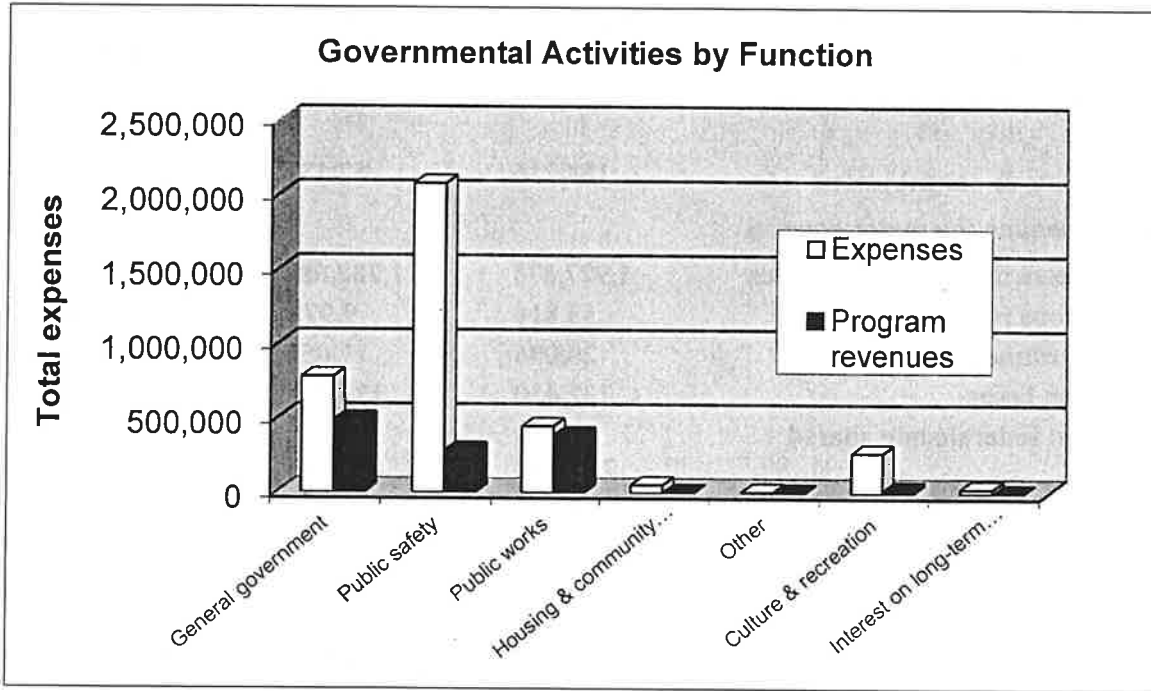
City of Polson, Lake County, Montana
Management's Discussion and Analysis
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	<u>Governmental Activities</u>		Change	%
Revenues				
<i>Program revenues (by major source)</i>	2020	2019		
Charges for services	\$ 590,994	\$ 659,871	\$ (68,877)	-10%
Operating grants & contributions	515,216	45,134	470,082	1041%
			132,079	
Capital grants & contributions	184,216	52,137		253%
<i>General revenues (by major source)</i>				
Property taxes for general purposes	1,927,875	1,788,682	139,193	7%
Miscellaneous revenues	53,814	9,978	43,836	439%
Interest/investment earnings	20,096	17,052	3,044	14%
Local option taxes	132,450	129,297	3,153	2%
Unrestricted federal/state shared revenues	714,926	846,146	(131,220)	-15%
Payments in Lieu of Taxes	51,799	55,802	(4,003)	-7%
Contributions & donations	2,518	-	2,518	
Impact Fees	45,502	54,711	(9,209)	-16%
State retirement	175,453	-	175,453	
Total revenues	<u>\$ 4,414,859</u>	<u>\$ 3,658,810</u>	<u>\$ 756,049</u>	21%
Program expenses				
General government	\$ 777,994	\$ 732,989	45,005	6%
Public safety	2,077,775	2,002,364	75,411	4%
Public works	446,319	462,991	(16,672)	-4%
Culture & recreation	269,830	248,441	21,389	9%
Housing/Community Development	52,108	71,880	(19,772)	-28%
Conservation of Natural Resources	4,935	4,873	62	1%
Debt service - interest	28,372	30,337	(1,965)	-6%
Total expenses	<u>\$ 3,657,333</u>	<u>\$ 3,553,875</u>	<u>\$ 103,458</u>	3%
Excess (deficiency) before special items and transfers	757,526	104,935	652,591	622%
Gain (loss) on sale of capital assets	40,203	23,129	17,074	74%
Restatements	(4,122)	10,963	(15,085)	-138%
Increase (decrease) in net position	<u>\$ 793,607</u>	<u>\$ 139,027</u>	<u>\$ 654,580</u>	471%

The City had an increase in net position from operations of 471%. This increase is due mainly to an increase in capital and operating grants that the City received as part of the COVID-19 stimulus package from the federal government and the MACI Air Quality grant for equipment. Expenditures did not have a large increase which also contributed to increasing the net position. The \$793,607 total increase in net position accounted for 50% of the total growth in the net position of the City.

City of Polson, Lake County, Montana
 Management's Discussion and Analysis
 For Fiscal Year Ending June 30, 2020

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



Business-type Funds

Business-type activities increased the City's net position by \$793,626 in fiscal year 2020. The following table provides a summary comparison of the City's business-type change in net position for fiscal years 2020 and 2019.

(continued on following page)

City of Polson, Lake County, Montana
Management's Discussion and Analysis
For Fiscal Year Ending June 30, 2020

	<u>Business-type Activities</u>		<u>Change %</u>	
Revenues				
<i>Program revenues (by major source)</i>	2020	2019		
Charges for services	\$ 3,771,956	\$ 3,742,186	\$ 29,770	1%
Operating grants and contributions	2,489	-	2,489	
Capital grants and contributions	60,293	36,500	23,793	65%
<i>General revenues (by major source)</i>				
Miscellaneous revenues	105,726	24,055	81,671	340%
Interest/investment earnings	57,792	45,874	11,918	26%
Unrestricted federal/state shared revenues	-	536	(536)	-100%
Impact Fees	93,487	-	93,487	
State retirement	470	-	470	
Total revenues	<u>\$ 4,092,213</u>	<u>\$ 3,849,151</u>	<u>\$ 243,062</u>	<u>6%</u>
Program expenses				
Golf	\$ 1,053,346	\$ 1,041,047	\$ 12,299	1%
Water	942,814	810,519	132,295	16%
Sewer	1,302,427	528,658	773,769	146%
Total expenses	<u>\$ 3,298,587</u>	<u>\$ 2,380,224</u>	<u>\$ 918,363</u>	<u>39%</u>
Excess (deficiency) before special items and transfers	793,626	1,468,927	\$ (675,301)	-46%
Gain (loss) on sale of capital assets	-	3,000	(3,000)	-100%
Increase (decrease) in net position	<u>\$ 793,626</u>	<u>\$ 1,471,927</u>	<u>\$ (678,301)</u>	<u>-46%</u>

Construction of the wastewater resource recovery facility has extended over a longer period of time than was originally anticipated which has delayed expenditures for plant operation and debt service that started to be realized in the last quarter of FY2020. This has created an overall drop in the increase in net position. Overall program expenses for all funds increased 39% from the prior year.

City of Polson, Lake County
Management's Discussion and Analysis
June 30, 2020

Fund Level Financial Analysis

Governmental Funds

For the fiscal year ended June 30, 2020, the City's governmental funds reported combined fund balance totaling \$3,942,831 compared with \$3,171,462 in 2019. Of this amount, \$1,081,212 constitutes unassigned fund balance, which is available to spend for current needs. The remainder of the fund balance is either restricted, committed or assigned to indicate that it is 1) non-spendable, 2) legally required to be maintained intact or restricted for particular purposes, 3) committed for a particular purpose, or 4) assigned for particular purposes. The governmental funds had a combined increase in fund balance totaling \$771,369. This increase is due mainly to an increase in net revenues for several funds as a result of more revenues and less spending in those funds.

The General Fund is the chief operating fund of the City. For fiscal year 2020, total fund balance increased \$454,982 to \$1,082,849 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 balance represents 35% of total expenditures compared to 22% in 2019.

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 \$3,086,539 and there were no amendments to the general fund budget. Actual expenditures were \$3,055,564 including transfers out. Significant budget variances in the General fund include:

- A positive variance of \$57,490 in the Administration budget due to lower than anticipated personnel costs.
- A positive variance of \$46,484 in the Facilities budget due mainly to capital outlay costs that were not incurred.
- A negative variance of \$77,253 in the Police department budget due to the non-cash pension cost of \$165,953 which was not budgeted. The non-cash pension cost is offset by non-cash 'on behalf' revenue in the same amount from the State of Montana in the General Fund and is contributed directly to the plans by the State.
- A negative variance in the Street department budget of \$86,085 which was due mainly to the grant portion of a capital outlay purchase that was not budgeted.

Proprietary Funds (Enterprise)

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 \$211,795. The Water Fund and Sewer Fund unrestricted net position was \$2,375,941 and \$1,242,502 respectively.

City of Polson, Lake County
Management's Discussion and Analysis
June 30, 2020

Capital Assets and Debt Administration

Capital Assets

The City's capital assets consist of land, construction in progress, buildings, improvements, utility plant, infrastructure, equipment and machinery. Infrastructure assets placed in service in 2005 and later are reported in capital assets. The City's net investment in capital assets (net of accumulated depreciation and outstanding debt) was \$22,968,861 at June 30, 2020. Capital asset activity is presented in Note 7 of the financial statements.

Significant activity in capital assets for fiscal year 2020 includes:

- Purchase of a new flush truck for use by the Fire and Street departments totaling \$203,328 funded 87% by a Federal Air Quality Grant and by general fund revenues.
- Purchase of a 2009 Pierce rescue pumper truck for the Fire Department totaling \$248,917. This was funded with \$120,000 in loan proceeds, general fund revenues and fire impact fees.
- A police vehicle was purchased for \$70,622 with funds from the Police Municipal Services levy fund.
- A 2020 Case 580N Backhoe was purchased for \$111,160 with funds from the water and sewer funds.
- Additional costs for construction of the Wastewater Resource Recovery Facility (sewer treatment mechanical plant) were incurred in the amount of \$738,527 for fiscal year 2020 in the sewer fund. The final project cost was transferred from Construction in Progress to the treatment plant asset account in the amount of \$17,404,505.

City of Polson, Lake County
Management's Discussion and Analysis
June 30, 2020

The table below provides a summary of the value of the City's capital assets net of depreciation with a comparison between 2020 and 2019.

	<u>Governmental Activities</u>		<u>Business Activities</u>		<u>Total</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Land	\$ 267,322	\$ 267,322	\$ 2,289,560	\$ 2,289,560	\$ 2,556,882	\$ 2,556,882
Construction in Progress	57,436	25,936	315,518	16,882,987	372,954	16,908,923
Buildings	359,491	368,047	523,963	537,294	883,454	905,341
Improvements other than buildings	295,709	338,326	794,459	825,978	1,090,168	1,164,304
Machinery & Equipment	1,545,269	1,215,450	406,769	497,301	1,952,038	1,712,751
Infrastructure	2,122,833	2,245,105	-	-	2,122,833	2,245,105
Utility Plant	-	-	28,545,156	12,033,573	28,545,156	12,033,573
	<u>\$ 4,648,060</u>	<u>\$ 4,460,186</u>	<u>\$ 2,875,425</u>	<u>\$ 33,066,693</u>	<u>\$ 37,523,485</u>	<u>\$ 37,526,879</u>

Debt Administration

The City's long-term debt totaled \$17,213,673 at June 30, 2020. Total long-term debt decreased \$336,397, which is comprised of the issuance of \$120,000 in General Fund debt, an increase in capital leases of \$1,622, an increase in the OPEB (other post-employment benefits) liability of \$33,412, an increase in the City's share of the PERS and MPORS retirement system pension liability in the amount of \$84,675 and debt service principal payments of (\$571,138) and a decrease in the compensated absences liability of (\$4,968). 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 2020 and 2019:

City of Polson's Outstanding Debt

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Special assessment bonds	\$ 282,610	\$ 335,840	\$ -	\$ -	\$ 282,610	\$ 335,840
Tax increment urban renewal bonds	402,080	468,399	-	-	402,080	468,399
Revenue bonds	-	-	13,437,040	13,851,949	13,437,040	13,851,949
Loans/Contracted debt	115,468	-	295,980	313,890	411,448	313,890
Intercap loans	11,245	22,460	-	-	11,245	22,460
Equipment capital lease	10,200	11,601	-	-	10,200	11,601
Compensated Absences liability	195,436	189,018	79,120	90,506	274,556	279,524
Net pension liability	1,525,206	1,440,914	731,862	731,479	2,257,068	2,172,393
Other post-employment benefits liability	104,490	69,561	22,936	24,453	127,426	94,014
	<u>\$ 2,646,735</u>	<u>\$ 2,537,793</u>	<u>\$ 14,566,938</u>	<u>\$ 15,012,277</u>	<u>\$ 17,213,673</u>	<u>\$ 17,550,070</u>

City of Polson, Lake County
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Economic Factors and Fiscal Year 2021 Budget

The City of Polson is a Third-Class city with a current estimated population of 4,875. 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 has seen major improvement in the retail construction industry and now the residential construction is increasing. 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 Country 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 and 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 2021 budget items worth noting:

- The budget includes a 1% step increase for police officers and a 4% COLA for all permanent, full-time city employees and merit increases for employees that are below the average wage for their position in relation to other third class cities and other city employees, and employees that have taken on additional duties.
- Finalization of the City's Capital Improvement Plan (CIP) with a budget of \$16,000.
- Technology upgrades for the City Hall network are budgeted at \$27,500
- Purchase of a police vehicle for \$72,000
- Fire department replacement of expiring SCBA equipment with loan/grant funding in the amount of \$100,000

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- Possible construction of the Skate Park addition if final funding is received. Project cost is \$220,000 from donations.
- Purchase of vehicle for Building Department for \$25,000 or less.
- In the water fund, costs have been budgeted for the initial costs to replace a reservoir- \$360,000 and connection of Well No. 8 to the water system -\$1,034,000.
- In the sewer fund, costs have been budgeted for a sewer line upgrade project in the amount of \$1,746,500 and partial funding for a new lift station at Ridgewater (\$200,000) (Total cost to be shared with the developer)
- In the golf fund, costs have been budgeted to replace the golf cart fleet and trade-in the existing fleet.
- 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

Finance Officer
City of Polson

City of Polson, Lake County
Management's Discussion and Analysis
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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, 2021. 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 the letter of transmittal and the financial statements to garner a greater understanding of the City's financial performance.

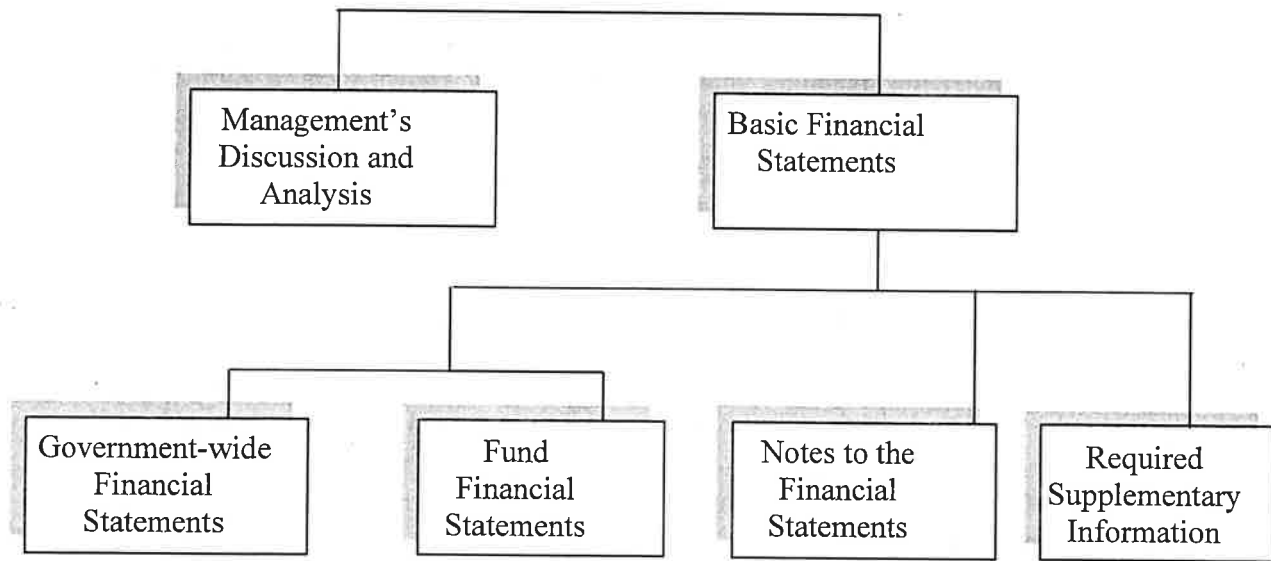
Financial Highlights

- The assets and deferred outflows of the City exceeded its liabilities and deferred inflows at June 30, 2021 by \$34,785,582 (*net position*) compared with \$32,823,664 at June 30, 2020. Of the current year net position, \$5,646,651 (*unrestricted net position*) may be used to meet the City's ongoing obligations to citizens, vendors and creditors.
- The City's total net position increased by \$1,961,918 representing a 5.98% increase from fiscal year 2020.
- As of the close of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$4,720,862, an increase of \$778,031 from the prior year. Of the fund balance amount, \$1,539,370 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 \$1,539,370 or 53.92% of total general fund expenditures and other financing uses.
- The City's total debt increased by \$2,199,482 (12.78%). Payments on outstanding debt were offset by new borrowing and increases in the net pension liability and other post-employment benefits (OPEB) liability. The net pension liability is the result of implementation of GASB (Governmental Accounting Standards Board) Statements 68 and 71 in FY2015. This is explained more fully in the government-wide financial analysis

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 following chart illustrates the required components of the annual financial report.

City of Polson, Lake County
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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 prospective 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.

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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 two 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, and sewer utility.

The fund-level prospective 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 non-major 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 each provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

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The City maintains forty-three individual governmental funds. Information is presented separately in the Governmental Fund balance sheet and in the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances for the General fund which is considered a major fund. The City reports no other major funds for fiscal year 2021. Major funds are determined by a formula that considers the percentage of total governmental assets, liabilities, revenues and expenditures contained in each individual fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining schedules* elsewhere in this report.

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 five enterprise funds; the golf course, water utility and associated impact fees (combined for reporting purposes), and the sewer utility and associated impact fees (combined for reporting purposes).

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 net position. The enterprise fund financial statements provide detailed information for the Golf Fund, Water Fund and associated Water Impact Fees and Sewer Fund and associated Sewer Impact Fees which meet the criteria to be reported as major funds of the City.

Fiduciary funds – These funds are used to account for resources held for the benefit of parties outside the City of Polson. 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.

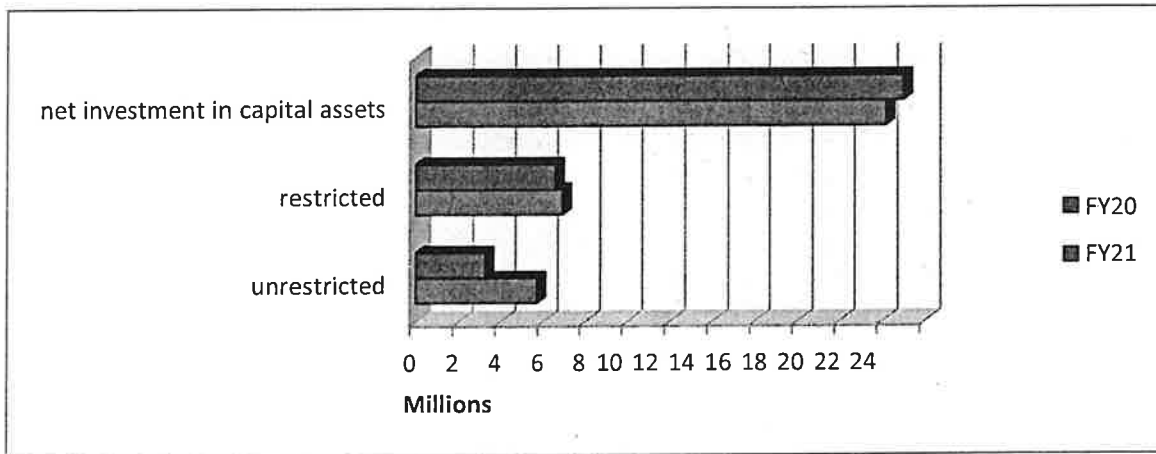
Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements presentation.

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 for major governmental funds has been provided to demonstrate compliance with both the original and final budgets. Required supplementary information can be found following the notes to the financial statements. The combining statements referred to earlier in connection with non-major governmental funds are presented immediately after the required supplementary information.

City of Polson, Lake County
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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, total net position was \$34,785,582 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 FY20 (red) and FY21 (blue).



Governmental Activities

The following table provides a summary comparison of the City's governmental net position for fiscal years 2021 and 2020 and changes in the assets and liabilities.

	Governmental Activities		Change	%
	FY21	FY20	Inc (Dec)	
Current and other assets	\$ 5,884,830	\$ 4,800,563	\$ 1,084,267	23%
Capital assets	4,615,024	4,648,060	(33,036)	-1%
Total assets	<u>\$ 10,499,854</u>	<u>\$ 9,448,623</u>	<u>\$ 1,051,231</u>	11%
Long-term debt outstanding	\$ 3,114,266	\$ 2,646,736	\$ 467,530	18%
Other liabilities	463,382	417,641	45,741	11%
Total liabilities	<u>\$ 3,577,648</u>	<u>\$ 3,064,377</u>	<u>\$ 513,271</u>	17%
Net investment in capital assets	\$ 3,768,545	\$ 3,826,456	\$ (57,911)	-2%
Restricted	3,430,192	3,168,230	261,962	8%
Unrestricted (deficit)	(276,531)	(610,440)	333,909	-55%
Total net position	<u>\$ 6,922,206</u>	<u>\$ 6,384,246</u>	<u>\$ 537,960</u>	8%

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By far the largest portion of the City's governmental net position, \$3,768,545 (54.44%) reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery and equipment) net of depreciation, and 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 \$3,430,192 of the City's governmental net position (49.55%) 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 \$276,531 (-3.99%). The prior year unrestricted balance was a negative \$610,440. The unrestricted net position had a positive increase of \$333,909 (deficit was decreased). The negative balance in unrestricted net position was created with the implementation of GASB 68 and 71 in FY2015. With the new reporting change, the City is 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 in FY2015. In fiscal year 2021 the net pension liability has increased \$435,399 which has a negative effect on net position. Decisions regarding the allocations are made by the administrators of the pension plan, not by the City's management.

The current assets increased 23% due to increases in grant revenues, property taxes and intergovernmental revenues while holding the line on spending in the various governmental funds.

Business-type Activities

The following table provides a summary comparison of the City's business-type net position for fiscal years 2021 and 2020 and changes in the assets and liabilities.

	Business-type Activities		Change %	
	FY21	FY20	Inc (Dec)	
Current and other assets	11,987,391	\$ 9,076,459	\$ 2,910,932	32%
Capital assets	33,637,270	32,875,425	761,845	2%
Total assets	<u>\$ 45,624,661</u>	<u>\$ 41,951,884</u>	<u>\$ 3,672,777</u>	9%
Long-term debt outstanding	\$ 16,218,890	\$ 14,566,938	\$ 1,651,952	11%
Other liabilities	1,542,395	945,528	596,867	63%
Total liabilities	<u>\$ 17,761,285</u>	<u>\$ 15,512,466</u>	<u>\$ 2,248,819</u>	14%
Net investment in capital assets	\$ 18,387,276	\$ 19,142,405	\$ (755,129)	-4%
Restricted	3,552,918	3,466,775	86,143	2%
Unrestricted	5,923,182	3,830,238	2,092,944	54%
Total net position	<u>\$ 27,863,376</u>	<u>\$ 26,439,418</u>	<u>\$ 1,423,958</u>	5%

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By far the largest portion of the City's business-type net position \$18,387,276 (65.99%) reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery and equipment and utility plant) 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 \$3,552,918 represent 12.7% of the total net position. The restrictions are due to debt service requirements and future capital outlay projects.

The remaining balance of *unrestricted net position*, \$5,923,182 (21.2%) may be used to meet the government's ongoing obligations to its citizens, vendors and creditors.

Net position for the business-type activities increased \$1,423,958 (5%). The Golf fund had one of its best years which significantly increased the net position of that fund. The Water and Sewer funds both have delayed projects which contributed to an increase in net position of those funds.

Changes in Net Position

Governmental Activities

Governmental activities increased the City's net position by \$537,960 in fiscal year 2021. The following table provides a summary comparison of the City's governmental change in net position for fiscal years 2021 and 2020.

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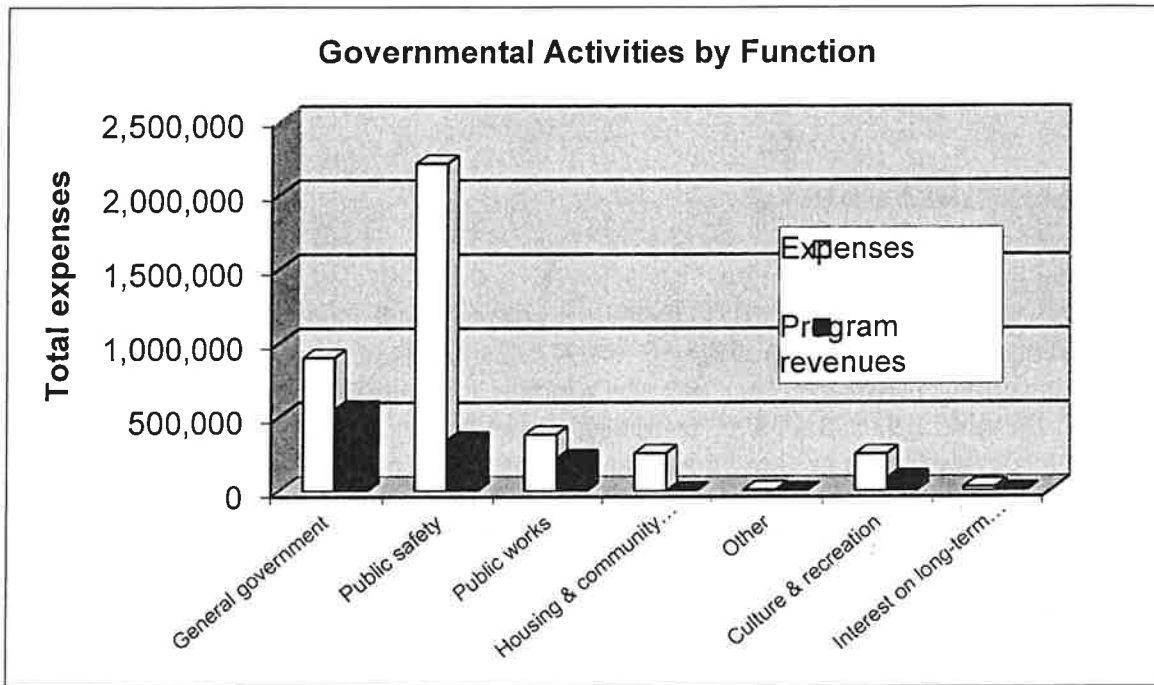
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	Governmental Activities		Change%	
	FY21	FY20	Inc (Dec)	
Revenues				
<i>Program revenues (by major source)</i>				
Charges for services	\$ 584,165	\$ 590,994	\$ (6,829)	-1%
Operating grants & contributions	674,696	515,216	159,480	30%
Capital grants & contributions				
<i>General revenues (by major source)</i>	90,346	184,216	(93,870)	-51%
Property taxes for general purposes	1,969,537	1,927,875	41,125	2%
Miscellaneous revenues	26	53,814	(53,788)	-100%
Interest/investment earnings	7,887	20,096	(12,209)	-59%
Local option taxes	147,268	132,450	14,818	11%
Unrestricted federal/state shared revenues	732,482	714,916	17,556	2%
Payments in Lieu of Taxes	64,193	51,799	12,394	24%
Contributions & donations	534	2,518	(1,984)	-79%
Franchise and Impact Fees	98,743	46,193	52,550	114%
State retirement	175,539	175,453	86	0%
Total revenues	\$ 4,545,416	\$ 4,414,859	\$ 130,557	3%
Program expenses				
General government	\$ 898,355	\$ 777,994	120,361	15%
Public safety	2,206,547	2,077,775	128,772	6%
Public works	379,486	446,319	(66,833)	-15%
Culture & recreation	247,224	269,830	(22,606)	-8%
Housing/Community Development	253,237	52,108	201,129	386%
Conservation of Natural Resources	5,699	4,935	764	15%
Debt service - interest	25,173	28,372	(3,199)	-11%
Total expenses	\$ 4,015,721	\$ 3,657,333	\$ 358,388	10%
Excess (deficiency) before special items and transfers	529,695	757,526	(227,831)	-30%
Gain (loss) on sale of capital assets	8,265	40,203	(31,938)	-79%
Restatements	-	(4,122)	4,122	-100%
Increase (decrease) in net position	\$ 537,960	\$ 793,607	\$ (255,647)	-32%

The City had a decrease in net position from operations of 32% from the prior year, however it was still a healthy increase in net position. This decrease is due mainly to additional spending based on operating grant revenues received in the prior year and increased property tax revenue. The \$537,960 total increase in net position accounted for 27.42% of the total growth in the net position of the City.

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

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Business-type Funds

Business-type activities increased the City's net position by \$1,423,958 in fiscal year 2021. The following table provides a summary comparison of the City's business-type change in net position for fiscal years 2021 and 2020.

	<u>Business-type Activities</u>		<u>Change %</u>	
	FY21	FY20	Inc (Dec)	
Revenues				
<i>Program revenues (by major source)</i>				
Charges for services	\$ 4,479,259	\$ 3,771,956	\$ 707,303	19%
Operating grants and contributions	744	2,489	(1,745)	-70%
Capital grants and contributions	321,790	60,293	261,497	435%
<i>General revenues (by major source)</i>				
Miscellaneous revenues	21,799	105,726	(83,927)	-79%
Interest/investment earnings	22,006	57,792	(35,786)	-62%
Impact Fees	132,526	93,487	39,039	42%
State retirement	528	470	58	12%
Total revenues	<u>\$ 4,978,652</u>	<u>\$ 4,092,213</u>	<u>\$ 886,439</u>	22%
Program expenses				
Golf	\$ 1,276,801	\$ 1,053,346	\$ 223,455	21%
Water	873,779	942,814	(69,035)	-7%
Sewer	1,434,459	1,302,427	132,032	10%
Total expenses	<u>\$ 3,585,039</u>	<u>\$ 3,298,587</u>	<u>\$ 286,452</u>	9%
Excess (deficiency) before special items and transfers	\$ 1,393,613	\$ 793,626	\$ 599,987	76%
Gain (loss) on sale of capital assets	30,345	-	30,345	100%
Increase (decrease) in net position	<u>\$ 1,423,958</u>	<u>\$ 793,626</u>	<u>\$ 630,332</u>	79%

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As mentioned earlier, the Golf Fund had a healthy increase in net position due to increased revenues and lower spending that contributed over 40% to the increase. There are delayed projects in the Water and Sewer Funds which have also contributed to positive increases in net position in those funds.

Fund Level Financial Analysis

Governmental Funds

For the fiscal year ended June 30, 2021, the City's governmental funds reported combined fund balance totaling \$4,720,862 compared with \$3,942,831 in fiscal year 2020. Of this amount, \$1,539,370 constitutes unassigned fund balance, which is available to spend for current needs. The remainder of the fund balance is either restricted, committed or assigned to indicate that it is 1) non-spendable, 2) legally required to be maintained intact or restricted for particular purposes, 3) committed for a particular purpose, or 4) assigned for particular purposes. The governmental funds had a combined increase in fund balance totaling \$778,031.

The General Fund is the chief operating fund of the City. For fiscal year 2021, total fund balance increased \$456,521 to \$1,539,370 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 54% of total expenditures compared to 35% in fiscal year 2020 which increases the City's liquidity.

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 \$2,945,643 and there were no amendments to the general fund budget. Actual expenditures were \$2,855,077 including transfers out. Significant budget variances in the General fund include:

- A positive variance of \$27,240 in the Facilities budget due to capital outlay purchases that were not made.
- A negative variance of \$43,399 in the Fire department budget due to unplanned capital outlay costs.
- A negative variance of \$24,905 in the Planning department budget due to costs associated with outside services required in the absence of a Building and Planning Official.
- A positive variance in the Street department budget of \$46,086 which was due mainly to personnel shortages.

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- A positive variance of \$37,249 in the Parks Department budget due mainly to personnel shortages

Proprietary Funds (Enterprise)

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 \$429,810. The Water Fund and Sewer Fund unrestricted net position was \$2,729,826 and \$2,763,546 respectively.

Capital Assets and Debt Administration

Capital Assets

The City's capital assets consist of land, construction in progress, buildings, improvements, utility plant, infrastructure, equipment and machinery. Infrastructure assets placed in service in 2005 and later are reported in capital assets. The City's net investment in capital assets (net of accumulated depreciation and outstanding debt) was \$22,155,821 at June 30, 2021. Capital asset activity is presented in Note 7 of the financial statements.

Significant activity in capital assets for fiscal year 2021 includes:

- Purchase of three Ford Interceptor police vehicles for the Police department totaling \$181,782. This purchase was made with Intercap loan proceeds in the Police Municipal Services Levy fund.
- Purchase of 15 SCBA Pacs for the Fire Department totaling \$100,721. This was funded with existing funds in the General Fund, Fire Impact Fee fund and the Fire Member Donation fund.
- A 2020 Chevrolet Trax was purchased in the amount of \$20,358 for the Building department with funds from the Building Code Enforcement fund.
- A new 2021 60 cart golf fleet was purchased for \$280,260 from the Golf Fund. Fifty-nine of the 2016 fleet was traded in with a value of \$165,200. The net cost was \$115,060 and was paid with existing funds in the Golf Fund.
- The City received a capital donation valued at \$321,790 from Mission Valley Junior Golf Association, Inc. for the Training Center addition and two golf simulators that is now part of the Golf Restaurant complex.
- Construction began on the Sewer Collection project to replace aging mains in various areas of the City. The costs are being funded through a DNRC RRGL grant for \$125,000, an SRF loan for \$1,550,000 with \$212,500 in loan forgiveness at the end of the project and \$479,083 in local funds from the Water and Sewer Funds.

City of Polson, Lake County
Management's Discussion and Analysis
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See Note 7 for further capital asset information and details of the City's capital activity for FY21. The table below provides a summary of the value of the City's capital assets net of depreciation with a comparison between FY21 and FY20.

	Governmental Activities		Business Activities		Total	
	FY21	FY20	FY21	FY20	FY21	FY20
Land	\$ 267,322	\$ 267,322	\$ 2,289,560	\$ 2,289,560	\$ 2,556,882	\$ 2,556,882
Construction in Progress	93,723	57,436	1,488,256	315,518	1,581,979	372,954
Buildings	343,812	359,491	690,031	523,963	1,033,843	883,454
Improvements other than buildings	275,615	295,709	762,940	794,459	1,038,555	1,090,168
Machinery & Equipment	1,633,992	1,545,269	574,683	406,769	2,208,675	1,952,038
Infrastructure	2,000,560	2,122,833	-	-	2,000,560	2,122,833
Utility Plant	-	-	27,831,800	28,545,156	27,831,800	28,545,156
	<u>\$ 4,615,024</u>	<u>\$ 4,648,060</u>	<u>\$ 33,637,270</u>	<u>\$ 32,875,425</u>	<u>\$ 38,252,294</u>	<u>\$ 37,523,485</u>

Debt Administration

The City's long-term debt totaled \$19,333,156 at June 30, 2021. Total long-term debt increased \$2,119,482, which is comprised of the issuance of \$177,450 in General Fund debt, the issuance of \$1,958,095 in Sewer Fund debt, an increase in the OPEB (other post-employment benefits) liability of \$8,655, an increase in the City's share of the PERS and MPORS retirement system pension liability in the amount of \$567,234, an increase of \$1,744 in the compensated absences liability, and debt service principal payments of (\$593,696). 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 FY21 and FY20:

City of Polson's Outstanding Debt	Governmental Activities		Business-type Activities		Total	
	FY21	FY20	FY21	FY20	FY21	FY20
Special assessment bonds	\$ 221,360	\$ 282,610	\$ -	\$ -	\$ 221,360	\$ 282,610
Tax increment urban renewal bonds	333,767	402,081	-	-	333,767	402,081
Revenue bonds	-	-	14,972,880	13,437,040	14,972,880	13,437,040
Loans/Contracted debt	106,906	115,468	277,114	295,980	384,020	411,448
Intercap loans	177,450	11,245	-	-	177,450	11,245
Equipment capital lease	6,996	10,200	-	-	6,996	10,200
Compensated Absences liability	195,595	195,436	80,705	79,120	276,300	274,556
Net pension liability	1,960,605	1,525,206	863,697	731,862	2,824,302	2,257,068
Other post-employment benefits liability	111,587	104,490	24,494	22,936	136,081	127,426
	<u>\$3,114,266</u>	<u>\$ 2,646,736</u>	<u>\$ 16,218,890</u>	<u>\$ 14,566,938</u>	<u>\$ 19,333,156</u>	<u>\$ 17,213,674</u>

City of Polson, Lake County
Management's Discussion and Analysis
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Economic Factors and Fiscal Year 2022 Budget

The City of Polson is a Third Class city with a current estimated population of 5,148. 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 has seen major improvement in the retail construction industry and now the residential construction is increasing. Information from the 2019 U.S. Census bureau ACS 5 year estimate shows that of the 2,050 employees in Polson, 23.9% are in Healthcare and Social Assistance, 18.5% in Retail Trade, 9.5% in Public Administration, 7.99% in Educational Services, 5.16% in Accommodation and Food Services, 4.38% in Manufacturing with the remaining 30.57% in other service-based industries. 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 Country 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 and 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 2022 budget items worth noting:

- The Administrative Allocation Charge which allocates indirect costs to other funds that use General Fund resources (i.e. City Manager, Finance Department, City Clerk, personnel, etc.) has been updated to 2021 figures. This will increase General Fund revenues approximately \$60,000.
- The budget includes a 1% step increase for police officers and a 3% COLA for all permanent, full-time city employees.
- One-time CARES Act (COVID19/Stimulus) spending of \$465,000 for capital improvements and equipment.
- \$50,000 for a Master Plan/Study for Stormwater upgrades in the Stormwater Fund.

City of Polson, Lake County
Management's Discussion and Analysis
June 30, 2021

- \$5,825,000 in Water and Sewer Fund spending based on American Rescue Plan (ARPA) funding from the Federal Government, State of Montana competitive grants and existing Water and Sewer funds.
- In the Sewer Fund, partial funding for a new lift station at Ridgewater (\$400,000) (Total cost to be shared with the developer) has been budgeted.
- All of the voted and non-voted levies are approved at their maximum levels in the budget due to need.

Contacting the City's Administration and 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. Administrative questions can be addressed to Ed Meece, City Manager at 106 1st Street E. Polson, Montana 59860.

Cindy Dooley, CPA
Finance Officer City of Polson

Ed Meece
City Manager City of Polson

Denning, Downey & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

1740 U.S. Hwy 93 South, P.O. Box 1957, Kalispell, MT 59903-1957

INDEPENDENT AUDITOR'S REPORT

Mayor and City Council
City of Polson
Lake County
Polson, Montana

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of City of Polson, Lake County, Montana, as of and for the years ended June 30, 2020 and June 30, 2021, 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

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our 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 we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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, we 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Polson, Lake County, Montana, as of and for the years ended June 30, 2020 and June 30, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 1 to the financials statements, in 2021, the City adopted new accounting guidance, GASB No. 84 *Fiduciary Activities*. This created restatements in the financial statements in the custodial funds in the amount of \$3,624. The restatements are further described in Note 14 to the Financial Statements. Our opinion is not modified with respect to this matter as we determined it to be appropriate.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of changes in the total OPEB liability and related ratios, schedules of proportionate share of the net pension liability, and schedules of contributions on pages 2 through 30, and 153 through 157, 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2022, on our consideration of the City of Polson, Lake County, Montana's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion the effectiveness of the 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 City of Polson, Lake County, Montana's internal control over financial reporting and compliance.

Deering, Downey and Associates, CPAs, P.C.

June 27, 2022

City of Polson, Lake County, Montana
Statement of Net Position
June 30, 2020

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and investments	\$ 3,575,280	\$ 4,922,469	\$ 8,497,749
Taxes and assessments receivable, net	41,371	-	41,371
Accounts receivable - net	19,724	280,345	300,069
Interest receivable	4,315	13,531	17,846
Due from other governments	451,380	90,288	541,668
Inventories	-	176,140	176,140
Total current assets	<u>\$ 4,092,070</u>	<u>\$ 5,482,773</u>	<u>\$ 9,574,843</u>
Noncurrent assets			
Restricted cash and investments	\$ 104,106	\$ 3,466,775	\$ 3,570,881
Deferred assessment receivable	291,514	-	291,514
Capital assets - land	267,322	2,289,560	2,556,882
Capital assets - construction in progress	57,436	315,518	372,954
Capital assets - depreciable, net	4,323,302	30,270,347	34,593,649
Total noncurrent assets	<u>\$ 5,043,680</u>	<u>\$ 36,342,200</u>	<u>\$ 41,385,880</u>
Total assets	<u>\$ 9,135,750</u>	<u>\$ 41,824,973</u>	<u>\$ 50,960,723</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources - pensions	\$ 312,873	\$ 126,911	\$ 439,784
Total deferred outflows of resources	<u>\$ 312,873</u>	<u>\$ 126,911</u>	<u>\$ 439,784</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 9,448,623</u>	<u>\$ 41,951,884</u>	<u>\$ 51,400,507</u>
LIABILITIES			
Current liabilities			
Retainage payable	\$ -	\$ 404,000	\$ 404,000
Accounts payable	119,085	186,864	305,949
Accrued payroll liabilities	20,332	12,576	32,908
Accrued interest payable	5,463	160,066	165,529
Accrued payroll	60,292	32,347	92,639
Revenues collected in advance	5,350	15,055	20,405
Current portion of long-term capital liabilities	147,199	441,061	588,260
Current portion of compensated absences payable	133,399	54,722	188,121
Total current liabilities	<u>\$ 491,120</u>	<u>\$ 1,306,691</u>	<u>\$ 1,797,811</u>
Noncurrent liabilities			
Deposits payable	\$ 1,452	\$ 61	\$ 1,513
Noncurrent portion of OPEB	104,490	22,936	127,426
Noncurrent portion of long-term capital liabilities	674,405	13,291,959	13,966,364
Noncurrent portion of compensated absences	62,037	24,398	86,435
Net pension liability	1,525,206	731,862	2,257,068
Total noncurrent liabilities	<u>\$ 2,367,590</u>	<u>\$ 14,071,216</u>	<u>\$ 16,438,806</u>
Total liabilities	<u>\$ 2,858,710</u>	<u>\$ 15,377,907</u>	<u>\$ 18,236,617</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources - pensions	\$ 205,667	\$ 134,559	\$ 340,226
Total deferred inflows of resources	<u>\$ 205,667</u>	<u>\$ 134,559</u>	<u>\$ 340,226</u>
NET POSITION			
Net investment in capital assets	\$ 3,826,456	\$ 19,142,405	\$ 22,968,861
Restricted for capital projects	-	1,822,287	1,822,287
Restricted for debt service	520,827	745,906	1,266,733
Restricted for special projects	2,647,403	-	2,647,403
Restricted for other purposes	-	898,582	898,582
Unrestricted	(610,440)	3,830,238	3,219,798
Total net position	<u>\$ 6,384,246</u>	<u>\$ 26,439,418</u>	<u>\$ 32,823,664</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 9,448,623</u>	<u>\$ 41,951,884</u>	<u>\$ 51,400,507</u>

See accompanying Notes to the Financial Statements

City of Polson, Lake County, Montana
Statement of Net Position
June 30, 2021

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and investments	\$ 4,765,973	\$ 7,661,843	\$ 12,427,816
Taxes and assessments receivable, net	44,169	-	44,169
Accounts receivable - net	16,007	325,605	341,612
Due from other governments	170,567	60,952	231,519
Inventories	-	195,384	195,384
Total current assets	<u>\$ 4,996,716</u>	<u>\$ 8,243,784</u>	<u>\$ 13,240,500</u>
Noncurrent assets			
Restricted cash and investments	\$ 104,106	\$ 3,545,721	\$ 3,649,827
Special assessments receivable - deferred	232,916	-	232,916
Capital assets - land	267,322	2,289,560	2,556,882
Capital assets - construction in progress	93,723	1,488,256	1,581,979
Capital assets - depreciable, net	4,253,979	29,859,454	34,113,433
Total noncurrent assets	<u>\$ 4,952,046</u>	<u>\$ 37,182,991</u>	<u>\$ 42,135,037</u>
Total assets	<u>\$ 9,948,762</u>	<u>\$ 45,426,775</u>	<u>\$ 55,375,537</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources - pensions	\$ 551,092	\$ 197,886	\$ 748,978
Total deferred outflows of resources	<u>\$ 551,092</u>	<u>\$ 197,886</u>	<u>\$ 748,978</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 10,499,854</u>	<u>\$ 45,624,661</u>	<u>\$ 56,124,515</u>
LIABILITIES			
Current liabilities			
Accounts payable	\$ 250,404	\$ 518,180	\$ 768,584
Accrued interest payable	4,504	157,104	161,608
Accrued payroll	66,153	35,971	102,124
Revenues collected in advance - ARPA	-	646,261	646,261
Revenues collected in advance - other	-	26,809	26,809
Accrued payroll liabilities	11,603	6,940	18,543
Current portion of long-term capital liabilities	178,557	848,074	1,026,631
Current portion of compensated absences payable	132,306	53,950	186,256
Total current liabilities	<u>\$ 643,527</u>	<u>\$ 2,293,289</u>	<u>\$ 2,936,816</u>
Noncurrent liabilities			
Deposits payable	\$ 3,127	\$ 47,189	\$ 50,316
Noncurrent portion of OPEB	111,587	24,494	136,081
Noncurrent portion of long-term capital liabilities	667,922	14,401,920	15,069,842
Noncurrent portion of compensated absences	63,289	26,755	90,044
Net pension liability	1,960,605	863,697	2,824,302
Total noncurrent liabilities	<u>\$ 2,806,530</u>	<u>\$ 15,364,055</u>	<u>\$ 18,170,585</u>
Total liabilities	<u>\$ 3,450,057</u>	<u>\$ 17,657,344</u>	<u>\$ 21,107,401</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources - pensions	\$ 127,591	\$ 103,941	\$ 231,532
Total deferred inflows of resources	<u>\$ 127,591</u>	<u>\$ 103,941</u>	<u>\$ 231,532</u>
NET POSITION			
Net investment in capital assets	\$ 3,768,545	\$ 18,387,276	\$ 22,155,821
Restricted for capital projects	-	707,651	707,651
Restricted for debt service	462,408	672,944	1,135,352
Restricted for special projects	2,967,784	-	2,967,784
Restricted for other purposes	-	2,165,126	2,165,126
Unrestricted	(276,531)	5,930,379	5,653,848
Total net position	<u>\$ 6,922,206</u>	<u>\$ 27,863,376</u>	<u>\$ 34,785,582</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 10,499,854</u>	<u>\$ 45,624,661</u>	<u>\$ 56,124,515</u>

See accompanying Notes to the Financial Statements

City of Polson, Lake County, Montana
Statement of Activities
For the Fiscal Year Ended June 30, 2020

Functions/Programs Primary government:	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
	Expenses	Operating		Governmental Activities	Business- type Activities	Total
		Charges for Services	Grants and Contributions			
Governmental activities:						
General government	\$ 777,994	\$ 182,220	\$ 306,039	\$ -	\$ -	\$ (289,735)
Public safety	2,077,775	255,718	20,980	6,634	-	(1,794,443)
Public works	446,319	140,080	183,068	177,582	-	54,411
Culture and recreation	269,830	12,976	5,129	-	-	(251,725)
Housing and community development	52,108	-	-	-	-	(52,108)
Conservation of natural resources	4,935	-	-	-	-	(4,935)
Debt service - interest	28,372	-	-	(28,372)	-	(28,372)
Total governmental activities	\$ 3,657,333	\$ 590,994	\$ 515,216	\$ 184,216	\$ -	\$ (2,366,907)
Business-type activities:						
Golf	\$ 1,053,346	\$ 1,129,159	\$ 2,017	\$ -	\$ 77,830	\$ 77,830
Water	942,814	1,058,237	88	-	115,511	115,511
Sewer	1,302,427	1,584,560	384	60,293	342,810	342,810
Total business-type activities	\$ 3,298,587	\$ 3,771,956	\$ 2,489	\$ 60,293	\$ 536,151	\$ 536,151
Total primary government	\$ 6,955,920	\$ 4,362,950	\$ 517,705	\$ 244,509	\$ 536,151	\$ (1,830,756)
General Revenues:						
Property taxes for general purposes				\$ 1,927,875	\$ -	\$ 1,927,875
Miscellaneous revenues				53,814	105,726	159,540
Interest/investment earnings				20,096	57,792	77,888
Local option taxes				132,450	-	132,450
Unrestricted federal/state shared revenues				714,926	-	714,926
Payments in Lieu of Taxes				51,799	-	51,799
Contributions & donations				2,518	-	2,518
Impact Fees				45,502	93,487	138,989
State retirement				175,453	470	175,923
Gain (loss) on sale of capital assets				40,203	-	40,203
Total general revenues, special items and transfers				\$ 3,164,636	\$ 257,475	\$ 3,422,111
Change in net position				\$ 797,729	\$ 793,626	\$ 1,591,355
Net position - beginning				\$ 5,590,639	\$ 25,645,792	\$ 31,236,431
Restatements				(4,122)	-	(4,122)
Net position - beginning - restated				\$ 5,586,517	\$ 25,645,792	\$ 31,232,309
Net position - end				\$ 6,384,246	\$ 26,439,418	\$ 32,823,664

City of Polson, Lake County, Montana
Statement of Activities
For the Fiscal Year Ended June 30, 2021

Functions/Programs Primary government:	Program Revenues				Net (Expenses) Revenues and Changes in Net Position		
	Expenses	Changes for Services	Operating		Governmental Activities	Business- type Activities	Total
			Grants and Contributions	Capital Grants and Contributions			
Governmental activities:							
General government	\$ 898,355	\$ 183,412	\$ 367,167	\$ -	\$ (347,776)	\$ -	\$ (347,776)
Public safety	2,206,547	243,559	82,619	15,423	(1,864,946)	-	(1,864,946)
Public works	379,486	152,051	220,179	-	(7,256)	-	(7,256)
Culture and recreation	247,224	5,143	4,731	74,923	(162,427)	-	(162,427)
Housing and community development	253,237	-	-	-	(253,237)	-	(253,237)
Conservation of natural resources	5,699	-	-	-	(5,699)	-	(5,699)
Debt service - interest	25,173	-	-	-	(25,173)	-	(25,173)
Total governmental activities	\$ 4,015,721	\$ 584,165	\$ 674,696	\$ 90,346	\$ (2,666,514)	\$ -	\$ (2,666,514)
Business-type activities:							
Golf	\$ 1,276,801	\$ 1,493,358	\$ 589	\$ 321,790	\$ -	\$ 538,936	\$ 538,936
Water	873,779	1,132,406	31	-	-	258,658	258,658
Sewer	1,434,459	1,853,495	124	-	-	419,160	419,160
Total business-type activities	\$ 3,585,039	\$ 4,479,259	\$ 744	\$ 321,790	\$ -	\$ 1,216,754	\$ 1,216,754
Total primary government	\$ 7,600,760	\$ 5,063,424	\$ 675,440	\$ 412,136	\$ (2,666,514)	\$ 1,216,754	\$ (1,449,760)
General Revenues:							
Property taxes for general purposes					\$ 1,969,537	\$ -	\$ 1,969,537
Miscellaneous					26	21,799	21,825
Interest/investment earnings					7,887	22,006	29,893
Local option taxes					147,268	-	147,268
Unrestricted federal/state shared revenues					732,482	-	732,482
Contributions & donations					534	-	534
Franchise and Impact Fees					98,743	132,526	231,269
Payments in Lieu of Taxes					64,193	-	64,193
State Retirement					175,539	528	176,067
Gain (loss) on sale of capital assets					8,265	30,345	38,610
Total general revenues, special items and transfers					\$ 3,204,474	\$ 207,204	\$ 3,411,678
Change in net position					\$ 537,960	\$ 1,423,958	\$ 1,961,918
Net position - beginning					\$ 6,384,246	\$ 26,439,418	\$ 32,823,664
Net position - end					\$ 6,922,206	\$ 27,863,376	\$ 34,785,582

See accompanying Notes to the Financial Statements

City of Polson, Lake County, Montana
Balance Sheet
Governmental Funds
June 30, 2020

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Current assets:			
Cash and investments	\$ 796,423	\$ 2,778,857	\$ 3,575,280
Taxes and assessments receivable, net	25,750	15,621	41,371
Accounts receivable - net	1,309	18,415	19,724
Interest receivable	248	4,067	4,315
Due from other funds	4,829	-	4,829
Due from other governments	392,073	59,307	451,380
Total current assets	<u>\$ 1,220,632</u>	<u>\$ 2,876,267</u>	<u>\$ 4,096,899</u>
Noncurrent assets:			
Restricted cash and investments	\$ -	\$ 104,106	\$ 104,106
Deferred assessment receivable	-	291,514	291,514
Total noncurrent assets	<u>\$ -</u>	<u>\$ 395,620</u>	<u>\$ 395,620</u>
TOTAL ASSETS	<u><u>\$ 1,220,632</u></u>	<u><u>\$ 3,271,887</u></u>	<u><u>\$ 4,492,519</u></u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 30,799	\$ 88,286	\$ 119,085
Accrued payroll liabilities	19,144	1,188	20,332
Accrued interest payable	704	4,759	5,463
Accrued payroll	54,586	5,706	60,292
Due to other funds	-	4,829	4,829
Revenues collected in advance	5,350	-	5,350
Total current liabilities	<u>\$ 110,583</u>	<u>\$ 104,768</u>	<u>\$ 215,351</u>
Noncurrent liabilities:			
Deposits payable	\$ 1,450	\$ 2	\$ 1,452
Total noncurrent liabilities	<u>\$ 1,450</u>	<u>\$ 2</u>	<u>\$ 1,452</u>
Total liabilities	<u><u>\$ 112,033</u></u>	<u><u>\$ 104,770</u></u>	<u><u>\$ 216,803</u></u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources - taxes and assessments	\$ 25,750	\$ 307,135	\$ 332,885
Total deferred inflows of resources	<u>\$ 25,750</u>	<u>\$ 307,135</u>	<u>\$ 332,885</u>
FUND BALANCES			
Restricted	\$ -	\$ 2,861,619	\$ 2,861,619
Unassigned fund balance	1,082,849	(1,637)	1,081,212
Total fund balance	<u>\$ 1,082,849</u>	<u>\$ 2,859,982</u>	<u>\$ 3,942,831</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	<u><u>\$ 1,220,632</u></u>	<u><u>\$ 3,271,887</u></u>	<u><u>\$ 4,492,519</u></u>

See accompanying Notes to the Financial Statements

City of Polson, Lake County, Montana
Balance Sheet
Governmental Funds
June 30, 2021

	General	Other Governmental Funds	Total Governmental Funds
ASSETS			
Current assets:			
Cash and investments	\$ 1,542,634	\$ 3,223,339	\$ 4,765,973
Taxes and assessments receivable, net	28,385	15,784	44,169
Accounts receivable - net	2,540	13,467	16,007
Due from other funds	516	-	516
Due from other governments	121,049	49,518	170,567
Total current assets	\$ 1,695,124	\$ 3,302,108	\$ 4,997,232
Noncurrent assets:			
Restricted cash and investments	-	104,106	104,106
Special assessments receivable - deferred	-	232,916	232,916
Total noncurrent assets	\$ -	\$ 337,022	\$ 337,022
TOTAL ASSETS	\$ 1,695,124	\$ 3,639,130	\$ 5,334,254
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 54,196	\$ 196,208	\$ 250,404
Accrued interest payable	549	3,955	4,504
Accrued payroll	59,711	6,442	66,153
Due to other funds	-	516	516
Accrued payroll liabilities	11,603	-	11,603
Total current liabilities	\$ 126,059	\$ 207,121	\$ 333,180
Noncurrent liabilities:			
Deposits payable	\$ 1,310	\$ 1,817	\$ 3,127
Total noncurrent liabilities	\$ 1,310	\$ 1,817	\$ 3,127
Total liabilities	\$ 127,369	\$ 208,938	\$ 336,307
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources - taxes and assessments	\$ 28,385	\$ 248,700	\$ 277,085
Total deferred inflows of resources	\$ 28,385	\$ 248,700	\$ 277,085
FUND BALANCES			
Restricted	\$ -	\$ 3,181,492	\$ 3,181,492
Unassigned fund balance	1,539,370	-	1,539,370
Total fund balance	\$ 1,539,370	\$ 3,181,492	\$ 4,720,862
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	\$ 1,695,124	\$ 3,639,130	\$ 5,334,254

See accompanying Notes to the Financial Statements

City of Polson, Lake County, Montana
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Position
June 30, 2020

Total fund balances - governmental funds	\$	3,942,831
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		4,648,060
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.		332,885
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.		(1,121,530)
Net pension liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.		(1,525,206)
The changes between actuarial assumptions, differences in expected vs actual pension experiences, changes in proportionate share allocation, and current year retirement contributions as they relate to the net pension liability are a deferred outflow of resources and are not payable in current period, therefore are not reported in the funds.		312,873
The changes between actuarial assumptions, differences in projected vs actual investment earnings, and changes in proportionate share allocation as they relate to the net pension liability are a deferred inflows of resources and are not available to pay for current expenditures, there for are not reported in the funds.		(205,667)
Total net position - governmental activities	\$	<u><u>6,384,246</u></u>

See accompanying Notes to the Financial Statements

City of Polson, Lake County, Montana
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Position
June 30, 2021

Total fund balances - governmental funds	\$	4,720,862
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		4,615,024
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.		277,085
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.		(1,153,661)
Net pension liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.		(1,960,605)
The changes between actuarial assumptions, differences in expected vs actual pension experiences, changes in proportionate share allocation, and current year retirement contributions as they relate to the net pension liability are a deferred outflow of resources and are not payable in current period, therefore are not reported in the funds.		551,092
The changes between actuarial assumptions, differences in projected vs actual investment earnings, and changes in proportionate share allocation as they relate to the net pension liability are a deferred inflows of resources and are not available to pay for current expenditures, there for are not reported in the funds.		(127,591)
Total net position - governmental activities	\$	<u><u>6,922,206</u></u>

See accompanying Notes to the 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, 2020

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES			
Taxes and assessments	\$ 1,512,638	\$ 761,174	\$ 2,273,812
Licenses and permits	30,901	175,083	205,984
Intergovernmental	1,378,674	239,793	1,618,467
Charges for services	179,233	50,356	229,589
Fines and forfeitures	46,792	19,532	66,324
Miscellaneous	54,529	19,631	74,160
Investment earnings	1,772	18,670	20,442
Total revenues	<u>\$ 3,204,539</u>	<u>\$ 1,284,239</u>	<u>\$ 4,488,778</u>
EXPENDITURES			
General government	\$ 673,200	\$ 7,280	\$ 680,480
Public safety	1,600,542	297,120	1,897,662
Public works	220,517	91,410	311,927
Culture and recreation	208,475	7,848	216,323
Housing and community development	-	18,656	18,656
Conservation of natural resources	-	4,935	4,935
Debt service - principal	7,555	130,764	138,319
Debt service - interest	2,462	25,910	28,372
Capital outlay	340,313	252,922	593,235
Total expenditures	<u>\$ 3,053,064</u>	<u>\$ 836,845</u>	<u>\$ 3,889,909</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 151,475</u>	<u>\$ 447,394</u>	<u>\$ 598,869</u>
OTHER FINANCING SOURCES (USES)			
Proceeds of general long term debt	\$ 120,000	\$ -	\$ 120,000
Proceeds from the sale of general capital asset disposition	55,000	-	55,000
Transfers in	131,007	6,509	137,516
Transfers out	(2,500)	(135,016)	(137,516)
Total other financing sources (uses)	<u>\$ 303,507</u>	<u>\$ (128,507)</u>	<u>\$ 175,000</u>
Net Change in Fund Balance	<u>\$ 454,982</u>	<u>\$ 318,887</u>	<u>\$ 773,869</u>
Fund balances - beginning	\$ 627,867	\$ 2,543,595	\$ 3,171,462
Restatements	-	(2,500)	(2,500)
Fund balances - beginning, restated	<u>\$ 627,867</u>	<u>\$ 2,541,095</u>	<u>\$ 3,168,962</u>
Fund balance - ending	<u>\$ 1,082,849</u>	<u>\$ 2,859,982</u>	<u>\$ 3,942,831</u>

See accompanying Notes to the 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, 2021

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES			
Taxes and assessments	\$ 1,552,436	\$ 652,674	\$ 2,205,110
Licenses and permits	92,017	167,611	259,628
Intergovernmental	1,267,776	352,653	1,620,429
Charges for services	191,216	157,643	348,859
Fines and forfeitures	45,034	6,482	51,516
Miscellaneous	4,112	103,675	107,787
Investment earnings	1,223	6,664	7,887
Total revenues	<u>\$ 3,153,814</u>	<u>\$ 1,447,402</u>	<u>\$ 4,601,216</u>
EXPENDITURES			
General government	\$ 798,166	\$ 10,196	\$ 808,362
Public safety	1,610,901	373,587	1,984,488
Public works	172,017	76,325	248,342
Culture and recreation	202,940	12,312	215,252
Housing and community development	-	219,785	219,785
Conservation of natural resources	-	5,699	5,699
Debt service - principal	11,766	140,809	152,575
Debt service - interest	3,861	21,312	25,173
Capital outlay	50,426	298,798	349,224
Total expenditures	<u>\$ 2,850,077</u>	<u>\$ 1,158,823</u>	<u>\$ 4,008,900</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 303,737</u>	<u>\$ 288,579</u>	<u>\$ 592,316</u>
OTHER FINANCING SOURCES (USES)			
Proceeds of general long term debt	\$ -	\$ 177,450	\$ 177,450
Proceeds from the sale of general capital asset disposition	-	8,265	8,265
Transfers in	157,784	11,000	168,784
Transfers out	(5,000)	(163,784)	(168,784)
Total other financing sources (uses)	<u>\$ 152,784</u>	<u>\$ 32,931</u>	<u>\$ 185,715</u>
Net Change in Fund Balance	<u>\$ 456,521</u>	<u>\$ 321,510</u>	<u>\$ 778,031</u>
Fund balances - beginning	\$ 1,082,849	\$ 2,859,982	\$ 3,942,831
Fund balance - ending	<u>\$ 1,539,370</u>	<u>\$ 3,181,492</u>	<u>\$ 4,720,862</u>

See accompanying Notes to the Financial Statements

City of Polson, Lake County, Montana
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Fiscal Year Ended June 30, 2020

Amounts reported for *governmental activities* in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$	773,869
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		593,235
- Depreciation expense		(390,564)
In the Statement of Activities, the loss or gain on the sale or disposal of capital assets is recognized. The fund financial statements recognize only the proceeds from the sale of these assets:		
- Proceeds from the sale of capital assets		(55,000)
- Gain on the sale of capital assets		40,203
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:		
- Long-term receivables (deferred inflows)		(73,919)
The change in compensated absences is shown as an expense in the Statement of Activities		
		(6,418)
Repayment of debt principal is an expenditures in the governmental funds, but the repayment reduces long-term debt in the Statement of Net Position:		
- Long-term debt principal payments		138,319
Long term debt proceeds provide current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position:		
- Proceeds from the sale of long-term debt		(120,000)
Termination benefits are shown as an expense in the Statement of Activities and not reported on the Statement of Revenues, Expenditures and Changes in Fund Balance:		
- Post-employment benefits other than retirement liability		(34,930)
Pension expense related to the net pension liability is shown as an expense on the Statement of Activities and not reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance		
		(225,368)
Current year contributions to retirement benefits are shown as deferred outflows of resources on the Statement of Net Position and shown as expenditures on the Statement of Revenues, Expenditures, and Changes in Fund Balance when paid.		
		158,302
Change in net position - Statement of Activities	\$	<u>797,729</u>

See accompanying Notes to the Financial Statements

City of Polson, Lake County, Montana
Reconciliation of the Statement of Revenues, Expenditures.
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Fiscal Year Ended June 30, 2021

Amounts reported for *governmental activities* in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$	778,031
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		349,224
- Depreciation expense		(382,260)
In the Statement of Activities, the loss or gain on the sale or disposal of capital assets is recognized. The fund financial statements recognize only the proceeds from the sale of these assets:		
- Proceeds from the sale of capital assets		(8,265)
- Gain on the sale of capital assets		8,265
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:		
- Long-term receivables (deferred inflows)		(55,800)
The change in compensated absences is shown as an expense in the Statement of Activities		(159)
Repayment of debt principal is an expenditures in the governmental funds, but the repayment reduces long-term debt in the Statement of Net Position:		
- Long-term debt principal payments		152,575
Long term debt proceeds provide current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position:		
- Proceeds from the sale of long-term debt		(177,450)
Termination benefits are shown as an expense in the Statement of Activities and not reported on the Statement of Revenues, Expenditures and Changes in Fund Balance:		
- Post-employment benefits other than retirement liability		(7,097)
Pension expense related to the net pension liability is shown as an expense on the Statement of Activities and not reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance		(272,104)
Current year contributions to retirement benefits are shown as deferred outflows of resources on the Statement of Net Position and shown as expenditures on the Statement of Revenues, Expenditures, and Changes in Fund Balance when paid.		153,000
Change in net position - Statement of Activities	\$	<u>537,960</u>

See accompanying Notes to the Financial Statements

City of Polson, Lake County, Montana
Statement of Net Position
Proprietary Funds
June 30, 2020

	Business-Type Activities - Enterprise Funds			
	Golf	Water	Sewer	Totals
ASSETS				
Current assets:				
Cash and investments	\$ 431,165	\$ 2,656,488	\$ 1,834,816	\$ 4,922,469
Accounts receivable - net	3,600	109,264	167,481	280,345
Interest receivable	853	5,862	6,816	13,531
Due from other governments	2,017	91	88,180	90,288
Inventories	118,410	57,730	-	176,140
Total current assets	<u>\$ 556,045</u>	<u>\$ 2,829,435</u>	<u>\$ 2,097,293</u>	<u>\$ 5,482,773</u>
Noncurrent assets:				
Restricted cash and investments	\$ 168,324	\$ 1,500,154	\$ 1,798,297	\$ 3,466,775
Capital assets - land	2,042,231	227,873	19,456	2,289,560
Capital assets - construction in progress	-	223,191	92,327	315,518
Capital assets - depreciable, net	1,725,191	8,998,906	19,546,250	30,270,347
Total noncurrent assets	<u>\$ 3,935,746</u>	<u>\$ 10,950,124</u>	<u>\$ 21,456,330</u>	<u>\$ 36,342,200</u>
Total assets	<u>\$ 4,491,791</u>	<u>\$ 13,779,559</u>	<u>\$ 23,553,623</u>	<u>\$ 41,824,973</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows of resources - pensions	\$ 42,042	\$ 57,608	\$ 27,261	\$ 126,911
Total deferred outflows of resources	<u>\$ 42,042</u>	<u>\$ 57,608</u>	<u>\$ 27,261</u>	<u>\$ 126,911</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 4,533,833</u>	<u>\$ 13,837,167</u>	<u>\$ 23,580,884</u>	<u>\$ 41,951,884</u>
LIABILITIES				
Current liabilities:				
Retainage payable	\$ -	\$ -	\$ 404,000	\$ 404,000
Accounts payable	39,687	72,066	75,111	186,864
Accrued payroll liabilities	6,624	3,207	2,745	12,576
Accrued interest payable	9,223	2,851	147,992	160,066
Accrued payroll	19,080	7,141	6,126	32,347
Revenues collected in advance	-	15,055	-	15,055
Current portion of long-term capital liabilities	63,061	24,000	354,000	441,061
Current portion of compensated absences payable	11,425	23,281	20,016	54,722
Total current liabilities	<u>\$ 149,100</u>	<u>\$ 147,601</u>	<u>\$ 1,009,990</u>	<u>\$ 1,306,691</u>
Noncurrent liabilities:				
Deposits payable	\$ -	\$ 37	\$ 24	\$ 61
Noncurrent portion of OPEB	6,371	10,194	6,371	22,936
Noncurrent portion of long-term capital liabilities	1,085,573	321,000	11,885,386	13,291,959
Noncurrent portion of compensated absences	5,868	8,051	10,479	24,398
Net pension liability	239,355	327,780	164,727	731,862
Total noncurrent liabilities	<u>\$ 1,337,167</u>	<u>\$ 667,062</u>	<u>\$ 12,066,987</u>	<u>\$ 14,071,216</u>
Total liabilities	<u>\$ 1,486,267</u>	<u>\$ 814,663</u>	<u>\$ 13,076,977</u>	<u>\$ 15,377,907</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows of resources - pensions	\$ 48,659	\$ 41,439	\$ 44,461	\$ 134,559
Total deferred inflows of resources	<u>\$ 48,659</u>	<u>\$ 41,439</u>	<u>\$ 44,461</u>	<u>\$ 134,559</u>
NET POSITION				
Net investment in capital assets	\$ 2,618,788	\$ 9,104,970	\$ 7,418,647	\$ 19,142,405
Restricted for capital projects	25,140	862,889	934,258	1,822,287
Restricted for debt service	81,795	29,543	634,568	745,906
Restricted for other purposes	61,389	607,722	229,471	898,582
Unrestricted	211,795	2,375,941	1,242,502	3,830,238
Total net position	<u>\$ 2,998,907</u>	<u>\$ 12,981,065</u>	<u>\$ 10,459,446</u>	<u>\$ 26,439,418</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 4,533,833</u>	<u>\$ 13,837,167</u>	<u>\$ 23,580,884</u>	<u>\$ 41,951,884</u>

See accompanying Notes to the Financial Statements

City of Polson, Lake County, Montana
Statement of Net Position
Proprietary Funds
June 30, 2021

	Business-Type Activities - Enterprise Funds			
	<u>Golf</u>	<u>Water</u>	<u>Sewer</u>	<u>Totals</u>
ASSETS				
Current assets:				
Cash and investments	\$ 697,437	\$ 3,121,795	\$ 3,842,611	\$ 7,661,843
Accounts receivable - net	-	133,430	192,175	325,605
Due from other governments	-	234	60,718	60,952
Inventories	117,026	78,358	-	195,384
Total current assets	<u>\$ 814,463</u>	<u>\$ 3,333,817</u>	<u>\$ 4,095,504</u>	<u>\$ 8,243,784</u>
Noncurrent assets:				
Restricted cash and investments	\$ 159,402	\$ 1,577,775	\$ 1,808,544	\$ 3,545,721
Capital assets - land	2,042,231	227,873	19,456	2,289,560
Capital assets - construction in progress	-	434,444	1,053,812	1,488,256
Capital assets - depreciable, net	2,027,655	8,693,433	19,138,366	29,859,454
Total noncurrent assets	<u>\$ 4,229,288</u>	<u>\$ 10,933,525</u>	<u>\$ 22,020,178</u>	<u>\$ 37,182,991</u>
Total assets	<u>\$ 5,043,751</u>	<u>\$ 14,267,342</u>	<u>\$ 26,115,682</u>	<u>\$ 45,426,775</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows of resources - pensions	\$ 71,328	\$ 79,784	\$ 46,774	\$ 197,886
Total deferred outflows of resources	<u>\$ 71,328</u>	<u>\$ 79,784</u>	<u>\$ 46,774</u>	<u>\$ 197,886</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 5,115,079</u>	<u>\$ 14,347,126</u>	<u>\$ 26,162,456</u>	<u>\$ 45,624,661</u>
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 60,005	\$ 15,149	\$ 443,026	\$ 518,180
Accrued interest payable	8,758	2,691	145,655	157,104
Accrued payroll	22,927	6,377	6,667	35,971
Revenues collected in advance - ARPA	-	193,878	452,383	646,261
Revenues collected in advance - other	-	26,809	-	26,809
Accrued payroll liabilities	4,952	1,171	817	6,940
Current portion of long-term capital liabilities	65,074	25,000	758,000	848,074
Current portion of compensated absences payable	15,102	18,638	20,210	53,950
Total current liabilities	<u>\$ 176,818</u>	<u>\$ 289,713</u>	<u>\$ 1,826,758</u>	<u>\$ 2,293,289</u>
Noncurrent liabilities:				
Deposits payable	\$ -	\$ 34	\$ 47,155	\$ 47,189
Noncurrent portion of OPEB	6,804	10,886	6,804	24,494
Noncurrent portion of long-term capital liabilities	1,020,439	296,000	13,085,481	14,401,920
Noncurrent portion of compensated absences	7,654	7,298	11,803	26,755
Net pension liability	293,754	368,971	200,972	863,697
Total noncurrent liabilities	<u>\$ 1,328,651</u>	<u>\$ 683,189</u>	<u>\$ 13,352,215</u>	<u>\$ 15,364,055</u>
Total liabilities	<u>\$ 1,505,469</u>	<u>\$ 972,902</u>	<u>\$ 15,178,973</u>	<u>\$ 17,657,344</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows of resources - pensions	\$ 36,025	\$ 31,873	\$ 36,043	\$ 103,941
Total deferred inflows of resources	<u>\$ 36,025</u>	<u>\$ 31,873</u>	<u>\$ 36,043</u>	<u>\$ 103,941</u>
NET POSITION				
Net investment in capital assets	\$ 2,984,373	\$ 9,034,750	\$ 6,368,153	\$ 18,387,276
Restricted for capital projects	59,363	433,931	214,357	707,651
Restricted for debt service	11,216	30,685	631,043	672,944
Restricted for other purposes	88,823	1,113,159	963,144	2,165,126
Unrestricted	429,810	2,729,826	2,770,743	5,930,379
Total net position	<u>\$ 3,573,585</u>	<u>\$ 13,342,351</u>	<u>\$ 10,947,440</u>	<u>\$ 27,863,376</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 5,115,079</u>	<u>\$ 14,347,126</u>	<u>\$ 26,162,456</u>	<u>\$ 45,624,661</u>

See accompanying Notes to the Financial Statements

City of Polson, Lake County, Montana
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Fiscal Year Ended June 30, 2020

	Business-Type Activities - Enterprise Funds			
	<u>Golf</u>	<u>Water</u>	<u>Sewer</u>	<u>Totals</u>
OPERATING REVENUES				
Charges for services	\$ 1,129,159	\$ 1,126,084	\$ 1,612,441	\$ 3,867,684
Miscellaneous revenues	4,483	231	98,771	103,485
Total operating revenues	<u>\$ 1,133,642</u>	<u>\$ 1,126,315</u>	<u>\$ 1,711,212</u>	<u>\$ 3,971,169</u>
OPERATING EXPENSES				
Personal services	\$ 368,687	\$ 268,982	\$ 230,900	\$ 868,569
Supplies	192,188	126,395	58,689	377,272
Purchased services	294,960	200,076	218,495	713,531
Building materials	7,285	-	-	7,285
Fixed charges	8,455	4,868	17,162	30,485
Depreciation	143,182	336,698	479,021	958,901
Total operating expenses	<u>\$ 1,014,757</u>	<u>\$ 937,019</u>	<u>\$ 1,004,267</u>	<u>\$ 2,956,043</u>
Operating income (loss)	<u>\$ 118,885</u>	<u>\$ 189,296</u>	<u>\$ 706,945</u>	<u>\$ 1,015,126</u>
NON-OPERATING REVENUES (EXPENSES)				
Intergovernmental revenue	\$ 2,177	\$ 259	\$ 60,816	\$ 63,252
Interest revenue	3,272	26,245	28,275	57,792
Debt service interest expense	(38,589)	(5,795)	(298,160)	(342,544)
Total non-operating revenues (expenses)	<u>\$ (33,140)</u>	<u>\$ 20,709</u>	<u>\$ (209,069)</u>	<u>\$ (221,500)</u>
Change in net position	<u>\$ 85,745</u>	<u>\$ 210,005</u>	<u>\$ 497,876</u>	<u>\$ 793,626</u>
Net Position - Beginning of the year	\$ 2,913,162	\$ 12,771,060	\$ 9,961,570	\$ 25,645,792
Net Position - End of the year	<u>\$ 2,998,907</u>	<u>\$ 12,981,065</u>	<u>\$ 10,459,446</u>	<u>\$ 26,439,418</u>

See accompanying Notes to the Financial Statements

City of Polson, Lake County, Montana
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Fiscal Year Ended June 30, 2021

Business-Type Activities - Enterprise Funds

	<u>Golf</u>	<u>Water</u>	<u>Sewer</u>	<u>Totals</u>
OPERATING REVENUES				
Charges for services	\$ 1,493,358	\$ 1,225,106	\$ 1,893,320	\$ 4,611,784
Miscellaneous revenues	3,739	60	18,000	21,799
Total operating revenues	<u>\$ 1,497,097</u>	<u>\$ 1,225,166</u>	<u>\$ 1,911,320</u>	<u>\$ 4,633,583</u>
OPERATING EXPENSES				
Personal services	\$ 486,380	\$ 241,054	\$ 219,666	\$ 947,100
Supplies	240,130	35,238	78,844	354,212
Purchased services	331,450	253,992	328,384	913,826
Building materials	9,626	-	-	9,626
Fixed charges	8,138	150	19,289	27,577
Depreciation	164,730	337,882	480,689	983,301
Total operating expenses	<u>\$ 1,240,454</u>	<u>\$ 868,316</u>	<u>\$ 1,126,872</u>	<u>\$ 3,235,642</u>
Operating income (loss)	<u>\$ 256,643</u>	<u>\$ 356,850</u>	<u>\$ 784,448</u>	<u>\$ 1,397,941</u>
NON-OPERATING REVENUES (EXPENSES)				
Intergovernmental revenue	\$ 807	\$ 196	\$ 269	\$ 1,272
Interest revenue	1,440	9,703	10,864	22,007
Debt service interest expense	(36,347)	(5,463)	(307,587)	(349,397)
Total non-operating revenues (expenses)	<u>\$ (34,100)</u>	<u>\$ 4,436</u>	<u>\$ (296,454)</u>	<u>\$ (326,118)</u>
Income (loss) before contributions and transfers	<u>\$ 222,543</u>	<u>\$ 361,286</u>	<u>\$ 487,994</u>	<u>\$ 1,071,823</u>
Capital contributions	321,790	-	-	321,790
Gain (loss) on sale of capital assets	\$ 30,345	\$ -	\$ -	\$ 30,345
Change in net position	<u>\$ 574,678</u>	<u>\$ 361,286</u>	<u>\$ 487,994</u>	<u>\$ 1,423,958</u>
Net Position - Beginning of the year	\$ 2,998,907	\$ 12,981,065	\$ 10,459,446	\$ 26,439,418
Net Position - End of the year	<u>\$ 3,573,585</u>	<u>\$ 13,342,351</u>	<u>\$ 10,947,440</u>	<u>\$ 27,863,376</u>

See accompanying Notes to the Financial Statements

City of Polson, Lake County, Montana
Combined Statement of Cash Flows
All Proprietary Fund Types
Fiscal Year Ended June 30, 2020

	Business - Type Activities			Totals
	Golf	Water	Sewer	
Cash flows from operating activities:				
Cash received from providing services	\$ 1,125,559	\$ 1,144,547	\$ 1,198,633	\$ 3,468,739
Cash received from miscellaneous sources	4,483	231	98,771	103,485
Cash payments to suppliers	(183,346)	(46,484)	(58,689)	(288,519)
Cash payments for professional services	(303,415)	(204,944)	(235,657)	(744,016)
Cash payments to employees	(377,568)	(261,702)	(219,918)	(859,188)
Net cash provided (used) by operating activities	<u>\$ 265,713</u>	<u>\$ 631,648</u>	<u>\$ 783,140</u>	<u>\$ 1,680,501</u>
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	\$ (7,800)	\$ (66,350)	\$ (1,103,044)	\$ (1,177,194)
Principal paid on debt	(60,819)	(26,000)	(346,000)	(432,819)
Interest paid on debt	(39,116)	(5,980)	(298,835)	(343,931)
Net cash provided (used) by capital and related financing activities	<u>\$ (107,735)</u>	<u>\$ (98,330)</u>	<u>\$ (1,747,879)</u>	<u>\$ (1,953,944)</u>
Cash flows from non-capital financing activities:				
Cash received from other governments	\$ 160	\$ 800	\$ 10,119	\$ 11,079
Net cash provided (used) from non-capital financing activities	<u>\$ 160</u>	<u>\$ 800</u>	<u>\$ 10,119</u>	<u>\$ 11,079</u>
Cash flows from investing activities:				
Interest on investments	\$ 3,259	\$ 24,575	\$ 26,034	\$ 53,868
Net cash provided (used) by investing activities	<u>\$ 3,259</u>	<u>\$ 24,575</u>	<u>\$ 26,034</u>	<u>\$ 53,868</u>
Net increase (decrease) in cash and cash equivalents	\$ 161,397	\$ 558,693	\$ (928,586)	\$ (208,496)
Cash and cash equivalents at beginning	438,092	3,597,949	4,561,699	8,597,740
Cash and cash equivalents at end	<u>\$ 599,489</u>	<u>\$ 4,156,642</u>	<u>\$ 3,633,113</u>	<u>\$ 8,389,244</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 118,885	\$ 189,296	\$ 706,945	\$ 1,015,126
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation	143,182	336,698	479,021	958,901
Changes in assets and liabilities:				
Accounts receivable	(3,600)	26,226	(2,713)	19,913
Accounts payable	25,428	-	-	25,428
Accrued wages	2,326	345	3,265	5,936
Inventory	(9,301)	79,911	-	70,610
Deposits payable	-	(7,763)	(411,095)	(418,858)
Compensated absences	(14,953)	(255)	3,822	(11,386)
Other post-employment benefits	(1,865)	1,253	(905)	(1,517)
Net pension liability and related deferred inflows and outflows	5,611	5,937	4,800	16,348
Net cash provided (used) by operating activities	<u>\$ 265,713</u>	<u>\$ 631,648</u>	<u>\$ 783,140</u>	<u>\$ 1,680,501</u>

See accompanying notes to the financial statements

City of Polson, Lake County, Montana
Combined Statement of Cash Flows
All Proprietary Fund Types
Fiscal Year Ended June 30, 2021

	Business - Type Activities			Totals
	Golf	Water	Sewer	
Cash flows from operating activities:				
Cash received from providing services	\$ 1,496,958	\$ 1,212,691	\$ 1,511,757	\$ 4,221,406
Cash received from miscellaneous sources	3,739	60	18,000	21,799
Cash payments to suppliers	(228,054)	(55,866)	(78,844)	(362,764)
Cash payments for professional services	(339,588)	(254,142)	(347,673)	(941,403)
Cash payments to employees	(465,830)	(239,109)	(210,788)	(915,727)
Net cash provided (used) by operating activities	<u>\$ 467,225</u>	<u>\$ 663,634</u>	<u>\$ 892,452</u>	<u>\$ 2,023,311</u>
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	\$ (436,849)	\$ (300,579)	\$ (666,375)	\$ (1,403,803)
Donated capital assets	321,790	-	-	321,790
Principal paid on debt	(63,121)	(24,000)	(354,000)	(441,121)
Interest paid on debt	(36,812)	(5,623)	(309,924)	(352,359)
Proceeds from bonds, loans and advances	-	-	1,958,095	1,958,095
Net cash provided (used) by capital and related financing activities	<u>\$ (214,992)</u>	<u>\$ (330,202)</u>	<u>\$ 627,796</u>	<u>\$ 82,602</u>
Cash flows from non-capital financing activities:				
Cash received in advance - ARPA	\$ -	\$ 193,878	\$ 452,383	\$ 646,261
Cash received from other governments	2,824	53	27,731	30,608
Net cash provided (used) from non-capital financing activities	<u>\$ 2,824</u>	<u>\$ 193,931</u>	<u>\$ 480,114</u>	<u>\$ 676,869</u>
Cash flows from investing activities:				
Interest on investments	\$ 2,293	\$ 15,565	\$ 17,680	\$ 35,538
Net cash provided (used) by investing activities	<u>\$ 2,293</u>	<u>\$ 15,565</u>	<u>\$ 17,680</u>	<u>\$ 35,538</u>
Net increase (decrease) in cash and cash equivalents	<u>\$ 257,350</u>	<u>\$ 542,928</u>	<u>\$ 2,018,042</u>	<u>\$ 2,818,320</u>
Cash and cash equivalents at beginning	599,489	4,156,642	3,633,113	8,389,244
Restatements - Includes beginning restricted cash				-
Cash and cash equivalents at end	<u>\$ 856,839</u>	<u>\$ 4,699,570</u>	<u>\$ 5,651,155</u>	<u>\$ 11,207,564</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 256,643	\$ 356,850	\$ 784,448	\$ 1,397,941
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation	164,730	337,882	480,689	983,301
Changes in assets and liabilities:				
Accounts receivable	3,600	(24,166)	(24,694)	(45,260)
Accounts payable	20,318	-	-	20,318
Accrued wages	2,175	(2,800)	(1,387)	(2,012)
Inventory	1,384	(20,628)	-	(19,244)
Deposits payable	-	11,751	(356,869)	(345,118)
Compensated absences	5,463	(5,396)	1,518	1,585
Other post-employment benefits	433	692	433	1,558
Net pension liability and related deferred inflows and outflows	12,479	9,449	8,314	30,242
Net cash provided (used) by operating activities	<u>\$ 467,225</u>	<u>\$ 663,634</u>	<u>\$ 892,452</u>	<u>\$ 2,023,311</u>

See accompanying notes to the financial statements

City of Polson, Lake County, Montana
Statement of Net Position
Fiduciary Funds
June 30, 2020

		<u>Agency Funds</u>
ASSETS		
Cash and short-term investments	\$	3,573
Interest and dividends receivable		8
Total assets	\$	<u>3,581</u>
LIABILITIES		
Due to others	\$	3,581
Total liabilities	\$	<u>3,581</u>

See accompanying Notes to the Financial Statements

City of Polson, Lake County, Montana
Statement of Net Position
Fiduciary Funds
June 30, 2021

		Custodial Funds
ASSETS		
Cash and short-term investments	\$	18,681
TOTAL ASSETS	\$	18,681
NET POSITION		
Restricted for:		
Individuals, organizations, and other governments	\$	18,681
TOTAL NET POSTION	\$	18,681

See accompanying Notes to the Financial Statements

City of Polson, Lake County, Montana
Statement of Changes in Net Position
Fiduciary Funds
For the Fiscal Year Ended June 30, 2021

		Custodial Funds
ADDITIONS		
Interest and change in fair value of investments	\$	15,057
Change in net position	\$	15,057
Net Position - Beginning of the year	\$	-
Restatements		3,624
Net Position - End of the year	\$	18,681

See accompanying Notes to the Financial Statements

**NOTES TO THE
FINANCIAL STATEMENTS
FOR FISCAL YEAR 2020**

CITY OF POLSON
LAKE COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES

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-government 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 4,875. 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 (courts, finance and administration).

The City complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements.

New Accounting Pronouncements

GASB No. 95 *Postponement of the Effective Dates of Certain Authoritative Guidance*, is effective immediately as of May 2020. The statement was implemented in response to the COVID-19 pandemic providing temporary relief to governments in relation to other GASB statements that were to be effective for the fiscal year ending June 30, 2020. That statement postponed the effective dates of implementation for the following GASB Statements; GASB Statement No. 83, *Certain Asset Retirement Obligations*, Statement No. 84, *Fiduciary Activities*, Statement No. 87, *Leases*, Statement No. 88, *Certain Disclosures Related to Debt*, Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, Statement No. 90, *Majority Equity Interests*, Statement No. 91, *Conduit Debt Obligations*, Statement No. 92, *Omnibus 2020*, and Statement No. 93 *Replacement of Interbank Offered Rates*. In addition, any of the recent implementation guides issued were postponed.

Financial Reporting Entity

In determining the financial reporting entity, the City complies with the provisions of GASB statement No. 14, *The Financial Reporting Entity*, as amended by GASB statement No. 61, *The Financial Reporting Entity: Omnibus*, and includes all component units of which the City appointed a voting majority of the component unit's board; the City is either able to impose its will on the unit or a financial benefit or burden relationship exists. In addition, the City complies with GASB statement No. 39 *Determining Whether Certain Organizations Are Component Units* which relates to organizations that raise and hold economic resources for the direct benefit of the City.

CITY OF POLSON
LAKE COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020

The City implemented GASB Statement 77, Tax Abatement Disclosures in the 2017 fiscal year. This statement addresses the disclosure of tax abatements within the notes to the financial statements. The Statement provides guidance for the reporting of the 1) total tax abated in the current fiscal year; 2) the description of each tax abatement program, and 3) any obligations the City incurred with respect to the approved abatement program. This Statement is effective for fiscal years beginning after December 15, 2016. For the year ended June 30, 2020, the City had no tax abatements.

The City adopted GASB Statement 83, *Certain Asset Retirement Obligations* in FY2019. This statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. For the year ended June 30, 2020 the City did not have an ARO.

Primary Government

The City is a political subdivision of the State of Montana governed by an elected Mayor and Commissioners duly elected by the registered voters of the City. The City utilizes the manager form of 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.

Basis of Presentation, Measurement Focus and Basis of Accounting

Government-wide Financial Statements:

Basis of Presentation

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. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. Eliminations have been made in the consolidation of business-type activities.

The Statement of Net Position presents the financial condition of the governmental -type 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 function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function. The City does not charge indirect expenses to programs or functions. 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, 2) operating grants and contributions, and 3) capital grants and contributions. Revenues that are not classified as program revenues, including all property taxes, are presented as general revenues.

CITY OF POLSON
LAKE COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020

Certain eliminations have been made as prescribed by GASB 34 in regards to inter-fund activities, payables and receivables. All internal balances in the Statement of Net Position and Statement of Activities have been eliminated.

Measurement Focus and Basis of Accounting

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 recorded when the liability is 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. The City generally applies restricted resources to expenses incurred before using unrestricted resources when both restricted and unrestricted net assets are available.

Fund Financial Statements:

Basis of Presentation

Fund financial statements of the reporting City are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. Funds are organized into three categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. Each major fund is displayed in a separate column in the governmental funds statements. All of the remaining funds are aggregated and reported in a single column as non-major funds. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- a. *Total* assets combined with deferred outflows of resources, liabilities combined with deferred inflows of resources, 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 combined with deferred outflows of resources, liabilities combined with deferred inflows of resources, revenues, or expenditures/expenses of that individual governmental or enterprise funds are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

CITY OF POLSON
LAKE COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020

Measurement Focus and Basis of Accounting

Governmental Funds:

Modified Accrual

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 defined the length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements as collection within 60 days of the end of the current fiscal period, except for property taxes and other state grants that are recognized upon receipt.

Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources. General capital asset 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, licenses, and interest 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.

Major Funds:

The City reports the following major governmental funds:

General Fund - This 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.

CITY OF POLSON
LAKE COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020

Proprietary Funds:

All proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Revenues are recognized when earned and expenses are recognized when incurred. Allocations of costs, such as depreciation, are recorded in proprietary funds. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connections with a proprietary fund's principal ongoing operations. The principal operating revenues for enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. 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.

Major Funds:

The City reports the following major proprietary funds:

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

Water Fund – An enterprise fund that accounts for the activities of the City's water distribution operations.

Sewer Fund – An enterprise fund that accounts for the activities of the City's sewer collection and treatment operations.

Fiduciary Funds:

Fiduciary funds presented using the economic resources measurement focus and the accrual basis of accounting (except for the recognition of certain liabilities of defined benefit pension plans and certain postemployment healthcare plans). The required financial statements are a statement of fiduciary net position and a statement of changes in fiduciary net position. The fiduciary funds are:

Agency Funds – To report resources held by the reporting government in a purely custodial capacity (assets equal liabilities). This fund primarily consists of assets held by the City as an agent for individuals, private organizations, or other local government entities.

CITY OF POLSON
LAKE COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020

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 years' delinquencies. In addition, a budget is adopted for the enterprise funds on a modified accrual basis.

Budget transfers 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.

Assets, Liabilities and Net Position or Equity

Cash and Cash Equivalents, Investments, and Investment Income:

See Note 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 from 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 or June), based on the prior November's levies. Personal property taxes, other than mobile homes, are due thirty days after billing. Mobile home taxes are billed in two halves, the first due thirty days after billing; the second due November 30th. The tax billings are considered past due after the respective due dates and are subject to penalty and interest charges.

CITY OF POLSON
LAKE COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020

Taxable valuations, mill values and mill levies for November 2019 and May 2020 property tax billings were as follows:

	Taxable Valuation	Valuation of Tax Increment	Value of Mill	Mills Levied
General Fund Levy	\$ 9,990,153	\$ 293,232	\$ 9,697	142.24
Permissive Medical Levy	\$ 9,990,153	\$ 293,232	\$ 9,697	13.79
Police Special Levy	\$ 9,990,153	\$ 293,232	\$ 9,697	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 \$293,232. 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.

City Court Fines:

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

Enterprise Accounts Receivable:

No reserve for estimated uncollectible accounts receivable is maintained because uncollectible amounts are not material. Receivables are reported net of revenues collected in advance. Delinquent Water and Sewer accounts receivable are subject to tax lien by the City (MCA 7-13-4309(2)) if the arrearage is not paid within 30 days of the property owner receiving a notice of the delinquent amount and the intent to lien the property.

Inventories:

Inventories of the governmental funds are expensed at the time of purchase. Enterprise fund inventories of materials, supplies and items for resale are valued at cost and the First-In First-Out (FIFO) method is utilized.

Restricted Assets:

Certain assets of the enterprise funds are restricted for specific use 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 and cash equivalents and investments restricted for use to repay current debt, establish a reserve for future debt and provide for construction.

Capital Assets:

See Note 8.

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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/expenditure) until then. The City has one item in this category: Deferred pension expense.

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 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.

Long-term Obligations:

See Notes 9, 10, 11 and 12.

Net Position/Fund Balance:

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

The City implemented GASB Statement 54 in fiscal year 2011. This statement requires governmental fund balances to be allocated to categories 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; or other restrictions by external parties.
- ❖ 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 including negative balances

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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

Composition of cash, deposits and investments at fair value on June 30, 2020, are as follows:

Cash on hand and deposits:

Cash on Hand	
Petty Cash	\$ 1,250
Cash in banks:	
Demand deposits	9,573
Savings Deposits	5,313
Time deposits	1,250,636

Investments:

State Short-Term Investment Pool (STIP)	1,500,000
Repurchase Agreements	9,671,344
Total Cash on hand & in banks	<u>12,438,116</u>
Plus: Deposits in Transit	14,722
Less: Outstanding Checks and ACH transactions	<u>(380,635)</u>
Cash Reported in Fund Financial Statements	<u>\$12,072,203</u>

Cash equivalents

Cash equivalents are short-term, highly liquid deposits and investments that are both readily convertible to known amounts of cash, and have maturities at purchase date of three months or less. The City's cash and cash equivalents (including restricted assets) are considered to be cash on hand, demand, savings and time deposits, STIP, repurchase agreements and all other short-term investments with original maturity dates of three months or less from the date of acquisition.

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

Fair Value Measurements

Investments are reported at fair value, with the following limited exceptions: 1) investments in non-negotiable certificates of deposit are reported at cost and 2) money market investments, including U.S Treasury and Agency obligations, which mature within one year of acquisition, are reported at amortized cost. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between markets participates at the measurement date.

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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 entity and promises to repay the cash plus interest in exchange for the same securities.

Credit Risk

As a means of limiting exposure to credit risk, the City is required to follow specific state statutes adding security to the deposits and investments. Below are the legal provisions provided in the state Montana Code Annotated (MCA).

Section 7-6-202, MCA, limits investments of public money of a local government in the following eligible securities:

- (a) United States government treasury bills, notes and bonds and in the United States treasury obligations, such as state and local government series (SLGLS), separate trading of registered interest and principal of securities (STRIPS), or similar United States treasury obligations;
- (b) United States treasury receipts in a form evidencing the holder's ownership of future interest or principal payments on specific United States treasury obligations that, in the absence of payment default by the United States, are held in a special custody account by an independent trust company in a certificate or book entry form with the federal reserve bank of New York; or
- (c) Obligations of the following agencies of the United States, subject to the limitations in subsection 2 (not included):
 - (i) federal home loan bank;
 - (ii) federal national mortgage association;
 - (iii) federal home mortgage corporation; and
 - (iv) federal farm credit bank.

With the exception of the assets of a local government group self-insurance program, investments may not have a maturity date exceeding 5 years except when the investment is used in an escrow account to refund an outstanding bond issue in advance.

Section 7-6-205 and Section 7-6-206, MCA, state that demand deposits may be placed only in banks and public money not necessary for immediate use by a county, city, or town that is not invested as authorized in Section 7-6-202, MCA, may be placed in time or savings deposits with a bank, savings and loan association, or credit union in the state or placed in repurchase agreements as authorized in Section 7-6-213, MCA.

The government has no investment policy that would further limit its investment choices. The government has no investments that require credit risk disclosure.

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Short Term Investment Pool (STIP) Credit Quality ratings by the S&P's rating services as of June 30, 2020, (in thousands):

	Total Fixed Income Investments at Fair Value		
Treasuries	\$ 430,142	A-1+	56
Agency or Government Related	1,182,828	A-1+	52
Corporate:			
Commercial Paper	398,071	A-1+	72
Notes	115,311	A-1+	57
Certificate of Deposits	300,206	A-1	56
Total Investments	\$ 2,426,558		

Audited financial statements for the State of Montana's Board of Investments are available at 2401 Colonial Drive 3rd Floor in Helena, Montana.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk other than that required by state statutes. All deposits are carried at cost plus accrued interest. As of June 30, 2020, the government's bank balance was exposed to custodial credit risk as follows:

	June 30, 2020 Balance
<u>Depository Account</u>	
Insured	\$ 756,824
- Collateral held by the pledging bank's trust department but not in the County's name	514,667
Total deposits and investments	\$ 1,271,491

Deposit Security

Section 7-6-207, MCA, states (1) The local governing body may require security only for that portion of the deposits which is not guaranteed or insured according to law and, as to such unguaranteed or uninsured portion, to the extent of:

- (a) 50% of such deposits if the institution in which the deposit is made has a net worth of total assets ratio of 6% or more; or
- (b) 100% if the institution in which the deposit is made has a net worth of total assets ratio of less than 6%.

The amount of collateral held for City deposits at June 30, 2020, equaled or exceeded the amount required by State statutes.

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Concentration of Credit Risk

The government places no limit on the amount the entity may invest in any one issuer. The government's concentration of credit risk percentages follow for each investment issued that is not issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools and other pooled investments:

	<u>% of credit risk</u>
Repurchase agreements	77%

Cash and Investment Pool

The government maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and investments."

Investment Pools

The City invests in the Short-Term Investment Pool (STIP) managed by the State of Montana Board of Investments. The Board was created by the Legislature to invest and manage Montana's Unified Investment Program. Local governments may voluntarily participate in STIP. The City elected to participate in STIP effective August 20, 2018.

The pool invests in short-term, highly liquid investments, and as such, the City has reported these investments as cash equivalents. Amounts invested by the City in STIP may be redeemed at any date at the carrying value on that date. Audited financial statements for the State of Montana's Board of Investments are available at 2401 Colonial Drive, 3rd Floor, Helena, MT 59620.

Investments in the pool are reported at fair value. The fair value of pooled investments is determined annually and is based on year-end market prices. The unit value of the pool is fixed at \$1 for both participant redemptions and purchases. Investments in STIP are carried at amortized cost or "book" value. STIP is managed to closely align fair value with amortized cost. The City has currently elected to have STIP income distributed monthly to the City. STIP is not rated by a national rating agency.

NOTE 3. RESTRICTED CASH/INVESTMENTS

The following restricted cash/investments were held by the City as of June 30, 2020. These amounts are reported within the cash/investment account on the Statement of Net Position.

<u>Fund</u>	<u>Description</u>	<u>Amount</u>
Water Fund	Impact Fees	\$ 535,327
Sewer Fund	Impact Fees	229,471
TIF District	Revenue Bond - current	26,606
Golf Fund	Revenue Bond - current	11,216
Water Fund	Revenue Bond - current	12,376
Sewer Fund	Revenue Bond - current	283,412
TIF District Fund	Revenue Bond – reserve	40,000

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SID #42 Fund	Revenue Bond – reserve	37,500
Water Fund	Revenue Bond – reserve	17,167
Sewer Fund	Revenue Bond – reserve	351,156
Golf Fund	Replacement and Depreciation	84,503
Water Fund	Replacement and Depreciation	862,889
Sewer Fund	Replacement and Depreciation	934,258
Golf Fund	Surplus Reserve	72,605
Water Fund	Surplus Reserve	<u>72,395</u>
Total		<u>\$3,570,881</u>

NOTE 4. 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 at June 30, 2020:

	<u>Issued</u>	<u>Term</u>	<u>Total</u>	<u>Current</u>	<u>Long-term</u>
SID #42	2010	15 years	\$292,120	\$ 606	\$ 291,514
Maintenance District Assessments			<u>541</u>	<u>541</u>	<u>-</u>
Total			<u>\$292,661</u>	<u>\$ 1,147</u>	<u>\$ 291,514</u>

NOTE 5. INTERFUND RECEIVABLES AND PAYABLES

Interfund Transfers - the City uses inter-fund 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 fiscal year 2020:

	<u>Transfers In:</u>			<u>Purpose</u>
	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>	
Transfers Out:				
General Fund	\$ -	\$ 2,500	\$ 2,500	Operating Transfer
Nonmajor governmental funds	-	4,000	4,000	Capital Transfer
Nonmajor governmental funds	-	9	9	Equity Transfer
Nonmajor governmental funds	<u>131,007</u>	<u>-</u>	<u>131,007</u>	Medical Levy Transfer
Total transfers out	<u>\$ 131,007</u>	<u>\$ 6,509</u>	<u>\$ 137,516</u>	

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NOTE 6. DUE FROM (TO) OTHER GOVERNMENTS

The City had the following amounts due from (to) other government entities as of June 30, 2020:

Fund	Paying Government	Due From Amount	Due (To) Amount
General Fund	Lake County	\$ 97,578	\$ -
General Fund	State of Montana	\$ 288,469	-
General Fund	CSKT	6,000	-
General Fund	U.S. Government	26	-
Police Municipal Services Levy	Lake County	11,703	-
Police Municipal Services Levy	State of Montana	15,039	-
Tax Increment District	Lake County	14,109	-
Permissive Medical Mills	Lake County	8,090	-
Building Code Enforcement	U.S. Government	26	-
Credit Card Fees	State of Montana	2,531	-
Light Maintenance District #19	Lake County	672	-
Light Maintenance District #20	Lake County	214	-
SID #42 Streetscape Main Street Improvement Project	Lake County	6,923	-
Golf Fund	State of Montana	2,017	-
Water Fund	State of Montana	88	-
Water Fund	U.S. Government	3	-
Sewer Fund	State of Montana	88,177	-
Sewer Fund	U.S. Government	3	-
Total		<u>\$ 541,668</u>	<u>\$ -</u>

NOTE 7. CAPITAL GRANT REVENUE

The following are the grants received for capital purchases in the governmental funds for FY2020:

Fund	Paying Government/Agency	Amount
General Fund	State of Montana - Air Quality Grant	<u>\$ 176,832</u>
Total		<u>\$ 176,832</u>

Enterprise capital grants for FY2020 consist of the following:

Fund	Paying Government/Agency	Amount
Sewer Fund	MT Department of Natural Resources Grant	<u>60,293</u>
Total		<u>\$ 60,293</u>

NOTE 8. CAPITAL ASSETS

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 capital assets, as applicable. Depreciation is recorded on a straight-line basis over the useful lives of the assets as follows:

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<u>Governmental Activities</u>	<u>Assets</u>	<u>Years</u>
Buildings		10 – 50 years
Land Improvements		10 – 40 years
Vehicles and Equipment		5 – 40 years
<u>Enterprise Activities</u>		
Buildings		40 – 50 years
Water Distribution and Sewer Collection System		10 – 50 years
Machinery, Vehicles and Equipment		10 – 25 years
Land Improvements		10 – 40 years

A summary of changes in governmental capital assets is as follows:

	Balance July 1, 2019	Additions	Disposals	Balance June 30, 2020
Capital assets not being depreciated:				
Land	\$ 267,322	\$ -	\$ -	\$ 267,322
Construction in Progress	25,936	31,500	-	57,436
Total capital assets not being depreciated:	\$ 293,258	\$ 31,500	\$ -	\$ 324,758
Other capital assets				
Buildings	\$ 747,570	\$ 8,066	\$ -	\$ 755,636
Improvements other than buildings	\$ 1,183,035	\$ -	\$ -	1,183,035
Machinery & Equipment	3,667,854	553,669	(271,333)	3,950,190
Infrastructure	3,242,642	-	-	3,242,642
Total other capital assets at historical cost	\$ 8,841,101	\$ 561,735	\$ (271,333)	\$ 9,131,503
Less: accumulated depreciation	(4,674,173)	(390,564)	256,536	(4,808,201)
Total	\$ 4,460,186	\$ 202,671	\$ (14,797)	\$ 4,648,060

Governmental activities depreciation expense was charged to functions as follows:

Governmental Activities:	Depreciation
General Government	\$ 35,043
Public Safety	129,161
Public Works	137,758
Culture and Recreation	55,150
Housing and Community Development	33,452
Total governmental activities depreciatio	\$ 390,564

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A summary of changes in business-type capital assets is as follows:

	Balance July 1, 2019	Additions	Transfer	Balance June 30, 2020
Capital assets not being depreciated:				
Land	\$ 2,289,560	\$ -	\$ -	\$ 2,289,560
Construction in Progress	16,882,987	98,509	(16,665,978)	315,518
Total capital assets not being depreciated:	<u>\$ 19,172,547</u>	<u>\$ 98,509</u>	<u>\$ (16,665,978)</u>	<u>\$ 2,605,078</u>
Other capital assets				
Buildings	\$ 855,903	\$ 7,800	\$ -	\$ 863,703
Improvements other than buildings	1,159,522	-	-	1,159,522
Machinery & Equipment	1,347,802	-	-	1,347,802
Source of Supply	2,463,710	-	-	2,463,710
Pumping Plant	1,331,997	26,250	-	1,358,247
Treatment System	2,093,054	738,527	16,665,978	19,497,559
Transmission and distribution	16,693,899	91,970	-	16,785,869
General Plant	697,708	153,298	-	851,006
Total other capital assets at historical cost	<u>\$ 26,643,595</u>	<u>\$ 1,017,845</u>	<u>\$ 16,665,978</u>	<u>\$ 44,327,418</u>
Less: accumulated depreciation	<u>(13,098,170)</u>	<u>(958,901)</u>	<u>-</u>	<u>(14,057,071)</u>
Total	<u>\$ 32,717,972</u>	<u>\$ 157,453</u>	<u>\$ -</u>	<u>\$ 32,875,425</u>

NOTE 9. LONG TERM DEBT OBLIGATIONS

In the governmental-wide and proprietary financial statements, outstanding debt is reported as liabilities. Bond issuance costs, bond discounts or premiums, are expensed at the date of sale.

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.

Legal Debt Margin – The City’s legal debt limitation for general obligation debt is 2.5% of total assessed value of taxable property. As of June 30, 2020 the debt margin was \$16,976,889.

Changes in Long-Term Debt Liabilities - During the year ended June 30, 2020, the following changes occurred in liabilities reported in long-term debt:

Governmental Activities:

	Balance July 1, 2019	Additions	Deletions	Restatements	Balance June 30, 2020	Due Within One Year
Special Assessment Bonds	\$ 335,840	\$ -	\$ (53,230)	\$ -	\$ 282,610	\$ 55,870
Tax Increment Urban Renewal Bond	468,400	-	(66,319)	-	402,081	68,314
Loans/Contracted debt	-	120,000	(4,532)	-	115,468	8,566
Compensated Absences	189,018	6,418	-	-	195,436	133,399
Intercap loans	22,460	-	(11,215)	-	11,245	11,245
Capital leases	11,601	-	(3,023)	1,622	10,200	3,204
Total	<u>\$ 1,027,319</u>	<u>\$126,418</u>	<u>\$(138,319)</u>	<u>\$ 1,622</u>	<u>\$ 1,017,040</u>	<u>\$280,598</u>

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Business-type Activities:

	Balance July 1, 2019	Additions	Deletions	Balance June 30, 2020	Due Within One Year
Revenue Bonds	\$ 13,851,949	\$ -	\$(414,909)	\$13,437,040	\$ 422,195
Loans/Contracted debt	313,890	-	(17,910)	295,980	18,866
Compensated Absences	90,506	-	(11,386)	79,120	54,722
Total	<u>\$ 14,256,345</u>	<u>\$ -</u>	<u>\$(444,205)</u>	<u>\$13,812,140</u>	<u>\$ 495,783</u>

Special Assessment 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 of 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, 2020 were as follows:

Purpose	Origination Date	Interest Rate	Bond Term	Maturity Date	Bond Amount	Annual Payment	Balance June 30, 2019
SID #42 Streetscape Project	9/15/2010	3.95%	15 yrs.	7/1/2025	\$ 750,000	\$ 66,225	\$ 282,610

Annual requirement to amortize debt:

For Fiscal Year Ended June 30	Principal	Interest
2021	55,870	11,163
2022	57,834	8,956
2023	60,140	6,672
2024	62,540	4,296
2025	46,226	1,826
Total	<u>\$ 282,610</u>	<u>\$ 32,913</u>

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Revenue Bonds

Revenue Bonds (Golf Course) -The City issued one amortized revenue bond, Series 2017 on June 30, 2017 in the amount of \$951,300. The proceeds were used for replacement of the irrigation system on the Olde Nine (original nine holes) part of the golf course, restaurant improvements, and equipment purchases. The bond has an annual percentage rate of 2.75% through October 1, 2022 which increases to 3.375% for the remaining life of the bond. The bond requires semi-annual payments of \$33,647 through October 1, 2022 and then semi-annual payments of \$35,506 for the remaining life of the bond. The bond is a special limited obligation of the City payable solely out of the net revenues of the City's Golf Course operation. Upon the occurrence of an Event of Default which includes not meeting bond covenants, and so long as such event of default shall not have been remedied, the City shall, at the direction of the registered owner, declare the principal and the interest accrued thereon, to be due and payable immediately.

Revenue Bonds (Water Fund) - In October 2009 the City issued water system revenue bonds Series 2009 B 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 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 \$14,000 in 2032.

Revenue Bonds (Sewer Fund) - On June 15, 2017 the City issued sewer system revenue bonds Series 2017 A and B through the State of Montana's Water Pollution Control Revolving Fund Program in the amount of \$8,137,000. The proceeds were used to construct the Sewer Fund wastewater resource recovery facility. This facility is a mechanical treatment plant that replaces the existing lagoon system. The bonds require semi-annual payments ranging from \$182,250 in 2047 to \$184,487 in 2042. The State has indicated that if the City fulfills its requirements as outlined in the bond resolution, the Series 2017 A bond will be forgiven in the amount of \$400,000. As of June 30, 2019 the City had drawn all of the Series A and B amount. On April 11, 2018 the City issued sewer system revenue bonds Series 2018 C through the State of Montana's Water Pollution Control Revolving Fund Program in the amount of \$7,000,000. The proceeds are being used to complete construction of the Sewer Fund wastewater resource recovery facility. The bonds require semi-annual payments ranging from \$54,307 in 2018 to \$167,013 in 2040. As of June 30, 2020, the City had drawn a total of \$4,847,386 of the \$7,000,000.

Revenue Bonds outstanding reported in the business-type activities as of June 30, 2020 were as follows:

Purpose	Origination Date	Interest Rate	Bond Term	Maturity Date	Bond Amount	Annual Payment	Balance June 30, 2020
Revenue Bonds, Series 2017 (Golf)	6/30/2017	Varies	18 yrs	10/1/2035	\$ 951,300	Varies	\$ 852,654
SRF Polson ARRA-B Series 2009 (Water)	10/16/2009	0.75%	20 yrs	7/1/2029	333,700	Varies	167,000
SRF Series 2015 B (Water)	5/20/2015	2.50%	20 yrs	7/1/2035	463,000	Varies	178,000
SRF Series 2017 A (Sewer)	6/15/2017	2.50%	30 yrs	7/1/2047	400,000	Varies	400,000
SRF Series 2017 B (Sewer)	6/15/2017	2.50%	30 yrs	7/1/2047	7,737,000	Varies	7,289,000
SRF Series 2018 C (Sewer)	4/11/2018	2.50%	30 yrs	1/1/2048	7,000,000	Varies	4,550,386
Total					<u>\$ 16,885,000</u>		<u>\$ 13,437,040</u>

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Revenue bond resolutions include various restrictive covenants. The more significant covenants 1) require that cash be restricted and reserved for operations, construction, debt service, and replacement and depreciation; 2) specify minimum required operating revenue; and 3) specific and timely reporting of financial information to bond holders and the registrar. The most significant covenants are summarized in detail below:

1. The City is required to maintain a revenue bond account (current reserves) for the all of the above revenue bonds. The amounts required for the Golf, Water, and Sewer Fund Bonds is amount equal to one-sixth of the interest to become due and one-twelfth of the next installment of principal. This requirement at June 30, 2020 calculates to equal \$11,216 for the Golf bonds, \$12,376 for the Water bonds, and \$283,412 for the Sewer bonds. These restricted amounts are reported in the restricted cash as disclosed in Note 3. The City is in compliance with these requirements.

2. The City is required to maintain a future reserve account the SRF Water and Sewer Bonds. These future reserves are required to equal one-half the maximum principal and interest payments of these bonds. This requirement at June 30, 2020 calculates to equal \$17,167 for the Water bonds and \$351,156 for the Sewer bonds. These restricted amounts are reported in the restricted cash as disclosed in Note 3. The City is in compliance with these requirements.

3. The City is to maintain a replacement and depreciation account on the all of the revenue bonds above. The revenue bond covenants do not specifically define the amount to the set aside for these accounts, and is at the City's discretion. The total amount the City has set aside restricted amounts for these accounts at June 30, 2020 equal to \$84,503 for the Golf bonds, \$862,889 for the Water bonds, and \$934,258 for the Sewer bonds.

4. The City is also required to maintain net revenues in the Golf, Water and Sewer Funds. The Golf Fund net revenues amounts are required to equal not less than 125% of the maximum annual principal and interest payable on all outstanding bonds. The Water Fund and Sewer Fund net revenues amounts are required to equal not less than 110% of the maximum annual principal and interest payable on all outstanding bonds. The City is in compliance with these requirements.

CITY OF POLSON
LAKE COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020

Annual requirement to amortize debt:

For Fiscal Year Ended <u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2021	422,195	305,422
2022	832,370	296,847
2023	446,180	290,293
2024	374,162	283,354
2025	388,062	273,629
2026	481,478	263,758
2027	493,196	253,595
2028	504,939	243,197
2029	515,841	232,470
2030	521,709	221,557
2031	526,674	210,408
2032	541,686	198,986
2033	554,819	187,193
2034	567,976	176,156
2035	582,221	162,811
2036	552,346	150,210
2037	527,000	139,260
2038	541,000	128,650
2039	554,000	117,770
2040	568,000	106,620
2041	583,000	95,180
2042	456,000	83,450
2043	347,186	71,420
2044	332,000	29,450
2045	340,000	22,770
2046	348,000	15,930
2047	355,000	8,930
2048	180,000	1,800
Total	<u>\$ 13,437,040</u>	<u>\$ 4,571,116</u>

CITY OF POLSON
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June 30, 2020

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 walking path 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. The bonds are special, limited obligations of the City. The bonds are not general obligations of the City and neither the general credit nor the taxing power of the City is pledged to payment of the bonds. Tax revenues from the tax increment financing district (TIFD) are pledged to pay the principal and interest on the bonds. In the event the Constitution or laws of the State are amended to abolish or substantially reduce or eliminate real or personal property taxation and State law then or thereafter provides to the City an alternate or supplemental source or sources of revenue specifically to replace or supplement reduced or eliminated Tax Increment, then the City pledges and covenants to appropriate annually, subject to the limitations of then applicable law, an amount that will, with money on hand or available be sufficient to pay the principal and interest payable in that Fiscal Year.

The tax increment urban renewal bonds had requirements for the City to establish a sinking and interest accounting and future reserve account. The requirements per the bond resolution state that the City create and maintain a revenue bond account with deposits each month which will be sufficient to cover the next installment of principal and interest. This amount at the end of June 30, 2020 was required to equal \$26,606. In addition, the City is required to maintain a revenue bond account with an additional reserve amount equal to \$40,000. The City met both of these bond requirements for fiscal year ended June 30, 2020. The restricted amounts are reported in restricted cash.

Tax Increment Urban Renewal bonds outstanding reported in the governmental activities as of June 30, 2020 were as follows:

Purpose	Origination Date	Interest Rate	Bond Term	Maturity Date	Bond Amount	Annual Payment	Balance June 30, 2020
Tax Increment Urban Renewal Bonds, Series 2013	8/15/2013	2.987%	12 yrs	8/15/2025	\$ 800,000	\$ 79,818	\$ 402,081

Annual requirement to amortize debt:

For Fiscal Year Ended June 30	Principal	Interest
2021	68,314	11,504
2022	70,369	9,449
2023	72,489	7,329
2024	74,669	5,149
2025	76,919	2,899
2026	39,321	590
Total	\$ 402,081	\$ 36,920

CITY OF POLSON
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Loans/Contracted Debt

In May 2017, the City borrowed \$348,707 from a local bank to repay the Sewer Fund interfund loan that was used as a bridge loan to purchase the golf cart fleet in fiscal year 2016. This note requires semi-annual payments of \$32,656 on October 1st and April 1st of each fiscal year. The loan is to be repaid from revenues of the golf course fund each year. The loan is collateralized by the 60 golf carts and other major equipment of the golf course operation. The note contains an event of default that changes the timing of repayment of outstanding amounts to become immediately due if the City is unable to make payment.

In December 2019, The City borrowed \$120,000 from a local bank to purchase a 2009 Pierce Rescue Pumper Truck. The note requires annual payments of \$11,966. The loan is being repaid from the revenues of the General Fund each year. The loan is collateralized by the 2009 Pierce Rescue Pumper Truck. The note contains an event of default that changes the timing of repayment of outstanding amounts to become immediately due if the City is unable to make a payment.

Loans/contracted debts outstanding as of June 30, 2020, were as follows:

Purpose	Origination Date	Interest Rate	Loan Term	Maturity Date	Loan Amount	Annual Payment	Balance June 30, 2020
2009 Pierce Rescue Pumper Truck (1)	12/17/2019	3.00%	12 yrs	12/1/2031	\$ 120,000	11,966	\$ 115,468
Commercial Loan (Valley Bank) (2)	5/2/2017	4.75%	15 yrs	4/1/2032	348,707	32,640	295,980
Total					<u>\$ 468,707</u>		<u>\$ 411,448</u>

- (1) Reported in the governmental activities
- (2) Reported in business-type activities

Annual requirement to amortize debt:

For Fiscal Year Ended June 30	Principal	Interest
2021	27,432	17,240
2022	28,529	16,077
2023	29,742	14,864
2024	30,980	13,626
2025	32,332	12,274
2026	33,714	10,892
2027	35,156	9,450
2028	36,647	7,959
2029	38,237	6,369
2030	39,881	4,725
2031	41,598	3,008
2032	37,137	1,220
2033	63	3
Total	<u>\$ 411,448</u>	<u>\$ 117,707</u>

CITY OF POLSON
LAKE COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020

Intercap Loans

In December 2015, The City borrowed \$55,379 from the Montana Board of Investments Intercap Revolving Program under MCA 17-5-1604 to purchase a 2011 Dodge Ram 5500 ST heavy vehicle for the Street Department. This is a variable rate loan program and the interest rate is adjusted on February 16th of each year. Principal and interest are due on each February 15th and August 15th. The 2011 Dodge Ram 5500 ST is the collateral for the loan. The loan must be paid out of general revenues available to the City each year and appropriated for the debt service. The note contains an event of default that changes the timing of repayment of outstanding amounts to become immediately due if the City is unable to make payment.

Intercap loans outstanding in the governmental activities as of June 30, 2020, were as follows:

Purpose	Origination Date	Interest Rate	Loan Term	Maturity Date	Loan Amount	Annual Payment	Balance June 30, 2020
2011 Dodge Ram 5500 ST	12/23/2015	Variable	5 yrs	2/15/2021	\$ 55,379	Varies	\$ 11,245

Annual requirement to amortize debt:

For Fiscal Year Ended June 30	Principal	Interest
2021	11,245	140
Total	\$ 11,245	\$ 140

Capital Leases

The City has entered into a lease which meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee when all terms of the lease agreements are met. The capital lease was entered into in fiscal year 2019 for the purchase of 16 body cameras for the Police Department. The lease is recorded at the present value of the future lease payments.

Capital lease obligations outstanding in governmental activities as of June 30, 2020, were as follows:

Purpose	Origination Date	Interest Rate	Lease Term	Maturity Date	Lease Amount	Annual Payment	Balance June 30, 2020
Axon Enterprises - Body Cameras	10/18/2018	6.00%	5 yrs	10/18/2022	\$ 14,949	\$ 3,348	\$ 10,200

CITY OF POLSON
LAKE COUNTY, MONTANA
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June 30, 2020

Annual requirement to amortize debt:

For Fiscal Year Ended June 30	Principal	Interest
2021	3,204	612
2022	3,396	420
2023	3,600	216
Total	<u>\$ 10,200</u>	<u>\$ 1,248</u>

Compensated Absences

Compensated absences are absences for which employees will be paid for time off earned for time during employment, such as earned vacation and sick leave. 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, but the excess cannot be carried forward more than 90 days into 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. The liability associated with governmental fund type employees is reported in the governmental activities, while the liability associated with proprietary fund-type employees is recorded in the business-type activities/respective proprietary fund.

NOTE 10. 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 in January 2014 the City also began participation in the Municipal Police Officers' Retirement System (MPORS) for City police officers who elected out of their participation in PERS and transferred into MPORS. This plan is a cost sharing multiple-employer defined benefit plan that provides retirement, disability and death benefits. The 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 5.74% for fiscal year 2020.

CITY OF POLSON
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June 30, 2020

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, 2020, were:

	PERS	MPORS
Employee	7.90%	9.00%
Employer	8.67%	14.41%
State	.10%	29.37%
Total	16.67%	52.78%

The amount contributed to PERS during the years ended June 30, 2018, 2019 and 2020 for both defined benefit and defined contribution employees was equal to the required contribution for each year. The amounts contributed by the employees and City were as follows:

Year	Employee	Employer
2018	\$103,053	\$110,661
2019	\$103,624	\$112,418
2020	\$101,655	\$111,563

The amount contributed to MPORS during the years ended June 30, 2017, 2018 and 2019 were equal to the required contribution for each year. The amounts contributed by the employees and City were as follows:

Year	Employee	Employer
2018	\$47,681	\$76,342
2019	\$49,071	\$78,568
2020	\$55,587	\$85,708

The State contribution qualifies as an on behalf payment. The City recorded revenue of \$1,287 for PERS and \$181,400 for MPORS with an offsetting expenditure in the various funds as additional payroll costs. The plans issue publicly available financial reports that include financial statements and required supplementary information for the plans. 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

CITY OF POLSON
LAKE COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020

Polson Fire Department Relief Association

The Polson Fire Department Relief Association Pension Plan is a single-employer defined benefit pension plan. Montana State Law (MCA 19-18-503) requires the City to soundly fund the pension plan for non-paid volunteer firefighters. The discretely presented component unit of the City, Fire Department Relief Association, has been established to administer pension payouts and hold the funded assets. The Fire Department Relief Association is governed by a separate board of directors which includes five (5) trustees and three (3) board members made up of active members of the volunteer fire department. The City receives an apportionment from the Montana State Auditor's office which is then passed through to the Relief Association. The City made no direct contributions to the plan in FY2020.

GASB Statement 73 – Accounting and Financial Reporting for Pensions and Related Assets that are not within the scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68 was effective for fiscal year 2017. One objective of this Statement is to provide information about the effects of pension-related transactions and other events on the elements of the basic financial statements. An additional objective is to improve the information provided in government financial reports about financial support provided by certain non-employer entities for pensions that are provided to the employees of other entities and that are not within the scope of Statement 68. As of June 30, 2020, the City has not determined the pension liability for the Polson Fire Department Relief Association pension plan. However, the pension assets have been maintained at a level equal to at least three times but no more than five times the benefits paid by the fund in the previous or current fiscal year in accordance with Montana State Law (MCA 19-18-503(a)). The assets of the Relief Association (non-employer entity) represent the City's contributions made toward pension obligations.

The eligibility for normal retirement requires 20 or more years of active service regardless of age. Members may be eligible for partial pension benefits if they have completed 10 years of service, but who are prevented from completing 20 years of service by either dissolution or discontinuance of the Polson City Volunteer Fire Department, personal relocation because of transfer or loss of employment, personal disability, or any other factor beyond the member's reasonable control. The partial pension benefit amount is determined by the board of trustees. The plan also provides an eligible surviving spouse benefit that continues after the death of the member for the spouse's life. The normal retirement benefit is \$90 per month with 20 years of service. A year of active service runs from July 1 to the following June 30. Any partial year is not counted for purposes of these benefits. There are 25 inactive volunteer firefighters and 4 spouses currently receiving benefits.

CITY OF POLSON
LAKE COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020

NOTE 11. NET PENSION LIABILITY

As of June 30, 2020, the County reported the following balances as its proportionate share of PERS and MPORS pension amounts:

City's Proportionate Share Associated With:

	<u>PERS</u>	<u>MPORS</u>	<u>Pension Totals</u>
Net Pension Liability	\$ 1,598,581	\$ 658,487	\$ 2,257,068
Deferred outflows of resources*	\$ 270,152	\$ 169,632	\$ 439,784
Deferred inflows of resources	\$ 308,605	\$ 31,621	\$ 340,226
Pension expense	\$ 72,835	\$ 196,482	\$ 269,317

*Deferred outflows for PERS and MPORS are reported as of the reporting date which includes employer contributions made subsequent to the measurement date of \$107,104, and \$85,708, respectively. These amounts will be recognized as a reduction of the net pension liability in the year ending June 30, 2020. Total deferred inflows and outflows in the remainder of the note are as of the measurement date of June 30, 2019.

PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS)

Following are disclosures for the defined benefit pension plan provided by the Montana Public Employees Retirement Administration (MPERA) which administers PERS. Numerical annotations following the titles refer to the GASB 68, *Accounting and Financial Reporting for Pensions* paragraphs which require the particular disclosure:

**CITY OF POLSON (6578)
PUBLIC EMPLOYEES' RETIREMENT SYSTEM –
DEFINED BENEFIT
GASB 68 NOTES TO THE
FINANCIAL STATEMENTS
FOR FISCAL YEAR ENDED
JUNE 30, 2019 (measurement date)
JUNE 30, 2020 (reporting date)**

In accordance with GASB Statement 68, *Accounting and Financial Reporting for Pensions*, employers and the non-employer-contributing entity are required to recognize and report certain amounts associated with participation in the Public Employees' Retirement System Defined Benefit Retirement Plan (the Plan). This includes the proportionate share of the collective Net Pension Liability; Pension Expense; and Deferred Outflows and Deferred Inflows of Resources associated with pensions. Employers are provided guidance in GASB Statement 68, paragraph 74, where pension amounts must be combined as a total or aggregate for reporting, whether provided through cost-sharing, single-employer, or agent plans. This report provides information for employers who are using a June 30, 2019 measurement date for the 2020 reporting. If an employer's fiscal year end is after June 30th, the employer will not use the measurements shown in this report but will need to wait for the measurement date as of June 30, 2020.

CITY OF POLSON
LAKE COUNTY, MONTANA
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Summary of Significant Accounting Policies - 79

MPERA prepared financial statements using the accrual basis of accounting. The same accrual basis was used by MPERA for the purposes of determining the Net Pension Liability (NPL); Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions; Pension Expense; the Fiduciary Net Position; and, Additions to or Deductions from Fiduciary Net Position. Member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Revenues are recognized in the accounting period they are earned and become measurable. Benefit payments and refunds are recognized in the accounting period in which they are due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred. Investments are reported at fair value. MPERA adhered to all accounting principles generally accepted by the United States of America. MPERA applied all applicable pronouncements of the Governmental Accounting Standards Board (GASB).

General Information about the Pension Plan – 76a, 76b, 76c

Plan Description – 76a: The PERS-Defined Benefit Retirement Plan (DBRP), administered by the Montana Public Employee Retirement Administration (MPERA), is a multiple-employer, cost-sharing plan established July 1, 1945, and governed by Title 19, chapters 2 & 3, Montana Code Annotated (MCA). This plan provides retirement benefits to covered employees of the State, and local governments, and certain employees of the Montana University System, and school districts. Benefits are established by state law and can only be amended by the Legislature.

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

Benefits provided – 76b: The PERS-DBRP provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service, and highest average compensation (HAC). Member rights are vested after five years of service.

Service retirement:

- Hired prior to July 1, 2011:
 - Age 60, 5 years of membership service
 - Age 65, regardless of membership service
 - 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

CITY OF POLSON
LAKE COUNTY, MONTANA
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Early Retirement:

- Hired prior to July 1, 2011:
 - Age 50, 5 years of membership service
 - Any age, 25 years of membership service
- Hired on or after July 1, 2011:
 - Age 55, 5 years of membership service

Second Retirement: (requires returning to PERS-covered employer or PERS service)

- Retired before January 1, 2016 and accumulate less than 2 years additional service credit or retired on or after January 1, 2016 and accumulate less than 5 years additional service credit:
 - A refund of member's contributions plus return interest (currently 2.02% effective July 1, 2018).
 - No service credit for second employment;
 - Start the same benefit amount the month following termination; and
 - Guaranteed Annual Benefit Adjustment (GABA) starts again in the January immediately following thesecond retirement.
- Retired before January 1, 2016 and accumulate at least 2 years of additional service credit:
 - A recalculated retirement benefit based on provisions in effect after the initial retirement; and
 - GABA starts on the recalculated benefit in the January after receiving the new benefit for 12 months.
- Retired on or after January 1, 2016 and accumulate 5 or more years of service credit:
 - The same retirement as prior to the return to service;
 - A second retirement benefit as prior to the second period of service based on laws in effect upon the rehiredate; and
 - GABA starts on both benefits in the January after receiving the original and the new benefit for 12 months.

Member's 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;

Compensation Cap

- Hired on or after July 1, 2013 – 110% annual cap on compensation considered as a part of a member's highestaverage compensation.

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.

CITY OF POLSON
LAKE COUNTY, MONTANA
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- 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.

Guaranteed Annual Benefit Adjustment (GABA)

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 all other adjustments to the member's benefit.

- 3.0% for members hired prior to July 1, 2007
- 1.5% for members hired between July 1, 2007 and June 30, 2013
- Members hired on or after July 1, 2013:
 - (a) 1.5% for each year PERS is funded at or above 90%;
 - (b) 1.5% reduced by 0.1% for each 2.0% PERS is funded below 90%; and
 - (c) 0% whenever the amortization period for PERS is 40 years or more.

Contributions – 76c: The state Legislature has the authority to establish and amend contribution rates. Member and employer contribution rates are specified by Montana Statute and are a percentage of the member's compensation. Contributions are deducted from each member's salary and remitted by participating employers.

Special Funding: The state of Montana, as the non-employer contributing entity, paid to the Plan, additional contributions that qualify as *special funding*. Those employers who received *special funding* are all participating employers.

Not Special Funding: Per Montana law, state agencies and universities paid their own additional contributions. The employer paid contributions are *not* accounted for as special funding for state agencies and universities but are reported as employer contributions.

Member and employer contribution rates are shown in the table below.

Fiscal Year	Member		Local Government	
	Hired < 07/01/11	Hired > 07/01/11	Employer	State
2020	7.900%	7.900%	8.670%	0.100%
2019	7.900%	7.900%	8.570%	0.100%
2018	7.900%	7.900%	8.470%	0.100%
2017	7.900%	7.900%	8.370%	0.100%
2016	7.900%	7.900%	8.270%	0.100%
2015	7.900%	7.900%	8.170%	0.100%
2014	7.900%	7.900%	8.070%	0.100%
2012 – 2013	6.900%	7.900%	7.070%	0.100%
2010 – 2011	6.900%		7.070%	0.100%
2008 – 2009	6.900%		6.935%	0.100%
2000 - 2007	6.900%		6.800%	0.100%

CITY OF POLSON
LAKE COUNTY, MONTANA
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1. Member contributions to the system of 7.9% are temporary and will be decreased to 6.9% on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and additional member contribution rates.
2. Employer contributions to the system:
 - a. Effective July 1, 2014, following the 2013 Legislative session, PERS-employer contributions increase an additional 0.1% a year and will continue over 10 years through 2024. The additional employer contributions including the 0.27% added in 2007 and 2009, will terminate on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below the 25 years following the reduction of both the additional employer and additional member contributions rates.
 - b. Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.
 - c. The portion of employer contributions allocated to the Plan Choice Rate (PCR) are included in the employers reporting. The PCR was paid off effective March 2016 and the contributions previously directed to the PCR are now directed to member accounts.
3. Non-Employer Contributions:
 - a. Special Funding
 - i. The state contributed 0.1% of members' compensation on behalf of local government entities.
 - ii. The state contributed 0.37% of members' compensation on behalf of school district entities.
 - iii. The state contributed a Statutory Appropriation from the General Fund of \$33,615,000.

Pension Liabilities (80a, 80b, 80c, 80d, 80e, 80f), Pension Expense (80g, 80j), and Deferred Outflows of Resources and Deferred Inflows of Resources (57, 80h, 80i) Related to Pensions

GASB Statement 68 allows a measurement date of up to 12 months before the employer's fiscal year-end can be utilized to determine the Plan's TPL. The basis for the TPL as of June 30, 2019, was determined by taking the results of the June 30, 2018, actuarial valuation and applying standard roll forward procedures. The roll forward procedure uses a calculation that adds the annual normal cost (also called the service cost), subtracts the actual benefit payments and refunds for the plan year, and then applies the expected investment rate of return for the year. The roll forward procedure will include the effects of any assumption changes and legislative changes. The update procedures are in conformity with Actuarial Standards of Practice issued by the Actuarial Standards Board.

CITY OF POLSON
LAKE COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
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The Total Pension Liability (TPL) minus the Fiduciary Net Position equals the Net Pension Liability (NPL). The proportionate shares of the employer's and the state of Montana's NPL for June 30, 2019, and 2018, are displayed below. The employer's proportionate share equals the ratio of the employer's contributions to the sum of all employer and non-employer contributions during the measurement period. The state's proportionate share for a particular employer equals the ratio of the contributions for the particular employer to the total state contributions paid. The employer recorded a liability of \$1,598,581 and the employer's proportionate share was 0.076476 percent.

As of measurement date	Net Pension Liability as of 6/30/2019	Net Pension Liability as of 6/30/2018	Percent of Collective NPL as of 6/30/2019	Percent of Collective NPL as of 6/30/2018*	Change in Percent of Collective NPL
CITY OF POLSON Proportionate Share	\$ 1,598,581	\$ 1,597,579	0.076476%	0.076544%	(0.000068)%
State of Montana Proportionate Share associated with Employer	\$ 518,914	\$ 533,360	0.024825%	0.025555%	(0.000730)%
Total	\$ 2,117,496	\$ 2,130,940	0.101301%	0.102099%	(0.000798)%
<small>*To be consistent with this year's calculation of the <i>State of Montana Proportionate Share Associated with Employer Percent of Collective NPL</i>, the June 30, 2018 percentage has been recalculated using the actual State percentage presented on the allocation calculation instead of the 100% displayed last year. This does not change the dollar amount of the Net Pension Liability as of 6/30/2018, just the percentage.</small>					

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

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 NPL and the employer's reporting date that are expected to have a significant effect on the employer's proportionate share of the collective NPL.

Pension Expense – 80g, 80j: At June 30, 2019, the employer recognized \$150,327 for its proportionate share of the Plan's pension expense and recognized grant revenue of \$1,216 for the state of Montana proportionate share of the pension expense associated with the employer. Additionally, the employer recognized grant revenue of \$34,013 from the State Statutory Appropriation from the General Fund. *(Two years of pension expense are documented in the table below but are not necessary for the employer's disclosures.)*

As of measurement date	Pension Expense as of 6/30/2019	Pension Expense as of 6/30/2018
CITY OF POLSON's Proportionate Share	\$150,327	\$25,694
Employer Grant Revenue – State of Montana Proportionate Share for employer	1,216	35,596
Employer Grant Revenue – State of Montana State Appropriation for employer	34,013	0
Total	\$185,556	\$61,290

CITY OF POLSON
LAKE COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020

Recognition of Deferred Inflows and Outflows – 57, 80h, 80i: At June 30, 2019, the employer reported its proportionate share of the Plan's deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Expected vs. Actual Experience	\$75,801	\$75,220
Projected Investment Earnings vs. Actual Investment Earnings	19,382	0
Changes in Assumptions	67,865	0
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	0	233,386
Employer Contributions Subsequent to the Measurement Date #	107,104	
Total	\$270,152	\$308,605
<i># the employer's contributions subsequent to the measurement date must be entered by the employer. These are the FY2020 contributions paid to the Plan</i>		

Other amounts reported as deferred outflows and inflows of resources related to pensions are recognized in the employer's pension expense as follows:

For the Measurement Year ended June 30:	Recognition of Deferred Outflows and Deferred Inflows in future years as an increase or (decrease) to Pension Expense
2020	\$(4,937)
2021	\$(165,226)
2022	\$7,210
2023	\$17,396
Thereafter	\$ 0

Actuarial Assumptions - 77: The total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions.

Investment Return (net of admin expense)	7.65%
Admin Expense as % of Payroll	0.26%
General Wage Growth *	3.50%
*includes Inflation at	2.75%
Merit Increases	0% to 6.30%
Postretirement Benefit Increases	
1. Guaranteed Annual Benefit Adjustment (GABA) each January	
• 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 all other adjustments to the member's benefit.	
• Members hired prior to July 1, 2007	3.0%
• Members hired between July 1, 2007 & June 30, 2013	1.5%
• Members hired on or after July 1, 2013	
• For each year PERS is funded at or above 90%	1.5%
• The 1.5% is reduced by 0.1% for each 2.0% PERS is funded below 90%	
• 0% whenever the amortization period for PERS is 40 years or more	0%

CITY OF POLSON
LAKE COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020

<p>Mortality:</p> <ul style="list-style-type: none"> • Contributing members, , service retired members & beneficiaries • Disabled Members 	<p>RP-2000 Combined Employee and Annuitant Mortality Tables projected to 2020 with scale BB, set back one year for males</p> <p>RP-2000 Combined Mortality Tables, with no projections</p>
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The most recent experience study, performed for the period covering fiscal years 2011 through 2016, is outlined in a report dated May 5, 2017 and can be located on the MPERA website. The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the Plan. Several factors are considered in evaluating the long-term rate of return assumption including historical rates of return, rate of return assumptions adopted by similar public-sector systems, and by using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation (78c & 78f) as of June 30, 2019, are summarized in the table below.

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return Arithmetic Basis
Cash Equivalents	3.0%	4.09%
Domestic Equity	36.0%	6.05%
Foreign Equity	18.0%	7.01%
Fixed Income	23.0%	2.17%
Private Equity	12.0%	10.53%
Real Estate	8.0%	5.65%
Total	100.0%	

Discount Rate – 78a, 78b, 78d, 78e: The discount rate used to measure the TPL was 7.65%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities would be made based on the Board’s funding policy, which established the contractually required rates under the Montana Code Annotated. The state contributed 0.10% of the salaries paid by local governments and 0.37% paid by school districts. In addition, the state contributed a statutory appropriation from the general fund. Based on those assumptions, the Plan’s fiduciary net position was projected to be adequate to make all the 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 TPL. A municipal bond rate was not incorporated in the discount rate.

CITY OF POLSON
LAKE COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020

Sensitivity of the proportionate share of the net pension liability to changes in the discount rate – 78g: The following presents the employer’s sensitivity of the NPL to the discount rate in the table below. A small change in the discount rate can create a significant change in the liability. The NPL was calculated using the discount rate of 7.65%, as well as what the NPL would be if it were calculated using a discount rate 1.00% lower or 1.00% higher than the current rate.

As of measurement date	1.0% Decrease (6.65%)	Current Discount Rate	1.0% Increase (8.65%)
CITY OF POLSON’s Net Pension Liability	\$2,296,706	\$1,598,581	\$1,011,896

PERS Disclosure for the defined contribution plan - 126

CITY OF POLSON contributed to the state of Montana Public Employee Retirement System Defined Contribution Retirement Plan (PERS-DCRP) for employees that have elected the DCRP. The PERS-DCRP is administered by the PERB and is reported as a multiple- employer plan established July 1, 2002, and governed by Title 19, chapters 2 & 3, MCA.

All new PERS 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 the PERS-DCRP by filing an irrevocable election. Members may not be participants of both the *defined benefit* and *defined contribution* retirement plans.

Member and employer contribution rates are specified by state law and are a percentage of the member’s compensation. Contributions are deducted from each member’s salary and remitted by participating employers. The state Legislature has the authority to establish and amend contribution rates.

Benefits are dependent upon eligibility and individual account balances. Participants are vested immediately in their own contributions and attributable income. Participants are vested after 5 years of membership service for the employer’s contributions to individual accounts and the attributable income. Non-vested contributions are forfeited upon termination of employment per 19-3-2117(5), MCA. Such forfeitures are used to cover the administrative expenses of the PERS-DCRP.

At the plan level for the measurement period ended June 30, 2019, the PERS-DCRP employer did not recognize any net pension liability or pension expense for the *defined contribution* plan. Plan level non-vested forfeitures for the 320 employers that have participants in the PERS-DCRP totaled \$714,024.

Pension plan fiduciary net position: The stand-alone financial statements (76d) of the Montana Public Employees Retirement Board (PERB) *Comprehensive Annual Financial Report* (CAFR) and the GASB 68 Report disclose the Plan’s fiduciary net position. The reports are available from the PERB at PO Box 200131, Helena MT 59620-0131, (406) 444-3154 or both are available on the MPERA website at <http://mpera.mt.gov/index.shtml>.

CITY OF POLSON
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NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020

MUNICIPAL POLICE OFFICERS' RETIREMENT SYSTEM (MPORS)

Following are disclosures provided by the Montana Public Employee Retirement Administration (MPERA) which administers MPORS. Numerical annotations following titles refer to GASB 68, Accounting and Financial Reporting for Pensions paragraphs which require the particular disclosure:

**CITY OF POLSON (6578)
MUNICIPAL POLICE OFFICERS'
RETIREMENT SYSTEMGASB 68
NOTES TO THE FINANCIAL
STATEMENTS
FOR FISCAL YEAR ENDED
JUNE 30, 2019 (measurement date)
JUNE 30, 2020 (reporting date)**

In accordance with GASB Statement 68, *Accounting and Financial Reporting for Pensions*, employers and the non-employer contributing entity are required to recognize and report certain amounts associated with participation in the Municipal Police Officers' Retirement System (the Plan). This includes the proportionate share of the collective Net Pension Liability; Pension Expense; and Deferred Outflows and Deferred Inflows of Resources associated with pensions. Employers are provided guidance in GASB Statement 68, paragraph 74, where pension amounts must be combined as a total or aggregate for reporting. Whether provided through cost-sharing, single-employer, or agent plans. This report provides information for employers who are using a June 30, 2019 measurement date for the 2020 reporting.

Summary of Significant Accounting Policies – 79

MPERA prepared financial statements using the accrual basis of accounting. The same accrual basis was used by MPERA for the purposes of determining the Net Pension Liability (NPL); Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions; Pension Expense; the Fiduciary Net Position; and, Additions to or Deductions from Fiduciary Net Position. Member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Revenues are recognized in the accounting period they are earned and become measurable. Benefit payments and refunds are recognized in the accounting period in which they are due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred. Investments are reported at fair value. MPERA adhered to all accounting principles generally accepted by the United States of America. MPERA applied all applicable pronouncements of the Governmental Accounting Standards Board (GASB).

CITY OF POLSON
LAKE COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020

General Information about the Pension Plan – 76a, 76b, 76c

Plan Description – 76a: 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 established in 1974 and governed by Title 19, chapters 2 & 9, Montana Code Annotated (MCA). This plan provides retirement benefits to 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.

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 and a maximum of 60 months and may only participate in the DROP once. A participant remains a member of the MPORS but will not receive membership service or service credit in the system for the duration of the member's DROP period. During participation in the DROP, all mandatory contributions continue to the retirement system. A monthly benefit is calculated based on salary and years of service to date as of the beginning of the DROP period. The monthly benefit is paid into the member's DROP account until the end of the DROP period. At the end of the DROP period, the participant may receive the balance of the DROP account in a lump-sum payment or in a direct rollover to another eligible plan, as allowed by the IRS. If the participant continues employment after the DROP period ends, they will again accrue membership service and service credit. The DROP account cannot be distributed until employment is formally terminated.

Benefits provided – 76b: MPORS provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service, and compensation. Member rights are vested after five years of service.

Service retirement and monthly benefit formula:

- 20 years of membership service, regardless of age.
- Age 50 with 5 years of membership service (Early Retirement).
- 2.5% of FAC x years of service credit.

Second retirement:

Re-calculated using specific criteria for members who return to covered MPORS employment prior to July 1, 2017:

- Less than 20 years of membership service, upon re-employment, repay benefits and subsequent retirement is based on total MPORS service.
- More than 20 years of membership service, upon re-employment, receives initial benefit and a new retirement benefit based on additional service credit and FAC after re-employment.

CITY OF POLSON
LAKE COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020

Applies to retirement system members re-employed in a MPORS position on or after July 1, 2017:

- If the member works more than 480 hours in a calendar year and accumulates less than 5 years of service credit before terminating again, the member:
 - is not awarded service credit for the period of reemployment;
 - is refunded the accumulated contributions associated with the period of reemployment;
 - starting the first month following termination of service, receives the same retirement benefit previously paid to the member; and
 - does not accrue post-retirement benefit adjustments during the term of reemployment but receives a Guaranteed Annual Benefit Adjustment (GABA) in January immediately following second retirement.
- If the member works more than 480 hours in a calendar year and accumulates at least 5 years of service credit before terminating again, the member:
 - is awarded service credit for the period of reemployment;
 - starting the first month following termination of service, receives:
 - * the same retirement benefit previously paid to the member, and
 - * a second retirement benefit for the period of reemployment calculated based on the laws in effect as of the members rehire date; and
 - does not accrue post-retirement benefit adjustments during the term of reemployment but receives a GABA:
 - * on the initial retirement benefit in January immediately following second retirement, and
 - * on the second retirement benefit starting in January after receiving that benefit for at least 12 months.
- A member who returns to covered service is not eligible for a disability benefit.

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, 1977 - final average compensation (FAC) for last consecutive 36 months.

Compensation Cap

- Hired on or after July 1, 2013: 110% annual cap on compensation considered as a part of a member's FAC.

Guaranteed Annual Benefit Adjustment (GABA)

- Hired on or after July 1, 1997, or those electing GABA, and has been retired for at least 12 months, a GABA will be made each year in January equal to 3%.

CITY OF POLSON
LAKE COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020

Minimum benefit adjustment (non-GABA)

- The minimum benefit provided may not be less than 50% of the compensation paid to a newly confirmed police officer of the employer that last employed the member as a police officer in the current fiscal year.

Contributions – 76c: The State Legislature has the authority to establish and amend contribution rates to the plan. Member and employer contribution rates are specified by Montana Statute and are a percentage of the member’s compensation. Contributions are deducted from each member’s salary and remitted by participating employers.

Special Funding: MCA 19-9-702 requires the State of Montana to contribute a percentage of total compensation directly to the Plan annually after the end of each fiscal year. Member, Employer and State contribution rates are shown in the table below.

Fiscal Year	Member				Employer	State
	Hired < 7/1/75	Hired > 6/30/75	Hired > 6/30/79	Hired > 6/30/97 GABA		
2000 - 2020	5.800%	7.000%	8.500%	9.000%	14.410%	29.370%
1998 - 1999	7.800%	9.000%	10.500%	11.000%	14.410%	29.370%
1997	7.800%	9.000%	10.500%		14.360%	29.370%

Pension Liabilities (80a, 80b, 80c, 80d, 80e, 80f), Pension Expense (80g, 80j), and Deferred Outflows of Resources and Deferred Inflows of Resources (57, 80h, 80i) Related to Pensions

GASB Statement 68 allows a measurement date of up to 12 months before the employer’s fiscal year-end can be utilized to determine the Plan’s TPL. The basis for the TPL as of June 30, 2019, was determined by taking the results of the June 30, 2018, actuarial valuation and applying standard roll forward procedures. The roll forward procedure uses a calculation that adds the annual normal cost (also called the service cost), subtracts the actual benefit payments and refunds for the plan year, and then applies the expected investment rate of return for the year. The roll forward procedure will include the effects of any assumption changes and legislative changes. The update procedures are in conformity with Actuarial Standards of Practice issued by the Actuarial Standards Board.

The Total Pension Liability (TPL) minus the Fiduciary Net Position equals the Net Pension Liability (NPL). The proportionate shares of the employer’s and the State of Montana’s NPL for June 30, 2019, and 2018, are displayed below. The employer’s proportionate share equals the ratio of the employer’s contributions to the sum of all employer and non-employer contributions during the measurement period. Due to the existence of the special funding situation, the state is required to report a proportionate share of a local government’s collective NPL that is associated with the non-state employer. The state’s proportionate share for a particular employer equals the ratio of the contributions for the particular employer to the total state contributions paid. The employer recorded a liability of \$658,487 and the employer’s proportionate share was 0.3308 percent.

CITY OF POLSON
LAKE COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020

As of measurement date	Net Pension Liability as of 6/30/2019	Net Pension Liability as of 6/30/2018	Percent of Collective NPL as of 6/30/2019	Percent of Collective NPL as of 6/30/2018*	Change in Percent of Collective NPL
CITY OF POLSON Proportionate Share	\$ 658,487	\$ 574,814	0.3308%	0.3356%	(0.0048)%
State of Montana Proportionate Share associated with Employer	1,340,920	1,175,034	0.6737%	0.6861%	(0.0124)%
Total	\$ 1,999,407	\$ 1,749,848	1.0045%	1.0217%	(0.0172)%
<small>*To be consistent with this year's calculation of the <i>State of Montana Proportionate Share Associated with Employer Percent of Collective NPL</i>, the June 30, 2018 percentage has been recalculated using the actual State percentage presented on the allocation calculation instead of the 100% displayed last year. This does not change the dollar amount of the Net Pension Liability as of 6/30/2018, just the percentage.</small>					

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

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 NPL and the employer's reporting date that are expected to have a significant effect on the employer's proportionate share of the collective NPL.

Pension Expense -80g, 80j: At June 30, 2019 measurement date, the employer recognized its proportionate share of the Plan's pension expense of \$126,600. The employer also recognized grant revenue of \$160,631 for the support provided by the State of Montana for the proportionate share of the pension expense that is associated with the employer. *(Two years of pension expense are documented in the table below but are not necessary for the employer's disclosures.)*

As of measurement date	Pension Expense as of 6/30/2019	Pension Expense as of 6/30/2018
CITY OF POLSON's Proportionate Share	\$126,600	\$152,529
Employer Grant Revenue - State of Montana Proportionate Share for Employer	160,631	161,981
Total	\$287,231	\$314,509

CITY OF POLSON
LAKE COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020

Recognition of Deferred Inflows and Outflows – 57, 80h, 80i: At June 30, 2019, the employer reported its proportionate share of the Plan’s deferred outflows of resources and deferred inflows of resources from the following sources:

As of measurement date	Deferred Outflows of Resources	Deferred Inflows of Resources
Expected vs. Actual Experience	\$58,441	\$4,183
Projected Investment Earnings vs. Actual Investment Earnings	12,240	0
Changes in Assumptions	13,243	0
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	0	27,437
Employer Contributions Subsequent to the Measurement Date #	85,708	
Total	\$169,632	\$31,621
<i># the employer’s contributions subsequent to the measurement date must be entered by the employer. These are the FY2020 contributions paid to the Plan</i>		

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

For the Measurement Year ended June 30:	Recognition of Deferred Outflows and Deferred Inflows in future years as an increase or (decrease) to Pension Expense
2020	\$25,550
2021	\$(164)
2022	\$20,751
2023	\$6,167
Thereafter	\$ 0

Actuarial Assumptions - 77: The total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions.

Investment Return (net of admin expense)	7.65%
Admin Expense as % of Payroll	0.23%
General Wage Growth *	3.50%
*includes Inflation at	2.75%
Merit Increases	0% to 6.60%
Postretirement Benefit Increases	
1. Guaranteed Annual Benefit Adjustment (GABA) each January	3.0%
• Members hired on or after July 1, 1997 or those electing GABA	
• Requires 12 full months of retirement before GABA will be made	
2. Minimum Benefit Adjustment (non-GABA)	
• Benefit for a retired member or member’s survivor and member did not elect GABA	The minimum benefit provided should not be less than 50% of the monthly compensation paid to a newly confirmed police officer of the employer that last employed the member as a police officer

CITY OF POLSON
LAKE COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020

<p>Mortality:</p> <ul style="list-style-type: none"> • Contributing members, Service Retired Members & beneficiaries • Disabled Retirees 	<p>RP-2000 Combined Employee and Annuitant Mortality Tables projected to 2020 with scale BB, set back one year for males</p> <p>RP-2000 Combined Mortality Tables with no projects</p>
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The most recent experience study, performed for the period covering fiscal years 2011 through 2016, is outlined in a report dated May 5, 2017 and can be located on the MPERA website. The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the Plan. Several factors are considered in evaluating the long-term rate of return assumption including historical rates of return, rate of return assumptions adopted by similar public-sector systems, and by using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation (78c & 78f) as of June 30, 2019, are summarized below.

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return Arithmetic Basis
Cash Equivalents	3.0%	4.09%
Domestic Equity	36.0%	6.05%
Foreign Equity	18.0%	7.01%
Fixed Income	23.0%	2.17%
Private Equity	12.0%	10.53%
Real Estate	8.0%	5.65%
Total	100.0%	

Discount Rate – 78a, 78b, 78d, 78e: The discount rate used to measure the TPL was 7.65%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities would be made based on the Board’s funding policy, which established the contractually required rates under the Montana Code Annotated. The state contributed 29.37% of the salaries paid by employers. Based on those assumptions, the Plan’s fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2133. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL. A municipal bond rate was not incorporated in the discount rate.

CITY OF POLSON
LAKE COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020

Sensitivity of the proportionate share of the net pension liability to changes in the discount rate – 78g: The following presents the employer’s sensitivity of the NPL to the discount rate in the table below. A small change in the discount rate can create a significant change in the liability. The NPL was calculated using the discount rate of 7.65%, as well as what the NPL would be if it were calculated using a discount rate 1.00% lower or 1.00% higher than the current rate.

As of measurement date	1.0% Decrease (6.65%)	Current Discount Rate	1.0% Increase (8.65%)
CITY OF POLSON’s Net Pension Liability	\$968,086	\$658,487	\$410,655

Pension plan fiduciary net position: The stand-alone financial statements (76d) of the Montana Public Employees Retirement Board (PERB) *Comprehensive Annual Financial Report* (CAFR) and the GASB 68 Report disclose the Plan’s fiduciary net position. The reports are available from the PERB at PO Box 200131, Helena MT 59620-0131, (406) 444-3154 or both are available on the MPERA website at <http://mpera.mt.gov/index.shtml>.

NOTE 12. POSTEMPLOYMENT HEALTHCARE PLAN

Plan Description. The healthcare plan provides for, as required by section 2-18-704, MCA, employees with at least 5 years of service and who are at least age 50, along with surviving spouses and dependents, to stay on the government’s health care plan as long as they pay the same premium. This creates a defined benefit Other Post-Employment Benefits Plan (OPEB); since retirees are usually older than the average age of the plan participants, they receive a benefit of lower insurance rates. The OPEB plan is a single employer defined benefit plan administered by the City. The government has not created a trust to accumulate assets to assist in covering the defined benefit plan costs and covers these when they come due. The government has less than 100 plan members and thus qualifies to use the "Alternative Measurement Method" for calculating the liability. The above described OPEB plan does not provide a stand-alone financial report.

Benefits Provided. The government provides healthcare insurance benefits for retirees and their dependents upon reaching the age and service years defined in section 2-18-704, MCA. The benefit terms require that eligible retirees cover 100 percent of the health insurance premiums but may pay the same premiums as the other members in the group health plan.

Employees covered by benefit terms. At June 30, 2020, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries receiving benefit payments	1
Active employees	39
Total employees	40

CITY OF POLSON
LAKE COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020

Total OPEB Liability

The City's total OPEB liability of \$127,427 at June 30, 2020, was determined by using the alternative measurement method. The measurement date of the determined liability was June 30, 2020.

Actuarial assumptions and other input. The total OPEB liability in the June 30, 2020 alternative measurement method was determined using the following assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Average age of retirement (based on historical data)	62
Discount rate (average anticipated rate)	2.10%
Average salary increase (Consumer Price Index)	2.54%
Health care cost rate trend (Federal Office of the Actuary)	_____

Year	% Increase
2020	5.20%
2021	5.10%
2022	5.70%
2023	5.60%
2024	5.50%
2025	5.70%
2026	5.80%
2027	5.60%
2028	5.60%
2029	5.60%
2030 and thereafter	5.60%

The discount rate was based on the 20-year General obligation (GO) bond index.

Life expectancy of employees was based on the United States Life Tables, 2017 for Males: Table 2 and Females: Table 3 as published in the National Vital Statistics Reports, Vol. 68, No. 7, June 24, 2019.

The turnover rates were determined from the periodic experience studies of the Montana public retirement systems for the covered groups as documented in the GASB 68 actuarial valuations.

CITY OF POLSON
LAKE COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at 06/30/2019	\$ 94,013
Changes for the year:	
Service Cost	8,655
Changes in Assumptions	24,758
Net changes	\$ 33,413
Balance at 06/30/2020	\$ 127,426

Sensitivity of the total OPEB liability to changes in the discount rate. The following summarizes the total OPEB liability reported, and how that liability would change if the discount rate used to calculate the OPEB liability were to decrease or increase 1%:

	1% Decrease <u>(1.10%)</u>	Discount Rate <u>(2.10%)</u>	1% Increase <u>(3.10%)</u>
Total OPEB Liability	\$153,698	\$127,426	\$106,677

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates. The following summarizes the total OPEB liability reported, and how that liability would change if the healthcare trend rates used in projecting the benefit payments were to decrease or increase 1%:

	1% Decrease	Healthcare Cost Trends*	1% Increase
Total OPEB Liability	<u>\$101,670</u>	\$127,426	\$160,757

**Reference the assumptions footnotes to determine the healthcare cost trends used to calculate the OPEB liability.*

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2020, the City recognized an OPEB expense of \$33,413. The City does not report any deferred outflows of resources and deferred inflows of resources related to OPEB as there were no differences between expected and actual experience or changes in assumptions performed in the alternative measurement method. In addition, since the City records costs as they come due, there are no deferred outflows of resources for contributions to an OPEB plan trust.

CITY OF POLSON
LAKE COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020

NOTE 13. COMMITMENTS AND CONTINGENCIES

The City is committed to pay \$50,000 in retainage following completion of final work (punch list items) on the construction of the wastewater resource recovery facility. The City has also recorded a liability for liquidated damages withheld from contractor payments in the amount of \$354,000 that will need to be resolved at completion of the final work.

Local reserves of \$156,686 from the water system TSEP grant from FY2016 are still committed for construction of the well housing and connection to the water system for well #8.

The City has entered into a contract for construction of an addition to the Skate Park in the amount of \$220,000. Construction will not begin until the entire cost of the construction is available to the City through private donations and grants. Construction is not expected to begin until fiscal year 2021.

The City is committed to award tax increment financing urban renewal grants in the amount of \$216,112 in FY2021.

The City is committed to spend \$213,500 of Bridge and Road Safety and Accountability Program (BARSAA) HB473 Fuel Tax Allocation revenue. The funds will be used on designated street repair and improvement projects.

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, 2020, the City had no protested taxes.

As of June 30, 2020, delinquent assessments on SIDs were \$606. The delinquencies are due from various residential and commercial property owners. The City anticipates payment of the delinquencies from the land owners and will proceed with tax deeds on the property if the assessments are not paid current before the end of the SID bond terms.

NOTE 14. DEFICIT FUND BALANCES/NET ASSETS

The City had one fund #2401 Light Maintenance District #19 with a deficit fund balance of \$1,637. This was due to the increasing cost of electricity for the district and a shortfall in projected revenue. This will be corrected in FY2021.

CITY OF POLSON
LAKE COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020

NOTE 15. RESTATEMENTS TO PRIOR PERIODS

The following prior period restatements were made for fiscal year 2020:

Fund	Amount	Reason
Police Municipal Services Levy	\$ (2,500)	Receivable adjustment
Parks Donations - Restricted	250	Expenditure adjustment
Parks Pickle Ball Courts Donations	(250)	Expenditure adjustment
Government-wide governmental funds	(1,622)	Debt liability adjustment
	<u>\$ (4,122)</u>	

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.

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.

CITY OF POLSON
LAKE COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020

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 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, are not material to the financial statements. The amount of that liability is not measurable at June 30, 2020 and accordingly, no provision has been made in the financial statements for these contingent liabilities.

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:

<u>Order of Use</u>	<u>Type</u>
1 st :	Restricted
2 nd :	Committed
3 rd :	Assigned
4 th :	Unassigned

CITY OF POLSON
LAKE COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020

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:

<u>Order of Use</u>	<u>Type</u>
1 st .	Restricted
2 nd .	Committed
3 rd	Assigned

NOTE 21. FUND EQUITY

Governmental Fund equity is classified as fund balance. The City categorizes fund balance of the governmental funds into the following categories:

Restricted – includes constraint for specific purposes which are externally imposed by a third party, State Constitution, or enabling legislation.

Unassigned – includes negative fund balances in all funds, or fund balance with no constraints in the General Fund.

The City considers restricted amounts to have been spent first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available.

The City considers that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Restricted Fund Balance

<u>Major Fund</u>	<u>Amount</u>	<u>Purpose of Restriction</u>
All Other Aggregate	\$ 228,707	Debt Service
	9,246	General Government administration and services
	363,499	Law Enforcement, emergency services, and supplies
	933,717	Road Repair, maintenance and supplies
	22,361	Noxious Weed Management
	63,592	Repairs and maintenance
	159,388	Culture and recreation
	1,078,204	Housing and Community Development
	699	Conservation of Natural Resources
	2,201	Miscellaneous
	<u>5</u>	Airport
Total	<u>\$2,861,619</u>	

CITY OF POLSON
LAKE COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020

NOTE 22. SUBSEQUENT EVENTS

After an almost three year search process, a new City Manager, Mr. Ed Meece, was hired on October 1, 2020.

In response to the COVID-19 pandemic, Congress passed the CARE Act, Coronavirus Aid, Relief, and Economic Security Act. With the CARES Act there was several funding sources that were created to support state and local governments. These funding sources include the Coronavirus Relief Fund (CRF). The State of Montana received \$1.25 billion from the Coronavirus Relief Fund. The City was eligible to receive assist through reimbursement request. The City has received a total \$676,439 in Coronavirus Relief Funding, of which \$308,528 is related to fiscal year 2020. COVID-19 continues to impact local communities, and it is unknown the potential future impacts on the government.

In March 2021, Congress Passed the American Rescue Plan. This plan allocates \$350 billion in new Coronavirus Relief Funds for States, Localities, the U.S. Territories, and Tribal Governments. These funds are to be spent by December 31, 2024. Out of these funds, The City of Polson is expecting to receive \$1,292,522 in direct funding, and received half of before the end of June 30, 2021. Eligible use of the funds includes investments in water, sewer or broadband infrastructure, premium pay to essential workers or providing grants to local employers for premium pay, respond to public health emergency with respect to COVID-19 or its negative economic impacts, and to backfill reduced or lost revenues.

**NOTES TO THE
FINANCIAL STATEMENTS
FOR FISCAL YEAR 2021**

CITY OF POLSON
LAKE COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES

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-government 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 5,148. 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 (courts, finance and administration).

The City complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements.

New Accounting Pronouncements

GASB No. 84 *Fiduciary Activities* is effective for years beginning after December 15, 2019. The Statement establishes accounting and financial reporting standards for fiduciary activities through defining specific criteria on the types of fiduciary activities that includes fiduciary component units and fiduciary activities. The criteria specifically defined in the statement determine the reporting of the fiduciary activities that include pension (and other employee benefit) trust funds, private purpose trust funds, investment trust funds, and custodial funds (previously reported as agency funds). A Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position are required for all of the fiduciary activities previously mentioned above. The City has implemented this pronouncement in the current fiscal year.

Financial Reporting Entity

In determining the financial reporting entity, the City complies with the provisions of GASB statement No. 14, *The Financial Reporting Entity*, as amended by GASB statement No. 61, *The Financial Reporting Entity: Omnibus*, and includes all component units of which the City appointed a voting majority of the component unit's board; the City is either able to impose its will on the unit or a financial benefit or burden relationship exists. In addition, the City complies with GASB statement No. 39 *Determining Whether Certain Organizations Are Component Units* which relates to organizations that raise and hold economic resources for the direct benefit of the City.

The City implemented GASB Statement 77, Tax Abatement Disclosures in the 2017 fiscal year. This statement addresses the disclosure of tax abatements within the notes to the financial statements. The Statement provides guidance for the reporting of the 1) total tax abated in the current fiscal year; 2) the description of each tax abatement program, and 3) any obligations the City incurred with respect to the approved abatement program. This Statement is effective for fiscal years beginning after December 15, 2016. For the year ended June 30, 2021, the City had no tax abatements.

CITY OF POLSON
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NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021

The City adopted GASB Statement 83, *Certain Asset Retirement Obligations* in FY2019. This statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. For the year ended June 30, 2021 the City did not have an ARO.

Primary Government

The City is a political subdivision of the State of Montana governed by an elected Mayor and Commissioners duly elected by the registered voters of the City. The City utilizes the manager form of 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.

Basis of Presentation, Measurement Focus and Basis of Accounting

Government-wide Financial Statements:

Basis of Presentation

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. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. Eliminations have been made in the consolidation of business-type activities.

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 function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function. The City does not charge indirect expenses to programs or functions. 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, 2) operating grants and contributions, and 3) capital grants and contributions. Revenues that are not classified as program revenues, including all property taxes, are presented as general revenues.

Certain eliminations have been made as prescribed by GASB 34 in regards to inter-fund activities, payables and receivables. All internal balances in the Statement of Net Position and Statement of Activities have been eliminated.

CITY OF POLSON
LAKE COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021

Measurement Focus and Basis of Accounting

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 recorded when the liability is 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. The City generally applies restricted resources to expenses incurred before using unrestricted resources when both restricted and unrestricted net assets are available.

Fund Financial Statements:

Basis of Presentation

Fund financial statements of the reporting City are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. Funds are organized into three categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. Each major fund is displayed in a separate column in the governmental funds statements. All of the remaining funds are aggregated and reported in a single column as non-major funds. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- a. *Total* assets combined with deferred outflows of resources, liabilities combined with deferred inflows of resources, 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 combined with deferred outflows of resources, liabilities combined with deferred inflows of resources, revenues, or expenditures/expenses of that individual governmental or enterprise funds are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

CITY OF POLSON
LAKE COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021

Measurement Focus and Basis of Accounting

Governmental Funds:

Modified Accrual

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 defined the length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements as collection within 60 days of the end of the current fiscal period, except for property taxes and other state grants that are recognized upon receipt.

Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources. General capital asset 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, licenses, and interest 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.

Major Funds:

The City reports the following major governmental funds:

General Fund - This 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.

Proprietary Funds:

All proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Revenues are recognized when earned and expenses are recognized when incurred. Allocations of costs, such as depreciation, are recorded in proprietary funds.

CITY OF POLSON
LAKE COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connections with a proprietary fund's principal ongoing operations. The principal operating revenues for enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. 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.

Major Funds:

The City reports the following major proprietary funds:

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

Water Fund – An enterprise fund that accounts for the activities of the City's water distribution operations.

Sewer Fund – An enterprise fund that accounts for the activities of the City's sewer collection and treatment operations.

Fiduciary Funds:

Fiduciary funds are presented using the economic resources measurement focus and the accrual basis of accounting (except for the recognition of certain liabilities of defined benefit pension plans and certain postemployment healthcare plans). The required financial statements are a statement of fiduciary net position and a statement of changes in fiduciary net position. The fiduciary funds are:

Custodial Funds – To report fiduciary activities that are not required to be reported in any of the other fiduciary categories in which the resources are held by the City in a custodial capacity. This fund primarily consists of reporting of resources held by the City as an agent for individuals, private organizations, or other local governmental entities. The external portion of the investment pools that are not held in a trust are also reported here.

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 years' delinquencies. In addition, a budget is adopted for the enterprise funds on a modified accrual basis.

CITY OF POLSON
LAKE COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021

Budget transfers 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.

Assets, Liabilities and Net Position or Equity

Cash and Cash Equivalents, Investments, and Investment Income:

See Note 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 from 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 or 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 2020 and May 2021 property tax billings were as follows:

	Taxable Valuation	Valuation of Tax Increment	Value of Mill	Mills Levied
General Fund Levy	\$ 9,737,589	\$ 279,012	\$ 9,738	144.33
Permissive Medical Levy	\$ 9,737,589	\$ 279,012	\$ 9,738	16.35
Police Special Levy	\$ 9,737,589	\$ 279,012	\$ 9,738	19.95

CITY OF POLSON
LAKE COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021

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 \$279,012. 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.

City Court Fines:

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

Enterprise Accounts Receivable:

No reserve for estimated uncollectible accounts receivable is maintained because uncollectible amounts are not material. Receivables are reported net of revenues collected in advance. Delinquent Water and Sewer accounts receivable are subject to tax lien by the City (MCA 7-13-4309(2)) if the arrearage is not paid within 30 days of the property owner receiving a notice of the delinquent amount and the intent to lien the property.

Inventories:

Inventories of the governmental funds are expensed at the time of purchase. Enterprise fund inventories of materials, supplies and items for resale are valued at cost and the First-In First-Out (FIFO) method is utilized.

Restricted Assets:

Certain assets of the enterprise funds are restricted for specific use 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 and cash equivalents and investments restricted for use to repay current debt, establish a reserve for future debt and provide for construction.

Capital Assets:

See Note 7.

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/expenditure) until then. The City has one item in this category: Deferred pension expense.

CITY OF POLSON
LAKE COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021

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 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.

Long-term Obligations:

See Notes 8, 10, 11 and 12.

Net Position/Fund Balance:

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

The City implemented GASB Statement 54 in fiscal year 2011. This statement requires governmental fund balances to be allocated to categories 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; or other restrictions by external parties.
- ❖ 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 including negative balances

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.

CITY OF POLSON
LAKE COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021

NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash Composition

Composition of cash, deposits and investments at fair value on June 30, 2021, are as follows:

Cash on hand and deposits:

Cash on Hand	
Petty Cash	\$ 1,250
Cash in banks:	
Demand deposits	9,577
Savings Deposits	5,313
Time deposits	240,000

Investments:

State Short-Term Investment Pool (STIP)	1,500,000
Repurchase Agreements	<u>14,601,553</u>
Total Cash on hand & in banks	16,101,553
Plus: Deposits in Transit	204,000
Less: Outstanding Checks and ACH transactions	<u>(465,369)</u>
Cash Reported in Fund Financial Statements	<u><u>\$16,096,324</u></u>

Cash equivalents

Cash equivalents are short-term, highly liquid deposits and investments that are both readily convertible to known amounts of cash, and have maturities at purchase date of three months or less. The City's cash and cash equivalents (including restricted assets) are considered to be cash on hand, demand, savings and time deposits, STIP, repurchase agreements and all other short-term investments with original maturity dates of three months or less from the date of acquisition.

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

Fair Value Measurements

Investments are reported at fair value, with the following limited exceptions: 1) investments in non-negotiable certificates of deposit are reported at cost and 2) money market investments, including U.S Treasury and Agency obligations, which mature within one year of acquisition, are reported at amortized cost. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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 entity and promises to repay the cash plus interest in exchange for the same securities.

CITY OF POLSON
LAKE COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021

Credit Risk

As a means of limiting exposure to credit risk, the City is required to follow specific state statutes adding security to the deposits and investments. Below are the legal provisions provided in the state Montana Code Annotated (MCA).

Section 7-6-202, MCA, limits investments of public money of a local government in the following eligible securities:

- (d) United States government treasury bills, notes and bonds and in the United States treasury obligations, such as state and local government series (SLGLS), separate trading of registered interest and principal of securities (STRIPS), or similar United States treasury obligations;
- (e) United States treasury receipts in a form evidencing the holder's ownership of future interest or principal payments on specific United States treasury obligations that, in the absence of payment default by the United States, are held in a special custody account by an independent trust company in a certificate or book entry form with the federal reserve bank of New York; or
- (f) Obligations of the following agencies of the United States, subject to the limitations in subsection 2 (not included):
 - (v) federal home loan bank;
 - (vi) federal national mortgage association;
 - (vii) federal home mortgage corporation; and
 - (viii) federal farm credit bank.

With the exception of the assets of a local government group self-insurance program, investments may not have a maturity date exceeding 5 years except when the investment is used in an escrow account to refund an outstanding bond issue in advance.

Section 7-6-205 and Section 7-6-206, MCA, state that demand deposits may be placed only in banks and public money not necessary for immediate use by a county, city, or town that is not invested as authorized in Section 7-6-202, MCA, may be placed in time or savings deposits with a bank, savings and loan association, or credit union in the state or placed in repurchase agreements as authorized in Section 7-6-213, MCA.

The government has no investment policy that would further limit its investment choices. The government has no investments that require credit risk disclosure.

CITY OF POLSON
LAKE COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021

Short Term Investment Pool (STIP) Credit Quality ratings by the S&P's rating services as of June 30, 2021, (in thousands):

	Total Fixed Income Investments at Fair Value	Credit Quality Rating	WAM (Days)
Treasuries	\$ 789,021	A-1+	99
Agency or Government Related Corporate:	724,008	A-1+	87
Commercial Paper	913,481	A-1+	153
Notes	250,494	A-1	111
Certificate of Deposits	405,071	A-1	142
Total Investments	<u>\$3,082,075</u>		

Audited financial statements for the State of Montana's Board of Investments are available at 2401 Colonial Drive 3rd Floor in Helena, Montana.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk other than that required by state statutes. All deposits are carried at cost plus accrued interest. As of June 30, 2021, the government's bank balance was exposed to custodial credit risk as follows:

	June 30, 2021 <u>Balance</u>
<u>Depository Account</u>	
Insured	\$ 254,738
Total deposits and investments	<u>\$ 254,738</u>

Deposit Security

Section 7-6-207, MCA, states (1) The local governing body may require security only for that portion of the deposits which is not guaranteed or insured according to law and, as to such unguaranteed or uninsured portion, to the extent of:

(a) 50% of such deposits if the institution in which the deposit is made has a net worth of total assets ratio of 6% or more; or

(b) 100% if the institution in which the deposit is made has a net worth of total assets ratio of less than 6%.

The amount of collateral held for City deposits at June 30, 2021, equaled or exceeded the amount required by State statutes.

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Concentration of Credit Risk

The government places no limit on the amount the entity may invest in any one issuer. The government's concentration of credit risk percentages follow for each investment issued that is not issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools and other pooled investments:

	<u>% of credit risk</u>
Repurchase agreements	90%

Cash and Investment Pool

The government maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and investments."

Investment Pools

The City invests in the Short-Term Investment Pool (STIP) managed by the State of Montana Board of Investments. The Board was created by the Legislature to invest and manage Montana's Unified Investment Program. Local governments may voluntarily participate in STIP. The City elected to participate in STIP effective August 20, 2018.

The pool invests in short-term, highly liquid investments, and as such, the City has reported these investments as cash equivalents. Amounts invested by the City in STIP may be redeemed at any date at the carrying value on that date. Audited financial statements for the State of Montana's Board of Investments are available at 2401 Colonial Drive, 3rd Floor, Helena, MT 59620.

Investments in the pool are reported at fair value. The fair value of pooled investments is determined annually and is based on year-end market prices. The unit value of the pool is fixed at \$1 for both participant redemptions and purchases. Investments in STIP are carried at amortized cost or "book" value. STIP is managed to closely align fair value with amortized cost. The City has currently elected to have STIP income distributed monthly to the City. STIP is not rated by a national rating agency.

NOTE 3. RESTRICTED CASH/INVESTMENTS

The following restricted cash/investments were held by the City as of June 30, 2021. These amounts are reported within the cash/investment account on the Statement of Net Position.

<u>Fund</u>	<u>Description</u>	<u>Amount</u>
Water Fund	Impact Fees	\$ 599,987
Sewer Fund	Impact Fees	222,254
TIF District Fund	Revenue Bond – current	26,606
Golf Fund	Revenue Bond – current	11,216
Water Fund	Revenue Bond – current	12,660
Sewer Fund	Revenue Bond – current	285,439
TIF District Fund	Revenue Bond – reserve	40,000

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SID #42 Fund	Revenue Bond – reserve	37,500
Water Fund	Revenue Bond – reserve	17,167
Sewer Fund	Revenue Bond – reserve	351,156
Golf Fund	Replacement and Depreciation	73,288
Water Fund	Replacement and Depreciation	863,238
Sewer Fund	Replacement and Depreciation	949,695
Golf Fund	Surplus Reserve	74,898
Water Fund	Surplus Reserve	84,723
Total		<u>\$ 3,649,827</u>

NOTE 4. 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 at June 30, 2021:

	Issued	Term	Total	Current	Long-term
SID #42	2010	15 years	\$236,675	\$3,759	\$232,916
Maintenance District Assessments			1,175	1,175	-
Total			<u>\$237,850</u>	<u>\$4,934</u>	<u>\$232,916</u>

NOTE 5. INTERFUND RECEIVABLES AND PAYABLES

Interfund Transfers - the City uses inter-fund 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 fiscal year 2021:

	<u>Transfers In:</u>			Purpose
	General Fund	Nonmajor Governmental Funds	Total	
Transfers Out:				
General Fund	\$ -	\$ 5,000	\$ 5,000	Operating Transfer
Nonmajor governmental funds	-	6,000	6,000	Capital Transfer
Nonmajor governmental funds	21	-	21	Equity Transfer
Nonmajor governmental funds	<u>157,763</u>	<u>-</u>	<u>157,763</u>	Medical Levy Transfer
Total transfers out	<u>\$ 157,784</u>	<u>\$ 11,000</u>	<u>\$ 168,784</u>	

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NOTE 6. DUE FROM (TO) OTHER GOVERNMENTS

The City had the following amounts due from (to) other government entities as of June 30, 2021:

Fund	Paying Government	Due From Amount
General Fund	Lake County	\$ 109,049
General Fund	CSKT	12,000
Police Municipal Services Levy	Lake County	13,043
Tax Increment District	Lake County	18,846
Permissive Medical Mills	Lake County	10,691
Stormwater System Fund	Lake County	48
Drug Forfeiture Fund	Lake County	167
Light Maintenance District #19	Lake County	2,370
Light Maintenance District #20	Lake County	206
SID #42 Streetscape Main Street Improvement Project	Lake County	4,147
Water Fund	Lake County	233
Sewer Fund	Lake County	426
Sewer Fund	State of Montana	60,293
Total		<u>\$ 231,519</u>

NOTE 7. CAPITAL ASSETS

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 capital assets, as applicable. Depreciation is recorded on a straight-line basis over the useful lives of the assets as follows:

<u>Assets</u>	<u>Years</u>
<u>Governmental Activities</u>	
Buildings	10 – 50 years
Land Improvements	10 – 40 years
Vehicles and Equipment	5 – 40 years
<u>Enterprise Activities</u>	
Buildings	40 – 50 years
Water Distribution and Sewer Collection System	10 – 50 years
Machinery, Vehicles and Equipment	10 – 25 years
Land Improvements	10 – 40 years

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A summary of changes in governmental capital assets is as follows:

	Balance July 1, 2020	Additions	Disposals	Balance June 30, 2021
Capital assets not being depreciated:				
Land	\$ 267,322	\$ -	\$ -	\$ 267,322
Construction in Progress	57,436	36,287	-	93,723
Total capital assets not being depreciated:	<u>\$ 324,758</u>	<u>\$ 36,287</u>	<u>\$ -</u>	<u>\$ 361,045</u>
Other capital assets				
Buildings	\$ 755,636	\$ -	\$ -	\$ 755,636
Improvements other than buildings	\$ 1,183,035	\$ -	\$ -	\$ 1,183,035
Machinery & Equipment	3,950,190	312,937	(119,059)	4,144,068
Infrastructure	3,242,642	-	-	3,242,642
Total other capital assets at historical cost	<u>\$ 9,131,503</u>	<u>\$ 312,937</u>	<u>\$ (119,059)</u>	<u>\$ 9,325,381</u>
Less: accumulated depreciation	<u>(4,808,201)</u>	<u>(382,260)</u>	<u>119,059</u>	<u>(5,071,402)</u>
Total	<u>\$ 4,648,060</u>	<u>\$ (33,036)</u>	<u>\$ -</u>	<u>\$ 4,615,024</u>

Governmental activities depreciation expense was charged to functions as follows:

Governmental Activities:	Depreciation
General Government	\$ 34,102
Public Safety	151,590
Public Works	131,144
Culture and Recreation	31,972
Housing and Community Development	33,452
Total governmental activities depreciation	<u>\$ 382,260</u>

A summary of changes in business-type capital assets is as follows:

	Balance July 1, 2020	Additions	Deletions	Balance June 30, 2021
Capital assets not being depreciated:				
Land	\$ 2,289,560	\$ -	\$ -	\$ 2,289,560
Construction in Progress	315,518	1,172,738	-	1,488,256
Total capital assets not being depreciated:	<u>\$ 2,605,078</u>	<u>\$ 1,172,738</u>	<u>\$ -</u>	<u>\$ 3,777,816</u>
Other capital assets				
Buildings	\$ 863,703	\$ 192,000	\$ -	\$ 1,055,703
Improvements other than buildings	1,159,522	-	-	1,159,522
Machinery & Equipment	1,347,802	410,050	(269,703)	1,488,149
Source of Supply	2,463,710	-	-	2,463,710
Pumping Plant	1,358,247	-	-	1,358,247
Treatment System	19,497,559	40,397	-	19,537,956
Transmission and distribution	16,785,869	42,247	-	16,828,116
General Plant	851,006	22,570	-	873,576
Total other capital assets at historical cost	<u>\$ 44,327,418</u>	<u>\$ 707,264</u>	<u>\$ (269,703)</u>	<u>\$ 44,764,979</u>
Less: accumulated depreciation	<u>(14,057,071)</u>	<u>(983,301)</u>	<u>134,847</u>	<u>(14,905,525)</u>
Total	<u>\$ 32,875,425</u>	<u>\$ 896,701</u>	<u>\$ (134,856)</u>	<u>\$ 33,637,270</u>

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NOTE 8. LONG TERM DEBT OBLIGATIONS

In the governmental-wide and proprietary financial statements, outstanding debt is reported as liabilities. Bond issuance costs, bond discounts or premiums, are expensed at the date of sale.

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.

Legal Debt Margin – The City’s legal debt limitation for general obligation debt is 2.5% of total assessed value of taxable property. As of June 30, 2021 the debt margin was \$16,984,762.

Changes in Long-Term Debt Liabilities - During the year ended June 30, 2021, the following changes occurred in liabilities reported in long-term debt:

Governmental Activities:

	Balance July 1, 2020	Additions	Deletions	Balance June 30, 2021	Due Within One Year
Special Assessment Bonds	\$ 282,610	\$ -	\$ (61,250)	\$ 221,360	\$ 58,256
Tax Increment Urban Renewal Bond	402,081	-	(68,314)	333,767	70,369
Loans/Contracted debt	115,468	-	(8,562)	106,906	8,825
Compensated Absences	195,436	159	-	195,595	132,306
Intercap loans	11,245	177,450	(11,245)	177,450	37,711
Capital leases	10,200	-	(3,204)	6,996	3,396
Total	\$ 1,017,040	\$ 177,609	\$ (152,575)	\$ 1,042,074	\$ 310,863

In prior years the General Fund was used to liquidate compensated absences and claims and judgments.

Business-type Activities:

	Balance July 1, 2020	Additions	Deletions	Balance June 30, 2021	Due Within One Year
Revenue Bonds	\$ 13,437,040	\$ 1,958,095	\$ (422,255)	\$ 14,972,880	\$ 828,370
Loans/Contracted debt	295,980	-	(18,866)	277,114	19,704
Compensated Absences	79,120	1,585	-	80,705	53,950
Total	\$ 13,812,140	\$ 1,959,680	\$ (441,121)	\$ 15,330,699	\$ 902,024

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Special Assessment 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 of 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, 2021 were as follows:

Purpose	Origination Date	Interest Rate	Bond Term	Maturity Date	Bond Amount	Annual Payment	Balance June 30, 2021
SID #42 Streetscape Project	9/15/2010	3.95%	15 yrs.	7/1/2025	\$ 750,000	\$ 66,225	\$ 221,360

Annual requirement to amortize debt:

For Fiscal Year Ended June 30	Principal	Interest
2022	58,256	8,744
2023	60,140	6,443
2024	62,540	4,067
2025	40,424	1,597
Total	\$ 221,360	\$ 20,851

Revenue Bonds

Revenue Bonds (Golf Course) -The City issued one amortized revenue bond, Series 2017 on June 30, 2017 in the amount of \$951,300. The proceeds were used for replacement of the irrigation system on the Olde Nine (original nine holes) part of the golf course, restaurant improvements, and equipment purchases. The bond has an annual percentage rate of 2.75% through October 1, 2022 which increases to 3.375% for the remaining life of the bond. The bond requires semi-annual payments of \$33,647 through October 1, 2022 and then semi-annual payments of \$35,506 for the remaining life of the bond. The bond is a special limited obligation of the City payable solely out of the net revenues of the City's Golf Course operation. Upon the occurrence of an Event of Default which includes not meeting bond covenants, and so long as such event of default shall not have been remedied, the City shall, at the direction of the registered owner, declare the principal and the interest accrued thereon, to be due and payable immediately.

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Revenue Bonds (Water Fund) - In October 2009 the City issued water system revenue bonds Series 2009 B 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 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 \$14,000 in 2032.

Revenue Bonds (Sewer Fund) - On June 15, 2017 the City issued sewer system revenue bonds Series 2017 A and B through the State of Montana's Water Pollution Control Revolving Fund Program in the amount of \$8,137,000. The proceeds were used to construct the Sewer Fund wastewater resource recovery facility. This facility is a mechanical treatment plant that replaces the existing lagoon system. The bonds require semi-annual payments ranging from \$182,250 in 2047 to \$184,487 in 2042. The State has indicated that if the City fulfills its requirements as outlined in the bond resolution, the Series 2017 A bond will be forgiven in the amount of \$400,000. As of June 30, 2019 the City had drawn all of the Series A and B amount. On April 11, 2018 the City issued sewer system revenue bonds Series 2018 C through the State of Montana's Water Pollution Control Revolving Fund Program in the amount of \$7,000,000. The proceeds were used to complete construction of the Sewer Fund wastewater resource recovery facility. The bonds require semi-annual payments ranging from \$54,307 in 2018 to \$167,013 in 2040. As of June 30, 2021, the City had drawn a total of \$6,805,481 of the \$7,000,000 and does not intend to draw any additional amounts.

Revenue Bonds outstanding reported in the business-type activities as of June 30, 2021 were as follows:

Purpose	Origination Date	Interest Rate	Bond Term	Maturity Date	Bond Amount	Annual Payment	Balance June 30, 2021
Revenue Bonds, Series 2017 (Golf)	6/30/2017	Varies	18 yrs	10/1/2035	\$ 951,300	Varies	\$ 808,399
SRF Polson ARRA-B Series 2009 (Water)	10/16/2009	0.75%	20 yrs	7/1/2029	333,700	Varies	151,000
SRF Series 2015 B (Water)	5/20/2015	2.50%	20 yrs	7/1/2035	463,000	Varies	170,000
SRF Series 2017 A (Sewer)	6/15/2017	2.50%	30 yrs	7/1/2047	400,000	Varies	400,000
SRF Series 217 B (Sewer)	6/15/2017	2.50%	30 yrs	7/1/2047	7,737,000	Varies	7,102,000
SRF Series 2018 C (Sewer)	4/11/2018	2.50%	30 yrs	1/1/2048	6,805,481	Varies	6,341,481
Total					<u>\$ 16,690,481</u>		<u>\$ 14,972,880</u>

Revenue bond resolutions include various restrictive covenants. The more significant covenants 1) require that cash be restricted and reserved for operations, construction, debt service, and replacement and depreciation; 2) specify minimum required operating revenue; and 3) specific and timely reporting of financial information to bond holders and the registrar. The most significant covenants are summarized in detail below:

1. The City is required to maintain a revenue bond account (current reserves) for the all of the above revenue bonds. The amounts required for the Golf, Water, and Sewer Fund Bonds is amount equal to one-sixth of the interest to become due and one-twelfth of the next installment of principal. This requirement at June 30, 2021 calculates to equal \$11,216 for the Golf bonds, \$12,660 for the Water bonds, and \$285,439 for the Sewer bonds. These restricted amounts are reported in the restricted cash as disclosed in Note 3. The City is in compliance with these requirements.

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2. The City is required to maintain a future reserve account the SRF Water and Sewer Bonds. These future reserves are required to equal one-half the maximum principal and interest payments of these bonds. This requirement at June 30, 2021 calculates to equal \$17,167 for the Water bonds and \$351,156 for the Sewer bonds. These restricted amounts are reported in the restricted cash as disclosed in Note 3. The City is in compliance with these requirements.

3. The City is to maintain a replacement and depreciation account on the all of the revenue bonds above. The revenue bond covenants do not specifically define the amount to the set aside for these accounts, and is at the City's discretion. The total amount the City has set aside restricted amounts for these accounts at June 30, 2021 equal to \$73,288 for the Golf bonds, \$863,238 for the Water bonds, and \$949,695 for the Sewer bonds.

4. The City is also required to maintain net revenues in the Golf, Water and Sewer Funds. The Golf Fund net revenues amounts are required to equal not less than 125% of the maximum annual principal and interest payable on all outstanding bonds. The Water Fund and Sewer Fund net revenues amounts are required to equal not less than 110% of the maximum annual principal and interest payable on all outstanding bonds. The City is in compliance with these requirements.

Annual requirement to amortize debt:

For Fiscal Year Ended June 30	Principal	Interest
2022	828,370	296,847
2023	446,180	290,293
2024	456,162	283,354
2025	470,862	273,629
2026	481,478	263,758
2027	493,196	253,595
2028	504,939	243,197
2029	515,841	232,470
2030	521,709	221,557
2031	526,674	210,408
2032	541,686	198,986
2033	554,819	187,193
2034	567,976	176,156
2035	582,221	162,811
2036	552,286	150,210
2037	527,000	139,260
2038	541,000	128,650
2039	554,000	117,770
2040	568,000	106,620
2041	583,000	95,180
2042	598,000	83,450
2043	612,000	71,420
2044	628,000	59,100
2045	644,000	46,460
2046	663,000	33,500
2047	677,000	20,200
2048	333,481	6,700
Total	<u>\$ 14,972,880</u>	<u>\$ 4,352,774</u>

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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 walking path 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. The bonds are special, limited obligations of the City. The bonds are not general obligations of the City and neither the general credit nor the taxing power of the City is pledged to payment of the bonds. Tax revenues from the tax increment financing district (TIFD) are pledged to pay the principal and interest on the bonds. In the event the Constitution or laws of the State are amended to abolish or substantially reduce or eliminate real or personal property taxation and State law then or thereafter provides to the City an alternate or supplemental source or sources of revenue specifically to replace or supplement reduced or eliminated Tax Increment, then the City pledges and covenants to appropriate annually, subject to the limitations of then applicable law, an amount that will, with money on hand or available be sufficient to pay the principal and interest payable in that Fiscal Year.

The tax increment urban renewal bonds had requirements for the City to establish a sinking and interest accounting and future reserve account. The requirements per the bond resolution state that the City create and maintain a revenue bond account with deposits each month which will be sufficient to cover the next installment of principal and interest. This amount at the end of June 30, 2021 was required to equal \$26,606. In addition, the City is required to maintain a revenue bond account with an additional reserve amount equal to \$40,000. The City met both of these bond requirements for fiscal year ended June 30, 2021. The restricted amounts are reported in restricted cash.

Tax Increment Urban Renewal bonds outstanding reported in the governmental activities as of June 30, 2021 were as follows:

Purpose	Origination Date	Interest Rate	Bond Term	Maturity Date	Bond Amount	Annual Payment	Balance June 30, 2021
Tax Increment Urban Renewal Bonds, Series 2013	8/15/2013	2.987%	12 yrs	8/15/2025	\$ 800,000	\$ 79,818	\$ 333,767

Annual requirement to amortize debt:

For Fiscal Year Ended June 30	Principal	Interest
2022	70,369	9,449
2023	72,489	7,329
2024	74,669	5,149
2025	76,919	2,899
2026	39,321	590
Total	\$ 333,767	\$ 25,416

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Loans/Contracted Debt

In May 2017, the City borrowed \$348,707 from a local bank to repay the Sewer Fund interfund loan that was used as a bridge loan to purchase the golf cart fleet in fiscal year 2016. This note requires semi-annual payments of \$32,656 on October 1st and April 1st of each fiscal year. The loan is to be repaid from revenues of the golf course fund each year. The loan is collateralized by the 60 golf carts and other major equipment of the golf course operation. The note contains an event of default that changes the timing of repayment of outstanding amounts to become immediately due if the City is unable to make payment.

In December 2019, The City borrowed \$120,000 from a local bank to purchase a 2009 Pierce Rescue Pumper Truck. The note requires annual payments of \$11,966. The loan is being repaid from the revenues of the General Fund each year. The loan is collateralized by the 2009 Pierce Rescue Pumper Truck. The note contains an event of default that changes the timing of repayment of outstanding amounts to become immediately due if the City is unable to make a payment.

Loans/contracted debts outstanding as of June 30, 2021, were as follows:

Purpose	Origination Date	Interest Rate	Loan Term	Maturity Date	Loan Amount	Annual Payment	Balance June 30, 2021
2009 Pierce Rescue Pumper Truck (1)	12/17/2019	3.00%	12 yrs	12/1/2031	\$ 120,000	11,966	\$ 106,906
Commercial Loan (Valley Bank) (2)	5/2/2017	4.75%	15 yrs	4/1/2032	348,707	32,640	277,114
Total					<u>\$ 468,707</u>		<u>\$ 384,020</u>

(1) Reported in the governmental activities

(2) Reported in business-type activities

Annual requirement to amortize debt:

For Fiscal Year Ended June 30	Principal	Interest
2022	28,529	16,077
2023	29,742	14,864
2024	30,980	13,626
2025	32,332	12,274
2026	33,714	10,892
2027	35,156	9,450
2028	36,647	7,959
2029	38,237	6,369
2030	39,881	4,725
2031	41,598	3,008
2032	37,141	1,220
2033	63	3
Total	<u>\$ 384,020</u>	<u>\$ 100,467</u>

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Intercap Loans

In March 2021, the City borrowed \$177,450 from the Montana Board of Investments Intercap Revolving Program under MCA 17-5-1604 to purchase three (3) 2021 Ford Interceptor police vehicles for the Police Department. This is a variable rate loan program and the interest rate is adjusted on February 16th of each year. Principal and interest are due on each February 15th and August 15th. The three police vehicles are the collateral for the loan. The loan must be paid out of general revenues available to the City each year and appropriated for the debt service. The note contains an event of default that changes the timing of repayment of outstanding amounts to become immediately due if the City is unable to make payment.

Intercap loans outstanding in the governmental activities as of June 30, 2021, were as follows:

Purpose	Origination Date	Interest Rate	Loan Term	Maturity Date	Loan Amount	Annual Payment	Balance June 30, 2021
Three (3) 2021 Ford Police Vehicles	3/26/2021	Variable	3 yrs	2/15/2024	\$ 177,450	Varies	\$ 177,450

Annual requirement to amortize debt:

For Fiscal Year Ended June 30	Principal	Interest
2022	37,711	1,894
2023	69,312	2,306
2024	70,427	1,158
Total	\$ 177,450	\$ 5,358

Capital Leases

The City has entered into a lease which meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee when all terms of the lease agreements are met. The capital lease was entered into in fiscal year 2019 for the purchase of 16 body cameras for the Police Department. The lease is recorded at the present value of the future lease payments.

Capital lease obligations outstanding in governmental activities as of June 30, 2021, were as follows:

Purpose	Origination Date	Interest Rate	Lease Term	Maturity Date	Lease Amount	Annual Payment	Balance June 30, 2021
Axon Enterprises - Body Cameras	10/18/2018	6.00%	5 yrs	10/18/2022	\$ 14,949	\$ 3,348	\$ 6,996

CITY OF POLSON
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Annual requirement to amortize debt:

For Fiscal Year Ended June 30	Principal	Interest
2022	3,396	420
2023	3,600	216
Total	<u>\$ 6,996</u>	<u>\$ 636</u>

Compensated Absences

Compensated absences are absences for which employees will be paid for time off earned for time during employment, such as earned vacation and sick leave. 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, but the excess cannot be carried forward more than 90 days into 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. The liability associated with governmental fund type employees is reported in the governmental activities, while the liability associated with proprietary fund-type employees is recorded in the business-type activities/respective proprietary fund.

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 in January 2014 the City also began participation in the Municipal Police Officers' Retirement System (MPORS) for City police officers who elected out of their participation in PERS and transferred into MPORS. This plan is a cost sharing multiple-employer defined benefit plan that provides retirement, disability and death benefits. The 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 5.64% for fiscal year 2021.

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, 2021, were:

	PERS	MPORS
Employee	7.90%	9.00%
Employer	8.77%	14.41%
State	.10%	29.37%
Total	<u>16.77%</u>	<u>52.78%</u>

CITY OF POLSON
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The amount contributed to PERS during the years ended June 30, 2019, 2020 and 2021 for both defined benefit and defined contribution employees was equal to the required contribution for each year. The amounts contributed by the employees and City were as follows:

Year	Employee	Employer
2019	\$103,624	\$112,418
2020	\$101,655	\$111,563
2021	\$112,498	\$125,395

The amount contributed to MPORS during the years ended June 30, 2019, 2020 and 2021 were equal to the required contribution for each year. The amounts contributed by the employees and City were as follows:

Year	Employee	Employer
2019	\$49,071	\$78,568
2020	\$55,587	\$89,002
2021	\$53,531	\$85,708

The State contribution qualifies as an on-behalf payment. The City recorded revenue of \$1,430 for PERS and \$174,687 for MPORS with an offsetting expenditure in the various funds as additional payroll costs. The plans issue publicly available financial reports that include financial statements and required supplementary information for the plans. 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

Polson Fire Department Relief Association

The Polson Fire Department Relief Association Pension Plan is a single-employer defined benefit pension plan. Montana State Law (MCA 19-18-503) requires the City to soundly fund the pension plan for non-paid volunteer firefighters. The Fire Department Relief Association has been established to administer pension payouts and hold the funded assets. The Fire Department Relief Association is governed by a separate board of directors which includes five (5) trustees and three (3) board members made up of active members of the volunteer fire department. The City receives an apportionment from the Montana State Auditor's office which is then passed through to the Relief Association. The City made no direct contributions to the plan in FY2021.

CITY OF POLSON
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GASB Statement 73 – *Accounting and Financial Reporting for Pensions and Related Assets that are not within the scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* was effective for fiscal year 2017. One objective of this Statement is to provide information about the effects of pension-related transactions and other events on the elements of the basic financial statements. An additional objective is to improve the information provided in government financial reports about financial support provided by certain non-employer entities for pensions that are provided to the employees of other entities and that are not within the scope of Statement 68. As of June 30, 2021, the City has not determined the pension liability for the Polson Fire Department Relief Association pension plan. However, the pension assets have been maintained at a level equal to at least three times but no more than five times the benefits paid by the fund in the previous or current fiscal year in accordance with Montana State Law (MCA 19-18-503(a)). The assets of the Relief Association (non-employer entity) represent the City’s contributions made toward pension obligations.

The eligibility for normal retirement requires 20 or more years of active service regardless of age. Members may be eligible for partial pension benefits if they have completed 10 years of service, but who are prevented from completing 20 years of service by either dissolution or discontinuance of the Polson City Volunteer Fire Department, personal relocation because of transfer or loss of employment, personal disability, or any other factor beyond the member’s reasonable control. The partial pension benefit amount is determined by the board of trustees. The plan also provides an eligible surviving spouse benefit that continues after the death of the member for the spouse’s life. The normal retirement benefit is \$90 per month with 20 years of service. A year of active service runs from July 1 to the following June 30. Any partial year is not counted for purposes of these benefits. There are 25 inactive volunteer firefighters and 4 spouses currently receiving benefits.

NOTE 10. NET PENSION LIABILITY PERS

As of June 30, 2021, the County reported the following balances as its proportionate share of PERS and MPORS pension amounts:

City's Proportionate Share Associated With:

	<u>PERS</u>	<u>MPORS</u>	<u>Pension Totals</u>
Net Pension Liability	\$ 1,942,433	\$ 881,869	\$ 2,824,302
Deferred outflows of resources*	\$ 455,269	\$ 293,709	\$ 748,978
Deferred inflows of resources	\$ 228,748	\$ 2,784	\$ 231,532
Pension expense	\$ 71,351	\$ 253,378	\$ 324,729

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*Deferred outflows for PERS and MPORS are reported as of the reporting date which includes employer contributions made subsequent to the measurement date of \$121,211 and 85,708, respectively. These amounts will be recognized as a reduction of the net pension liability in the year ending June 30, 2021. Total deferred inflows and outflows in the remainder of the note are as of the measurement date of June 30, 2020.

PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS)

Following are disclosures for the defined benefit pension plan provided by the Montana Public Employees Retirement Administration (MPERA) which administers PERS. Numerical annotations following the titles refer to the GASB 68, *Accounting and Financial Reporting for Pensions* paragraphs which require the particular disclosure:

CITY OF POLSON (6578)
PUBLIC EMPLOYEES' RETIREMENT SYSTEM – DEFINED BENEFIT
GASB 68 NOTES TO THE FINANCIAL STATEMENTS
FOR FISCAL YEAR ENDED
JUNE 30, 2020 (measurement date)
JUNE 30, 2021 (reporting date)

In accordance with GASB Statement 68, *Accounting and Financial Reporting for Pensions*, employers and the non-employer-contributing entity are required to recognize and report certain amounts associated with participation in the Public Employees' Retirement System Defined Benefit Retirement Plan (the Plan). This includes the proportionate share of the collective Net Pension Liability; Pension Expense; and Deferred Outflows and Deferred Inflows of Resources associated with pensions. Employers are provided guidance in GASB Statement 68, paragraph 74, where pension amounts must be combined as a total or aggregate for reporting, whether provided through cost-sharing, single-employer, or agent plans. This report provides information for employers who are using a June 30, 2020 measurement date for the 2021 reporting. If an employer's fiscal year end is after June 30th, the employer will not use the measurements shown in this report but will need to wait for the measurement date as of June 30, 2021.

Summary of Significant Accounting Policies - 79

MPERA prepared financial statements using the accrual basis of accounting. The same accrual basis was used by MPERA for the purposes of determining the Net Pension Liability (NPL); Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions; Pension Expense; the Fiduciary Net Position; and, Additions to or Deductions from Fiduciary Net Position. Member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Revenues are recognized in the accounting period they are earned and become measurable. Benefit payments and refunds are recognized in the accounting period in which they are due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred. Investments are reported at fair value. MPERA adhered to all accounting principles generally accepted by the United States of America. MPERA applied all applicable pronouncements of the Governmental Accounting Standards Board (GASB).

CITY OF POLSON
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NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021

General Information about the Pension Plan – 76a, 76b, 76c

Plan Description – 76a: The PERS-Defined Benefit Retirement Plan (DBRP), administered by the Montana Public Employee Retirement Administration (MPERA), is a multiple-employer, cost-sharing plan established July 1, 1945, and governed by Title 19, chapters 2 & 3, Montana Code Annotated (MCA). This plan provides retirement benefits to covered employees of the State, and local governments, and certain employees of the Montana University System, and school districts. Benefits are established by state law and can only be amended by the Legislature.

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

Benefits provided – 76b: The PERS-DBRP provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service, and highest average compensation (HAC). Member rights are vested after five years of service.

Service retirement:

- Hired prior to July 1, 2011:
 - Age 60, 5 years of membership service
 - Age 65, regardless of membership service
 - 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:

- Hired prior to July 1, 2011:
 - Age 50, 5 years of membership service
 - Any age, 25 years of membership service
- Hired on or after July 1, 2011:
 - Age 55, 5 years of membership service

Second Retirement: (requires returning to PERS-covered employer or PERS service)

- Retired before January 1, 2016 and accumulate less than 2 years additional service credit or retired on or after January 1, 2016 and accumulate less than 5 years additional service credit:
 - A refund of member's contributions plus return interest (currently 2.02% effective July 1, 2018).
 - No service credit for second employment;
 - Start the same benefit amount the month following termination; and
 - Guaranteed Annual Benefit Adjustment (GABA) starts again in the January immediately following the second retirement.

CITY OF POLSON
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June 30, 2021

- Retired before January 1, 2016 and accumulate at least 2 years of additional service credit:
 - A recalculated retirement benefit based on provisions in effect after the initial retirement; and
 - GABA starts on the recalculated benefit in the January after receiving the new benefit for 12 months.
- Retired on or after January 1, 2016 and accumulate 5 or more years of service credit:
 - The same retirement as prior to the return to service;
 - A second retirement benefit as prior to the second period of service based on laws in effect upon the rehire date; and
 - GABA starts on both benefits in the January after receiving the original and the new benefit for 12 months.

Member's 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;

Compensation Cap

- Hired on or after July 1, 2013 – 110% annual cap on compensation considered as a part of a member's highest average compensation.

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.

Guaranteed Annual Benefit Adjustment (GABA)

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 all other adjustments to the member's benefit.

- 3.0% for members hired prior to July 1, 2007
- 1.5% for members hired between July 1, 2007 and June 30, 2013

CITY OF POLSON
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- Members hired on or after July 1, 2013:
 - (d) 1.5% for each year PERS is funded at or above 90%;
 - (e) 1.5% reduced by 0.1% for each 2.0% PERS is funded below 90%; and
 - (f) 0% whenever the amortization period for PERS is 40 years or more.

Contributions – 76c: The state Legislature has the authority to establish and amend contribution rates. Member and employer contribution rates are specified by Montana Statute and are a percentage of the member’s compensation. Contributions are deducted from each member’s salary and remitted by participating employers.

Special Funding: The state of Montana, as the non-employer contributing entity, paid to the Plan, additional contributions that qualify as *special funding*. Those employers who received *special funding* are all participating employers.

Not Special Funding: Per Montana law, state agencies and universities paid their own additional contributions. The employer paid contributions are *not* accounted for as special funding for state agencies and universities but are reported as employer contributions.

Member and employer contribution rates are shown in the table below.

Fiscal Year	Member		Local Government	
	Hired < 07/01/11	Hired > 07/01/11	Employer	State
2021	7.900%	7.900%	8.770%	0.100%
2020	7.900%	7.900%	8.670%	0.100%
2019	7.900%	7.900%	8.570%	0.100%
2018	7.900%	7.900%	8.470%	0.100%
2017	7.900%	7.900%	8.370%	0.100%
2016	7.900%	7.900%	8.270%	0.100%
2015	7.900%	7.900%	8.170%	0.100%
2014	7.900%	7.900%	8.070%	0.100%
2012 – 2013	6.900%	7.900%	7.070%	0.100%
2010 – 2011	6.900%		7.070%	0.100%
2008 – 2009	6.900%		6.935%	0.100%
2000 - 2007	6.900%		6.800%	0.100%

- (3) Member contributions to the system of 7.9% are temporary and will be decreased to 6.9% on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and additional member contribution rates.
- (4) Employer contributions to the system:
 - Effective July 1, 2014, following the 2013 Legislative session, PERS-employer contributions increase an additional 0.1% a year and will continue over 10 years through 2024. The additional employer contributions including the 0.27% added in 2007 and 2009, will terminate on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below the 25 years following the reduction of both the additional employer and additional member contributions rates.
 - Effective July 1, 2013, employers are required to make contributions on working retirees’ compensation. Member contributions for working retirees are not required.

CITY OF POLSON
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- The portion of employer contributions allocated to the Plan Choice Rate (PCR) are included in the employers reporting. The PCR was paid off effective March 2016 and the contributions previously directed to the PCR are now directed to member accounts.

(5) Non-Employer Contributions:

- Special Funding
 - The state contributed 0.1% of members' compensation on behalf of local government entities.
- The state contributed 0.37% of members' compensation on behalf of school district entities.
- The state contributed a Statutory Appropriation from the General Fund of \$33,951,150.

Pension Liabilities (80a, 80b, 80c, 80d, 80e, 80f), Pension Expense (80g, 80j), and Deferred Outflows of Resources and Deferred Inflows of Resources (57, 80h, 80i) Related to Pensions

GASB Statement 68 allows a measurement date of up to 12 months before the employer's fiscal year-end can be utilized to determine the Plan's TPL. The basis for the TPL as of June 30, 2020, was determined by taking the results of the June 30, 2019, actuarial valuation and applying standard roll forward procedures. The roll forward procedure uses a calculation that adds the annual normal cost (also called the service cost), subtracts the actual benefit payments and refunds for the plan year, and then applies the expected investment rate of return for the year. The roll forward procedure will include the effects of any assumption changes and legislative changes. The update procedures are in conformity with Actuarial Standards of Practice issued by the Actuarial Standards Board.

The Total Pension Liability (TPL) minus the Fiduciary Net Position equals the Net Pension Liability (NPL). The proportionate shares of the employer's and the state of Montana's NPL for June 30, 2020, and 2019, are displayed below. The employer's proportionate share equals the ratio of the employer's contributions to the sum of all employer and non-employer contributions during the measurement period. The state's proportionate share for a particular employer equals the ratio of the contributions for the particular employer to the total state contributions paid. The employer recorded a liability of \$1,942,433 and the employer's proportionate share was 0.073627 percent.

As of measurement date	Net Pension Liability as of 6/30/2020	Net Pension Liability as of 6/30/2019	Percent of Collective NPL as of 6/30/2020	Percent of Collective NPL as of 6/30/2019	Change in Percent of Collective NPL
CITY OF POLSON Proportionate Share	\$ 1,942,433	\$ 1,598,581	0.073627%	0.076476%	(0.002849)%
State of Montana Proportionate Share associated with Employer	\$ 610,247	\$ 518,914	0.023131%	0.024825%	(0.001694)%
Total	\$ 2,552,680	\$ 2,117,495	0.096758%	0.101301%	(0.004543)%

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Changes in actuarial assumptions and methods: The following changes in assumptions or other inputs were made that affected the measurement of the TPL.

1. The discount rate was lowered from 7.65% to 7.34%
2. The investment rate of return was lowered from 7.65% to 7.34%
3. The inflation rate was reduced from 2.75% to 2.40%

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 NPL and the employer's reporting date that are expected to have a significant effect on the employer's proportionate share of the collective NPL. However, each employer may have unique circumstances that will impact the employer's proportionate share of the collective net pension. If there were changes that are expected to have an impact on the net pension liability, the employer should disclose the amount of the expected resultant change in the employer's proportionate share of the collective net pension liability, if known.

Pension Expense – 80g, 80j: At June 30, 2020, the employer recognized \$201,216 for its proportionate share of the Plan's pension expense and recognized grant revenue of \$1,216 for the state of Montana proportionate share of the pension expense associated with the employer. Additionally, the employer recognized grant revenue of \$34,013 from the State Statutory Appropriation from the General Fund. *(Two years of pension expense are documented in the table below but are not necessary for the employer's disclosures.)*

As of measurement date	Pension Expense as of 6/30/2020	Pension Expense as of 6/30/2019
CITY OF POLSON's Proportionate Share	\$150,327	\$150,327
Employer Grant Revenue – State of Montana Proportionate Share for employer*	1,382	35,229
Total	\$202,598	\$185,556

*Note: fiscal year 2020 has been corrected to reflect the actual State contributions.

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Recognition of Deferred Inflows and Outflows – 57, 80h, 80i: At June 30, 2020, the employer reported its proportionate share of the Plan’s deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Expected vs. Actual Experience	\$31,355	\$55,537
Projected Investment Earnings vs. Actual Investment Earnings	168,197	0
Changes in Assumptions	134,506	0
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	0	173,211
Employer Contributions Subsequent to the Measurement Date #	121,211	
Total	\$455,269	\$228,748
<i># the employer's contributions subsequent to the measurement date must be entered by the employer. These are the FY2021 contributions paid to the Plan</i>		

Other amounts reported as deferred outflows and inflows of resources related to pensions are recognized in the employer’s pension expense as follows:

For the Measurement Year ended June 30:	Recognition of Deferred Outflows and Deferred Inflows in future years as an increase or (decrease) to Pension Expense
2021	\$(83,275)
2022	\$87,793
2023	\$58,770
2024	\$42,022
Thereafter	\$ 0

Actuarial Assumptions - 77: The total pension liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions.

Investment Return (net of admin expense)	7.34%
Admin Expense as % of Payroll	0.30%
General Wage Growth *	3.50%
*includes Inflation at	2.40%
Merit Increases	0% to 4.8%

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<p>Postretirement Benefit Increases</p> <p>2. Guaranteed Annual Benefit Adjustment (GABA) each January</p> <ul style="list-style-type: none"> • 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 all other adjustments to the member's benefit. <ul style="list-style-type: none"> • Members hired prior to July 1, 2007 • Members hired between July 1, 2007 & June 30, 2013 • Members hired on or after July 1, 2013 <ul style="list-style-type: none"> • For each year PERS is funded at or above 90% <ul style="list-style-type: none"> • The 1.5% is reduced by 0.1% for each 2.0% PERS is funded below 90% • 0% whenever the amortization period for PERS is 40 years or more 	<p>3.0%</p> <p>1.5%</p> <p>1.5%</p> <p>0%</p>
<p>Mortality:</p> <ul style="list-style-type: none"> • Contributing members, , service retired members & beneficiaries • Disabled Members 	<p>RP-2000 Combined Employee and Annuitant Mortality Tables projected to 2020 with scale BB, set back one year for males</p> <p>RP-2000 Combined Mortality Tables, with no projections</p>

The most recent experience study, performed for the period covering fiscal years 2011 through 2016, is outlined in a report dated May 5, 2017 and can be located on the MPERA website. The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the Plan. The long-term rate of return as of June 30, 2020, was calculated using the average long-term capital market assumptions published in the *Survey of Capital Market Assumptions 2020 Edition* by Horizon Actuarial Service, LLC, yielding a median real rate of return of 4.94%. The assumed inflation is based on the intermediate inflation of 2.4% in the *2020 OASDI Trustees Report* by the Chief Actuary for Social Security to produce 75-year cost projections. Combining these two results yields a nominal return of 7.34%. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation (78c & 78f) as of June 30, 2020, are summarized in the table below.

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return Arithmetic Basis
Cash	2.0%	0.11%
Domestic Equity	30.0%	6.19%
International Equity	16.0%	6.92%
Private Investments	14.0%	10.37%
Natural Resources	4.0%	3.43%
Real Estate	9.0%	5.74%
Core Fixed Income	20.0%	1.57%
Non-Core Fixed Income	5.0%	3.97%
Total	100.0%	

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Discount Rate – 78a, 78b, 78d, 78e: The discount rate used to measure the TPL was 7.34%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities would be made based on the Board’s funding policy, which established the contractually required rates under the Montana Code Annotated. The state contributed 0.10% of the salaries paid by local governments and 0.37% paid by school districts. In addition, the state contributed a statutory appropriation from the general fund. Based on those assumptions, the Plan’s fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2123. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL. A municipal bond rate was not incorporated in the discount rate.

Sensitivity of the proportionate share of the net pension liability to changes in the discount rate – 78g: The following presents the employer’s sensitivity of the NPL to the discount rate in the table below. A small change in the discount rate can create a significant change in the liability. The NPL was calculated using the discount rate of 7.34%, as well as what the NPL would be if it were calculated using a discount rate 1.00% lower or 1.00% higher than the current rate.

As of measurement date	1.0% Decrease (6.34%)	Current Discount Rate	1.0% Increase (8.34%)
CITY OF POLSON’s Net Pension Liability	\$2,673,644	\$1,942,433	\$1,328,221

PERS Disclosure for the defined contribution plan - 126

CITY OF POLSON contributed to the state of Montana Public Employee Retirement System Defined Contribution Retirement Plan (PERS-DCRP) for employees that have elected the DCRP. The PERS-DCRP is administered by the PERB and is reported as a multiple-employer plan established July 1, 2002, and governed by Title 19, chapters 2 & 3, MCA.

All new PERS 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 the PERS-DCRP by filing an irrevocable election. Members may not be participants of both the *defined benefit* and *defined contribution* retirement plans.

Member and employer contribution rates are specified by state law and are a percentage of the member’s compensation. Contributions are deducted from each member’s salary and remitted by participating employers. The state Legislature has the authority to establish and amend contribution rates.

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Benefits are dependent upon eligibility and individual account balances. Participants are vested immediately in their own contributions and attributable income. Participants are vested after 5 years of membership service for the employer's contributions to individual accounts and the attributable income. Non-vested contributions are forfeited upon termination of employment per 19-3-2117(5), MCA. Such forfeitures are used to cover the administrative expenses of the PERS-DCRP.

At the plan level for the measurement period ended June 30, 2020, the PERS-DCRP employer did not recognize any net pension liability or pension expense for the *defined contribution* plan. Plan level non-vested forfeitures for the 329 employers that have participants in the PERS-DCRP totaled \$775,195.

Pension plan fiduciary net position: The stand-alone financial statements (76d) of the Montana Public Employees Retirement Board (PERB) *Comprehensive Annual Financial Report* (CAFR) and the GASB 68 Report disclose the Plan's fiduciary net position. The reports are available from the PERB at PO Box 200131, Helena MT 59620-0131, (406) 444-3154 or both are available on the MPERA website at <http://mpera.mt.gov/index.shtml>.

MUNICIPAL POLICE OFFICERS' RETIREMENT SYSTEM (MPORS)

Following are disclosures provided by the Montana Public Employee Retirement Administration (MPERA) which administers MPORS. Numerical annotations following titles refer to GASB 68, Accounting and Financial Reporting for Pensions paragraphs which require the particular disclosure:

CITY OF POLSON (6578)
MUNICIPAL POLICE OFFICERS' RETIREMENT SYSTEM
GASB 68 NOTES TO THE FINANCIAL STATEMENTS
FOR FISCAL YEAR ENDED
JUNE 30, 2020 (measurement date)
JUNE 30, 2021 (reporting date)

In accordance with GASB Statement 68, *Accounting and Financial Reporting for Pensions*, employers and the non-employer contributing entity are required to recognize and report certain amounts associated with participation in the Municipal Police Officers' Retirement System (the Plan). This includes the proportionate share of the collective Net Pension Liability; Pension Expense; and Deferred Outflows and Deferred Inflows of Resources associated with pensions. Employers are provided guidance in GASB Statement 68, paragraph 74, where pension amounts must be combined as a total or aggregate for reporting. Whether provided through cost-sharing, single-employer, or agent plans. This report provides information for employers who are using a June 30, 2020 measurement date for the 2021 reporting.

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Summary of Significant Accounting Policies – 79

MPERA prepared financial statements using the accrual basis of accounting. The same accrual basis was used by MPERA for the purposes of determining the Net Pension Liability (NPL); Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions; Pension Expense; the Fiduciary Net Position; and, Additions to or Deductions from Fiduciary Net Position. Member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Revenues are recognized in the accounting period they are earned and become measurable. Benefit payments and refunds are recognized in the accounting period in which they are due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred. Investments are reported at fair value. MPERA adhered to all accounting principles generally accepted by the United States of America. MPERA applied all applicable pronouncements of the Governmental Accounting Standards Board (GASB).

General Information about the Pension Plan – 76a, 76b, 76c

Plan Description – 76a: 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 established in 1974 and governed by Title 19, chapters 2 & 9, Montana Code Annotated (MCA). This plan provides retirement benefits to 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.

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 and a maximum of 60 months and may only participate in the DROP once. A participant remains a member of the MPORS but will not receive membership service or service credit in the system for the duration of the member's DROP period. During participation in the DROP, all mandatory contributions continue to the retirement system. A monthly benefit is calculated based on salary and years of service to date as of the beginning of the DROP period. The monthly benefit is paid into the member's DROP account until the end of the DROP period. At the end of the DROP period, the participant may receive the balance of the DROP account in a lump-sum payment or in a direct rollover to another eligible plan, as allowed by the IRS. If the participant continues employment after the DROP period ends, they will again accrue membership service and service credit. The DROP account cannot be distributed until employment is formally terminated.

Benefits provided – 76b: MPORS provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service, and compensation. Member rights are vested after five years of service.

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Service retirement and monthly benefit formula:

- 20 years of membership service, regardless of age.
- Age 50 with 5 years of membership service (Early Retirement).
- 2.5% of FAC x years of service credit.

Second retirement:

Re-calculated using specific criteria for members who return to covered MPORS employment prior to July 1, 2017:

- Less than 20 years of membership service, upon re-employment, repay benefits and subsequent retirement is based on total MPORS service.
- More than 20 years of membership service, upon re-employment, receives initial benefit and a new retirement benefit based on additional service credit and FAC after re-employment.

Applies to retirement system members re-employed in a MPORS position on or after July 1, 2017:

- If the member works more than 480 hours in a calendar year and accumulates less than 5 years of service credit before terminating again, the member:
 - is not awarded service credit for the period of re-employment;
 - is refunded the accumulated contributions associated with the period of re-employment;
 - starting the first month following termination of service, receives the same retirement benefit previously paid to the member; and
 - does not accrue post-retirement benefit adjustments during the term of re-employment but receives a Guaranteed Annual Benefit Adjustment (GABA) in January immediately following second retirement.
- If the member works more than 480 hours in a calendar year and accumulates at least 5 years of service credit before terminating again, the member:
 - is awarded service credit for the period of re-employment;
 - starting the first month following termination of service, receives:
 - * the same retirement benefit previously paid to the member, and
 - * a second retirement benefit for the period of re-employment calculated based on the laws in effect as of the members rehire date; and
 - does not accrue post-retirement benefit adjustments during the term of re-employment but receives a GABA:
 - * on the initial retirement benefit in January immediately following second retirement, and
 - * on the second retirement benefit starting in January after receiving that benefit for at least 12 months.
- A member who returns to covered service is not eligible for a disability benefit.

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, 1977 - final average compensation (FAC) for last consecutive 36 months.

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Compensation Cap

- Hired on or after July 1, 2013: 110% annual cap on compensation considered as a part of a member's FAC.

Guaranteed Annual Benefit Adjustment (GABA)

- Hired on or after July 1, 1997, or those electing GABA, and has been retired for at least 12 months, a GABA will be made each year in January equal to 3%.

Minimum benefit adjustment (non-GABA)

- The minimum benefit provided may not be less than 50% of the compensation paid to a newly confirmed police officer of the employer that last employed the member as a police officer in the current fiscal year.

Contributions – 76c: The State Legislature has the authority to establish and amend contribution rates to the plan. Member and employer contribution rates are specified by Montana Statute and are a percentage of the member's compensation. Contributions are deducted from each member's salary and remitted by participating employers.

Special Funding: MCA 19-9-702 requires the State of Montana to contribute a percentage of total compensation directly to the Plan annually after the end of each fiscal year. Member, Employer and State contribution rates are shown in the table below.

Fiscal Year	Member				Employer	State
	Hired < 7/1/75	Hired > 6/30/75	Hired > 6/30/79	Hired > 6/30/97 GABA		
2000 - 2021	5.800%	7.000%	8.500%	9.000%	14.410%	29.370%
1998 - 1999	7.800%	9.000%	10.500%	11.000%	14.410%	29.370%
1997	7.800%	9.000%	10.500%		14.360%	29.370%

Pension Liabilities (80a, 80b, 80c, 80d, 80e, 80f), Pension Expense (80g, 80j), and Deferred Outflows of Resources and Deferred Inflows of Resources (57, 80h, 80i) Related to Pensions

GASB Statement 68 allows a measurement date of up to 12 months before the employer's fiscal year-end can be utilized to determine the Plan's TPL. The basis for the TPL as of June 30, 2020, was determined by taking the results of the June 30, 2019, actuarial valuation and applying standard roll forward procedures. The roll forward procedure uses a calculation that adds the annual normal cost (also called the service cost), subtracts the actual benefit payments and refunds for the plan year, and then applies the expected investment rate of return for the year. The roll forward procedure will include the effects of any assumption changes and legislative changes. The update procedures are in conformity with Actuarial Standards of Practice issued by the Actuarial Standards Board.

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The Total Pension Liability (TPL) minus the Fiduciary Net Position equals the Net Pension Liability (NPL). The proportionate shares of the employer's and the State of Montana's NPL for June 30, 2020, and 2019, are displayed below. The employer's proportionate share equals the ratio of the employer's contributions to the sum of all employer and non-employer contributions during the measurement period. Due to the existence of the special funding situation, the state is required to report a proportionate share of a local government's collective NPL that is associated with the non-state employer. The state's proportionate share for a particular employer equals the ratio of the contributions for the particular employer to the total state contributions paid. The employer recorded a liability of \$881,869 and the employer's proportionate share was 0.3606 percent.

As of measurement date	Net Pension Liability as of 6/30/2020	Net Pension Liability as of 6/30/2019	Percent of Collective NPL as of 6/30/2020	Percent of Collective NPL as of 6/30/2019	Change in Percent of Collective NPL
CITY OF POLSON Proportionate Share	\$ 881,869	\$ 658,487	0.3606%	0.3308%	0.0298%
State of Montana Proportionate Share associated with Employer	1,778,635	1,340,920	0.7272%	0.6737%	0.0535%
Total	\$ 2,660,504	\$ 1,999,407	1.0878%	1.0045%	0.0833%

Changes in actuarial assumptions and methods: The following changes in assumptions or other inputs were made that affected the measurement of the TPL.

1. The discount rate was lowered from 7.65% to 7.34%
2. The investment rate of return was lowered from 7.65% to 7.34%
3. The inflation rate was reduced from 2.75% to 2.40%

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 NPL and the employer's reporting date that are expected to have a significant effect on the employer's proportionate share of the collective NPL. However, each employer may have unique circumstances that will impact the employer's proportionate share of the collective net pension. If there were changes that are expected to have an impact on the net pension liability, the employer should disclose the amount of the expected resultant change in the employer's proportionate share of the collective net pension liability, if known.

Pension Expense -80g, 80j: At June 30, 2020 measurement date, the employer recognized its proportionate share of the Plan's pension expense of \$160,455. The employer also recognized grant revenue of \$174,687 for the support provided by the State of Montana for the proportionate share of the pension expense that is associated with the employer. *(Two years of pension expense are documented in the table below but are not necessary for the employer's disclosures.)*

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As of measurement date	Pension Expense as of 6/30/2020	Pension Expense as of 6/30/2019
CITY OF POLSON's Proportionate Share	\$160,455	\$126,600
Employer Grant Revenue - State of Montana Proportionate Share for Employer*	174,687	160,631
Total	\$335,142	\$287,231

*Note: fiscal year 2021 has been corrected to reflect the actual State contributions.

Recognition of Deferred Inflows and Outflows – 57, 80h, 80i: At June 30, 2020, the employer reported its proportionate share of the Plan's deferred outflows of resources and deferred inflows of resources from the following sources:

As of measurement date	Deferred Outflows of Resources	Deferred Inflows of Resources
Expected vs. Actual Experience	\$42,270	\$2,784
Projected Investment Earnings vs. Actual Investment Earnings	68,580	0
Changes in Assumptions	74,941	0
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	22,210	0
Employer Contributions Subsequent to the Measurement Date #	85,708	
Total	\$293,709	\$2,784
<i># the employer's contributions subsequent to the measurement date must be entered by the employer. These are the FY2021 contributions paid to the Plan</i>		

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

For the Measurement Year ended June 30:	Recognition of Deferred Outflows and Deferred Inflows in future years as an increase or (decrease) to Pension Expense
2021	\$54,051
2022	\$75,698
2023	\$59,622
2024	\$15,846
Thereafter	\$0

Actuarial Assumptions - 77: The total pension liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions.

Investment Return (net of admin expense)	7.34%
Admin Expense as % of Payroll	0.15%
General Wage Growth *	3.50%
*includes Inflation at	2.40%
Merit Increases	0% to 6.60%

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<p>Postretirement Benefit Increases</p> <p>(6) Guaranteed Annual Benefit Adjustment (GABA) each January</p> <ul style="list-style-type: none"> • Members hired on or after July 1, 1997 or those electing GABA • Requires 12 full months of retirement before GABA will be made <p>(7) Minimum Benefit Adjustment (non-GABA)</p> <ul style="list-style-type: none"> • Benefit for a retired member or member's survivor and member did not elect GABA 	<p>3.0%</p> <p>The minimum benefit provided should not be less than 50% of the monthly compensation paid to a newly confirmed police officer of the employer that last employed the member as a police officer</p>
<p>Mortality:</p> <ul style="list-style-type: none"> • Contributing members, Service Retired Members & beneficiaries • Disabled Retirees 	<p>RP-2000 Combined Employee and Annuitant Mortality Tables projected to 2020 with scale BB, set back one year for males</p> <p>RP-2000 Combined Mortality Tables with no projects</p>

The most recent experience study, performed for the period covering fiscal years 2011 through 2016, is outlined in a report dated May 5, 2017 and can be located on the MPERA website. The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the Plan. The long-term rate of return as of June 30, 2020, was calculated using the average long-term capital market assumptions published in the *Survey of Capital Market Assumptions 2020 Edition* by Horizon Actuarial Service, LLC, yielding a median real rate of return of 4.94%. The assumed inflation is based on the intermediate inflation of 2.4% in the *2020 OASDI Trustees Report* by the Chief Actuary for Social Security to produce 75-year cost projections. Combining these two results yields a nominal return of 7.34%. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation (78c & 78f) as of June 30, 2020, are summarized below.

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return Arithmetic Basis
Cash	2.0%	0.11%
Domestic Equity	30.0%	6.19%
International Equity	16.0%	6.92%
Private Investments	14.0%	10.37%
Natural Resources	4.0%	3.43%
Real Estate	9.0%	5.74%
Core Fixed Income	20.0%	1.57%
Non-Core Fixed Income	5.0%	3.97%
Total	100.0%	

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Discount Rate – 78a, 78b, 78d, 78e: The discount rate used to measure the TPL was 7.34%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities would be made based on the Board’s funding policy, which established the contractually required rates under the Montana Code Annotated. The state contributed 29.37% of the salaries paid by employers. Based on those assumptions, the Plan’s fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2134. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL. A municipal bond rate was not incorporated in the discount rate.

Sensitivity of the proportionate share of the net pension liability to changes in the discount rate – 78g: The following presents the employer’s sensitivity of the NPL to the discount rate in the table below. A small change in the discount rate can create a significant change in the liability. The NPL was calculated using the discount rate of 7.34%, as well as what the NPL would be if it were calculated using a discount rate 1.00% lower or 1.00% higher than the current rate.

As of measurement date	1.0% Decrease (6.34%)	Current Discount Rate	1.0% Increase (8.34%)
CITY OF POLSON’s Net Pension Liability	\$1,257,160	\$881,869	\$582,473

Pension plan fiduciary net position: The stand-alone financial statements (76d) of the Montana Public Employees Retirement Board (PERB) *Comprehensive Annual Financial Report* (CAFR) and the GASB 68 Report disclose the Plan’s fiduciary net position. The reports are available from the PERB at PO Box 200131, Helena MT 59620-0131, (406) 444-3154 or both are available on the MPERA website at <http://mpera.mt.gov/index.shtml>.

NOTE 11. POSTEMPLOYMENT HEALTHCARE PLAN

Plan Description. The healthcare plan provides for, as required by section 2-18-704, MCA, employees with at least 5 years of service and who are at least age 50, along with surviving spouses and dependents, to stay on the government’s health care plan as long as they pay the same premium. This creates a defined benefit Other Post-Employment Benefits Plan (OPEB); since retirees are usually older than the average age of the plan participants, they receive a benefit of lower insurance rates. The OPEB plan is a single employer defined benefit plan administered by the City. The government has not created a trust to accumulate assets to assist in covering the defined benefit plan costs and covers these when they come due. The government has less than 100 plan members and thus qualifies to use the "Alternative Measurement Method" for calculating the liability. The above described OPEB plan does not provide a stand-alone financial report.

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Benefits Provided. The government provides healthcare insurance benefits for retirees and their dependents upon reaching the age and service years defined in section 2-18-704, MCA. The benefit terms require that eligible retirees cover 100 percent of the health insurance premiums but may pay the same premiums as the other members in the group health plan.

Employees covered by benefit terms. At June 30, 2020, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries receiving benefit payments	1
Active employees	39
Total employees	40

Total OPEB Liability

The City's total OPEB liability of \$136,081 at June 30, 2021, was determined by using the alternative measurement method. The measurement date of the determined liability was June 30, 2020, and applying standard roll forward procedures to June 30, 2021.

Actuarial assumptions and other input. The total OPEB liability in the June 30, 2020 alternative measurement method was determined using the following assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Average age of retirement (based on historical data)	62
Discount rate (average anticipated rate)	2.10%
Average salary increase (Consumer Price Index)	2.54%
Health care cost rate trend (Federal Office of the Actuary)	

Year	% Increase
2020	5.20%
2021	5.10%
2022	5.70%
2023	5.60%
2024	5.50%
2025	5.70%
2026	5.80%
2027	5.60%
2028	5.60%
2029	5.60%
2030 and thereafter	5.60%

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The discount rate was based on the 20-year General obligation (GO) bond index.

Life expectancy of employees was based on the United States Life Tables, 2017 for Males: Table 2 and Females: Table 3 as published in the National Vital Statistics Reports, Vol. 68, No. 7, June 24, 2019.

The turnover rates were determined from the periodic experience studies of the Montana public retirement systems for the covered groups as documented in the GASB 68 actuarial valuations.

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at 06/30/2020	\$ 127,426
Changes for the year:	
Service Cost	8,655
Net changes	\$ 8,655
Balance at 06/30/2021	\$ 136,081

Sensitivity of the total OPEB liability to changes in the discount rate. The following summarizes the total OPEB liability reported, and how that liability would change if the discount rate used to calculate the OPEB liability were to decrease or increase 1%:

	1% Decrease <u>(1.10%)</u>	Discount Rate <u>(2.10%)</u>	1% Increase <u>(3.10%)</u>
Total OPEB Liability	\$153,698	\$127,426	\$106,677

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates. The following summarizes the total OPEB liability reported, and how that liability would change if the healthcare trend rates used in projecting the benefit payments were to decrease or increase 1%:

	1% Decrease	Healthcare Cost Trends*	1% Increase
Total OPEB Liability	\$101,670	\$127,426	\$160,757

**Reference the assumptions footnotes to determine the healthcare cost trends used to calculate the OPEB liability.*

In fiscal year ending June 30, 2021, the above sensitivity analysis does not reflect the change to the total OPEB liability. The total OPEB liability in the analysis is based on the June 30, 2020 calculated liability per valuation completed on June 30, 2020.

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OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2021, the City recognized an OPEB expense of \$8,655. The City does not report any deferred outflows of resources and deferred inflows of resources related to OPEB as there were no differences between expected and actual experience or changes in assumptions performed in the alternative measurement method. In addition, since the City records costs as they come due, there are no deferred outflows of resources for contributions to an OPEB plan trust.

NOTE 12. COMMITMENTS AND CONTINGENCIES

Local reserves of \$156,686 from the water system TSEP grant from FY2016 are still committed for construction of the well housing and connection to the water system for well #8.

The City originally entered into a contract for construction of an addition to the Skate Park in the amount of \$220,000. A shortfall in funding caused the project to be scaled back to a cost of \$150,000. Construction began in FY21. The City is committed to spend \$113,712 for completion of the Skate Park addition in FY22.

The City is committed to award tax increment financing urban renewal grants in the amount of \$11,562 in FY22.

The City undertook a sewer collection project to replace aging mains in several areas of the City. Work began in FY21 and the City is committed to spend \$716,093 for completion of the work in FY22.

The City is committed to spend \$336,824 of Bridge and Road Safety and Accountability Program (BARSAA) HB473 Fuel Tax Allocation revenue. The funds will be used on designated street repair and improvement projects.

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, 2021, the City had no protested taxes.

As of June 30, 2021, delinquent assessments on SIDs were \$3,759. The delinquencies are due from various residential and commercial property owners. The City anticipates payment of the delinquencies from the land owners and will proceed with tax deeds on the property if the assessments are not paid current before the end of the SID bond terms.

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NOTE 13. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The City had two funds with expenditures in excess of appropriations caused by non-cash accrual adjustments. The Police Municipal Services Levy had a budget overdraft of \$18,949 due to on-behalf State of Montana retirement payments in the amount of \$15,722. This had an off-setting increase in revenue in the fund. A non-cash payroll accrual adjustment and interest payable accrual adjustment accounted for the additional overdraft amount. The Building Code Enforcement fund had an overdraft of \$3,308 due to a non-cash payroll accrual adjustment.

NOTE 14. RESTATEMENTS TO PRIOR PERIODS

During the June 30, 2021 fiscal year, the following adjustments relating to prior years' transactions were made to fund balance and net position.

<u>Fund</u>	<u>Amount</u>	<u>Reason for Adjustment</u>
		Implementation of GASB 84 reporting
		beginning assets and liabilities of custodial
Custodial	\$ <u>3,624</u>	funds

NOTE 15. JOINT VENTURES

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

City-County Airport

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

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NOTE 16. 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 17. 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 Blue Cross Blue Shield of Montana.

NOTE 18. 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, are not material to the financial statements. The amount of that liability is not measurable at June 30, 2021 and accordingly, no provision has been made in the financial statements for these contingent liabilities.

NOTE 19. 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:

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<u>Order of Use</u>	<u>Type</u>
1 st :	Restricted
2 nd :	Committed
3 rd :	Assigned
4 th :	Unassigned

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

<u>Order of Use</u>	<u>Type</u>
1 st :	Restricted
2 nd :	Committed
3 rd :	Assigned

NOTE 20. FUND EQUITY

Governmental Fund equity is classified as fund balance. The City categorizes fund balance of the governmental funds into the following categories:

Restricted – includes constraint for specific purposes which are externally imposed by a third party, State Constitution, or enabling legislation.

Unassigned – includes negative fund balances in all funds, or fund balance with no constraints in the General Fund.

The City considers restricted amounts to have been spent first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available.

The City considers that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

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Restricted Fund Balance

<u>Major Fund</u>	<u>Amount</u>	<u>Purpose of Restriction</u>
All Other Aggregate	\$ 225,733	Debt Service
	10,950	General Government administration and services
	438,829	Law Enforcement, emergency services, and supplies
	1,281,802	Road Repair, maintenance and supplies
	22,413	Noxious Weed Management
	204,531	Culture and recreation
	994,172	Housing and Community Development
	7	Conservation of Natural Resources
	3,050	Miscellaneous
	<u>5</u>	Airport
Total	<u>\$3,181,492</u>	

NOTE 21. SUBSEQUENT EVENTS

In March 2021, Congress Passed the American Rescue Plan. This plan allocates \$350 billion in new Coronavirus Relief Funds for States, Localities, the U.S. Territories, and Tribal Governments. These funds are to be spent by December 31, 2024. Out of these funds, The City of Polson is expecting to receive \$1,292,522 in direct funding, and received half of \$646,261 before the end of June 30, 2021. Eligible use of the funds includes investments in water, sewer or broadband infrastructure, premium pay to essential workers or providing grants to local employers for premium pay, respond to public health emergency with respect to COVID-19 or its negative economic impacts, and to backfill reduced or lost revenues. The City is currently in the planning stages for using these funds, and plans to make investments into its water and sewer systems. The City is currently waiting to hear back on applying for additional ARPA funding from the state for this projects to include the ARPA minimum allocation grant and competitive funding grants. There have been no expenses from the City's direct funding through June 2022.

The City's sewer collection project construction that started at the end of fiscal year 2021 continued into the new fiscal year. As of June 2022, the project is substantially complete at a total cost of \$1,926,310. The design and planning costs were funded by a Renewable Resource Grant and Loan Program grant equal to \$112,500. The construction phase of the project was funded by City funds in the amount of \$251,310 and State Revolving Funds bonds equal \$1,550,000. The only items remaining on the project is to payout the construction retainer to the contractor.

**REQUIRED SUPPLEMENTARY
INFORMATION**

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City of Polson, Lake County, Montana
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2020

	General			
	BUDGETED AMOUNTS		ACTUAL AMOUNTS (BUDGETARY BASIS) See Note A	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL		
RESOURCES (INFLOWS):				
Taxes and assessments	\$ 1,497,290	\$ 1,497,315	\$ 1,512,638	\$ 15,323
Licenses and permits	38,900	38,900	30,901	(7,999)
Intergovernmental	844,745	844,745	1,378,674	533,929
Charges for services	187,923	187,923	179,233	(8,690)
Fines and forfeitures	51,100	51,100	46,792	(4,308)
Miscellaneous	57,000	57,000	54,529	(2,471)
Investment earnings	1,500	1,500	1,772	272
Amounts available for appropriation	<u>\$ 2,678,458</u>	<u>\$ 2,678,483</u>	<u>\$ 3,204,539</u>	<u>\$ 526,056</u>
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
General government	\$ 776,797	\$ 776,797	\$ 673,200	\$ 103,597
Public safety	1,556,874	1,556,874	1,600,542	(43,668)
Public works	245,580	245,580	220,517	25,063
Culture and recreation	215,891	215,891	208,475	7,416
Debt service - principal	-	-	7,555	(7,555)
Debt service - interest	-	-	2,462	(2,462)
Miscellaneous	15,000	15,000	-	15,000
Capital outlay	273,897	273,897	340,313	(66,416)
Total charges to appropriations	<u>\$ 3,084,039</u>	<u>\$ 3,084,039</u>	<u>\$ 3,053,064</u>	<u>\$ 30,975</u>
OTHER FINANCING SOURCES (USES)				
Proceeds of general long term debt	\$ -	\$ 110,000	\$ 120,000	\$ 10,000
Proceeds from the sale of general capital asset disposition	-	35,000	55,000	20,000
Transfers in	154,982	154,982	131,007	(23,975)
Transfers out	(2,500)	(2,500)	(2,500)	-
Total other financing sources (uses)	<u>\$ 152,482</u>	<u>\$ 297,482</u>	<u>\$ 303,507</u>	<u>\$ 6,025</u>
Net change in fund balance			<u>\$ 454,982</u>	
Fund balance - beginning of the year			<u>\$ 627,867</u>	
Fund balance - end of the year			<u>\$ 1,082,849</u>	

City of Polson, Lake County, Montana
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2021

	General			
	BUDGETED AMOUNTS		ACTUAL AMOUNTS (BUDGETARY BASIS) See Note A	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL		
RESOURCES (INFLOWS):				
Taxes and assessments	\$ 1,539,426	\$ 1,539,426	\$ 1,552,436	\$ 13,010
Licenses and permits	43,750	43,750	92,017	48,267
Intergovernmental	770,152	770,152	1,267,776	497,624
Charges for services	185,073	185,073	191,216	6,143
Fines and forfeitures	49,000	49,000	45,034	(3,966)
Miscellaneous	58,000	58,000	4,112	(53,888)
Investment earnings	1,500	1,500	1,223	(277)
Amounts available for appropriation	<u>\$ 2,646,901</u>	<u>\$ 2,646,901</u>	<u>\$ 3,153,814</u>	<u>\$ 506,913</u>
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
General government	\$ 812,361	\$ 812,361	\$ 798,166	\$ 14,195
Public safety	1,619,447	1,619,447	1,610,901	8,546
Public works	218,796	218,796	172,017	46,779
Culture and recreation	240,189	240,189	202,940	37,249
Debt service - principal	-	-	11,766	(11,766)
Debt service - interest	-	-	3,861	(3,861)
Miscellaneous	20,000	20,000	-	20,000
Capital outlay	29,850	29,850	50,426	(20,576)
Total charges to appropriations	<u>\$ 2,940,643</u>	<u>\$ 2,940,643</u>	<u>\$ 2,850,077</u>	<u>\$ 90,566</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 179,273	\$ 179,273	\$ 157,784	\$ (21,489)
Transfers out	(5,000)	(5,000)	(5,000)	-
Total other financing sources (uses)	<u>\$ 174,273</u>	<u>\$ 174,273</u>	<u>\$ 152,784</u>	<u>\$ (21,489)</u>
Net change in fund balance			<u>\$ 456,521</u>	
Fund balance - beginning of the year			<u>\$ 1,082,849</u>	
Fund balance - end of the year			<u>\$ 1,539,370</u>	

City of Polson, Lake County, Montana
Required Supplementary Information
Schedule of Changes in the Entity's Total OPEB Liability
and Related Ratios
For the Years Ended June 30, 2020 and June 30, 2021

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total OPEB liability				
Service Cost	\$ 8,655	\$ 8,655	\$ 7,989	\$ 7,991
Change in assumptions	-	24,758		
Net change in total OPEB liability	8,655	33,413	7,989	7,991
Total OPEB Liability - beginning	127,426	94,013	86,024	-
Restatement	-	-	-	78,033
Total OPEB Liability - ending	<u>\$ 136,081</u>	<u>\$ 127,426</u>	<u>\$ 94,013</u>	<u>\$ 86,024</u>
Covered-employee payroll	\$ 1,921,727	\$ 1,921,727	\$ 1,936,771	\$ 1,936,771
 Total OPEB liability as a percentage of covered -employee payroll	 7.1%	 6.6%	 4.9%	 4.4%

**The above schedule is presented by combining the required schedules from GASB 75 paragraphs 170a and 170b. The GASB requires that 10 years of information related to the OPEB liability be presented, additional data will be reported as it becomes available.*

City of Polson, Lake County, Montana
Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Liability
For the Years Ended June 30, 2021 and June 30, 2021

	<u>PERS 2021</u>	<u>PERS 2020</u>	<u>PERS 2019</u>	<u>PERS 2018</u>	<u>PERS 2017</u>	<u>PERS 2016</u>	<u>PERS 2015</u>
Employer's proportion of the net pension liability	0.073627%	0.076476%	0.076544%	0.109335%	0.099482%	0.101342%	0.121236%
Employer's proportionate share of the net pension liability associated with the Employer	\$ 1,942,433	\$ 1,598,581	\$ 1,597,579	\$ 2,129,820	\$ 1,694,525	\$ 1,416,630	\$ 1,510,614
State of Montana's proportionate share of the net pension liability associated with the Employer	\$ 610,247	\$ 518,914	\$ 533,360	\$ 26,329	\$ 20,705	\$ 17,401	\$ 18,447
Total	<u>\$ 2,552,680</u>	<u>\$ 2,117,495</u>	<u>\$ 2,130,939</u>	<u>\$ 2,156,148</u>	<u>\$ 1,715,230</u>	<u>\$ 1,434,031</u>	<u>\$ 1,529,060</u>
Employer's covered payroll	<u>\$ 1,235,341</u>	<u>\$ 1,261,837</u>	<u>\$ 1,258,806</u>	<u>\$ 1,356,566</u>	<u>\$ 1,191,622</u>	<u>\$ 1,182,681</u>	<u>\$ 1,380,329</u>
Employer's proportionate share of the net pension liability as a percentage of its covered payroll	157.24%	126.69%	126.91%	157.00%	142.20%	119.78%	111.22%
Plan fiduciary net position as a percentage of the total pension liability	68.90%	73.85%	73.47%	73.75%	74.71%	78.40%	79.87%

	<u>MPORS 2021</u>	<u>MPORS 2020</u>	<u>MPORS 2019</u>	<u>MPORS 2018</u>	<u>MPORS 2017</u>	<u>MPORS 2016</u>	<u>MPORS 2015</u>
Employer's proportion of the net pension liability	0.3606%	0.3308%	0.3356%	0.3654%	0.3558%	0.2779%	0.1355%
Employer's proportionate share of the net pension liability associated with the Employer	\$ 881,869	\$ 658,487	\$ 574,814	\$ 650,054	\$ 640,399	\$ 459,714	\$ 212,969
State of Montana's proportionate share of the net pension liability associated with the Employer	<u>\$ 1,778,635</u>	<u>\$ 1,340,920</u>	<u>\$ 1,175,034</u>	<u>\$ 1,342,918</u>	<u>\$ 1,271,220</u>	<u>\$ 931,424</u>	<u>\$ 430,223</u>
Total	<u>\$ 2,660,504</u>	<u>\$ 1,999,407</u>	<u>\$ 1,749,848</u>	<u>\$ 1,992,972</u>	<u>\$ 1,911,619</u>	<u>\$ 1,391,138</u>	<u>\$ 643,192</u>
Employer's covered payroll	<u>\$ 617,636</u>	<u>\$ 545,240</u>	<u>\$ 529,791</u>	<u>\$ 546,393</u>	<u>\$ 502,202</u>	<u>\$ 384,627</u>	<u>\$ 181,848</u>
Employer's proportionate share of the net pension liability as a percentage of its covered payroll	142.78%	120.77%	108.50%	118.97%	127.52%	119.52%	117.11%
Plan fiduciary net position as a percentage of the total pension liability	64.84%	68.84%	70.95%	68.34%	65.62%	66.90%	67.01%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

City of Polson, Lake County, Montana
Required Supplementary Information
Schedule of Contributions
For the Years Ended June 30, 2020 and June 30, 2021

	PERS 2021	PERS 2020	PERS 2019	PERS 2018	PERS 2017	PERS 2016	PERS 2015
Contractually required contributions	\$ 121,211	\$ 108,232	\$ 108,527	\$ 106,621	\$ 113,545	\$ 101,461	\$ 99,155
Contributions in relation to the contractually required contributions	\$ 121,211	\$ 108,232	\$ 108,527	\$ 106,621	\$ 113,545	\$ 101,461	\$ 99,155
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
City's covered payroll	\$ 1,382,109	\$ 1,235,341	\$ 1,261,837	\$ 1,258,806	\$ 1,356,566	\$ 1,191,622	\$ 1,182,681
Contributions as a percentage of covered payroll	8.77%	8.76%	8.60%	8.47%	8.37%	8.51%	8.38%

	MPORS 2021	MPORS 2020	MPORS 2019	MPORS 2018	MPORS 2018	MPORS 2016	MPORS 2015
Contractually required contributions	\$ 85,708	\$ 89,987	\$ 78,881	\$ 79,239	\$ 78,735	\$ 73,566	\$ 55,756
Contributions in relation to the contractually required contributions	\$ 85,708	\$ 89,987	\$ 78,881	\$ 79,239	\$ 78,735	\$ 73,566	\$ 55,756
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
City's covered payroll	\$ 594,781	\$ 617,636	\$ 545,240	\$ 529,791	\$ 546,393	\$ 502,202	\$ 384,627
Contributions as a percentage of covered payroll	14.41%	14.57%	14.47%	14.96%	14.41%	14.65%	14.50%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

City of Polson, Lake County, Montana
Notes to Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Liability and
Schedule of Contributions
For the Year ended June 30, 2020 and June 30, 2021

Public Employees' Retirement System of Montana (PERS)

Changes of Benefit Terms

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

2013 Legislative Changes

Working Retirees - House Bill 95 - PERS, SRS, and FURS, effective July 1, 2013

- The law requires employer contributions on working retiree compensation.
- Member contributions are not required.
- Working retiree limitations are not impacted. PERS working retirees may still work up to 960 hours a year, without impacting benefits.

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

- All PERS members hired on or after July 1, 2013 are subject to a 110% annual cap on compensation considered as part of a member's highest or final average compensation.
- All bonuses paid to PERS members on or after July 1, 2013 will not be treated as compensation for retirement purposes.

Permanent Injunction Limits Application of the GABA Reduction – Passed under House Bill 454

Guaranteed Annual Benefit Adjustment (GABA) - for PERS

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 all other adjustments to the member's benefit.

- 3% for members hired prior to July 1, 2007
- 1.5% for members hired on or after July 1, 2007 and before July 1, 2013
- Members hired on or after July 1, 2013:
 - 1.5% each year PERS is funded at or above 90%;
 - 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and
 - 0% whenever the amortization period for PERS is 40 years or more.

2015 Legislative Changes

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

Second Retirement Benefit - for PERS

- Applies to PERS members who return to active service on or after January 1, 2016. Members who retire before January 1, 2016, return to PERS-covered employment, and accumulate less than 2 years of service credit before retiring again:
 - Refund of member's contributions from second employment, plus regular interest (currently 2.5%);
 - No service credit for second employment;
 - Start same benefit amount the month following termination; and
 - GABA starts again in the January immediately following second retirement.

City of Polson, Lake County, Montana
Notes to Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Liability and
Schedule of Contributions
For the Year ended June 30, 2020 and June 30, 2021

- For members who retire before January 1, 2016, return to PERS-covered employment and accumulate two or more years of service credit before retiring again:
 - Member receives a recalculated retirement benefit based on laws in effect at second retirement; and,
 - GABA starts in the January after receiving recalculated benefit for 12 months.
- For members who retire on or after January 1, 2016, return to PERS-covered employment and accumulate less than 5 years of service credit before retiring again:
 - Refund of member’s contributions from second employment, plus regular interest (currently 2.5%);
 - No service credit for second employment
 - Start same benefit amount the month following termination; and,
 - GABA starts again in the January immediately following second retirement.
- For members who retire on or after January 1, 2016, return to PERS-covered employment, and accumulate five or more years of service credit before retiring again:
 - Member receives same retirement benefit as prior to return to service;
 - Member receives second retirement benefit for second period of service based on laws in effect at second retirement; and
 - GABA starts on both benefits in January after member receives original and new benefit for 12 months.

Revise DC Funding Laws - House Bill 107, effective July 1, 2015

Employer Contributions and the Defined Contribution Plan – for PERS and MUS-RP
 The PCR was paid off effective March 2016, and the contributions of 2.37%, 0.47%, and the 1.0% increase previously directed to the PCR are now directed to the Defined Contribution or MUS-RP member’s account.

Changes in Actuarial Assumptions and Methods

Method and assumptions used in calculations of actuarially determined contributions

The following addition to the actuarial assumptions was adopted in 2014, based upon implementation of GASB Statement 68:

Admin Expense as % of Payroll	0.27%
-------------------------------	-------

The following changes were adopted in 2013 based on the 2013 Economic Experience Study:

General Wage Growth	4.00%
Includes inflation at	3.00%
Investment rate of return	7.75%, net of pension plan investment expense and including inflation

City of Polson, Lake County, Montana
Notes to Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Liability and
Schedule of Contributions
For the Year ended June 30, 2020 and June 30, 2021

The following actuarial assumptions are from the June 2010 Experience Study:

General Wage Growth	4.25%
Includes inflation at	3.00%
Merit increase	0% to 7.3%
Investment rate of return	8.00%, net of pension plan investment expense, and including inflation
Asset valuation method	4-year smoothed market
Actuarial cost method	Entry age
Amortization method	Level percentage of pay, open

Montana Municipal Police Officers' Retirement System of Montana(MPORS)

Changes of Benefit Terms

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

2013 Legislative Changes

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

- All MPORS members hired on or after July 1, 2013 are subject to a 110% annual cap on compensation considered as part of a member's highest or final average compensation.
- All bonuses paid to MPORS members on or after July 1, 2013 will not be treated as compensation for retirement purposes.

2015 Legislative Changes

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

- Allow statutory beneficiary (spouse or dependent child) of a deceased DROP participant to receive a DROP benefit and a survivorship benefit rather than accumulated contributions or a lump sum payment. 19-9- 1206(1), MCA.

Changes in Actuarial Assumptions and Methods

Method and assumptions used in calculations of actuarially determined contributions

The following addition to the actuarial assumptions was adopted in 2014, based upon implementation of GASB Statement 68:

Admin Expense as % of Payroll	0.20%
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The following changes were adopted in 2013 based on the 2013 Economic Experience Study:

General Wage Growth	4.00%
Includes inflation at	3.00%
Investment rate of return	7.75%, net of pension plan investment expense and including inflation

City of Polson, Lake County, Montana
Notes to Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Liability and
Schedule of Contributions
For the Year ended June 30, 2020 and June 30, 2021

The following actuarial assumptions are from the June 2010 Experience Study:

General Wage Growth	4.25%
Includes inflation at	3.00%
Merit increase	0% to 7.3%
Investment rate of return	8.00%, net of pension plan investment expense, and including inflation
Asset valuation method	4-year smoothed market
Actuarial cost method	Entry age
Amortization method	Level percentage of pay, open

Denning, Downey & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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

Mayor and City Council
City of Polson
Lake County
Polson, Montana

We 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, Lake County, Montana, as of and for the years ended June 30, 2020 and June 30, 2021, and the related notes to the financial statements, which collectively comprise the City of Polson's basic financial statements and have issued our report thereon dated June 27, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Polson, Lake County, Montana's internal control over financial reporting (internal control) as basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Polson, Lake County, Montana's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Polson's internal control over financial reporting.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described below that we consider to be significant deficiencies listed as items 2020/2021-001, 2021-002.

Condition:

The City has the following issues relating to their processing Utility Billing (Water/Sewer) collections:

1. The same person who has access to cash also has the ability to adjust customers' accounts.
2. The city has approximately 400 meters that need to be replaced and the meter readings are estimated (not read) each month.
3. When estimated meters are eventually read and it was determined that the customer was overcharged (while the reading was estimated) the customers bill does not clearly reflect the amount of credit they have, rather any water usage above the BASE usage was reported as zero until the excess billing was exhausted.

Context:

While performing a walk thru test of the utility billing receipting system I learned of the above conditions.

Criteria:

The conditions and recommendations are suggestions based on best practices, transparency in reporting, and the establishment of an internal control system.

Effect:

1. Controls over cash receipting are weakened when the same person has access to cash and the ability to adjust a customer's account.
2. The longer a customer's meter reading is estimated (not manually read) the greater the risk of significant over/undercharges to the customer's account.
3. I did not note any instances in which the customers account was not credited as a result of the overcharge during the period in which their meter reading was estimated. I did note the customers monthly statement did not clearly indicate the amount of the credit either for the original amount of the overcharge or the ongoing balance of the credit. In addition, the customer's credit was not applied to the monthly BASE fee.

Cause:

1. Partially as a result of COVID the city has had staffing shortages. The remaining staff are often required to perform additional duties.
2. During the height of COVID many customers were hesitant letting anyone in their homes to read the meters. This is compounded by the city's staffing shortages.
3. The city's utility billing software provided an easier solution to handling customers with credit balances than calculating the amount and posting a credit adjustment to the customer's bill.

Recommendation:

1. We recommend the city limit the ability to the greatest extent possible of any staff that handles money from being able to adjust customer accounts. Compensating controls might include having someone outside of the accounting function such as the city manager or mayor review all adjustments.
2. We recommend the city have a policy in which failing meters are manually read periodically (i.e. Every 3 or 6 months).

3. In the case of a customer overpayment, we recommend the city provide more information to the customer. Suggestions include but are not limited to:
 - a. Modifying the customers monthly bill to include:
 - i. The beginning of the month credit on the account.
 - ii. Total charges including usage above the BASE fee.
 - iii. The remaining credit or amount due on the account.
 - b. Remit a check to the customer for amounts that were overpaid.
 - c. Attach a supporting letter to the monthly bill explaining the bill and how the credit was applied.

2021-002 Timeliness of RRGL Grant Requests

Condition:

The City did not submit reimbursement requests for the Renewable Resource Grant and Loan Program Grant (RRGL) on the Sewer Project timely.

Context:

During our substantive testing of the due from other government receivables, we noted that the City only made one reimbursement request on the RRGL grant. The request was made in October 2021 reimbursing costs from February 2020 through October 2020.

Criteria:

An adequate internal control system should require that the City have policies and procedures in place to ensure reimbursement type grants funding requests are submitted to granting agencies timely.

Effect:

The City did not receive reimbursement for engineering costs equal to \$112,500 until over a year after the costs were incurred.

Cause:

The City did not have processes to make timely requests and had available funds to cover the costs.

Recommendation:

We recommend that the City implement policies and procedures requiring grant reimbursement requests to be completed on a monthly basis to ensure timely payment from granting agencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Polson's financial statements are free of material misstatement, we 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 our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards* and which are described below as item 2021-003.

Condition:

The Annual Financial Report (AFR) for the City of Polson was not filed by the required deadline.

Context:

As part of compliance testing, we reviewed the State's website to determine when the AFR for fiscal years 2020 and 2021 was submitted.

Criteria:

Montana Code 2-7-503 requires local governments to file an AFR within 6 months of the close of the government's fiscal year.

Effect:

The City did not comply with MCA 2-7-503 in filing of its fiscal year 2020 and 2021 AFR.

Cause:

The City has been short staffed in the finance department, causing the workload of the finance officer to increase.

Recommendation:

We recommend the City have processes and procedures in place to ensure a timely filing of the AFR by the State required deadline.

City of Polson's Response to Findings

City of Polson's response to the findings identified in our audit is described in the Auditee's Corrective Action Plan. City of Polson's response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our 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 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.

Derringer, Downey and Associates, CPAs, P.C.

June 27, 2022

Denning, Downey & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

1740 U.S. Hwy 93 South, P.O. Box 1957, Kalispell, MT 59903-1957

REPORT ON PRIOR AUDIT REPORT RECOMMENDATIONS

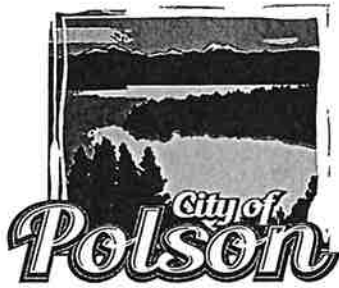
Mayor and City Council
City of Polson
Lake County
Polson, Montana

The prior audit report contained one recommendation. The action taken on each recommendation is as follows:

<u>Recommendation</u>	<u>Action Taken</u>
2019-001 Timely Filing of Annual Financial Report	Repeated

Denning, Downey and Associates, CPA's, P.C.

June 27, 2022



CITY OF POLSON

Administration & Finance Dept.
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Contact Person:

Ed Meece
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Expected Completion Date of Corrective Action Plan:

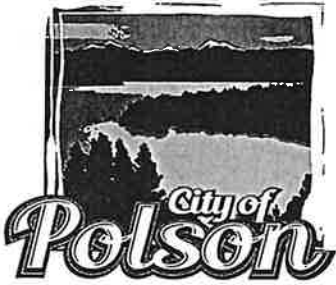
December 31, 2022

CORRECTIVE ACTION PLAN

FINDING 2020/2021 – 001:
Utility Billing Procedures and Collections

Response:

- 1) The City has limited staff and we mitigate the potential of internal control issues by having the Finance Officer sign off on all leak adjustments related to customer billing. In FY23, the City will initiate a process to have the City Manager review and sign-off on an adjustment report each month.
- 2) The City has approximately 400 radio read meters that need to be replaced., however supply chain disruptions have our orders delayed by more than a year. Estimated accounts receive a manual read every three months depending on location. The City Manager will implement an Administrative Policy stipulating a required timing for reading estimated meters.
- 3) The City's utility billing software has a feature, historically utilized, to handle overestimates; and does not charge the customer for any usage until the excess (overpayment/overcharge) is exhausted. However, the City will explore other billing methods (including software modifications) to address the Auditor's concerns.



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FINDING 2020/2021-002:
Timeliness of RRGL Grant Requests

Response:

The signing of the Renewable Resource Grant and Loan Program Grant (RRGL) referenced in the finding occurred in September 2019. After September 2019, the project was re-worked by a new City Engineer. Likewise, the City lost a TSEP funding request and had to seek other funding sources; as a result, the project did not commence until June 2021. At which time, a reimbursement request to RRGL and the SRF funding agency were prepared simultaneously. The City will monitor future grant reimbursement requests for timeliness.

FINDING 2020/2021-003:
Timely Filing of Annual Financial Report (Repeat 2018-1 and 2019-1)

Response:

Over the last several years, filing the Annual Financial Report (AFR) was difficult due to staffing shortages that created a backlog of accounting work. To ensure timely filing of the AFR by December 31, the City Manager will evaluate the need for outside assistance to complete the report.

STATUS OF PRIOR AUDIT FINDINGS

FINDING 2019-001:
Timely Filing of Annual Financial Report

Response:

Over the last several years, filing the Annual Financial Report (AFR) was difficult due to staffing shortages that created a backlog of accounting work. To ensure timely filing of the AFR by December 31, the City Manager will evaluate the need for outside assistance to complete the report.