CITY OF POLSON
Lake County, Montana

AUDITED FINANCIAL STATEMENTS AND REPORTS REQUIRED BY GOVERNMENT AUDITNG STANDARDS

June 30, 2016

Cote & Associates, CPA, PLLC
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(406) 543-8088

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CITY OF POLSON
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LETTER OF TRANSMITTAL

July 28, 2017

Polson City Commission
Citizens of Polson, Montana

The audited Financial Statements for the City of Polson for the fiscal year ended June 30, 2016 is submitted herewith. State law requires that cities publish within six months of the close of the fiscal year a complete set of financial statements presented in conformity with accounting principles generally accepted in the United States of America and audited within 12 months in accordance with auditing standards generally accepted in the United States of America by a firm of licensed certified public accountants. The report has been prepared based on the State's Budgetary, Accounting and Financial Reporting System (BARS) and has used the principles and standards for financial reporting as promulgated by the Governmental Accounting Standards Board.

This report presents comprehensive financial and operating information about the City's activities that is useful to taxpayers, citizens, and other interested parties. The finance department prepares the City's financial statements and is responsible for their integrity and objectivity. These statements are considered to present the City's financial position and results of operations fairly and consistently. To provide a reasonable basis for making these representations, management of the City has established a comprehensive internal control framework that is designed to protect the government's assets from material loss, theft, or misuse; compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP; and ensure compliance with laws, regulations, and contracts. Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements are free from material misstatement.

FINANCIAL STATEMENT PRESENTATION

This audit report includes all of the financial statements and reports as required by the Governmental Accounting Standards Board Statement No. 34 and changes made by Statement No. 54, 65, 68 & 71. Designed to meet the needs of a broad spectrum of financial statement readers, the audit report is divided into two major sections:

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- Introductory Section: As the title indicates, this section introduces the reader to the report and includes the table of contents, this transmittal letter, the Independent Accountant's Report and a list of elected and appointed officials and employees that comprise the organization.

- Financial Section: This includes the following subsections:
  - Management's Discussion and Analysis (MD&A)
  - Basic Financial Statements
  - Notes to the Basic Financial Statements
  - Required Supplementary Information
  - Report on Internal Control

The diverse nature of governmental operations and the necessity of assuring legal compliance preclude recording and summarizing all government financial transactions and balances in a single accounting entry. Therefore, from an accounting and financial management viewpoint, a governmental unit is a combination of several distinctly different fiscal and accounting entities, each having a separate set of accounts and functioning independently of each other. Each accounting entity is accounted for in a separate 'fund'. A fund is defined as a fiscal accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

PROFILE OF THE CITY

The City of Polson (estimated population 4,643) is located in western Montana on the southern tip of Flathead Lake. It is the county seat for Lake County. The City imposes tax levies for jurisdictions under the authority of the City Commission. The City has a Commission-City Manager form of government consisting of six City Commissioners, a Mayor and City Manager. The City Commissioners are elected for a 4 year term from three different wards on a staggered two year cycle. The Mayor is elected for a 4 year term. The City Manager is hired by the City Commission.

The City provides a wide range of government municipal services including general services, police, fire, public works (streets), recreation and community development. In addition the City has a 27-hole municipal golf course, water utility and sewer utility accounted for in enterprise funds.

The City of Polson maintains budgetary controls, the object of which is to ensure compliance with legal provisions embodied in the annual budget adopted by the City Commission each summer/fall. Budgets are legally required and prepared for all of the City's governmental and enterprise funds. The legal level of budgetary control is established at the fund level.

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FACTORS AFFECTING FINANCIAL CONDITION

The MD&A provides detailed information on the general operating environment of the City. The Notes to the basic financial statements provide detailed information on the recent events; cash and debt management of the City, as-well-as other items that affect the financial condition of the City.

Economic Outlook

The City is experiencing a period of good growth in both the commercial and residential sectors. The majority of the commercial development is taking place in the Ridgewater subdivision and residential development and home improvement is occurring in all parts of the City. The downtown area is also seeing building improvements and new businesses to help spur economic growth. This should provide increased tax revenues for the City in the next three to five years. Building industry activity has shown to have a ripple effect in job creation and the City's economy.

ACKNOWLEDGEMENTS

This financial report is the financial summation of a great deal of work of all those who serve City government. Without the citizens and businesses that provide the funding and direction for needed services and programs, the government cannot function and the need for financial reporting would not exist. Hopefully, this report includes useful information regarding the use of resources provided to the City.

Best regards,

Cindy M Dooley

Cindy M Dooley, CPA
Finance Officer

ORGANIZATION

For the fiscal year ended June 30, 2016

		Term expires first Monday of:
Mayor	Heather Knutson	2018
Commissioner	Todd Erickson	2018l
Commissioner	Todd Coutts	2020
Commissioner	Ken Siler	2018
Commissioner	Ian Donovan	2020
Commissioner	Jillyane Southerland	2018
Commissioner, President	Stephen Turner	2020
City Manager	Mark Shrives	
Attorney	M. Richard Gebhardt	
Chief of Police	Wade Nash	
Fire Chief	Clint Cottle	
City Clerk	Cora Pritt	
Finance Officer	Cindy Dooley	
City Judge	Dennis DeVries	
Building and Planning Official	Kyle Roberts	
Building Inspector	David Simons, Jr.	
Water/Sewer Superintendent	Anthony Porrazzo	
Director of Golf	Links Management, Inc (Roger Wallace)	
Director of parks & Recreation	Pat Nowlen	
Streets Superintendent	Terry Gembala	

FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

City Commission
City of Polson
Lake County, Montana

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Polson (City), Lake County, Montana, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In my opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2016 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison information and net pension liability schedules be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing information and comparing the information for consistency with management's responses to my inquires, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide an assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* I have also issued my report dated July 28, 2017, on my consideration of the City's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Cote & Associates CPA PLLC

Cote & Associates, CPA, PLLC

July 28, 2017
Missoula, Montana

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Polson (City) management discussion and analysis provides an overview of the City's financial activities for the fiscal year ended June 30, 2016. 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, 2016 by $25,307,514 (*net position*) compared with $23,285,911 at June 30, 2015. Of the current year net position, $4,170,871 (*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 $2,021,603 representing a 8.6% increase from 2015.

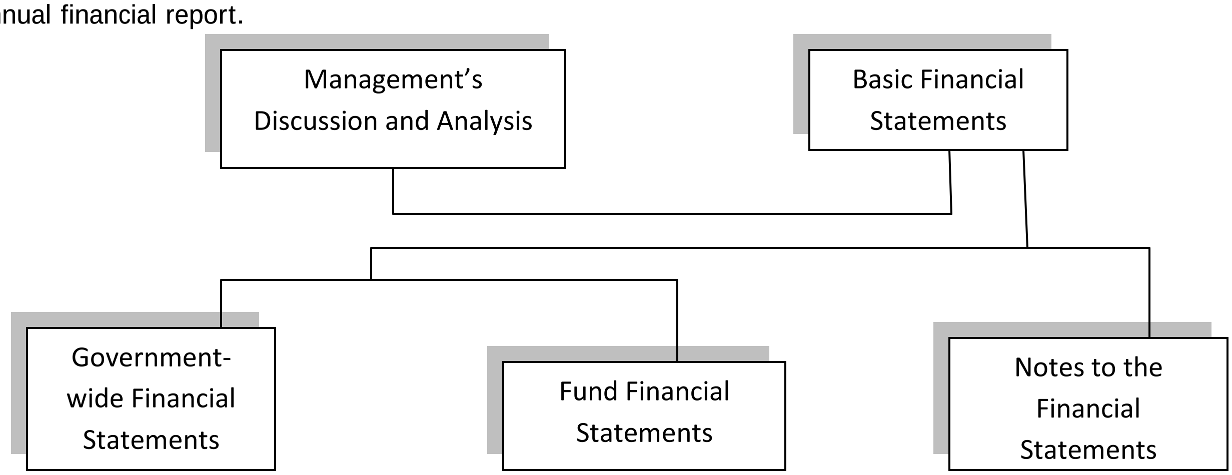
- As of the close of the current fiscal year, the City's governmental funds reported a combined ending fund balance of $1,673,825, an increase of $10,022 from the prior year. Of the fund balance amount, $544,582 is available for spending at the government's discretion (unassigned fund balance) on behalf of its citizens.

- At the end of the current fiscal year, unassigned fund balance for the general fund was $547,406 or 20.27% of total general fund expenditures and other financing uses.

- The City's total debt decreased by $11,023 (.26%). Payments on outstanding debt were offset by an increase in the net pension liability. The net pension liability is the result of implementation of GASB (Governmental Accounting Standards Board) Statements 68 and 71 on 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.

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 chart illustrates the required components of the annual financial report.



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

The government-wide perspective of the City of Polson

Statement of Net Position and the Statement of Activities

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

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

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

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

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

- Component Units — The City does not have any component units for fiscal year 2016. .

The fund-level perspective of the City of Polson

Fund Financial Statements

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

The City maintains forty-four individual governmental funds. Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund and Fund 3542–SID #42 Streetscape Main Street Improvement debt service fund which are major funds. Major funds are determined by a formula that considers the percentage of total governmental assets, liabilities, revenues and expenditures contained in each individual fund. 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 the City's Annual financial Report which can be accessed on the City's web-site.

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

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

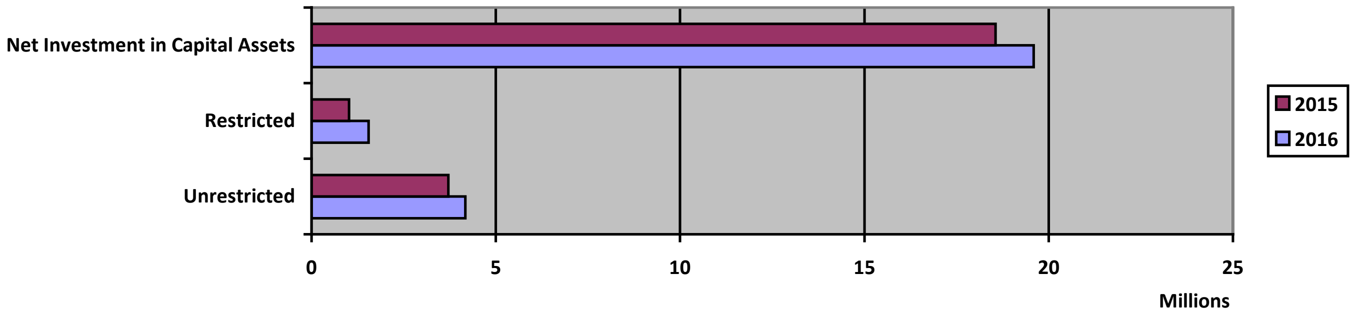
Fiduciary Funds – These funds are used to account for resources held for the benefit of parties outside the City of Polson government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. 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 starting on page 29 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report also includes required supplementary information to further enhance the user's understanding of the City's financial position. The City adopts annual appropriated budgets for its governmental and proprietary funds. Required supplementary information can be found beginning on page 69 of this report.

Government-wide Financial Analysis

Net Position – As noted earlier, net position may serve as a useful indicator of a government's financial position over time. In the case of the City, net position was $25,307,513 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 2015 (red/dark) and 2016 (blue/light).



Governmental Funds

The following table provides a summary comparison of the City's governmental net position for fiscal years 2016 and 2015 and changes in the assets and liabilities.

	Governmental activities 2016	Governmental activities 2015	Change	%
Current and other assets	$ 2,427,941	$ 2,485,696	$ (57,755)	-2%
Capital assets	4,606,850	4,521,747	85,103	2%
Total assets	$ 7,034,791	$ 7,007,443	$ 27,348	0%
Deferred outflow of resources	$ 320,751	$ 114,712	$ 206,039	180%
Total deferred outflows	$ 320,751	$ 114,712	$ 206,039	180%
Current and other liabilities	$ 195,509	$ 215,303	$ (19,794)	-9%
Long-term liabilities	1,407,040	1,479,715	(72,675)	-5%
Net pension liability	1,277,814	1,123,006	154,808	14%
Total liabilities	$ 2,880,363	$ 2,818,024	$ 62,339	2%
Deferred inflows of resources	$ 232,639	$ 261,984	$ (29,345)	-11%
Total deferred inflows	$ 232,639	$ 261,984	$ (29,345)	-11%
Net Position:				
Net investment in capital assets	$ 3,396,504	$ 3,258,696	$ 137,808	4%
Restricted	1,328,679	1,536,780	(208,101)	-14%
Unrestricted	(482,643)	(753,329)	270,686	-36%
Total net position	$ 4,242,540	$ 4,042,147	$ 200,393	5%

By far the largest portion of the City's governmental net position, $3,396,504 (80%) reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery and equipment) net of depreciation, less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens. Consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional $1,328,679 of the City's governmental net position (31%) 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 $482,642 (-11 %). The prior year unrestricted balance was a negative $753,329. The unrestricted net position had a positive $270,687. 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 and the City is beginning to recover from that adjustment. Decisions regarding the allocations are made by the administrators of the pension plan, not by the City's management. More information regarding the net pension liability can be found in Notes 10 and 11 of the notes to the financial statements.

The decrease in current assets is due mainly to a drop in receivables for property taxes and amounts due from other governments at year-end. The decrease in current liabilities is due mainly to a reduction in year-end accounts payable amounts; however accrued payroll costs increased due to timing of payroll payments at the fiscal year-end which somewhat negated the decrease. Increases in deferred outflows and decreases in deferred inflows of resources are related to the accounting for GASB 68 and 71. More information regarding the pension related revenue and costs can be found in Notes 10 and 11 of the notes to the financial statements.

Business-type Funds

The following table provides a summary comparison of the City's business-type net position for fiscal years 2016 and 2015 and changes in the assets and liabilities.

	Business-type activities		Change	%
	2016	**2015**		
Current and other assets	$ 5,648,298	$ 4,899,076	$ 749,222	15%
Capital assets	17,320,746	16,159,237	1,161,509	7%
Total assets	$ 22,969,044	$ 21,058,313	$ 1,910,731	9%
Deferred outflow of resources	$ 42,949	$ 51,427	$ (8,478)	-16%
Total deferred outflows	$ 42,949	$ 51,427	$ (8,478)	-69%
Current and other liabilities	$ 315,358	$ 140,011	$ 175,347	125%
Long-term liabilities	878,638	969,747	(91,109)	-9%
Net pension liability	598,530	600,577	(2,047)	0%
Total liabilities	$ 1,792,526	$ 1,710,335	$ 84,238	5%
Deferred inflows of resources	$ 154,494	$ 155,640	$ (1,146)	-1%
Total deferred inflows	$ 154,494	$ 155,640	$ (1,146)	-1%
Net Position:				
Net investment in capital assets	$ 16,193,728	$ 15,286,119	$ 907,609	6%
Restricted	217,733	198,252	19,481	10%
Unrestricted	4,653,512	3,759,393	894,119	24%
Total net position	$ 21,064,973	$ 19,243,764	$ 1,821,209	9%

By far the largest portion of the City's business-type net position, $16,193,728 (77%) reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery and equipment) net of depreciation, less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens. Consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Restricted assets in the amount of $217,732 represent 1% of the total net position. The restrictions are due to debt service requirements and inventory which is considered a non-spendable asset.

The remaining balance of *unrestricted net position*, $4,653,512 (22%) may be used to meet the government's ongoing obligations to its citizens, vendors and creditors.

Net Position for the business-type activities increased $1,821,209 (9%). This is mainly due to an increase in net position of the Sewer Fund to account for increases in sewer revenues in anticipation of construction of the wastewater resource recovery facility. The increase in current and other assets is due mainly to an improved cash position. Capital assets increased 7% due to construction activities in the Water and Sewer Funds while long-term debt decreased 9% due to receipts on existing debt and the ability to fund construction with cash reserves. See Note 7 for information on capital assets and Note 8 for information on the City's debt.

Changes in Net Position – See next page

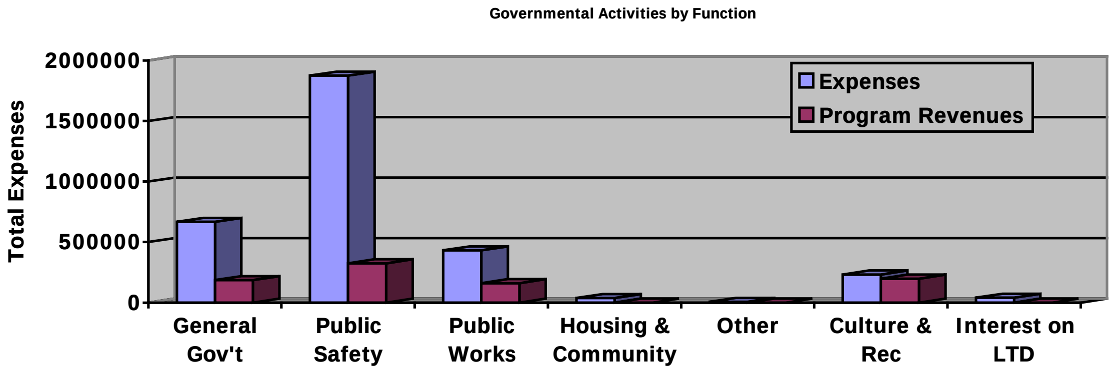
Governmental Funds

Governmental activities increased the City's net position by $200,394 in fiscal year 2016. The following table provides a summary comparison of the City's governmental change in net position for fiscal years 2016 and 2015.

	Governmental activities 2016	Governmental activities 2015	Change	%
Revenues				
Program revenues				
Charges for services	$ 563,621	$ 479,527	$ 84,094	18%
Operating grants & contributions	87,183	99,999	(12,816)	-13%
Capital grants & contributions	217,557	68,426	149,131	218%
General revenues				
Property taxes	1,545,229	1,649,477	(104,248)	-6%
Local option taxes	110,942	106,048	4,894	5%
Franchise fees	42,425	38,923	3,502	9%
Payment in Lieu of Taxes	42,023	40,210	1,813	5%
Impact fees	48,425	44,372	4,053	9%
Intergovernmental revenue	763,523	755,435	8,088	1%
Unrestricted grants and contributions	515	-	515	100%
Investment earnings	4,395	4,484	(89)	-2%
Gain (loss) on asset disposal	58,482	1,892	56,590	2991%
Other revenues	7,590	6,528	1,062	16%
Total revenues	$ 3,491,910	$ 3,295,321	$ 196,589	6%
Program expenses				
General government	$ 667,486	$ 677,081	$ (9,595)	-1%
Public safety	1,874,483	1,602,503	271,980	17%
Public works	432,254	451,159	(18,905)	-4%
Culture & recreation	231,908	247,715	(15,807)	-6%
Housing/community development	38,477	11,284	27,193	241%
Conservation of natural resources	5,849	1,579	4,270	270%
Interest on long-term debt	41,059	44,097	(3,038)	-7%
Total expenses	$ 3,291,516	$ 3,035,418	$ 256,098	8%
Changes in net position before restatements and transfers	$ 200,394	$ 259,903	$ (59,509)	-23%
Restatements	-	(1,317,877)	1,317,877	100%
Change in net position	$ 200,394	$ (1,057,974)	$ 1,258,368	-119%

The increase in net positon accounted for 11% of the total growth in the net positon of the City. This increase was due in large part to the donation of land to the City parks department with an appraised value of $180,000. The City also had increased revenue from charges for services and fines and forfeitures. As the City grows and demand for services increase this amount will probably continue to increase each year. The City collected $104,248 less in property taxes which somewhat offset other increases. This was the first year of a two year reappraisal cycle for real and personal property. The City's taxable value decreased 10% and although he City was able to increase the mills to account for this in order to mill the same amount of tax dollars as the previous year, the anticipated revenue was lower due in part to ongoing changes to the reappraisal of property after the certified values were received from the Department of Revenue. Payments in lieu of taxes (PILT) increased $1,813. The City receives this revenue from the Confederated Salish and Kootenai Tribes (CSKT). The CSKT does not pay city taxes on its tribally owned property and PILTs the City for police, fire, streets maintenance and other services that it receives. The City donated a boat and trailer to the Lake County Search and Rescue and donated their share of a vehicle and equipment to the Rural Fire department which produced a gain on the disposals of $56,590. City management has been focused on increasing the cash reserves for the last several years to being them to an acceptable level by increasing revenues and reducing spending. However, General government expenditures increased 8%. Rising healthcare costs and other payroll costs contributed to the increase. Public Safety expenses increased $271,980 over the prior year – an increase of 17%. $50,000 of this increase is attributable to State of Montana on –behalf pension payments that are paid directly to the police officers pension fund. The City treats these amounts as a contribution of revenue and an additional payroll expense. Donation expense of $75,000 was recorded for the value of the vehicle and equipment donated to Lake County Search and Rescue and the Rural Fire department mentioned above. Payroll costs due to termination sick and vacation benefits that were paid also contributed to the increased costs.

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 revenues for each function:



Business-type Funds
Business-type activities increased the City's net position by $1,821,209 in fiscal year 2016. The following table provides a summary comparison of the City's business-type change in net position for fiscal years 2016 and 2015.

	Business-type activities 2016	Business-type activities 2015	Change	%
Revenues				
Program revenues				
Charges for services	$ 3,367,340	$ 3,127,742	$ 239,598	8%
Capital grants & contributions	617,437	612,300	5,137	1%
General revenues				
Impact fees	180,921	70,864	110,057	155%
Intergovernmental revenue	14,821	16,982	(2,161)	-13%
Investment earnings	19,796	15,689	4,107	26%
Gain (loss) on asset disposal	89,797	(16,007)	105,804	-661%
Other revenues	27,360	18,085	9,275	51%
Total revenues	$ 4,317,472	$ 3,845,655	$ 471,817	12%
Program expenses				
Golf	$ 986,053	$ 963,273	$ 22,780	2%
Water	905,659	808,237	97,422	12%
Sewer	591,090	562,068	29,022	5%
Stormwater	13,461	8,672	4,789	55%
Total expenses	$ 2,496,263	$ 2,342,250	$ 149,224	7%
Changes in net position before restatements and transfers	$ 1,821,209	$ 1,503,405	$ 317,804	21%
Restatements	-	(727,044)	727,044	-100%
Change in net position	$ 1,821,209	$ 776,361	$ 1,044,848	135%
Total net position, beginnning of year	$ 19,243,764	$ 18,467,403	$ 776,361	4%
Total net position, end of year	$ 21,064,973	$ 19,243,764	$ 1,821,209	9%

Rate increases in the water and sewer funds took effect in December, 2014. The sewer increase raised the average water user's sewer bill $22.01 per month. The increase in the sewer rates will fund approximately $1.2 million in engineering, equipment procurement and bond reserve costs associated with the construction of the new wastewater resource recovery facility project. Current estimates for the cost of the project, which will be constructed over the next three fiscal years, are $17.6 million with approximately $14.7 million coming from new debt financing. Further increases in the sewer rates will take place in fiscal year 2017 in anticipation of debt coverage that will need to be met and additional equipment procurement costs.

Overall program expenses increased 7% from the prior year. Unanticipated system upgrades contributed to the increase in expense for the Water department.

Fund Level Financial Analysis

Governmental Funds

For the fiscal year ended June 30, 2016, the City's governmental funds reported combined fund balance totaling $1,673,825 compared with $1,663,803 in 2015. Of this amount, $544,583 constitutes unassigned fund balance, which is available to spend for current needs. The remainder of the fund balance is either restricted, committed or assigned to indicate that it is 1) nonspendable ($-0-), 2) legally required to be maintained intact or restricted for particular purposes ($1,017,838), 3) committed for a particular purpose ($14,058), or 4) assigned for particular purposes ($97,346). The governmental funds had a combined increase in fund balance totaling $10,022.

The General Fund is the chief operating fund of the City. For fiscal year 2016, total fund balance decreased $51,507 to $547,406 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 20.62% of total expenditures compared to 26.37% in 2015. Gains made in the previous year were partially used to fund the increase in expenditures.

Fund 3542 – SID #42 Streetscape Debt Service Fund a major fund is used to collect special assessments from the special improvement district to make payments on the bonds that were used in construction of the Main Street Streetscape project. Total fund balance at June 30, 20156 was $55,762 compared with $52,986 in 2015. All of the fund balance is considered restricted for debt service. The fund balance represents 84.18% of expenditures for 2016 compared to 74.65% in 2015.

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 $2,748,194 and there were no amendments to the general fund budget. Actual expenditures were $2,700,320 including transfers out. Significant budget variances in the General fund include:

- A positive variance of $15,008 in the Facilities budget due mainly to spending cuts in supplies, purchased services & engineer services (8,809) and capital outlay (6,199).
- A positive variance of $69,475 in the Police department budget due mainly to the decrease in fuel costs. Police operations were down $80,410 but capital costs up $10,935.
- A negative variance of $66,634 in the Fire department budget due mainly to the donation of a vehicle and equipment with a value of $75,000 as previously discussed. This amount had not been budgeted. Operations costs were up $58,870 and capital up $7,764.
- A positive variance of $39,520 in the Street department budget due to fuel savings, purchased services savings and not spending the capital outlay reserve of $32,000. Operations costs were down $4,647 and capital down $34,873.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the golf fund at the end of the fiscal year amounted to $40,227. The water fund and sewer fund unrestricted net position was $1,967,054 and $2,440,750 respectively.

Capital Assets and Debt Administration

Capital Assets

The City's capital assets consist of land, construction in progress, buildings, improvements, infrastructure, equipment and machinery. Infrastructure assets placed in service in 2005 and after are reported in capital assets. The City's investment in capital assets (net of accumulated depreciation and outstanding debt) was $19,590,232 at June 30, 2016. Capital asset activity is presented in Note 7 of the financial statements.

Significant activity in capital assets for fiscal year 2016 includes:

- Purchase of two police department vehicles totaling $67,935 funded by general fund and municipal services levy revenues.
- The purchase of a heavy truck for the street department totaling $55,645 with financing from the State of Montana Intercap loan program.

- Upgrades were begun at City Hall to re-arrange office space, and replace front office flooring. Costs incurred at June 30, 2016 on this project totaled $10,800 with balance to be incurred in fiscal year 2017. This project is funded with general fund revenues.
- Donation of land to parks department for the appraised value of $180,000.
- Construction of two golf course department golf car storage buildings at a cost of $230,956 and purchase of a fleet of 60 golf cars for $161,700. The golf fund received an interfund loan from the Sewer Fund to pay for the costs until permanent financing can be secured.
- An unanticipated water and sewer upgrade for the City's Center Addition area had costs of $141,310 for fiscal year 2016 with remaining costs to be paid in fiscal year 2017 for total project cost of $243,965 including change orders. This project is being paid with water and sewer fund revenues.
- A total of $759,265 was spent on the Wastewater Resource Recovery Facility (sewer treatment mechanical plant) for fiscal year 2016. Costs included engineering, legal fees, lagoon reclamation and equipment design. This project will continue over the next three fiscal years at a total cost of $17.2 million. This project is funded with grants, revenue bond loans and sewer fund revenues.

See Note 7 for further capital asset information and details of the City's capital activity for 2016. The table below provides a summary of the value of the City's capital assets net of depreciation with a comparison between 2016 and 2015.

	Governmental Activities		Business Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	$ 267,322	$ 86,915	$ 2,238,751	$ 2,238,751	$ 2,506,073	$ 2,325,666
Construction in Progress	62,054	582,585	2,506,856	1,473,173	2,568,910	2,055,758
Buildings	271,630	258,311	527,918	310,726	799,548	569,037
Improvements Other Than Buildings	421,106	467,013	111,647	118,452	532,753	585,465
Machinery & Equipment	1,365,212	1,362,944	480,703	282,764	1,845,915	1,645,708
Infrastructure	2,219,526	1,763,979	-	-	2,219,526	1,763,979
Utility Plant	-	-	11,454,871	11,735,371	11,454,871	11,735,371
Total	$ 4,606,850	$ 4,521,747	$ 17,320,746	$ 16,159,237	$ 21,927,596	$ 20,680,984

Debt Administration

The City's long-term debt totaled $4,162,023 at June 30, 2016. Total debt decreased $11,022, which is comprised of the issuance of $22,306 of SRF revenue bonds, the issuance of $55,379 in notes payable, an increase in the City's share of the PERS and MPORS retirement system pension liability in the amount of $152,761 and debt service principal payments of ($224,870) and a decrease in the compensated absences liability of (16,598). 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 2016 and 2105:

Debt

	Governmental Activities		Business Activities		Total	
	2016	2015	2015	2015	2016	2015
Special assessment bonds	$ 490,892	$ 536,335	$ -	$ -	$ 490,892	$ 536,335
Tax increment urban renewal bonds	655,956	714,858	-	-	655,956	714,858
Revenue bonds	-	-	772,904	871,123	772,904	871,123
Other notes and contracts payable	-	-	-	-	-	-
Other notes and contracts payable	55,379	-	-	-	55,379	-
Compensated absence liability	204,814	228,522	105,734	98,624	310,548	327,146
Net pension liability	1,277,814	1,123,006	598,530	600,577	1,876,344	1,723,583
Total	$ 2,684,855	$ 2,602,721	$ 1,477,168	$ 1,570,324	$ 4,162,023	$ 4,173,045

Economic Factors and Fiscal Year 2017 Budget

The City of Polson is a Third Class city with a current estimated population of 4,643. The City is the county seat for Lake County. In the 1980s and 1990s, the Polson area transitioned from an economy based on agriculture and wood products to an economy based on retail and service, government, healthcare, and manufacturing. In the last decade the City saw growth in tourism and residential real estate development fueled by the construction of retirement or second homes. Following the great recession, the City is starting to see major improvement in the retail construction industry 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 County Tourism Bureau indicates that Polson is one of the primary travel corridors between Glacier National Park and Yellowstone National Park and the Junction of US 93 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 2017 budget items worth noting:

- The budget provides a 1% COLA (cost of living adjustment) 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.
- The budget provides for an increase in the Permissive Medical Mill levy of 1 mill to a total of 11.5 mills which will raise $102,052 for health-care cost assistance for the governmental funds. Total healthcare premium cost is estimated at $294,268 for the year.
- A new sound system for the Council Chambers for $9,000 and completion of the front office remodel for $10,000
- Strategic planning costs related to the possible construction of a Public Safety Complex in the amount of $10,000 for architect and conceptual drawings.
- Fire Department training facility construction of $19,000.
- Parks Department mower purchase of approximately $50,000
- Funds for a part-time grant writer for the various departments in the amount of $12,000
- In the water fund, costs have been budgeted for the initial costs to replace a reservoir and to do a new water PER
- In the sewer fund, costs have been budgeted for the Wastewater Resource Recovery Facility and possible replacement of the Lakeview Village Lift Station.
- In the golf fund, costs have been budgeted for the Olde 9 irrigation project and purchase of new fairway mowers
- All of the voted and non-voted levies are approved at their maximum levels in the budget due to need.

Contacting the City's Financial Management

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

Cindy Dooley CPA

Cindy Dooley CPA
Finance Officer
City of Polson

BASIC FINANCIAL STATEMENTS

City of Polson
Lake County, Montana

Government-Wide Statement of Net Position
As of June 30, 2016

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	$ 1,568,985	$ 4,068,922	$ 5,637,907
Petty cash	300	950	1,250
Taxes/assessments receivable-current	58,400	-	58,400
Accounts receivable, net	904	234,673	235,577
Interest receivable	-	1,902	1,902
Due from other governments	124,849	616,949	741,798
Inventories	-	166,908	166,908
Assessments receivable-noncurrent	500,208	-	500,208
Restricted assets:			
Cash, cash equivalents and investments	174,296	557,994	732,290
Capital assets not being depreciated:			
Land	267,321	2,238,751	2,506,072
Construction in progress	62,054	2,506,857	2,568,911
Capital assets being depreciated (net of accumulated depreciation)	4,277,474	12,575,138	16,852,612
Total assets	$ 7,034,791	$ 22,969,044	$ 30,003,835
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources	$ 320,751	$ 42,949	$ 363,700
Total deferred outflows of resources	$ 320,751	$ 42,949	$ 363,700
LIABILITIES			
Accounts payable	$ 25,175	$ 238,655	$ 263,830
Accrued interest payable	8,119	6,014	14,133
Accrued payroll payable	106,114	63,977	170,091
Deposits/retainage payable	600	6,712	7,312
Due to other governments	55,501	-	55,501
Current portions of long term debt	263,579	198,902	462,481
Noncurrent liabilities:			
Long term portions of long term debt	1,143,461	679,736	1,823,197
Net pension liability	1,277,814	598,530	1,876,344
Total liabilities	$ 2,880,363	$ 1,792,526	$ 4,672,889
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources	$ 232,639	$ 154,494	$ 387,133
Total deferred inflows of resources	$ 232,639	$ 154,494	$ 387,133
NET POSITION			
Net investment in capital assets	$ 3,396,504	$ 16,193,728	$ 19,590,232
Restricted for:			
Debt service & debt covenants	618,169	33,657	651,826
Bond indenture requirement	77,500	17,167	94,667
General government	21,421	-	21,421
Public safety	46,731	-	46,731
Public works	151,507	-	151,507
Culture & Recreation	91,439	-	91,439
Housing and community development	318,973	-	318,973
Conservation of natural Resources	2,938	-	2,938
Unrestricted	(482,642)	4,820,421	4,337,779
Total net position	$ 4,242,540	$ 21,064,973	$ 25,307,513

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

City of Polson
Lake County, Montana

Government-Wide Statement of Activities
For the Fiscal Year Ended June 30, 2016

		Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for	Operating	Capital	Primary Government		
		Services, Fines,	Grants and	Grants and	Governmental	Business-type	
	Expenses	Forfeitures, etc.	Contributions	Contributions	Activities	Activities	Total
Governmental activities:							
General government	$ 667,486	$ 180,625	$ 5,175	$ -	$ (481,686)	$ -	$ (481,686)
Public safety	1,874,482	239,140	71,673	13,748	(1,549,921)	-	(1,549,921)
Public works	432,254	136,172	236	23,810	(272,036)	-	(272,036)
Culture & recreation	231,908	7,684	10,099	180,000	(34,125)	-	(34,125)
Housing & community development	38,477	-	-	-	(38,477)	-	(38,477)
Conservation on natural resources	5,849	-	-	-	(5,849)	-	(5,849)
Interest on long-term debt	41,059	-	-	-	(41,059)	-	(41,059)
Total governmental activities	$ 3,291,515	$ 563,621	$ 87,183	$ 217,558	$ (2,423,153)	$ -	$ (2,423,153)
Business-type activities:							
Golf	$ 986,053	$ 1,055,540	$ -	$ -	$ -	$ 69,487	$ 69,487
Water	905,659	1,056,395	-	64,266	-	215,002	215,002
Sewer	591,090	1,145,053	-	553,171	-	1,107,134	1,107,134
Stormwater	13,461	110,352	-	-	-	96,891	96,891
Total business-type activities	$ 2,496,263	$ 3,367,340	$ -	$ 617,437	$ -	$ 1,488,514	$ 1,488,514
	$ 5,787,778	$ 3,930,961	$ 87,183	$ 834,995	$ (2,423,153)	$ 1,488,514	$ (934,639)

	Governmental Activities	Business-type Activities	Total
General revenues			
Property taxes	$ 1,545,229	$ -	$ 1,545,229
Motor vehicle local option tax	110,942	-	110,942
Franchise taxes	42,425	-	42,425
Payments In Lieu of Taxes	42,023	-	42,023
Impact fees	48,425	180,921	229,346
Unrestricted federal/state shared revenues	763,522	14,821	778,343
Unrestricted grants and contributions	514	-	514
Unrestricted investment earnings	4,395	19,796	24,191
Miscellaneous	7,590	27,360	34,950
Gain/(loss) on disposal of capital assets	58,482	89,797	148,279
Total general revenues and transfers	$ 2,623,547	$ 332,695	$ 2,956,242
Change in net position	200,394	1,821,209	2,021,603
Total net position reported July 1, 2015	$ 4,042,146	$ 19,243,764	$ 23,285,910
Total net position-June 30, 2016	$ 4,242,540	$ 21,064,973	$ 25,307,513

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

City of Polson
Lake County, Montana

Balance Sheet-Governmental Funds
As of June 30, 2016

	General Fund	Major Fund SID #42 Streetscape	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 560,895	$ -	$ 1,008,090	$ 1,568,985
Petty cash	300	-	-	300
Restricted: cash and cash equivalents	-	55,665	118,631	174,296
Taxes/assessments receivable	34,218	506,634	17,756	558,608
Accounts/other receivables	-	-	903	903
Due from other funds	7,063	-	-	7,063
Due from other governments	99,938	909	24,002	124,849
Total assets	$ 702,414	$ 563,208	$ 1,169,382	$ 2,435,004
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 22,542	$ -	$ 2,633	$ 25,175
Other accrued payables	97,648	812	15,773	114,233
Due to other funds	-	-	7,063	7,063
Due to other governments	-	-	55,501	55,501
Deposits payable	600	-	-	600
Total liabilities	$ 120,790	$ 812	$ 80,970	$ 202,572
Deferred inflows of tax revenue	$ 34,218	$ 506,634	$ 17,756	$ 558,608
Fund balances:				
Nonspendable:	$ -	$ -	$ -	$ -
Restricted:				
General Government	-	-	836,922	836,922
Debt service	-	55,762	125,154	180,916
Committed:	-	-	14,058	14,058
Assigned:	-	-	97,346	97,346
Unassigned:				
General fund	547,406	-	-	547,406
Fund deficits	-	-	(2,823)	(2,823)
Total fund balance	$ 547,406	$ 55,762	$ 1,070,657	$ 1,673,825
Total liabilities, deferred inflows and fund balance	$ 702,414	$ 563,208	$ 1,169,383	$ 2,435,005

Reconciliation: Governmental Funds Balance Sheet to the Statement of Net Position, As of June 30, 2016
AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET POSITION ARE DIFFERENT BECAUSE:

Fund Balance	$ 1,673,825
Capital assets used in governmental activities are not financial resources and, therefore, are not reported on the governmental funds balance sheet. (net of depreciation)	4,606,850
Taxes and assessment receivables are not recorded as revenue until they are received and, therefore, are deferred in the governmental funds.	558,608
The liability for compensated absences is not due and payable in the current periods and, therefore, is not reported in the governmental funds balance sheet.	(204,814)
Long-term liabilities are not due and payable in the current period and, therefore, are not not reported as liabilities in the governmental funds balance sheet.	(1,202,227)
The net pension liability is not due and payable in the current period and, therefore, is not reported in the governmental funds balance sheet.	(1,277,814)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds:	
Deferred outflow of 2016 employer contributions related to pensions	320,751
Deferred inflows of resources related to pensions	(232,639)
Net position of governmental activities	$ 4,242,540

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

City of Polson
Lake County, Montana

Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds
For the Fiscal Year Ended June 30, 2016

	General Fund	Major Fund SID #42 Streetscape	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes and assessments	$ 1,323,333	$ 68,795	$ 362,775	$ 1,754,903
Licenses and permits	38,686		129,881	168,567
Intergovernmental revenues	776,211		197,263	973,474
Charges for services	182,821		62,093	244,914
Fines and forfeiture	49,362		16,786	66,148
Miscellaneous	56,110		212,899	269,009
Investment and royalty earnings	622	223	3,549	4,394
Total revenues	$ 2,427,145	$ 69,018	$ 985,246	$ 3,481,409
EXPENDITURES				
General government	$ 643,500	$ -	$ 3,701	$ 647,201
Public safety	1,451,369	-	343,981	1,795,350
Public works	213,703	-	104,590	318,293
Culture and recreation	185,469	-	6,024	191,493
Housing and community development	-	-	5,025	5,025
Conservation of natural resources	-	-	5,849	5,849
Debt service:				-
Principal	-	45,443	58,902	104,345
Interest	-	20,799	20,260	41,059
Capital outlay	150,601		333,303	483,904
Miscellaneous	9,747		-	9,747
Total expenditures	$ 2,654,389	$ 66,242	$ 881,635	$ 3,602,266
Excess of revenues over (under) expenditures	$ (227,244)	$ 2,776	$ 103,611	$ (120,857)
OTHER FINANCING SOURCES (USES):				
Notes/Loans/Intercap issued	$ 55,379	$ -	$ -	$ 55,379
Proceeds from sale of capital assets	72,500	-	3,000	75,500
Other DTF agency proceeds	-	-	792	792
Other DTF agency payments	-	-	(792)	(792)
Transfers in	93,789	-	50,226	144,015
Transfers out	(45,931)	-	(98,084)	(144,015)
Total other financing sources (uses)	$ 175,737	$ -	$ (44,858)	$ 130,879
Net change in fund balances	$ (51,507)	$ 2,776	$ 58,753	$ 10,022
Fund balances-July 1, 2015	$ 598,913	$ 52,986	$ 1,011,904	$ 1,663,803
Fund balances-June 30, 2016	$ 547,406	$ 55,762	$ 1,070,657	$ 1,673,825

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

City of Polson
Lake County, Montana

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances-
Governmental Funds to the Government-Wide Statement of Activities
For the Fiscal Year Ended June 30, 2016

Net change in fund balance - total governmental funds	$ 10,022
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:	
Capital assets purchased	414,250
Construction of capitalized infrastructure	69,655
Depreciation expense	(381,784)
In the statement of activities, the loss or gain on the sale or disposal of capital assets is recognized. The governmental funds recognize only the proceeds from the sale of these assets:	
Proceeds from the disposal of capital assets	(75,500)
Gain on the disposal of capital assets	58,481
Property taxes and SID revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds:	
Real estate taxes	(3,552)
Maintenance and special improvement district assessments	(44,429)
The increase in expenses due to the increase in the liability for compensated absences reported in the statement of activities does not use current financial resources and, therefore, is not reported in the the governmental funds.	23,709
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term consumes current financial resources of governmental funds. Neither transaction, however, has any effect on net assets:	
Issuance of debt	(55,379)
Principal payments on long-term debt	104,345
Governmental funds report city pension contributions as expenditures. However in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension benefits earned net of employee contributions is reported as pension expense.	
Cost of benefits earned net of employee contributions (pension expense)	80,576
Change in net position in governmental activities (page 17)	$ 200,394

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

City of Polson
Lake County, Montana

Statement of Fund Net Position-Proprietary Funds
As of June 30, 2016

	Business-type Activities				
	Major Enterprise Funds				
	Golf Fund	Water Fund	Sewer Fund	Non-major Funds	Totals
ASSETS					
Current assets					
Cash and cash equivalents	$ 290,098	$ 1,778,451	$ 1,638,301	$ 362,071	$ 4,068,921
Petty cash	750	200	-	-	950
Accounts receivable	3,600	90,646	130,090	10,338	234,674
Interest receivable	-	-	1,902	-	1,902
Due from golf enterprise Fund	-	-	342,700	-	342,700
Due from other governments	-	64,004	552,919	26	616,949
Inventories	59,533	107,375	-	-	166,908
Total current assets	$ 353,981	$ 2,040,676	$ 2,665,912	$ 372,435	$ 5,433,004
Noncurrent assets					
Restricted assets:					
Cash, cash equivalents and investments	$ 17,464	$ 400,687	$ 139,843	$ -	$ 557,994
Capital assets:					
Land	2,042,231	177,064	19,456	-	2,238,751
Construction in progress	23,145	1,371,415	1,110,657	1,639	2,506,856
Buildings	786,673	-	-	-	786,673
Improvements other than buildings	382,697	-	-	-	382,697
Machinery and equipment	1,240,441	-	-	-	1,240,441
Utility plant	-	13,968,514	7,391,904	359,051	21,719,469
Less: accumulated depreciation	(1,289,543)	(5,200,684)	(5,020,829)	(43,086)	(11,554,142)
Total noncurrent assets	$ 3,203,108	$ 10,716,996	$ 3,641,031	$ 317,604	$ 17,878,739
Total assets	$ 3,557,089	$ 12,757,672	$ 6,306,943	$ 690,039	$ 23,311,743
DEFERRED OUTFLOWS OF RESOURCES					
Deferred outflows of resources	$ 13,968	$ 16,106	$ 12,875	$ -	$ 42,949
Total deferred outflows of resources	$ 13,968	$ 16,106	$ 12,875	$ -	$ 42,949
LIABILITIES					
Current liabilities					
Accounts payable	$ 4,317	$ 125,984	$ 108,354	$ -	$ 238,655
Accrued interest payable	2,449	3,564	-	-	6,013
Accrued payroll payable	34,518	16,994	12,465	-	63,977
Current portion of compensated absences	29,220	20,368	20,538	-	70,126
Current portion of bonds payable	103,148	25,629	-	-	128,777
Due to sewer enterprise fund	342,700	-	-	-	342,700
Deposits payable	-	5,650	1,062	-	6,712
Total current liabilities	$ 516,352	$ 198,189	$ 142,419	$ -	$ 856,960
Noncurrent liabilities					
Compensated absences	$ 14,770	$ 11,067	$ 9,771	$ -	$ 35,608
Bonds payable	-	644,127	-	-	644,127
Net pension liability	194,652	224,455	179,423	-	598,530
Total noncurrent liabilities	$ 209,422	$ 879,649	$ 189,194	$ -	$ 1,278,265
Total liabilities	$ 725,774	$ 1,077,838	$ 331,613	$ -	$ 2,135,225
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows of resources	$ 50,244	$ 57,937	$ 46,313	$ -	$ 154,494
Total deferred inflows of resources	$ 50,244	$ 57,937	$ 46,313	$ -	$ 154,494
NET POSITION					
Net investment in capital assets	$ 2,737,347	$ 9,637,589	$ 3,501,188	$ 317,604	$ 16,193,728
Restricted for:debt service & bond indenture	17,464	33,360	-	-	50,824
Unrestricted	40,228	1,967,054	2,440,704	372,435	4,820,421
Total net position	$ 2,795,039	$ 11,638,003	$ 5,941,892	$ 690,039	$ 21,064,973

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

City of Polson
Lake County, Montana

Statement of Revenues, Expenses, and Changes in Fund Net Position-Proprietary Funds
For the Fiscal Year Ended June 30, 2016

	Business-type Activities				
	Major Enterprise Funds				
	Golf Fund	Water Fund	Sewer Fund	Non-major Fund	Totals
OPERATING REVENUES					
Charges for services	$ 1,055,540	$ 1,056,395	$ 1,145,053	$ 110,352	$ 3,367,340
Total operating revenues	$ 1,055,540	$ 1,056,395	$ 1,145,053	$ 110,352	$ 3,367,340
OPERATING EXPENSES					
Personal services	$ 418,169	$ 285,049	$ 220,826	$ -	$ 924,044
Supplies	176,571	50,584	41,586	-	268,741
Purchased services	244,605	201,659	186,981	6,280	639,525
Building materials	5,692	-	-	-	5,692
Fixed charges	4,548	4,916	-	-	9,464
Depreciation	106,622	310,706	135,088	7,181	559,597
Total operating expenses	$ 956,207	$ 852,914	$ 584,481	$ 13,461	$ 2,407,063
OPERATING INCOME/(LOSS)	$ 99,333	$ 203,481	$ 560,572	$ 96,891	$ 960,277
NONOPERATING REVENUES/(EXPENSES)					
Intergovernmental revenue	$ 4,820	$ 5,558	$ 4,443	$ -	$ 14,821
Impact fees	-	123,797	57,124	-	180,921
Payback agreement	-	(44,041)	-	-	(44,041)
Building/land rental	3,600	-	17,127	-	20,727
Investment earnings	1,100	6,893	10,761	1,042	19,796
Gain/(loss) on sale of capital assets	89,797	-	(5,337)	-	84,460
Debt service interest expense	(7,000)	(5,375)	-	-	(12,375)
Other nonoperating revenue (expense)	(18,389)	(1,659)	(766)	-	(20,814)
Total nonoperating revenues/(expenses)	$ 73,928	$ 85,173	$ 83,352	$ 1,042	$ 243,495
INCOME/(LOSS) BEFORE TRANSFERS AND CAPITAL CONTRIBUTIONS	$ 173,261	$ 288,654	$ 643,924	$ 97,933	$ 1,203,772
Capital contribution	-	64,266	553,171	-	617,437
Changes in net position	$ 173,261	$ 352,920	$ 1,197,095	$ 97,933	$ 1,821,209
Total net position-July 1, 2015	$ 2,621,778	$ 11,285,083	$ 4,744,797	$ 592,106	$ 19,243,764
Total net position-June 30, 2016	$ 2,795,039	$ 11,638,003	$ 5,941,892	$ 690,039	$ 21,064,973

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

City of Polson
Lake County, Montana

Statement of Cash Flows-Proprietary Funds
For the Fiscal Year Ended June 30, 2016

	Business-type Activities				
	Major Enterprise Funds				
	Golf Fund	Water Fund	Sewer Fund	Non-major Funds	Totals
Cash flows from operating activities:					
Cash received from customers	$ 1,054,792	$ 1,087,909	$ 1,156,099	$ 111,683	$ 3,410,483
Cash paid to suppliers	(425,193)	(95,819)	(101,079)	(6,676)	(628,767)
Cash paid for employees and related benefits	(403,143)	(275,254)	(212,550)	-	(890,947)
Cash paid for interfund services used	(30,000)	(69,525)	(59,584)	-	(159,109)
Net cash provided/(used) by operating activities	$ 196,456	$ 647,311	$ 782,886	$ 105,007	$ 1,731,660
Cash flows from noncapital and related activities					
Interfund loan to golf enterprise	$	$ -	$ (342,700)	$ -	$ (342,700)
Scrap metal		5	-	-	5
Contract incentives	1,471	-	-	-	1,471
Litigation expense	(6,813)	-	-	-	(6,813)
Net cash provided/(used) by noncapital and related activities	$ (5,342)	$ 5	$ (342,700)	$ -	$ (348,037)
Cash flows from capital and related financing activities:					
Acquisition and construction of capital assets & purchase of equipment	$ (423,156)	$ (356,730)	$ (856,759)	$	$ (1,636,645)
Sale of capital assets	-	-	-	-	-
Impact fees	-	122,142	56,358	-	178,500
Grant proceeds	-	574,396	375	-	574,771
Debt proceeds	342,700	22,306	-	-	365,006
Principal payments on debt	(101,025)	(19,500)	-	-	(120,525)
Interest payments on debt	(5,619)	(2,737)	-	-	(8,356)
Impact fee/latecomers payback agreement	-	(44,041)	-	-	(44,041)
Rental income	3,600	-	150	-	3,750
Net cash provided/(used) by capital financing activities	$ (183,500)	$ 295,836	$ (799,876)	$ -	$ (687,540)
Cash flows from investing activities:					
Interest on investments	$ 1,135	$ 7,203	$ 9,242	$ 1,078	$ 18,658
Net cash provided/(used) by investing activities	$ 1,135	$ 7,203	$ 9,242	$ 1,078	$ 18,658
Net increase/(decrease) in cash, cash equivalents and investments	$ 8,749	$ 950,355	$ (350,448)	$ 106,085	$ 714,741
Cash, cash equivalents and investments reported July 1, 2015	$ 299,563	$ 1,228,983	$ 2,128,593	$ 255,986	$ 3,913,125
Cash, cash equivalents and investments June 30, 2016	$ 308,312	$ 2,179,338	$ 1,778,145	$ 362,071	$ 4,627,866
RECONCILATION TO CASH IN STATEMENT OF NET ASSETS:					
Cash and cash equivalents	$ 290,098	$ 1,778,451	$ 1,638,302	$ 362,071	$ 4,068,922
Petty cash	750	200	-	-	950
Restricted assets: Cash and cash equivalents	17,464	400,687	139,843	-	557,994
Total cash and cash equivalents and investments	$ 308,312	$ 2,179,338	$ 1,778,145	$ 362,071	$ 4,627,866
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED/(USED) BY OPERATING ACTIVITIES:					
Net operating income/(loss)	$ 99,333	$ 203,481	$ 560,572	$ 96,891	$ 960,277
Adjustments to reconcile operating income to net cash Provided/(used) by operating activities:					
Depreciation expense	106,622	310,706	135,088	7,181	559,597
On-behalf payment State of MT for PERS	4,820	5,558	4,443	-	14,821
Cash long(short)	(748)	(9)	-	-	
(Increase)/decrease in receivables	-	26,383	11,167	1,315	38,865
(Increase)/decrease in inventories	(12,349)	-	-	-	(12,349)
(increase)/decrease in due from other governments	-	(111)	(122)	16	(217)
Increase/(decrease) in accounts payables	(11,428)	91,814	66,842	(396)	146,832
Increase/(decrease) in refunds payable	-	(148)	-	-	(148)
Increase/(decrease) in retainage payable	-	5,400	1,062	-	6,462
Increase/(decrease) in net pension related receivables/payables	(3,387)	(2,305)	(1,323)	-	(7,015)
Increase/(decrease) in compensated absences	6,861	(430)	679	-	7,110
Increase/(decrease) in wages payable	6,732	6,972	4,478	-	18,182
Net cash provided/(used) by operating activities	$ 196,456	$ 647,311	$ 782,886	$ 105,007	$ 1,732,417
Schedule of Non-Cash Items:					
Capital asset trade-ins	$ 112,500	$ -	$ 12,900	$	$ 125,400

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

City of Polson
Lake County, Montana

Statement of Fiduciary Net Position
As of June 30, 2016

	William Cleveland Aid Fund	City Court Trust Account	Agency Funds
ASSETS			
Cash and cash equivalents	$ 1,332	$ 1,961	$ 48,231
Total assets	$ 1,332	$ 1,961	$ 48,231
LIABILITIES			
Due to other individuals/governments	$ 1,332	$ 2,080	$ 48,231
Total liabilities	$ 1,332	$ 2,080	$ 48,231
Net Position held in trust for other purposes		$ (119)	

Statement of Changes in Net Position-Fiduciary Net Position
As of June 30, 2016

	William Cleveland Aid Fund	City Court Trust Account
ADDITIONS		
Fundraiser revenue	$ 11,134	$
Fines and forfeitures		65,331
Total additions	$ 11,134	$ 65,331
DEDUCTIONS		
Fundraiser expenses	$ 1,254	$ -
Payments to individuals	9,880	-
Retitution to victims	-	4,922
Payments to governments	-	61,901
Total deductions	$ 11,134	$ 66,823
Change in net position	$ -	$ (1,492)
Net position - July 1, 2015	$	$ 1373
Net position - July 1, 2016	$ -	$ (119)

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. ORGANIZATION

The City of Polson, (City) was incorporated on April 5, 1910 in accordance with the provisions of the State of Montana. The City utilizes the Commission-City Manager form of government with six City Commissioners, a Mayor and City Manager and has self-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 4,643. The City provides a wide range of municipal services that include public safety (police, fire and animal control), public works (streets, water and sewer), community development, culture and recreation (golf and parks), and general government services (finance and administration).

B. FINANCIAL REPORTING ENTITY

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

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

The City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* in the 2015 fiscal year. These statements amend financial reporting by state and local government employers about financial support for pensions provided through other entities.

For the year ended June 30,2016, the City implemented GASB Statements that had not impact on the City's financial statements: GASB Statement NO. 72 – *Fair Value Measurement and Valuation;* GASB Statement No. 73 – *Accounting and financial Reporting for Pensions and Related Assets that Are Not within the Scope of GASB Statements No. 68, and Amendments to Certain provisions of Statements 67 and 68.*

The City also implemented GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* for the 2016 fiscal year. The objective of this statement is to identify – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governments in conformity with GAAP and the framework for selecting those principles. The statement reduces the GAAP hierarchy from four categories to two categories and addresses the use of authoritative and non-authoritative literature in eth event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The Statements supersedes Statement No. 55.

Primary Government

The City is considered a primary government because it is a general purpose local government. Further, it meets the following criteria: (a) it has a separately elected governing body (b) it is legally separate and (c) it is fiscally independent from the State and other local governments.

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

Discretely Presented Component Units

Discretely presented component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending of their financial statement information with the primary government's financial information. As of June 30, 2016, the City had no discretely presented component units.

C. BASIS OF FINANCIAL STATEMENT PRESENTATION

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

Government-wide Financial Statements

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

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

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

Fund Financial Statements

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

NOTE 1: SUMMARY OF SIGNIFANT ACCOUNTING POLICES, continued

C. BASIS OF FINANCIAL STATEMENT PRESENTATION, continued

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

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

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

Fund Accounting

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

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

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

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

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

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

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

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

D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

Government-wide Financial Statements

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

Fund Financial Statements

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

The City defines the length of time used for “available” for purposes of revenue recognition in the governmental fund financial statements to be upon receipt except for tax revenues which are considered revenue if received within 30 days of the year end. Expenditures are recorded when the related fund liability is incurred, except for un-matured interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources. General capital assets acquisitions are reported as expenditures in governmental funds and proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

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

The Budget Process

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

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

E. ASSETS, LIABILITIES AND NET POSITION OR EQUITY

1. Cash, Cash Equivalents, Investments and Investment Income

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

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

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

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

2. Property Taxes

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

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

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICES, continued

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

second due November 30th. The tax billings are considered past due after the respective due dates and are subject to penalty and interest charges.

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

	Taxable Valuation	Valuation of Tax Increment	Value of Mills	Mills Levied
General Fund Levy	$ 8,985,436	$ 127,361	$ 8,858	139.04
Permissive Medical Levy	$ 8,985,436	$ 127,361	$ 8,858	10.50
Police Special Levy	$ 8,985,436	$ 127,361	$ 8,858	19.95

The taxable valuation excludes the incremental value of property within the City's tax increment district. The incremental tax value of the tax increment district is $127,361. Taxes on that value accrue to the tax increment district, not to the usual taxing authorities except the University millage (state-wide 6 mill voted levy); hence the value of a mill which it is budgeted against is reduced by that incremental value.

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

3. City Court Fines

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

4. Enterprise Accounts Receivable

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

5. Inventories

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

6. Restricted Assets

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

7. Capital Assets

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

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

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

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

8. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditures) until then. The City has one items in this category: deferred pension expense.

8. Deferred Outflows/Inflows of Resources

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

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

9. Compensated Absences

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

respective fund and the business-type activities column of the statement of net position. For the purposes of reporting these compensated absences payable as current or non-current, the City considers accrued vacation pay as current (payable within one year) and accrued sick leave as non-current.

10. Long-term Obligations

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

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

11. Net Position/Fund Balance

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

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

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

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

NOTE 2: CASH, CASH EQUIVALENTS, AND INVESTMENTS

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

Cash on Hand	$	1,250
Cash in Banks:		
Cash in linked Demand/Repurchase Deposits		5,517,402
Cash in Savings Deposits		482
Non-negotiable Certificates of Deposit		1,004,774
U.S. Government Securities		4,692
Total Cash on Hand & in Banks	$	6,528,600
Plus: Deposits in Transit	$	43,180
Less: Outstanding checks		(148,806)
Cash reported in Fund Financial Statements	$	6,422,974

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

The City's cash, cash equivalents and investments are reported as follows:

		Unrestricted		Restricted		Total
Governmental activities	$	1,569,286	$	174,296	$	1,743,582
Business-type activities		4,069,872		557,994		4,627,866
Fiduciary funds		51,526		-		51,526
	$	5,690,684	$	732,290	$	6,422,974

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

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

Of the bank balances, $500,000 was covered by federal depository insurance, and $3,405,769 was covered by securities held by the pledging bank's trust department but not in the City's name, $2,667,402 was uncollateralized and uninsured.

Montana statues state that the City must have pledged securities equal to at least 50% of its total bank deposits that are not insured or guaranteed. At June 30, 2016, the amount of collateral held for City deposits exceeded the amount required. In October 2008, the FDIC increased its insurance limit to $250,000 per entity in each institution which was extended permanently on December 31, 2012.

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

Pooled Investments—at June 30, 2016 the City's pooled investment balances were as follows:

		Maturity in Years													
Investments		Less than 1		1-2		2-3		3-4		4-5		No Maturity		Total	Rating
Non-negotiable Certificates of Deposit	$	1,004,774	$	-	$	-	$	-	$	-	$	-	$	1,004,774	NR
U.S. Government Securities		4,692		-		-		-		-		-		4,692	A1
Repurchase Agreements		-		-		-		-		-		5,510,247		5,510,247	A3
Total Government Investments	$	1,009,466	$	-	$	-	$	-	$	-	$	5,510,247	$	6,519,713	

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

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

NOTE 3: SPECIAL ASSESSMENTS RECEIVABLE

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

	Issued	Term	Total	Current	Non-current
SID #42 Streetscape	2010	15 years	$ 506,634	$ 6,426	$ 500,208
Maintenance District Assessments			735	735	-
Total			$ 507,369	$ 7,161	$ 500,208

NOTE 4: INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund Transfers—the City uses interfund transfers for regular re-occurring internal charges, such as debt service, supplies and materials, capital project fund transfers, and services provided. The following is an analysis of operating transfers in and out during the fiscal year 2016:

	Transfers In:			
Transfers Out:	General Fund	Nonmajor Governmental Funds	Total	Purpose
General fund	$ -	$ 45,931	$ 45,931	Fund Reserve
Nonmajor governmental funds		4,295	4,295	Equity Transfer
Nonmajor governmental funds	93,789	-	93,789	Medical Levy Transfer
Total Transfers Out	$ 93,789	$ 50,226	$ 144,015	

Due To/Due From—the City general fund temporarily loaned $4,239 to the Northwest Drug Task force Fund, and $2,824 to the RCDI/Growth Policy Fund at June 30, 2016 to cover cash deficits in those funds. The Sewer Enterprise fund loaned the Golf Enterprise Fund $324,700 on January 20, 2016 at a rate of 1.25% simple annual interest; the amount is due and payable in a single installment on April 15,2017 with accrued interest to that date.

NOTE 5: DUE FROM (TO) OTHER GOVERNMENTS

The City had the following amount due from (to) other government entities as of June 30, 2016:

Fund	Paying Government	Due From Amount	Due (To) Amount
General Fund	Lake County	$ 93,788	$ -
General Fund	CSKT	6,150	-
Police Municipal Services Levy	Lake County	12,145	-
Tax Increment District	Lake County	10	-
Tax Increment District	Lake County	-	(55,501)
Permissive Medical Mills	Lake County	6,392	-
Drug Forfeiture Fund	Lake County	297	-
Light Maintenance District #19	Lake County	706	-
Light Maintenance District #20	Lake County	212	-
NW Drug Task Force	Flathead County	4,239	-
SID #42 Streetscape Main Street Improvement Pro	Lake County	909	-
Water Fund	Lake County	113	-
Water Fund	State of Montana	63,891	-
Sewer Fund	Lake County	123	-
Sewer Fund	State of Montana	552,796	-
Stormwater Fund	Lake County	26	-
Total		$ 741,797	$ (55,501)

NOTE 6: CAPITAL GRANT REVENUE

There were no governmental capital grants for fiscal year 2016.

Enterprise capital grants consist of the following:

Fund	Paying Government		Amount
Water Fund	State of Montana TSEP Capital Project Grant	$	63,891
Water Fund	NW Farm Credit Services Capital Project Grant		375
Sewer Fund	Federal Government CDBG Capital Project Grant		355,632
Sewer Fund	State of Montana TSEP Capital Project Grant		147,164
Sewer Fund	State of Montana RRGL Capital Project Grant		50,000
Sewer Fund	NW Farm Credit Services Capital Project Grant		375
Total		$	617,437

NOTE 7: CAPITAL ASSETS

Capital asset activity for the governmental funds for the year ended June 30, 2016 was as follows:

		Balance July 1, 2015		Increases		Decreases		Balance June 30, 2016
Capital assets not being depreciated:								
Land	$	86,915	$	180,407	$	-	$	267,322
Construction in Progress		582,585		47,683		(568,214)		62,054
Total capital assets not being depreciated:	$	669,500	$	228,090	$	(568,214)	$	329,376
Depreciable capital assets								
Buildings	$	571,205	$	29,329	$	-	$	600,534
Machinery & Equipment		3,245,940		226,486		(113,852)		3,358,574
Improvements		1,125,697		-		-		1,125,697
Infrastructure		2,239,171		568,214		-		2,807,385
Total depreciable capital assets at historical cost	$	7,182,013	$	824,029	$	(113,852)	$	7,892,190
Less: accumulated depreciation		(3,329,766)		(381,784)		96,834		(3,614,716)
Total depreciable capital assets at historical cost, net	$	3,852,247	$	442,245	$	(17,018)	$	4,277,474
Net book value	$	4,521,747	$	670,335	$	(585,232)	$	4,606,850

Governmental depreciation expense was charged to functions as follows:

Governmental Activities:		Depreciation
General Government	$	34,586
Public Safety		126,491
Public Works		131,385
Culture and Recreation		55,870
Housing and Community Development		33,452
Total governmental activities depreciation	$	381,784

NOTE 7: CAPITAL ASSETS, continued

Capital asset activity for the business-type funds for the year ended June 30, 2016 was as follows:

Golf Fund

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
Capital assets not being depreciated:				
Land	$ 2,042,231	$ -	$ -	$ 2,042,231
Construction in Progress	25,141	3,445	(5,441)	23,145
Total capital assets not being depreciated:	$ 2,067,372	$ 3,445	$ (5,441)	$ 2,065,376
Other capital assets				
Buildings	$ 550,275	$ 236,398	$ -	$ 786,673
Machinery & Equipment	1,166,850	301,254	(227,663)	1,240,441
Improvements	382,697	-		382,697
Total other capital assets at historical cost	$ 2,099,822	$ 537,652	$ (227,663)	$ 2,409,811
Less: accumulated depreciation	(1,387,881)	(106,622)	204,960	(1,289,543)
Total other capital assets at historical cost, net	$ 711,941	$ 431,030	$ (22,703)	$ 1,120,268
Net book value	$ 2,779,313	$ 434,475	$ (28,144)	$ 3,185,644

Water Fund

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
Capital assets not being depreciated:				
Land	$ 177,064	$ -	$ -	$ 177,064
Construction in Progress	1,122,241	249,174		1,371,415
Total capital assets not being depreciated:	$ 1,299,305	$ 249,174	$ -	$ 1,548,479
Other capital assets				
Source of Supply	$ 2,457,821	$ 21,092	$ -	$ 2,478,913
Pumping Plant	190,204	-	-	190,204
Treatment System	15,678	-	-	15,678
Transmission and Distribution	10,896,070	71,247	-	10,967,317
General plant	301,185	15,217	-	316,402
Total other capital assets at historical cost	$ 13,860,958	$ 107,556	$ -	$ 13,968,514
Less: accumulated depreciation	(4,889,978)	(310,706)	-	(5,200,684)
Total other capital assets at historical cost, net	$ 8,970,980	$ (203,150)	$ -	$ 8,767,830
Net book value	$ 10,270,285	$ 46,024	$ -	$ 10,316,309

NOTE 7: CAPITAL ASSETS, continued

Sewer Fund

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
Capital assets not being depreciated:				
Land	$ 19,456	$ -	$ -	$ 19,456
Construction in Progress	324,152	786,505		1,110,657
Total capital assets not being depreciated:	$ 343,608	$ 786,505	$ -	$ 1,130,113
Other capital assets				
Pumping Plant	$ 1,068,586	$ 37,616	$ -	$ 1,106,202
Treatment System	2,077,376	-	-	2,077,376
Collection System	3,905,887	30,431	(36,475)	3,899,843
General plant	293,376	15,107	-	308,483
Total other capital assets at historical cost	$ 7,345,225	$ 83,154	$ (36,475)	$ 7,391,904
Less: accumulated depreciation	(4,903,980)	(135,088)	18,239	(5,020,829)
Total other capital assets at historical cost, net	$ 2,441,245	$ (51,934)	$ (18,236)	$ 2,371,075
Net book value	$ 2,784,853	$ 734,571	$ (18,236)	$ 3,501,188

Stormwater Fund

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
Capital assets not being depreciated:				
Land	$ -	$ -	$ -	$ -
Construction in Progress	1,639	-	-	1,639
Total capital assets not being depreciated:	$ 1,639	$ -	$ -	$ 1,639
Other capital assets				
Collection System	$ 359,051	$ -	$ -	$ 359,051
Total other capital assets at historical cost	$ 359,051	$ -	$ -	$ 359,051
Less: accumulated depreciation	(35,905)	(7,181)	-	(43,086)
Total other capital assets at historical cost, net	$ 323,146	$ (7,181)	$ -	$ 315,965
Net book value	$ 324,785	$ (7,181)	$ -	$ 317,604

NOTE 8: LONG TERM DEBT OBLIGATIONS

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

Legal Debt Margin—The City's legal debt limitation for general obligation debt is 2.5% of total assessed market value of taxable property, As of June 30, 2016 the debt margin was $15,162,273.

NOTE 8: LONG TERM DEBT OBLIGATIONS, continued

Changes in Long-term Debt Liabilities—During the year ended June 30, 2016, the following changes occurred in liabilities reported in long-term debt:

Governmental Activities:

	Balance July 1, 2015	Additions	Decreases	Balance June 30, 2016	Due Within One Year
Special Assessment Bonds	$ 536,335	$ -	$ (45,443)	$ 490,892	$ 47,309
Street Wheel Loader Loan	-	55,379	-	55,379	10,905
Tax Increment Bonds, Series 2013	714,858	-	(58,902)	655,956	60,675
Compensated Absences	228,522	1,759	(25,467)	204,814	144,690
Net Pension Liability	1,123,006	154,808		1,277,814	-
Total	$ 2,602,721	$ 211,946	$ (129,812)	$ 2,684,855	$ 263,579

Business-type Activities:

	Balance July 1, 2015	Additions	Decreases	Balance June 30, 2016	Due Within One Year
Revenue Bonds, Series 2013 (Golf)	$ 204,173	$ -	$ (101,025)	$ 103,148	$ 103,148
Revenue Bonds (Water)	666,950	22,306	(19,500)	669,756	25,629
Compensated Absences	98,624	9,878	(2,768)	105,734	70,125
Net Pension Liability	600,577	-	(2,047)	598,530	-
Total	$ 1,570,324	$ 32,184	$ (125,340)	$ 1,477,168	$ 198,902

Special Assessment Bond Debt

Special assessment bonds are payable from the collection of special assessments levied against benefited property owners within defined special improvement districts which become a lien on the property. The bonds are issued with specific maturity dates, but must be called and repaid earlier, at par plus accrued interest, if the related special assessments are collected. The bonds are backed by the full faith and credit of the City. The City maintains a reserve fund to cover defaults by property owners. The City issued one amortization bond on September 15, 2010 for $750,000 to assist in construction on the Main Street Streetscape project. A reserve account in the amount of $37,500 was established as required by the bond resolution. The bond is a special, limited obligation of the City and does not constitute a general obligation of the City. If there are insufficient funds in the reserve account and/or the SID revolving fund, the general fund will loan an amount as may be necessary to the SID revolving fund to ensure a minimum fund balance of 5% of the outstanding bond principal to ensure payments are made. Special assessment bonds outstanding reported in the governmental activities as of June 30, 2015 were as follows:

Purpose	Origination Date	Interest Rate	Bond Term	Maturity Date	Bond Amount	Annual Payment	Balance June 30, 2016
SID #42 Streetscape Project	September 15, 2010	3.95%	15 yrs	July 1, 2025	$ 750,000	$ 66,225	$ 490,892
Total					750,000		490,892

Annual requirement to amortize special assessment debt:

For Fiscal Year Ended	Principal	Interest	Total Payments
2017	$ 47,309	$ 18,916	$ 66,225
2018	49,184	17,041	66,225
2019	51,146	15,079	66,225
2020	53,186	13,039	66,225
2021	55,308	10,917	66,225
2022-2025	234,759	20,707	255,466
Total	$ 490,892	$ 95,699	$ 586,591

NOTE 8: LONG TERM DEBT OBLIGATIONS, continued

Revenue Bonds

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

Revenue Bonds (Water System)—In October 2009 the City issued water system revenue bonds series 2009B through the State of Montana's Department of Natural Resources and Conservation (DNRC) Drinking Water State Revolving Loan Program. The bond requires semi-annual principal payments ranging from $6,700 in 2010 to $18,000 in 2029. In May 2015 the City issued water system revenue bonds Series 2015 A and B through the State of Montana's DNRC Drinking Water State Revolving Loan Program. The bonds require semi-annual payments ranging from $3,500 in 2016 to a high of $14,000 in 2032. The State has indicated that if the City fulfills its requirements as outlined in the bond resolution, the Series 2015 A loan will be forgiven in the amount of $227,127.

Revenue bonds outstanding reported in the business-type activities as of June 30, 2016 were as follows:

Purpose	Origination Date	Interest Rate	Bond Term	Maturity Date	Bond Amount	Annual Payment	Balance June 30, 2016
Revenue Bonds, Series 2013 (Golf)	April 1, 2013	2.10%	4 yrs	April 1, 2017	$ 400,000	$ 104,786	$ 103,148
Revenue Bonds, Series 2009 (Water)	October 16, 2009	0.75%	20 yrs	July 1, 2029	333,700	Varies	231,000
Revenue Bonds, Series 2015 (Water)	May 20, 2015	2.50%	20 yrs	July 1, 2035	438,756	Varies	438,756
Total					$ 1,172,456		$ 772,904

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

Annual requirement to amortize revenue bond debt:

For the Fiscal Year Ended	Revenue Bonds Golf Course, Series 2013 Principal	Revenue Bonds Golf Course, Series 2013 Interest	Revenue Bonds Water System, Series 2009 & 2015 Principal	Revenue Bonds Water System, Series 2009 & 2015 Interest	Total Bonds Principal	Total Bonds Interest	Total Payments
2017	$ 103,147	$ 1,643	$ 25,629	$ 7,063	$ 128,776	$ 8,706	$ 137,482
2018	-	-	26,000	6,720	26,000	6,720	32,720
2019	-	-	26,000	6,350	26,000	6,350	32,350
2020	-	-	26,000	5,980	26,000	5,980	31,980
2021	-	-	24,000	5,623	24,000	5,623	29,623
2022-2026	-	-	141,000	22,683	141,000	22,683	163,683
2027-2031	-	-	121,000	12,383	121,000	12,383	133,383
2032-2036	-	-	59,000	3,561	59,000	3,561	62,561
Total	$ 103,147	$ 1,643	$ 448,629	$ 70,363	$ 551,776	$ 72,006	$ 623,782
2015 Bond A scheduled for forgiveness at completion of project					221,128		
					772,904		

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

1. Segregated cash accounts with restrictions on their use.
2. Accounting for the water and golf funds in accordance with generally accepted accounting principles.
3. Net revenues of not less than 125% of the sum of the maximum amount of principal and interest due in any future fiscal year for the water revenue bond.

NOTE 8: LONG TERM DEBT OBLIGATIONS, continued

4. Monthly apportionment to the revenue bond account adequate to meet annual principal and interest requirements and to establish a reserve in the amount of $52,393 for the golf fund and $18,183 for the water fund.
5. A reserve account established in the amount of $18,979 for the water system (no reserve required for the golf fund).
6. Carry property and liability insurance and surety bonds.

The City was in compliance with the above requirements at June 30, 2016.

The City has pledged golf charges for services revenue to pay for the revenue bonds outstanding in the golf fund. The revenues are pledged until the revenue bonds are paid in full. During fiscal year 2016, principal and interest payments on the revenue bonds totaled $14,786 and charges for services revenue was $1,055,540. Debt service expense represented 9.93% of golf charges for service revenue.

The City has pledged water charges for services revenue to pay for the revenue bonds outstanding in the water fund. The revenues are pledged until the revenue bonds are paid in full. During fiscal year 2016, principal and interest payments on the revenue bonds totaled $22,237 and charges for services revenue was $1,056,395. Debt service represents 2.10% of water charges for services revenue.

Tax Increment Urban Renewal Bonds

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

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

Purpose	Origination Date	Interest Rate	Bond Term	Maturity Date	Bond Amount	Annual Payment	Balance June 30, 2016
TIFD City Dock and Walkpath Project	08/15/13	2.987%	12 yrs	08/15/25	$ 800,000	$ 79,818	$ 655,955
Total							$ 655,955

Annual requirement to amortize the Tax Increment Urban Renewal Bonds:

For Fiscal Year Ended	Principal	Interest	Total Payments
2017	$ 60,675	$ 19,143	$ 79,818
2018	62,501	17,317	79,818
2019	64,381	15,437	79,818
2020	66,319	13,499	79,818
2021	68,314	11,504	79,818
2022-2026	333,765	25,416	359,181
Total	$ 655,955	$ 102,316	$ 758,271

Other Loans/Contracted Debt

In December 2015, the City borrowed $55,379 from the Montana Board of Investments Intercap Revolving Program under MCA 17-1604 to purchase a 2011 Ram 550 ST 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.

Compensated Absences

See Note 1.E.9

Net Pension Liability

See Notes 10 & 11

NOTE 9: RETIREMENT AND PENSION PLANS

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

Contribution rates for the plan are required and determined by State law. The contribution rates, expressed as a percentage of covered payroll for the fiscal year ended June 30, 2015, were:

Paid by:	Employer	Employee	State of MT	Total
PERS	8.27%	7.9%	.1%	16.27%
MPORS	14.41%	9.0%	29.37%	52.78%

The amount contributed to PERS during the years ended June 30, 2014, 2015, and 2016 were equal to the required contribution for each year. The amounts contributed by the employee and City were as follows:

Year	Employee	Employer
2014	$117,591	$120,123
2015	$ 96,983	$100,297
2016	$100,584	$105,294

The amount contributed to MPORS during the years ended June 30, 2014, 2015, and 2016 were equal to the required contribution for each year. The amounts contributed by the employees and City were as follows:

Year	Employee	Employer
2014	$13,425	$21,206
2015	$34,616	$55,425
2016	$45,101	$72,212

The State contribution qualifies as an "on-behalf" payment. The City recorded revenue of $35,079 for PERS including nonspecial funding from the State's Coal Severance Tax Fund and $94,729 for MPORS with an offsetting expenditure in the various to additional payroll costs. MPERA issues a publicly available financial report that includes 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

Volunteer fireman are covered by the Fire Department Relief Association Disability and Pension Fund (FDRADAPF), which is established by State law, is governed by an independent board, and is not considered a component part of the City. The City contributes to the fund in accordance with State law when it contains an amount less than 0.21% of the City's taxable valuation. The City made no contributions to the plan in FY 2016. The city does not own or manage the FDRADAPF and records the apportionment received from the State of Montana in an agency fund which is then passed through to the management board.

NOTE 10: PERS DEFINED BENEFIT PENSION PLAN Disclosures

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

City of Polson (CI0360)
Public Employee Retirement System –Defined Benefit
GASB 68 Notes to the Financial Statements for Fiscal 2016
June 30, 2015 (measurement date)
June 30, 2016 (reporting date)

Pension Amount Totals – 74

GASB Statement 68, paragraph 74 requires that when employees are provided benefits through more than one pension system, whether provided through cost-sharing, single-employer or agent pension plans, the employer must combine the amounts reported as a total or aggregate for all pensions.

Net Pension Liability – 80a, 80b, 80c, 80d, 80e, 80f

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

PERS has a special funding situation in which the State of Montana is legally responsible for making contributions directly to PERS on behalf of the employers. Due to the existence of this special funding
NOTE 10: PERS DEFINED BENEFIT PENSION PLAN MPERA Disclosures, continued

situation, the State is required to report a proportionate share of a local government or school district's collective NPL that is associated with the non-State employer.

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

The Total pension Liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of June 30, 2014, with update procedures to roll forward the TPL to the measurement date of June 30, 2015. For most employers, their June 30, 2016 reporting will use the 2016 reporting values presented in these notes.

NOTE 10: PERS DEFINED BENEFIT PENSION PLAN Disclosures, continued

As of reporting date:	Net Pension Liability as of June 30, 2016	Net Pension Liability as of June 30, 2015	Percent of Collective NPL as of 06/30/16	Percent of Collective NPL as of 06/30/2015	Change in Percent of Collective NPL
Employer Proportionate Share	$ 1,416,630.47	$ 1,510,613.54	0.101342%	0.121236%	-0.019894%
State of Montana Proportionate Share Associated with Employer	$ 17,400.87	$ 18,446.83	0.001245%	0.001480%	-0.000235%
Total	$ 1,434,031.34	$ 1,529,060.37	0.102587%	0.122716%	-0.020129%

The table above displays the employer proportionate share of the NPL and the employer's proportion of NPL for June 30, 2015 and 2016. The employer's proportion of the NPL was based on the employer's contributions received by the PERS during the measurement period July 1, 2014 through June 30, 2015, relative to the total employer contributions received from all of PERS' participating employers. As of the employer's reporting date the employer recorded a liability of $1,416,630 and the employer's proportionate share was .101342%.

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

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

Changes in proportionate share: Between the measurement date of the collective NPL and the employer's reporting date there were some changes in proportion that may have an effect on the employer's proportionate share of the collective NPL.

As of reporting date	Pension Expense as of June 30, 2016	Pension Expense as of June 30, 2015
Employer's Proportionate Share of PERS	$ 13,406.05	$ 114,703.78
State of Montana Proportionate Share	$ 1,081.24	$ 1,388.58
Total	$ 14,487.29	$ 116,092.36

At June 30, 2016, the employer recognized its proportionate share of the PERS' Pension Expense of $14,487.29. The employer also recognized grant revenue of $1,081.24 for the support provided by the State of Montana for its proportionate share of the Pension Expense that is associated with the employer, and grant revenue of $33,997.60 from the Coal Tax fund

Recognition of Deferred Inflows and Outflows – 57, 80b, 80i

At June 30, 2016, the employer reported its proportionate share of PERS' deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Actual vs. expected experience	$ -	$ 8,570.69
Changes in assumptions	$ -	$ -
Actual vs. Expected investment earnings	$ -	$ 119,932.84
Changes in proportion share and differences between employer contributions and proportionate share of contributions	$ -	$ 237,160.58
Employer contributions subsequent to the measurement date -#FY 2016 contributions	$ 101,653.42	$ -
Total	$ 101,653.42	$ 365,664.11

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

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

For the reporting year ended June 30:	Amount of deferred ouflows and deferred inflows recognized in future years an an increase or (decrease) to pention exepnse	
2017	$	(132,408.77)
2018	$	(132,408.77)
2019	$	(132,038.80)
2020	$	31,192.23
2021	$	-

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, 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.

All new members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to remain in the PERS-DBRP or join 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).

The PERS-DBRP provides retirement, disability and death benefits to plan members and their beneficiaries. Benefits are established by state law and can only be amended by the Legislature.

Summary of Benefits – 76b

Eligibility for benefit

Service retirement:

Hired prior to July 1, 2011: Age 60, 5 years of membership service;
Age 65, regardless of membership service; or
Any age, 30 years of membership service.

Hired on or after July 1, 2011: Age 65, 5 years of membership service;
Age 70, regardless of membership service.

Early Retirement

Early Retirement actuarially reduced:

Hired prior to July 1, 2011: Age 50, 5 years of membership service; or
Any age, 25 years of membership service.

Hired on or after July 1, 2011: Age 55, 5 years of membership service.

Vesting

5 years of membership service.

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 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
ii) 10 years of 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.

Overview of Contributions – 76c

Rates are specified by state law for periodic member and employer contributions 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 to the plan. Member and employer rates are shown in the table below:

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.

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 an actuary valuation that shows the amortization period of the PERS_DBRP has dropped below 25 year and remains below the 25 years following the reduction of both the additional employer and 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.

The portion of employer contributions allocated to the 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.

Non Employer Contributions
Special Funding
The State contributes 0.1% of members' compensation on behalf of local government entities.
The State contributes 0.37% of members' compensation on behalf of school district entities.
Non Special Funding
The State contributes a portion of Coal Severance Tax income and earnings frm the Coal Trust Permanent Trust fund.

	Member		State & Universities	Local government		School Districts	
Fiscal Year	Hired <07/01/11	Hired >07/01/11	Employer	Employer	State	Employer	State
2016	7.900%	7.900%	8.370%	8.270%	0.100%	8.000%	0.370%
2015	7.900%	7.900%	8.270%	8.170%	0.100%	7.900%	0.370%
2014	7.900%	7.900%	8.170%	8.070%	0.100%	7.800%	0.370%
2012-2013	6.900%	7.900%	7.170%	7.070%	0.100%	6.800%	0.370%
2010-2011	6.900%		7.170%	7.070%	0.100%	6.800%	0.370%
2008-2009	6.900%		7.035%	6.935%	0.100%	6.800%	2.350%
2000-2007	6.900%		6.900%	6.800%	0.100%	6.800%	0.100%

Stand-Alone Statements – 76d

The PERS financial information is reported in the Public Employees' Retirement Board's *Comprehensive Annual Financial Report* for the fiscal year ended. It is available from the PERB at 100 North Park, PO Box 200131, Helena, MT 59620-0131, 406-444-3154.

CAFR information including our stand alone financial statements can be found on our web site at http://mpera.mt.gov/annualReports.shtml.

The latest actuarial valuation and experience study can be found at our website at http://mpera.mt.gov/actuarialvaluations.shtml.

Actuarial Assumptions – 77

The TPL used to calculate the NPL was determined by an actuarial valuation as of June 30, 2014 with update procedures to roll forward the TPL to June 30, 2015. There were several significant assumptions and other inputs used to measure the TPL. The actuarial assumptions used in the June 30, 2015 valuation were based on the results of the last actuarial experience study, dated June 2010 for the six year period July 1, 2003 to June 30, 2009. Among those assumptions were the following:

Investment Return	7.75%
Admin Expense as a % of Payroll	0.27%
General Wage Growth*	4.00%
*includes Inflation at	3.00%
Merit Increases	0% to 6%
Postretirement Benefit Increases	

Guaranteed Annual Benefit Adjustment (GABA)

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

- 3% 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% each year PERS is funded at or above 90%;
  b) 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and,
  c) 0% whenever the amortization period for PERS is 40 years or more.
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

Discount Rate – 78a, 78b, 78d, 78e

The discount rate used to measure the Total Pension Liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities will be made based on the Board's funding policy, which establishes the contractually required rates under Montana Code Annotated. The State contributes 0.1% of salaries for local governments and 0.37% for school districts. In addition, the State contributes coal severance tax and interest money from the general fund. The interest is contributed monthly and the severance tax is contributed quarterly. Based on those assumptions, the System's fiduciary net position was projected to be adequate to make all 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.

Target Allocations – 78c, 78e, 78f

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the System. The most recent analysis, performed for the period covering fiscal years 2003 through 2009, is outlined in a report dated June 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption. These factors include rates of return adopted by similar public sector systems, as well as the utilization of a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Summarized in the table below are best estimates of the arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2015.

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

Sensitivity Analysis – 78g

	1.0% Decrease (6.75%)	Current Discount Rate	1.0% Increase (8.75%)
Employer's Net Pension Liability	$ 2,184,137.65	$ 1,416,630.47	$ 768,488.46

The above table presents the NPL calculated using the discount rate of 7.75% as well as what the NPL would be if it were calculated using a discount rate that is 1.00% lower or 1.00% higher than the current rate.

Summary of Significant Accounting Polices – 79

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

NOTE 11: MPORS DEFINED BENEFIT PENSION PLAN Disclosures

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

City of Polson (PG0360)

Municipal Police Officers' Retirement System
GASB 68 Notes to the Financial Statements for Fiscal 2016
June 30, 2015 (measurement date)
June 30, 2016 (reporting date)

Pension Amount Totals – 74

GASB Statement 68, paragraph 74 requires that when employees are provided benefits through more than one pension system, whether provided through cost-sharing, single-employer or agent pension plans, the employer must combine the amounts reported as a total or aggregate for all pensions.

Net Pension Liability – 80a, 80b, 80c, 80d, 80e, 80f

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

MPORS has a special funding situation in which the State of Montana is legally responsible for making contributions directly to MPORS on behalf of the employers. Due to the existence of this special funding situation, the State is required to report a proportionate share of a local government or school district's collective NPL that is associated with the non-State employer.

The Total pension Liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of June 30, 2014, with update procedures to roll forward the TPL to the measurement date of June 30, 2015. For most employers, their June 30, 2016 reporting will use the 2016 reporting values presented in these notes.

As of reporting date:	Net Pension Liability as of June 30, 2016	Net Pension Liability as of June 30, 2015	Percent of Collective NPL as of 06/30/16	Percent of Collective NPL as of 06/30/15	Change in Percent of Collective NPL
Employer proprotionate share	$ 459,714.08	$ 212,969.19	0.277906%	0.135532%	0.142374%
State of Montana proportionate share associated with employer	$ 931,424.47	$ 430,223.20	0.563064%	0.273790%	0.289274%
Total	$ 1,391,138.55	$ 643,192.39	0.840970%	0.409322%	0.431648%

The table above displays the employer proportionate share of the NPL and the employer's proportion of NPL for June 30, 2015 and 2016. The employer's proportion of the NPL was based on the employer's contributions received by the PERS during the measurement period July 1, 2014 through June 30, 2015, relative to the total employer contributions received from all of PERS' participating employers. As of the employer's reporting date the employer recorded a liability of $459,714.08 and the employer's proportionate share was .277906%.

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

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

Changes in proportionate share: Between the measurement date of the collective NPL and the employer's reporting date there were some changes in proportion that may have an effect on the employer's proportionate share of the collective NPL.

As of reporting date	Pension Expense as of June 30, 2016	Pension Expense as of June 30, 2015
Employer's Proportionate Share for MPORS	$ 109,431.52	$ 22,908.05
State of Montana Proportionate Share Associated with the Employer	$ 94,728.56	$ 46,276.99
Total	$ 204,160.08	$ 69,185.04

At June 30, 2016, the employer recognized its proportionate share of the MPORS' Pension Expense of $204,160.08. The employer also recognized grant revenue of $94,728.56 for the support provided by the State of Montana for its proportionate share of the Pension Expense that is associated with the employer.

Recognition of Deferred Inflows and Outflows – 57, 80b, 80i

At June 30, 2016, the employer reported its proportionate share of MPORS' deferred outflows of resources and deferred inflows of resources related to MPORS from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Actual vs. expected experience	$ -	$ 4,198.41
Changes in assumptions	$ -	$ -
Actual vs. Expected investment earnings	$ -	$ 17,270.51
Changes in proportion share and differences between employer contributions and proportionate share of contributions	$ 188,390.91	$ -
Employer contributions subsequent to the measurement date -#FY 2016 contributions	$ 73,655.94	$ -
Total	$ 262,046.85	$ 21,468.92

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

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

For the reporting year ended June 30:	Amount of deferred ouflows and deferred inflows recognized in future years an an increase or (decrease) to pention exepnse
2017	$ 53,729.00
2018	$ 53,729.00
2019	$ 53,729.00
2020	$ 5,734.99
2021	$ -

NOTE 11: MPORS DEFINED BENEFIT PENSION PLAN Disclosures

Plan Description – 76a

The Municipal Police Officer's Retirement System (MPORS), administered by the Montana Public Employee Retirement Administration (MPERA), is a multiple-employer, cost-sharing plan defined benefit established in 1974 and governed by title 19, chapters 2 & 9, 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 stablished by state law and can only be amended by the legislature. The MPORS provides retirement, disability, and death benefits to plan members and their beneficiaries.

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. 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 accrued membership service and service credit. The DROP account cannot be distributed until employment is formally terminated. The balance held by MPERA for MPORS DROP participants as of June 30, 2016 was approximately $7 million.

Summary of Benefits – 76b

Eligibility for benefit
20 years of membership service regardless of age
Age 50, 5 years of membership service for all other rights

Vesting
Death and disability rights are vested immediately
5 years of membership service.

Member's final average compensation (FAC)
Hired prior to July 1, 1977-highest average compensation in 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 part of a member's final average compensation.

Monthly benefit formula
2.5% of FAC per year of service credit

Guaranteed Annual Benefit Adjustment (GABA)

Hired on or after July 1, 1977, or those electing GABA – after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, **inclusive** of all other adjustment to the member's benefit.

Minimum Benefit Adjustment (non-GABA)

If hired before July 1, 1977 and member did not elect GABA – the monthly retirement, disability or survivor's benefit may not be less than ½ the compensation of a newly confirmed officer in the city that the member was last employed.

Overview of Contributions – 76c

Rates are specified by state law for periodic member and employer contributions 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 to the plan. Member and employer rates are shown in the table below:

	Member					
Fiscal Year	Hired <7/1/75	Hired >6/30/75	Hired >6/30/79	Hired >6/30/97 GABA	Employer	State
2000-2016	5.80%	7.00%	8.50%	9.00%	14.14%	29.37%
1998-1999	7.80%	9.00%	10.50%	11.00%	14.14%	29.37%
1997	7.80%	9.00%	10.50%		14.36%	29.37%

Stand-Alone Statements – 76d

The MPORS financial information is reported in the Public Employees' Retirement Board's *Comprehensive Annual Financial Report* for the fiscal year ended. It is available from the PERB at 100 North Park, PO Box 200131, Helena, MT 59620-0131, 406-444-3154.

CAFR information including our stand alone financial statements can be found on our web site at http://mpera.mt.gov/annualReports.shtml.

The latest actuarial valuation and experience study can be found at our website at http://mpera.mt.gov/actuarialvaluations.shtml.

Actuarial Assumptions – 77

The TPL used to calculate the NPL was determined by an actuarial valuation as of June 30, 2014 with update procedures to roll forward the TPL to June 30, 2015. There were several significant assumptions and other inputs used to measure the TPL. The actuarial assumptions used in the June 30, 2015 valuation were based on the results of the last actuarial experience study, dated June 2010 for the six year period July 1, 2003 to June 30, 2009. Among those assumptions were the following:

Investment Return	7.75%
Admin Expense as a % of Payroll	0.20%
General Wage Growth*	4.00%
*includes Inflation at	3.00%
Merit Increases	0% to 7.3%
Postretirement Benefit Increases	

Guaranteed Annual Benefit Adjustment (GABA)

i. **Guaranteed Annual Benefit Adjustment (GABA)**
Hired on or after July 1 1997, or those electing GABA – after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, **inclusive** of all other adjustments to the member's benefit.

ii. **Minimum Benefit Adjustment (non-GABA)**
If hired before July 1, 1997 and member did not select GABA – the monthly retirement, disability or survivor's benefit may not be less that ½ the compensation of a newly confirmed officer in the city that the member was last employed.

- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

Discount Rate – 78a, 78b, 78d, 78e

The discount rate used to measure the Total Pension Liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities will be made based on the Board's funding policy, which establishes the contractually required rates under Montana Code Annotated. The State contributes 29.37% of salaries for local paid by employers. Based on those assumptions, the System's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2123. Therefore the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL. A municipal bond rate was not incorporated in the discount rate.

Target Allocations – 78c, 78e, 78f

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

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the System. The most recent analysis, performed for the period covering fiscal years 2003 through 2009, is outlined in a report dated June 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption. These factors include rates of return adopted by similar public sector systems, as well as the utilization of a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Summarized in the table below are best estimates of the arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2015

Sensitivity Analysis – 78g

	1.0% Decrease (6.75%)	Current Discount Rate	1.0% Increase (8.75%)
Employer's Net Pension Liability	$ 649,046.22	$ 459,714.08	$ 291,634.40

The above table presents the NPL calculated using the discount rate of 7.75% as well as what the NPL would be if it were calculated using a discount rate that is 1.00% lower or 1.00% higher than the current rate.

Summary of Significant Accounting Polices – 79

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

NOTE 12: ESTIMATED RETIREE HEALTH CARE COSTS

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

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

The City had 39 active employees and no retired employees participating in the plan as of June 30, 2016.

NOTE 13: COMMITMENTS AND CONTINGENCIES

The City was committed to spend the remaining water system TSEP grant which was awarded in the amount of $625,000. Of the amount, $112,700 remains for construction of well #8 on the east side of the City. The city will file for the remaining grant reimbursement in FY2017. At June 30, 2016 the well had been drilled and tested as a viable well. The city is proceeding with the purchase of the well site. The City is committing the remaining local reserves of $156,686 for the well housing and connections to the water system.

The timeline is moving forward on the Wastewater Resource Recovery Facility project. At June 30, 2016, the City was committed for engineering costs related to the design of equipment and plant.

The City was committed to spend an additional $138,429 on the completion of the Center Addition water and sewer upgrade project with contractor Sandy Construction.

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, 2016, the City had no protested taxes.

As of June 30, 2016, delinquent assessments on SIDs were $6,426. 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 13: COMMITMENTS AND CONTINGENCIES, continued

The City entered into a contractual agreement on December 12, 2012 to refund 50% of future water impact fee revenues to a private entity for excess service capacity that was installed in a designated service area. In addition, the City will forego 100% of water impact fees on future development in the Mission Bay and Ridgewater subdivisions which are owned by the private entity. The anticipated liability is capped at $200,000 and will be paid over a period of 15 years with the impact fees refunded and forgone. Any liability remaining at the end of the 15 years will be forfeited. A total of $83,596.98 has been paid per the agreement at June 30, 2016.

NOTE 14: DEFICIT FUND BALANCES/NET POSITION

The following funds had deficit fund balances at year end:

Fund Name	Amount	Reason for Deficit	How Deficit will be Eliminated
#2943 - RCDI/Growth Policy	$ (2,823)	Prior year expenditures exceeded revenues	Future revenue source

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.

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

NOTE 17: RISK MANAGEMENT, continued

commercial insurance coverage in each of the past three fiscal years. Medical insurance costs for employees are provided by the Blue Cross Blue Shield of Montana.

NOTE 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, 2016 and accordingly, no provision has been made in the financial statements for these contingent liabilities.

During FY 16 litigation involving a former management company of the golf course restaurant was settled. The City was ordered to pay $12,000 to the management company to settle the complaint. At June 30, 2015 the City had a deposit with the court for $12,300; the judgement of $12,000 was taken from the deposit and $300 returned to the City.

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:

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

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

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

NOTE 20: FUND EQUITY

Governmental funds fund balance can be classified into five categories. The categories are unspendable, restricted, committed, assigned and unassigned. The following table displays the City's fund balances by major purposes as displayed on the Governmental Funds Balance Sheet. GASB Statement 54 requires the disclosure of the purpose of each major fund.

NOTE 20: FUND EQUITY, continued

	Major Funds: General Fund	Major Funds: SID #42 Streetscape	All Other Governmental Funds	Total Governmental Funds
Unspendable	$ -	$ -	$ -	$ -
Restricted				
General Government	$ -	$ -	$ 18,871	$ 18,871
Public Safety	-	-	263,462	263,462
Public Works	-	-	150,772	150,772
Culture & Recreation	-	-	91,438	91,438
Economic Development	-	-	309,441	309,441
Conservation & Natural Resources	-	-	2,938	2,938
Debt Service	-	55,762	125,155	180,917
Total Restricted	$ -	$ 55,762	$ 962,077	$ 1,017,839
Committed				
Public Works	$ -	$ -	$ 14,058	$ 14,058
Total Committed	$ -	$ -	$ 14,058	$ 14,058
Assigned				
Public Works	$ -	$ -	$ 97,346	$ 97,346
Total Assigned	$ -	$ -	$ 97,346	$ 97,346
Unassigned				
General Government	$ 547,406	$ -	$ -	$ 547,406
Public Safety	-	-	(2,824)	(2,824)
Total Unassigned	$ 547,406	$ -	$ (2,824)	$ 544,582
Total Fund Balances	$ 547,406	$ 55,762	$ 1,070,657	$ 1,673,825

NOTE 21: SUBSEQUENT EVENTS

The Wastewater Resource Recovery Facility (WRRF) project was successfully bid in February 2017. Swank enterprises was the successful bidder and was given notice to proceed with construction on April 11, 2017. The contract price is $12,213,000.

Subsequent to June 30, 2016 the city secured a financing package with Valley Bank of Ronan in the amount of $1,300,000 for the Golf enterprise fund to repay the Sewer Enterprise interfund loan, complete a remodel of the golf restaurant, purchase equipment and replace the Olde Nine irrigation system. The irrigation system labor bid and separate materials bid have been awarded. Construction is due to begin in FY2018.

REQUIRED SUPPLEMENTARY INFORMATION

City of Polson
Lake County, Montana
General Fund-Schedule of Revenues, Expenditures and Changes in
Fund Balance-Budget and Actual, (Non-GAAP Budgetary Basis),
for the Fiscal Year Ended June 30, 2016

	Non-GAAP Budgetary Basis						GAAP Basis
REVENUES	Original Budget	Final Budget	Actual	Variance with Final budget Over (Under)	Adjustment to Fund Financial Statements	Foot-note	Statement of Revenues, Expenditures and Changes in Fund Balance
Taxes	$ 1,340,685	$ 1,340,685	$ 1,323,333	$ (17,352)	$		$ 1,323,333
Licenses and permits	26,089	26,089	38,686	12,597			38,686
Intergovernmental revenue	809,260	809,260	776,211	(33,049)			776,211
Charges for services	189,992	189,992	182,821	(7,171)			182,821
Fines and forfeitures	44,100	44,100	49,362	5,262			49,362
Miscellaneous	42,200	42,200	56,110	13,910			56,110
Investment earnings	1,000	1,000	622	(378)			622
Total revenues	$ 2,453,326	$ 2,453,326	$ 2,427,145	$ (26,181)			$ 2,427,145
EXPENDITURES							
Executive services	$ 24,566	$ 24,566	$ 28,797	$ 4,231			$ 28,797
Judicial services	58,846	58,846	53,126	(5,720)			53,126
Administration services	140,514	140,514	131,140	(9,374)			131,140
Financial services	182,389	182,389	188,320	5,931			188,320
Legal services	51,900	51,900	48,000	(3,900)			48,000
Facilities administration	202,926	202,926	194,117	(8,809)			194,117
Law enforcement services	1,147,988	1,147,988	1,067,578	(80,410)			1,067,578
Detention & correction services	1,000	1,000	150	(850)			150
Fire protection & control	214,000	214,000	272,870	58,870			272,870
Protective inspections	103,325	103,325	110,772	7,447			110,772
Road & street services	218,350	218,350	213,703	(4,647)			213,703
Social & economic services	1,200	1,200	-	(1,200)			-
Parks	183,762	183,762	185,469	1,707			185,469
Miscellaneous	38,428	38,428	9,747	(28,681)			9,747
Capital outlay	176,500	176,500	150,600	(25,900)			150,600
Total expenditures	$ 2,745,694	$ 2,745,694	$ 2,654,389	$ (91,305)			$ 2,654,389
Transfsers out	2,500	2,500	45,931	43,431			45,931
Total expendiures & transfer out	$ 2,748,194	$ 2,748,194	$ 2,700,320	$ (47,874)			2,700,320
Excess of revenues over (under) expenditures & transfer out	$ (294,868)	$ (294,868)	$ (273,175)	$ 21,693			$ (273,175)
Other financing sources/uses:							
Loan/Note proceeds	$ 65,000	$ 65,000	$ 55,379	$ (9,621)			$ 55,379
Sale of capital assets	-	-	72,500	72,500			72,500
Transfer in	96,000	96,000	93,789	(2,211)			93,789
Net change in fund balances	$ (133,868)	$ (133,868)	$ (51,507)	$ 82,361			$ (51,507)
Fund Balance July 1, 2015	598,913	598,913	598,913				598,913
Fund Balance June 30, 2016	465,045	465,045	547,406				$ 547,406

City of Polson
Lake County
RSI

Public Employees' Retirement System
City of Polson (CI0360)
Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Liability
For the Last Ten fiscal Years*
81a1

	2016	2015
Employer's propostion of the Net Pension Liability as a percentage	0.101342%	0.121236%
Employer's Proportionate Share of the Net Pension Liability	$ 1,416,630.47	$ 1,510,613.54
State's Proportionate Share of the Net Pension Liability associated with the employer	$ 17,400.87	$ 18,446.83
Total	$ 1,434,031.34	$ 1,529,060.37
Employer's Pensionable Payroll	$ 1,182,680.82	$ 1,372,389.40
Employer's Proportionate Share of the Net Pension Liability as a percentage of its Pensionable Payroll	119.781%	110.072%
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	78.40%	79.90%

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

Public Employee's Retirement System
Required Supplementary Information
Schedule of Contributions
For the last Ten fiscal Years
81b

	2016	2015
Contractually required contributions	$ 101,653.42	$ 99,154.99
Contributions in relatioin to the contractually required contributions	$ 101,653.42	$ 99,154.99
Contirbutions deficiency(excess)	$ -	$ -
Employer's pensioinable payroll	$ 1,191,621.61	$ 1,182,680.82
Contribution as a percentage of pensionable payroll	8.531%	8.384%

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

Public Employees Retirement System
City of Polson (C10360)
Notes to Required Supplementary Information
for the Year ended June 30, 2016
82

Change in 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.

House Bill 454 – Permanent Injunction Limits Application of the GABA Reduction passed under HB 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, 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 0.25%);

no service credit for second employment;

start same benefit amount the month following termination; and

GABA starts again in the January after receiving recalculated benefit for 12 months

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 0.25%);

no service credit for second employment;

state 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%, .47%, and the 1.0% increase previously directed to the PCR are now directed to the Defined Contribution of MUS-RP member's account.

Changes in Actuarial Assumptions and Methods

Method and assumptions used in calculations of actuarially determined contributions

The following addition 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 in the 2013 Economic Experience study:

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

The following 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

Municipal Police Officers' Retirement System
City of Polson (PG0360)
Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Liability
For the Last Ten Fiscal Years*
81a1

	2016	2015
Employer's propostion of the Net Pension Liability as a percentage	0.277906%	0.135532%
Employer's Proportionate Share of the Net Pension Liability	$ 459,714.08	$ 212,969.19
State's Proportionate Share of the Net Pension Liability associated with the employer	$ 931,424.47	$ 430,223.20
Total	$ 1,391,138.55	$ 643,192.39
Employer's Pensionable Payroll	$ 384,627.08	$ 181,848.08
Employer's Proportionate Share of the Net Pension Liability as a percentage of its Pensionable Payroll	119.522%	117.114%
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	66.90%	67.00%

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

City of Polson (PG0360)
Required Supplementary Information
Schedule of Contributions
For the last Ten Fiscal Years*
81b

	2016	2015
Contractually required contributions	$ 73,655.94	$ 55,755.59
Contributions in relatioin to the contractually required contributions	$ 73,655.94	$ 55,755.59
Contirbutions deficiency(excess)	$ -	$ -
Employer's pensioinable payroll	$ 502,202.31	$ 384,627.08
Contribution as a percentage of pensionable payroll	14.667%	14.496%

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

Municipal Police Officer's Retirement System
City of Polson (PG0360)
Notes to Required Supplementary Information
for the Year ended June 30, 2016
82

Change in Benefit Terms

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

2013 Legislative Changes:

<u>Working Retirees</u> – 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.

House Bill 454 – Permanent Injunction Limits Application of the GABA Reduction passed under HB 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, 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 0.25%);
no service credit for second employment;
start same benefit amount the month following termination; and
GABA starts again in the January after receiving recalculated benefit for 12 months
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 0.25%);
no service credit for second employment;
state 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%, .47%, and the 1.0% increase previously directed to the PCR are now directed to the Defined Contribution of MUS-RP member's account.

Changes in Actuarial Assumptions and Methods

Method and assumptions used in calculations of actuarially determined contributions

The following addition 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 in the 2013 Economic Experience study:

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

The following 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

REPORTS REQUIRED BY
GOVERNMENT AUDITING STANDARDS

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

INDEPENDENT AUDITOR'S REPORT

City Commission
City of Polson
Lake, County, Montana

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of City of Polson (City), Lake County, Montana, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's financial statements and have issued my report thereon dated July 21, 2017.

Internal Control over Financial Reporting

In planning and performing my audit of the financial statements, I considered the City's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City's internal control.

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

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatements, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly I do not express such an opinion. I did identify one item of non-compliance that is reported as finding 2016-1 in the attached schedule.

Purpose of this Report

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

Cote & Associates CPA PLLC

Cote & Associates, CPA, PLLC

July 28, 2017
Missoula, Montana

2016-1 Timely filing of Annual Financial Report and Audit Report

Condition: The Annual Financial Report (AFR) of the city of Polson was due by December 31, 2016 and was filed July 5, 2017. The Audit report of the year ended June 30, 2016 was due June 30, 2017 and is being filed after the due date.

Criteria: Montana Code requires local governments to file an AFR within 180 days of the close of the entity's fiscal year; and, when an audit is required, the audit should be filed within 365 days of the end of the fiscal year.

Cause: The cause has primarily to do with the workload of the finance officer and other personal absences due to health or family health issues. The finance officer is a Certified Public Accountant with the knowledge and skills to prepare the AFR so has chosen to keep that task in-house.

Effect: Other than not complying with the State of Montana reporting schedule, any other effects are unknown. The City does have outstanding loans and bonds for which there is an assumption that the lenders or purchasers of bonds rely on annual information in financial or audit reports to assess their investments.

Recommendation: Late filing is an issue which was part of a larger assessment by the city management team at the end of fiscal 2016. Beginning in fiscal 2017 some tasks were re-assigned and additional staff hired. If the June 30, 2017 AFR cannot be prepared on time the City may need to consider outsourcing this task with supervision and review by the finance officer.

REPORT ON PRIOR FINDINGS

There were no findings for fiscal 2015