CITY OF POLSON

LAKE COUNTY, MONTANA

Fiscal Year Ended June 30, 2019

AUDIT REPORT

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

CITY OF POLSON

LAKE COUNTY, MONTANA

Fiscal Year Ended June 30, 2019

TABLE OF CONTENTS

CITY OF POLSON

LAKE COUNTY, MONTANA

ORGANIZATION

Fiscal Year Ended June 30, 2019

Paul Briney	Mayor

CITY COUNCIL

Janice Howlett	Council Member
Lou Marchello	Council Member
Stephen Turner	Council Member
Robert Martin	Council Member
Ian Donovan	Council Member
Graydon Moll	Council Member

CITY OFFICIALS

Mark Shrives	City Manager
Clinton J. Fischer	Attorney
Cora Pritt	City Clerk
Cynda M. Dooley	Finance Officer

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, 2019. 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, 2019 by $31,236,431 (*net position*) compared with $29,625,477 at June 30, 2018. Of the current year net position, $6,044,797 (*unrestricted net position*) may be used to meet the City's ongoing obligations to citizens, vendors and creditors.

- The City's total net position increased by $1,610,954 representing a 5.44% increase from 2018.

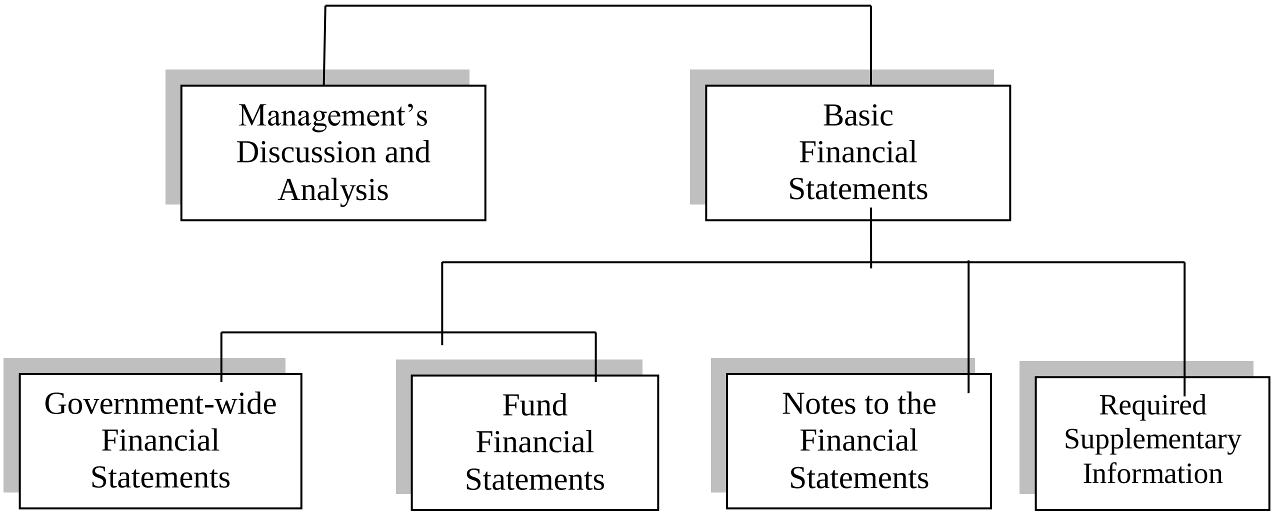
- As of the close of the current fiscal year, the City's governmental funds reported a combined ending fund balance of $3,171,462, an increase of $259,892 from the prior year. Of the fund balance amount, $627,867 is available for spending at the government's discretion (*unassigned fund balance*) on behalf of its citizens.

- At the end of the current fiscal year, unassigned fund balance for the General Fund was $627,867 or 23.53% of total General Fund expenditures and other financing uses.

- The City's total debt increased by $4,495,870 (34.44%). Payments on outstanding debt and decreases in the net pension liability were offset by an increase in revenue bond indebtedness and the other post-employment benefits (OPEB) liability. The net pension liability is the result of implementation of GASB (Governmental Accounting Standards Board) Statements 68 and 71 in FY2015. This is explained more fully in the government-wide financial analysis and in the notes to the financial statements. The OPEB liability is more fully explained in the notes to the financial statements as well.

Overview of the Financial Statements

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



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

The government-wide prospective of the City of Polson

Statement of Net Position and the Statement of Activities

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

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

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

- <u>Governmental Activities</u> – 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.

- <u>Business-Type Activities</u> – These activities charge a usage fee to recover all or a significant portion of their costs. The business-type activities of the City include a golf course, water utility, and sewer utility. The storm water utility was reclassified as a governmental fund in fiscal year 2018 as its function more closely aligns with governmental type activities.

- <u>Component Units</u> – The City does not have any component units in fiscal year 2019.

<u>The fund-level prospective of the City of Polson</u>

<u>Fund financial statements</u>

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

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

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

The City maintains forty-five individual governmental funds. Information is presented separately in the Governmental Fund balance sheet and in the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances for the General fund and Funds 2310 – Tax Increment District and #3542 - SID #42 Streetscape Main Street which are considered major funds. Fund 3542 no longer meets the criteria to be reported as a major fund but management has decided to continue reporting it as a major fund as it is of interest to the taxpayers that are repaying the debt. In addition Fund 2310 – Tax Increment District is being shown as a major fund to comply with new reporting requirements for tax increment financing districts. Major funds are determined by a formula that considers the percentage of total governmental assets, liabilities, revenues and expenditures contained in each individual fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining schedules* elsewhere in this report.

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

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

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

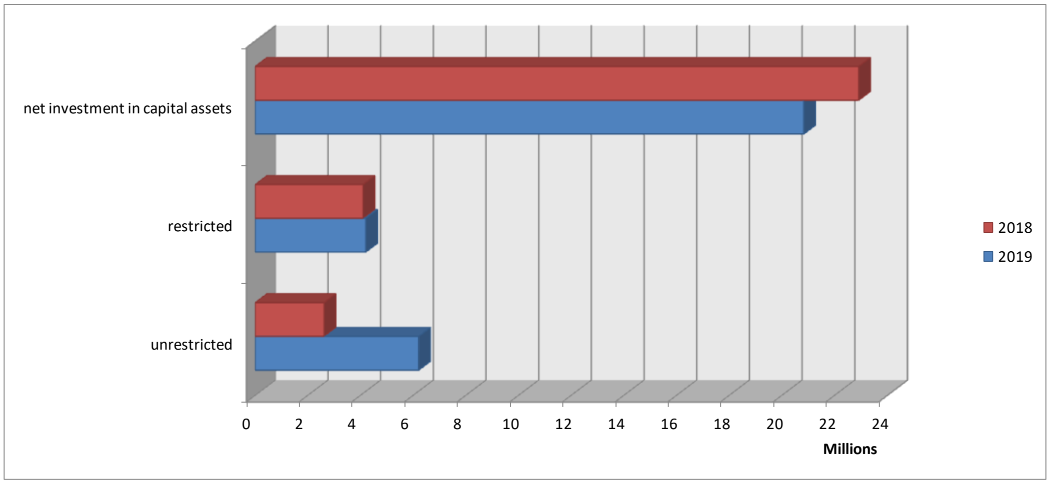
Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements presentation.

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

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately after the required supplementary information.

Government-wide Financial Analysis

Net Position - As noted earlier, net position may serve as a useful indicator of a government's financial position over time. In the case of the City, total net position was $31,236,431 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 2018 and 2019.



Governmental Funds

The following table provides a summary comparison of the City's governmental net position for fiscal years 2019 and 2018 and changes in the assets and liabilities.

	Governmental activities 2019	Governmental activities 2018	Change	%
Current and other assets	$ 3,686,371	$ 3,480,854	$ 205,517	6%
Capital assets	4,460,186	4,665,039	(204,853)	-4%
Total assets	$ 8,146,557	$ 8,145,893	$ 664	0%
Deferred outflows of resources	$ 312,927	$ 527,744	$ (214,817)	-41%
Total deferred outflows	$ 312,927	$ 527,744	$ (214,817)	-41%
Current and other liabilities	$ 108,105	$ 111,325	$ (3,220)	-3%
Long-term liabilities	1,027,319	1,190,671	(163,352)	-14%
Net pension liability	1,440,914	1,830,962	(390,048)	-21%
OPEB liability	69,560	63,649	5,911	9%
Total liabilities	$ 2,645,898	$ 3,196,607	$ (550,709)	-17%
Deferred inflows of resources	$ 222,947	$ 25,418	$ 197,529	777%
Total deferred inflows	$ 222,947	$ 25,418	$ 197,529	777%
Net Position:				
Net investment in capital assets	$ 3,614,794	$ 3,693,405	$ (78,611)	-2%
Restricted	2,812,156	2,603,849	208,307	8%
Unrestricted	(836,311)	(845,642)	9,331	-1%
Total net position	$ 5,590,639	$ 5,451,612	$ 139,027	3%

By far the largest portion of the City's governmental net position, $3,614,794 (64.66%) reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery and equipment) net of depreciation, and less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens. Consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional $2,812,156 of the City's governmental net position (50.30%) 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 $836,311 (-14.96%). The prior year unrestricted balance was a negative $845,642. The unrestricted net position had a positive increase of $9,331. The negative balance in unrestricted net position was created with the implementation of GASB 68 and 71 in FY2015. With the new reporting change, the City is allocated its proportionate share of the Public Employees Retirement System (PERS) and Municipal Police Officers Retirement System (MPORS) net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense. A restatement to record the effects of the new reporting guidance decreased beginning unrestricted net position by $1,317,877 in FY2015. In fiscal year 2019 the net pension liability has decreased $390,048 which contributed to reducing the negative unrestricted net position. 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 the notes to the financial statements.

The current assets increased 6% due to increases in net revenues in the General Fund, Police Municipal Services Levy (spending was reduced), Skate Park Fund (additional donations), Tax Increment District and the Stormwater System Fund which generated positive cash flow for the governmental funds along with increased investment income for all funds. Deferred outflows related to pensions decreased 41%, deferred inflows increased 777% and the net pension liability decreased 21% which are all positive indicators for the City's share of the State pension liability.

Business-type Funds

The following table provides a summary comparison of the City's business-type net position for fiscal years 2019 and 2018 and changes in the assets and liabilities.

	Business-type activities 2019	Business-type activities 2018	Change	%
Current and other assets	$ 9,192,471	$ 5,907,936	$ 3,284,535	56%
Capital assets	32,717,971	28,837,573	3,880,398	13%
Total assets	$ 41,910,442	$ 34,745,509	$ 7,164,933	21%
Deferred outflows of resources	$ 163,288	$ 206,218	$ (42,930)	-21%
Total deferred outflows	$ 163,288	$ 206,218	$ (42,930)	-21%
Current and other liabilities	$ 1,260,690	$ 794,796	$ 465,894	59%
Long-term liabilities	14,256,345	8,997,630	5,258,715	58%
Net pension liability	731,479	948,912	(217,433)	-23%
OPEB liability	24,453	22,375	2,078	9%
Total liabilities	$ 16,272,967	$ 10,763,713	$ 5,509,254	51%
Deferred inflows of resources	$ 154,971	$ 14,149	$ 140,822	995%
Total deferred outflows	$ 154,971	$ 14,149	$ 140,822	995%
Net Position:				
Invested in capital assets, net of related debt	$ 17,377,786	$ 19,220,278	$ (1,842,492)	-10%
Restricted	1,386,898	1,492,841	(105,943)	-7%
Unrestricted	6,881,108	3,460,746	3,420,362	99%
Total net position	$ 25,645,792	$ 24,173,865	$ 1,471,927	6%

By far the largest portion of the City's business-type net position $17,377,786 (67.76%) reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery and equipment and utility plant) net of depreciation, less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens. Consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Restricted assets in the amount of $1,386,898 represent 5.41% of the total net position. The restrictions are due to debt service requirements and future capital outlay projects.

The remaining balance of *unrestricted net position*, $6,881,108 (26.83%) may be used to meet the government's ongoing obligations to its citizens, vendors and creditors.

Net position for the business-type activities increased $1,471,927 (6%). This is mainly due to an increase in net position of the Sewer Fund to account for increases in sewer revenues in anticipation of debt repayment on bonds for construction of the wastewater resource recovery facility. Also, the facility has taken longer to construct than anticipated so expenditures for operating the plant and debt service payments have been delayed. Current liabilities increased 59% due to the timing of payments at the end of the year. Long-term liabilities increased 58% primarily due to loan proceeds for the wastewater resource recovery facility. The deferred outflows decreased 21%, deferred inflows increased 995% and the net pension liability decreased 23% which are all positive indicators for the City's share of the State pension liability. See Note 7 for information on capital assets and Note 8 for information on the City's debt. See Note 10 and 11 for information on the pension plans.

Changes in Net Position

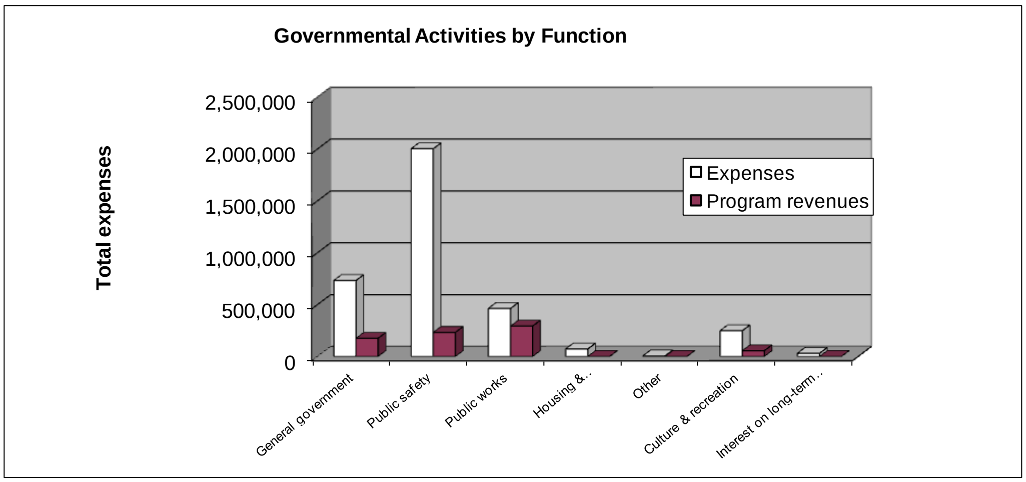
Governmental Activities

Governmental activities increased the City's net position by $139,027 in fiscal year 2019. The following table provides a summary comparison of the City's governmental change in net position for fiscal years 2019 and 2018.

	Governmental Activities		Change	% change
	2019	2018		
Revenues				
Program revenues				
Charges for services	$ 659,871	$ 650,291	$ 9,580	1%
Operating grants & contributions	45,134	56,635	(11,501)	-20%
Capital grants & contributions	52,137	102,939	(50,802)	-49%
General revenues				
Property taxes	1,788,682	1,861,302	(72,620)	-4%
Local option taxes	129,297	125,556	3,741	3%
Franchise taxes	54,711	49,940	4,771	10%
Payments in Lieu of Taxes	55,802	44,143	11,659	26%
Intergovernmental revenue	846,146	849,971	(3,825)	0%
Investment earnings	17,052	9,573	7,479	78%
Other revenues	9,978	6,485	3,493	54%
Gain (Loss) on asset disposal	23,129	1,697	21,432	1263%
Total revenues	$ 3,681,939	$ 3,758,532	$ (76,593)	-2%
Program expenses				
General government	$ 732,989	$ 728,527	4,462	1%
Public safety	2,002,364	2,132,127	(129,763)	-6%
Public works	462,991	514,975	(51,984)	-10%
Culture & recreation	248,441	255,604	(7,163)	-3%
Housing/Community Development	71,880	39,155	32,725	84%
Conservation of Natural Resources	4,873	1,899	2,974	157%
Interest on long-term debt	30,337	36,094	(5,757)	-16%
Total expenses	$ 3,553,875	$ 3,708,381	$ (154,506)	-4%
Change in Net Position before Special Items and Transfers	128,064	50,151	77,913	155%
Restatement	10,963	731,813	(720,850)	-99%
Transfers	-	4,938	(4,938)	-100%
Change in Net Position	$ 139,027	$ 786,902	$ (647,875)	-82%
Total net position, beginning of year	$ 5,451,612	$ 4,664,710	$ 786,902	17%
Total net position, end of year	$ 5,590,639	$ 5,451,612	$ 139,027	3%

The City had an increase in net position from operations of 117%. This increase is due mainly to a decrease in expenditures as a result of lower than expected tax revenues. The $139,027 total increase in net position accounted for 8.63% of the total growth in the net position of the City.

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



Business-type Funds

Business-type activities increased the City's net position by $1,471,927 in fiscal year 2019. The following table provides a summary comparison of the City's business-type change in net position for fiscal years 2019 and 2018.

	Business-type Activities			
	2019	**2018**	**Change Inc (Dec)**	**% Change**
Revenues				
Program revenues (by major source):				
Charges for services	$ 3,742,186	$ 3,873,146	$ (130,960)	-3%
Capital grants and contributions	36,500	2,832	33,668	1189%
General revenues (by major source):				
Intergovernmental revenue	536	14,834	(14,298)	-96%
Investment Earnings	45,874	25,811	20,063	78%
Gain (loss) on sale of capital assets	3,000	8,590	(5,590)	-65%
Other revenues	24,055	24,816	(761)	-3%
Total revenues	$ 3,852,151	$ 3,950,029	$ (97,878)	-2%
Program expenses				
Golf	$ 1,041,047	$ 1,066,010	(24,963)	-2%
Water	810,519	852,393	(41,874)	-5%
Sewer	528,658	551,546	(22,888)	-4%
Total expenses	$ 2,380,224	$ 2,469,949	$ (89,725)	-4%
Excess (deficiency) before special items and transfers	1,471,927	1,480,080	(8,153)	-1%
Restatements	-	(810,248)	810,248	-100%
Transfers - net	-	(4,938)	4,938	-100%
Increase (decrease) in net position	$ 1,471,927	$ 664,894	$ 807,033	121%
Total net position, beginning of year	$ 24,173,865	$ 23,508,971	$ 664,894	3%
Total net position, end of year	$ 25,645,792	$ 24,173,865	$ 1,471,927	6%

Construction of the wastewater resource recovery facility has extended over a longer period of time than was originally anticipated which has delayed expenditures for plant operation and debt service into fiscal year 2020. This created a large increase in the Sewer Fund net position in fiscal year 2019. Current estimates for the cost of the project, which will now be completed in fiscal year 2020, 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 2020 in anticipation of debt coverage that will need to be met, and increased operation costs of a mechanical plant. Overall program expenses for all funds decreased 4% from the prior year.

Fund Level Financial Analysis

Governmental Funds

For the fiscal year ended June 30, 2019, the City's governmental funds reported combined fund balance totaling $3,171,462 compared with $2,911,570 in 2018. Of this amount, $627,867 constitutes unassigned fund balance, which is available to spend for current needs. The remainder of the fund balance is either restricted, committed or assigned to indicate that it is 1) nonspendable ($-0-), 2) legally required to be maintained intact or restricted for particular purposes ($2,395,221), 3) committed for a particular purpose ($47,854), or 4) assigned for particular purposes ($100,520). The governmental funds had a combined increase in fund balance totaling $259,892. This increase is due mainly to an increase net revenues for several funds as a result of more revenues and less spending in those funds.

The General Fund is the chief operating fund of the City. For fiscal year 2019, total fund balance increased $3,046 to $627,867 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 22% of total expenditures compared to 22% in 2018.

Fund 2310 – Tax Increment District Fund is being treated as a major fund as a result of new reporting requirements implemented in the fall of 2018 that require complete financial statements to be submitted to the Department of Administration for any tax increment financing district. The revenue for this fund comes from the City's only tax increment district TID1. The base year for TID1 is 2002 and the fund has received the tax increment revenue since that time.

It also issued tax increment financing bonds in August, 2013 with a term of 12 years which will extend the District to fiscal year 2026. The total fund balance at June 30, 2019 was $887,237 compared with $836,844 in 2018. The fund balance is restricted for debt service and urban renewal projects. Total fund balance represents 759% of total expenditures in FY19.

Fund #3542 – SID #42 Streetscape Fund is a major fund 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, 2019 was $67,304 compared with $66,676 in 2018. All of the fund balance is considered restricted for debt service. The fund balance represents 102% of expenditures for 2019 compared to 90.94% in 2018.

City of Polson General Fund Budget Highlights

The City's budget is prepared on the basis of cash receipts, disbursements and certain receivables. During the year, the City Commission can amend the budget in accordance with state law. The original approved General Fund expenditure budget including transfers out was $3,250,902 and there were no amendments to the General Fund budget. Actual expenditures were $2,821,992 including transfers out. Significant budget variances in the General Fund include:

- A positive variance of $36,225 in the Facilities budget due mainly to capital outlay costs that were not incurred.

- A positive variance of $33,272 in the Police department budget due to lower than anticipated personnel costs including the MPORS non-cash payment which was over budgeted and reduced spending for supplies. The non-cash pension cost is offset by non-cash 'on behalf' revenue from the State of Montana in the General Fund and is contributed directly to the plans by the State.

- A positive variance of $204,789 in the Fire Department budget due to capital outlay costs that were not incurred and a reduction in spending.

- A positive variance in the Street department budget of $108,735 also due mainly to capital outlay costs that were not incurred.

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 $164,872. The Water Fund and Sewer Fund unrestricted net position was $2,989,698 and $3,726,538 respectively.

Capital Assets and Debt Administration

Capital Assets

The City's capital assets consist of land, construction in progress, buildings, improvements, utility plant, infrastructure, equipment and machinery. Infrastructure assets placed in service in 2005 and later are reported in capital assets. The City's net investment in capital assets (net of accumulated depreciation and outstanding debt) was $20,992,580 at June 30, 2019. Capital asset activity is presented in the notes to the financial statements.

Significant activity in capital assets for fiscal year 2019 includes:

- Purchase of a snow plow totaling $79,432 funded by General Fund revenues.

- Purchase of a drug investigation vehicle totaling $25,065 funded by the Drug Forfeiture Fund revenues.

- In the Golf Fund, additional expenses for the completion of the Boettcher Park Concession stand totaled $36,756. The total cost incurred for the project was $48,910. The cost was paid from a revenue bond issue in 2018 that also provided funds for the Olde Nine irrigation project completed in FY2018.

- Additional costs for construction of the Wastewater Resource Recovery Facility (sewer treatment mechanical plant) were incurred in the amount of $4,248,217 for fiscal year 2019 in the Sewer Fund. Costs included engineering, legal fees, equipment procurement and construction. This project will continue over the next fiscal year at a total cost of $17.2 million. This project is funded with grants, revenue bonds and Sewer Fund revenues.

The table below provides a summary of the value of the City's capital assets net of depreciation with a comparison between 2019 and 2018.

	Governmental Activities		Business Activities		Total	
	2019	2018	2019	2018	2019	2018
Land	$ 267,322	$ 267,322	$ 2,289,560	$ 2,289,560	$ 2,556,882	$ 2,556,882
Construction in Progress	25,936	23,599	16,882,987	12,614,464	16,908,923	12,638,063
Buildings	368,047	384,466	537,293	509,319	905,340	893,785
Improvements other than buildings	338,328	376,170	825,979	839,602	1,164,307	1,215,772
Machinery & Equipment	1,215,450	1,246,106	497,301	551,056	1,712,751	1,797,162
Infrastructure	2,245,103	2,367,376	-	-	2,245,103	2,367,376
Utility Plant	-	-	11,684,852	12,033,572	11,684,852	12,033,572
	$ 4,460,186	$ 4,665,039	$ 32,717,972	$ 28,837,573	$ 37,178,158	$ 33,502,612

Debt Administration

The City's long-term debt totaled $17,550,070 at June 30, 2019. Total debt increased $4,495,870, which is comprised of the issuance of $5,656,273 of Sewer Fund SRF (State Revolving Fund) revenue bonds, the inception of capital lease proceeds in the amount of $14,949, an increase in the OPEB (other post-employment benefits) liability of $7,989, a decrease in the City's share of the PERS and MPORS retirement system pension liability in the amount of ($607,481) and debt service principal payments of ($537,531) a decrease in the compensated absences liability of ($38,329). Additional information regarding long-term debt can be found in the notes to the financial statements.

The following table shows outstanding debt by type with a comparison between 2019 and 2018:

City of Polson's Outstanding Debt	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Special assessment bonds	$ 335,840	$ 387,310	$ -	$ -	$ 335,840	$ 387,310
Tax increment urban renewal bonds	468,400	532,780	-	-	468,400	532,780
Revenue bonds	-	-	13,851,949	8,575,548	13,851,949	8,575,548
Equipment capital lease	11,601	10,226	-	-	11,601	10,226
Other notes and contracts payable	22,460	33,536	313,890	331,049	336,350	364,585
Compensated Absences liability	189,018	226,819	90,506	91,034	279,524	317,853
Net pension liability	1,440,914	1,830,962	731,479	948,912	2,172,393	2,779,874
Other post-employment benefits liability	69,560	63,649	24,453	22,375	94,013	86,024
	$ 2,537,793	$ 3,085,282	$ 15,012,277	$ 9,968,918	$ 17,550,070	$ 13,054,200

Economic Factors and Fiscal Year 2020 Budget

The City of Polson is a Third Class city with a current estimated population of 4,875. The City is the county seat for Lake County. In the 1980s and 1990s, the Polson area transitioned from an economy based on agriculture and wood products to an economy based on retail and service, government, healthcare, and manufacturing. In the last decade the City saw growth in tourism and residential real estate development fueled by the construction of retirement or second homes. Following the great recession, the City has seen major improvement in the retail construction industry and now the residential construction is increasing. As of 2013 statistics, trade center/service type activities constituted 64% of the industries in the City and surrounding areas with the health care services industry comprising 16% of that total. The manufacturing and construction industries comprise 17% of the City's labor force.

The Montana Department of Labor and Industry predicts that some of the fastest growing sectors in the state over the next 5-10 years will be Arts, Entertainment and Recreation. The City's proximity to recreational opportunities and natural amenity will continue to attract tourists and retirees making recreation, retail, real estate, construction, retirement-related industries and health-care an even larger share of the economy. Recent information from the Glacier Country Tourism Bureau indicates that Polson is one of the primary travel corridors between Glacier National Park and Yellowstone National Park and the Junction of US 93 and MT 35 (which is inside the city limits) sees an average of 9,000 vehicles per day. Bed tax collections are up and the City is poised for significant economic growth from tourism.

The United States Census Bureau estimates that as of 2010 there was an 11% increase in population in Polson over the 2000 census statistics. The 2010 population estimate was 4,488 citizens. The state Department of Labor and Industry expects the population of Polson to increase to 5,755 by the year 2025. This is an average annual growth rate of 1.42%. The area outside of Polson, on Flathead Lake more than doubles the area population during the summer months.

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

Other fiscal year 2020 budget items worth noting:

- The budget includes a 1% step increase for police officers and a 3% COLA for all permanent, full-time city employees and merit increases for employees that are below the average wage for their position in relation to other third class cities and other city employees, and employees that have taken on additional duties.

- An increase in the budget of $33,578 for liability insurance premiums from our carrier MMIA (Montana Municipal Interolocal Authority) based on an increase in the City's modification factor for claim loss and a change in the formula by MMIA for premium credits to employers in the pool.

- Technology upgrades for the City Hall network are budgeted at $24,000

- Purchase of a police vehicle for $60,000

- Strategic planning costs related to the possible construction of a Public Safety complex in the amount of $15,000 for consultant services

- Purchase of a used fire engine and tools with loan/grant funding in the amount of $230,000

- Fire department replacement of expiring SCBA equipment with loan/grant funding in the amount of $100,000

- Possible construction of the Skate Park addition if final funding is received. Project cost is $220,000 from donations.

- In the Water Fund, costs have been budgeted for the initial costs to replace a reservoir - $360,000 and connection of Well No. 8 to the water system ($600,000 in FY2020) with the remainder in FY2021.

- In the Sewer Fund, costs have been budgeted for the Wastewater Resource Recovery Facility completion, a sewer line upgrade project in the amount of $1,825,000 and possible replacement of the Lakeview Village lift station ($250,000) and partial funding for a new lift station at Ridgewater ($200,000) (Total cost to be shared with the developer)

- In the Golf Fund, costs have been budgeted in the amount $86,000 for scheduled equipment replacement purchases

- All of the voted and non-voted levies are approved at their maximum levels in the budget due to need.

Contacting the City's Financial Management

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

Cindy Dooley, CPA
Finance Officer
City of Polson

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

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

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements
We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of City of Polson, Lake County, Montana, as of and for the year ended June 30, 2019, and the related notes to the financial statements which collectively comprise the City's basic financial statements as listed in the table of contents.

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

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

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

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

Opinions
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Polson, Lake County, Montana, as of and for the year ended June 30, 2019, 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, budgetary comparison information, schedule of changes in the total OPEB liability and related ratios, schedules of proportionate share of the net pension liability, and schedules of contributions on pages 2 through 15, 82 through 87, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards,* we have also issued our report dated June 26, 2020, on our consideration of the City of Polson, Lake County, Montana's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit preformed in accordance with *Government Auditing Standards* in considering City of Polson, Lake County, Montana's internal control over financial reporting and compliance.

Denning, Downey and Associates, CPA's, P.C.

June 26, 2020

City of Polson, Lake County, Montana
Statement of Net Position
June 30, 2019

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and investments	$ 2,850,771	$ 7,208,396	$ 10,059,167
Taxes and assessments receivable, net	2,497		2,497
Accounts receivable - net	16,984	300,258	317,242
Due from other governments	100,877	38,115	138,992
Inventories	-	246,750	246,750
Other receivables	3,763	9,607	13,370
Total current assets	$ 2,974,892	$ 7,803,126	$ 10,778,018
Noncurrent assets			
Restricted cash and investments	$ 307,172	$ 1,389,344	$ 1,696,516
Assessments receivable - noncurrent	404,307	-	404,307
Capital assets - land	267,322	2,289,560	2,556,882
Capital assets - construction in progress	25,936	16,882,987	16,908,923
Capital assets - depreciable, net	4,166,928	13,545,425	17,712,353
Total noncurrent assets	$ 5,171,665	$ 34,107,316	$ 39,278,981
Total assets	$ 8,146,557	$ 41,910,442	$ 50,056,999
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources - pensions	$ 312,927	$ 163,288	$ 476,215
Total deferred outflows of resources	$ 312,927	$ 163,288	$ 476,215
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 8,459,484	$ 42,073,730	$ 50,533,214
LIABILITIES			
Current liabilities			
Accounts payable	$ 34,590	$ 222,276	$ 256,866
Accrued interest payable	6,490	161,453	167,943
Accrued payroll	65,225	38,987	104,212
Deposits payable	1,800	837,974	839,774
Current portion of long-term capital liabilities	133,666	432,809	566,475
Current portion of compensated absences payable	125,865	63,901	189,766
Total current liabilities	$ 367,636	$ 1,757,400	$ 2,125,036
Noncurrent liabilities			
Noncurrent portion of long-term liabilities	$ 69,560	$ 24,453	$ 94,013
Noncurrent portion of long-term capital liabilities	704,635	13,733,030	14,437,665
Noncurrent portion of compensated absences	63,153	26,605	89,758
Net pension liability	1,440,914	731,479	2,172,393
Total noncurrent liabilities	$ 2,278,262	$ 14,515,567	$ 16,793,829
Total liabilities	$ 2,645,898	$ 16,272,967	$ 18,918,865
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources - pensions	$ 222,947	$ 154,971	$ 377,918
Total deferred inflows of resources	$ 222,947	$ 154,971	$ 377,918
NET POSITION			
Net investment in capital assets	$ 3,614,794	$ 17,377,786	$ 20,992,580
Restricted for debt service	542,901	624,268	1,167,169
Restricted for special projects	2,269,255		2,269,255
Restricted for other purposes	-	762,630	762,630
Unrestricted	(836,311)	6,881,108	6,044,797
Total net position	$ 5,590,639	$ 25,645,792	$ 31,236,431
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	$ 8,459,484	$ 42,073,730	$ 50,533,214

See accompanying Notes to the Financial Statements

City of Polson, Lake County, Montana
Statement of Activities
For the Fiscal Year Ended June 30, 2019

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expenses) Revenues and Changes in Net Position — Primary Government: Governmental Activities	Primary Government: Business-type Activities	Primary Government: Total	Component Unit
Primary government:								
Governmental activities:								
General government	$ 732,989	$ 175,539	$ -	$ -	$ (557,450)	$ -	$ (557,450)	$ -
Public safety	2,002,364	193,080	39,658	-	(1,769,626)	-	(1,769,626)	-
Public works	462,991	280,551	1,360	11,233	(169,847)	-	(169,847)	-
Culture and recreation	248,441	10,701	4,116	40,904	(192,720)	-	(192,720)	-
Housing and community development	71,880	-	-	-	(71,880)	-	(71,880)	-
Conservation of natural resources	4,873	-	-	-	(4,873)	-	(4,873)	-
Debt service - interest	30,337	-	-	-	(30,337)	-	(30,337)	-
Total governmental activities	$ 3,553,875	$ 659,871	$ 45,134	$ 52,137	$ (2,796,733)	$ -	$ (2,796,733)	$ -
Business-type activities:								
Golf	$ 1,041,047	$ 1,020,743	$ -	$ -	$	$ (20,304)	$ (20,304)	$ -
Water	810,519	1,119,888	-	-		309,369	309,369	-
Sewer	528,658	1,601,555	-	36,500		1,109,397	1,109,397	-
Total business-type activities	$ 2,380,224	$ 3,742,186	$ -	$ 36,500	$ -	$ 1,398,462	$ 1,398,462	$ -
Total primary government	$ 5,934,099	$ 4,402,057	$ 45,134	$ 88,637	$ (2,796,733)	$ 1,398,462	$ (1,398,271)	$ -
General Revenues:								
Property taxes for general purposes					$ 1,788,682	$ -	$ 1,788,682	$ -
Franchise fees					54,711	-	54,711	-
Payments in Lieu of Taxes					55,802	-	55,802	-
Interest/investment earnings					17,052	45,874	62,926	-
Local option taxes					129,297	-	129,297	-
Unrestricted federal/state shared revenues					846,146	536	846,682	-
Miscellaneous revenues					9,978	24,055	34,033	-
Gain (loss) on sale of capital assets					23,129	3,000	26,129	-
Total general revenues, special items and transfers					$ 2,924,797	$ 73,465	$ 2,998,262	$ -
Change in net position					$ 128,064	$ 1,471,927	$ 1,599,991	$ -
Net position - beginning					$ 5,451,612	$ 24,173,865	$ 29,625,477	$ 152,850
Restatements					10,963	-	10,963	(152,850)
Net position - beginning - restated					$ 5,462,575	$ 24,173,865	$ 29,636,440	$ -
Net position - end					$ 5,590,639	$ 25,645,792	$ 31,236,431	$ -

See accompanying Notes to the Financial Statements

City of Polson, Lake County, Montana
Balance Sheet
Governmental Funds
June 30, 2019

	General	Tax Increment District	SID #42 Streetscape	Other Governmental Funds	Total Governmental Funds
ASSETS					
Current assets:					
Cash and investments	$ 639,551	$ 819,305	$ -	$ 1,391,915	$ 2,850,771
Taxes and assessments receivable, net	40,633	6,422	349,937	9,812	406,804
Accounts receivable - net	427	-	-	16,557	16,984
Due from other governments	75,486	7,822	3,875	13,694	100,877
Other receivables	641	1,270	88	1,764	3,763
Total current assets	$ 756,738	$ 834,819	$ 353,900	$ 1,433,742	$ 3,379,199
Noncurrent assets:					
Restricted cash and investments	$ -	$ 66,606	$ 63,847	$ 176,719	$ 307,172
Total noncurrent assets	$ -	$ 66,606	$ 63,847	$ 176,719	$ 307,172
Total assets	$ 756,738	$ 901,425	$ 417,747	$ 1,610,461	$ 3,686,371
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	756,738	$ 901,425	$ 417,747	$ 1,610,461	$ 3,686,371
LIABILITIES					
Current liabilities:					
Accounts payable	$ 24,876	$ 2,548	$ -	$ 7,166	$ 34,590
Accrued interest payable	486	5,218	506	280	6,490
Accrued payroll	61,076	-	-	4,149	65,225
Deposits payable	1,800	-	-	-	1,800
Total liabilities	$ 88,238	$ 7,766	$ 506	$ 11,595	$ 108,105
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows of resources	$ 40,633	$ 6,422	$ 349,937	$ 9,812	$ 406,804
Total deferred inflows of resources	$ 40,633	$ 6,422	$ 349,937	$ 9,812	$ 406,804
FUND BALANCES					
Restricted	$ -	$ 887,237	$ 67,304	$ 1,440,680	$ 2,395,221
Committed	-	-	-	47,854	47,854
Assigned	-	-	-	100,520	100,520
Unassigned fund balance	627,867	-	-	-	627,867
Total fund balance	$ 627,867	$ 887,237	$ 67,304	$ 1,589,054	$ 3,171,462
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	$ 756,738	$ 901,425	$ 417,747	$ 1,610,461	$ 3,686,371

See accompanying Notes to the Financial Statements

City of Polson, Lake County, Montana
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Position
June 30, 2019

Total fund balances - governmental funds	$	3,171,462
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		4,460,186
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.		406,804
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.		(1,096,879)
Net pension liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.		(1,440,914)
The changes between actuarial assumptions, differences in expected vs actual pension experiences, changes in proportionate share allocation, and current year retirement contributions as they relate to the net pension liability are a deferred outflow of resources and are not payable in current period, therefore are not reported in the funds.		312,927
The changes between actuarial assumptions, differences in projected vs actual investment earnings, and changes in proportionate share allocation as they relate to the net pension liability are a deferred inflows of resources and are not available to pay for current expenditures, there for are not reported in the funds.		(222,947)
Total net position - governmental activities	**$**	5,590,639

See accompanying Notes to the Financial Statements

City of Polson, Lake County, Montana
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2019

	General	Tax Increment District	SID #42 Streetscape	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes and assessments	$ 1,467,302	$ 151,703	$ 66,346	$ 322,029	$ 2,007,380
Licenses and permits	21,099	-	-	100,458	121,557
Intergovernmental	868,262	13,081	-	170,740	1,052,083
Charges for services	185,588	-	-	117,675	303,263
Fines and forfeitures	49,592	-	-	5,303	54,895
Miscellaneous	73,677	-	-	58,208	131,885
Investment earnings	2,592	5,300	427	8,734	17,053
Impact fees	-	-	-	21,851	21,851
Total revenues	$ 2,668,112	$ 170,084	$ 66,773	$ 804,998	$ 3,709,967
EXPENDITURES					
General government	$ 709,060	$ -	$ -	$ 5,725	$ 714,785
Public safety	1,563,603	-	-	300,100	1,863,703
Public works	224,573	-	-	113,398	337,971
Culture and recreation	193,737	-	-	4,815	198,552
Housing and community development	-	38,427	-	-	38,427
Conservation of natural resources	-	-	-	4,873	4,873
Debt service - principal	13,573	64,381	51,470	11,076	140,500
Debt service - interest	780	14,024	14,675	858	30,337
Capital outlay	111,666	-	-	52,210	163,876
Total expenditures	$ 2,816,992	$ 116,832	$ 66,145	$ 493,055	$ 3,493,024
Excess (deficiency) of revenues over expenditures	$ (148,880)	$ 53,252	$ 628	$ 311,943	$ 216,943
OTHER FINANCING SOURCES (USES)					
Proceeds of general long term debt	$ 14,949	$ -	$ -	$ -	$ 14,949
Proceeds from the sale of general capital asset disposition	28,000	-	-	-	28,000
Transfers in	113,977	-	-	7,859	121,836
Transfers out	(5,000)	(2,859)	-	(113,977)	(121,836)
Total other financing sources (uses)	$ 151,926	$ (2,859)	$ -	$ (106,118)	$ 42,949
Net Change in Fund Balance	$ 3,046	$ 50,393	$ 628	$ 205,825	$ 259,892
Fund balances - beginning	$ 624,821	$ 836,844	$ 66,676	$ 1,383,229	$ 2,911,570
Fund balance - ending	$ 627,867	$ 887,237	$ 67,304	$ 1,589,054	$ 3,171,462

See accompanying Notes to the Financial Statements

City of Polson, Lake County, Montana
Reconciliation of the Statement of Revenues, Expenditures.
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Fiscal Year Ended June 30, 2019

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

Net change in fund balances - total governmental funds	$	259,892
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		163,876
- Depreciation expense		(374,820)
In the Statement of Activities, the loss or gain on the sale or disposal of capital assets is recognized. The fund financial statements recognize only the proceeds from the sale of these assets:		
- Proceeds from the sale of capital assets		(28,000)
- Gain on the sale of capital assets		23,129
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:		
- Long-term receivables (deferred inflows - taxes)		(51,156)
The change in compensated absences is shown as an expense in the Statement of Activities		37,801
Repayment of debt principal is an expenditures in the governmental funds, but the repayment reduces long-term debt in the Statement of Net Position:		
- Long-term debt principal payments		140,500
Long term debt proceeds provide current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position:		
- Proceeds from the sale of long-term debt		(14,949)
Termination benefits are shown as an expense in the Statement of Activities and not reported on the Statement of Revenues, Expenditures and Changes in Fund Balance:		
- Post-employment benefits other than retirement liability		(5,911)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental fund financial statements.		
- Change in pension accruals		(22,298)
Change in net position - Statement of Activities	$	128,064

See accompanying Notes to the Financial Statements

City of Polson, Lake County, Montana
Statement of Net Position
Proprietary Funds
June 30, 2019

	Business-Type Activities - Enterprise Funds			
	Golf	**Water**	**Sewer**	**Totals**
ASSETS				
Current assets:				
Cash and investments	$ 367,512	$ 3,097,145	$ 3,743,739	$ 7,208,396
Accounts receivable - net	-	135,490	164,768	300,258
Due from other governments	-	632	37,483	38,115
Inventories	109,109	137,641	-	246,750
Other receivables	840	4,192	4,575	9,607
Total current assets	$ 477,461	$ 3,375,100	$ 3,950,565	$ 7,803,126
Noncurrent assets:				
Restricted cash and investments	$ 70,580	$ 500,804	$ 817,960	$ 1,389,344
Capital assets - land	2,042,231	227,873	19,456	2,289,560
Capital assets - construction in progress	-	196,787	16,686,200	16,882,987
Capital assets - depreciable, net	1,860,573	9,238,721	2,446,131	13,545,425
Total noncurrent assets	$ 3,973,384	$ 10,164,185	$ 19,969,747	$ 34,107,316
Total assets	$ 4,450,845	$ 13,539,285	$ 23,920,312	$ 41,910,442
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows of resources - pensions	$ 54,527	$ 70,819	$ 37,942	$ 163,288
Total deferred outflows of resources	$ 54,527	$ 70,819	$ 37,942	$ 163,288
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 4,505,372	$ 13,610,104	$ 23,958,254	$ 42,073,730
LIABILITIES				
Current liabilities:				
Accounts payable	$ 14,259	$ 15,129	$ 192,888	$ 222,276
Accrued interest payable	9,750	3,036	148,667	161,453
Accrued payroll	23,378	10,003	5,606	38,987
Deposits payable	-	22,855	815,119	837,974
Current portion of long-term capital liabilities	60,809	26,000	346,000	432,809
Current portion of compensated absences payable	22,702	23,413	17,786	63,901
Total current liabilities	$ 130,898	$ 100,436	$ 1,526,066	$ 1,757,400
Noncurrent liabilities:				
Noncurrent portion of long-term liabilities	$ 8,236	$ 8,941	$ 7,276	$ 24,453
Noncurrent portion of long-term capital liabilities	1,148,644	345,000	12,239,386	13,733,030
Noncurrent portion of compensated absences	9,544	8,174	8,887	26,605
Net pension liability	239,223	327,641	164,615	731,479
Total noncurrent liabilities	$ 1,405,647	$ 689,756	$ 12,420,164	$ 14,515,567
Total liabilities	$ 1,536,545	$ 790,192	$ 13,946,230	$ 16,272,967
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows of resources - pensions	$ 55,665	$ 48,852	$ 50,454	$ 154,971
Total deferred inflows of resources	$ 55,665	$ 48,852	$ 50,454	$ 154,971
NET POSITION				
Net investment in capital assets	$ 2,677,710	$ 9,283,287	$ 5,416,789	$ 17,377,786
Restricted for debt service	11,216	30,684	582,368	624,268
Restricted for other purposes	59,364	467,391	235,875	762,630
Unrestricted	164,872	2,989,698	3,726,538	6,881,108
Total net position	$ 2,913,162	$ 12,771,060	$ 9,961,570	$ 25,645,792
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSTION	$ 4,505,372	$ 13,610,104	$ 23,958,254	$ 42,073,730

See accompanying Notes to the Financial Statements

City of Polson, Lake County, Montana
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Fiscal Year Ended June 30, 2019

	Business-Type Activities - Enterprise Funds			
	Golf	**Water**	**Sewer**	**Totals**
OPERATING REVENUES				
Charges for services	$ 1,020,742	$ 1,119,888	$ 1,601,556	$ 3,742,186
Total operating revenues	$ 1,020,742	$ 1,119,888	$ 1,601,556	$ 3,742,186
OPERATING EXPENSES				
Personal services	$ 408,866	$ 254,330	$ 193,728	$ 856,924
Supplies	185,312	40,674	26,853	252,839
Purchased services	250,611	167,256	184,483	602,350
Building materials	5,981	-	-	5,981
Fixed charges	4,423	164	130	4,717
Depreciation	145,377	335,329	123,464	604,170
Total operating expenses	$ 1,000,570	$ 797,753	$ 528,658	$ 2,326,981
Operating income (loss)	$ 20,172	$ 322,135	$ 1,072,898	$ 1,415,205
NON-OPERATING REVENUES (EXPENSES)				
Gain/(loss) on disposal of capital assets	$ 3,000	$ -	$ -	$ 3,000
Intergovernmental revenue	201	152	36,683	37,036
Interest revenue	3,408	20,404	22,062	45,874
Other nonoperating revenue	4,251	9	19,795	24,055
Debt service interest expense	(40,477)	(6,165)	-	(46,642)
Payback agreement	-	(6,601)	-	(6,601)
Total non-operating revenues (expenses)	$ (29,617)	$ 7,799	$ 78,540	$ 56,722
Change in net position	$ (9,445)	$ 329,934	$ 1,151,438	$ 1,471,927
Net Position - Beginning of the year	$ 2,922,607	$ 12,441,126	$ 8,810,132	$ 24,173,865
Net Position - End of the year	$ 2,913,162	$ 12,771,060	$ 9,961,570	$ 25,645,792

See accompanying Notes to the Financial Statements

City of Polson, Lake County, Montana
Combined Statement of Cash Flows
All Proprietary Fund Types
Fiscal Year Ended June 30, 2019

	Business - Type Activities			
	Golf	Water	Sewer	Totals
Cash flows from operating activities:				
Cash received from providing services	$ 1,021,059	$ 1,138,795	$ 1,615,220	$ 3,775,074
Cash payments to suppliers	(425,623)	(148,445)	(164,710)	(738,778)
Cash paid for interfund services provided	(30,000)	(69,525)	(59,584)	(159,109)
Cash payments to employees	(425,941)	(261,140)	(201,492)	(888,573)
Net cash provided (used) by operating activities	$ 139,495	$ 659,685	$ 1,189,434	$ 1,988,614
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	$ (189,302)	$ (72,394)	$ (3,746,923)	$ (4,008,619)
Proceeds from disposal of assets	3,000	-	-	3,000
Principal paid on debt	(59,030)	(26,000)	(312,000)	(397,030)
Interest paid on debt	(40,905)	(6,350)	-	(47,255)
Rental/lease income	3,600		19,650	23,250
Impact fee/latecomers payback agreement		(6,601)		(6,601)
Proceeds from bonds, loans and advances	-	-	5,656,273	5,656,273
Net cash provided (used) by capital and related financing activities	$ (282,637)	$ (111,345)	$ 1,617,000	$ 1,223,018
Cash flows from non-capital financing activities:				
Miscellanous reimbursements	$ 61	$ -	$ 1,645	$ 1,706
Cash (short)/over	590	9	-	599
Net cash provided (used) from non-capital financing activities	$ 651	$ 9	$ 1,645	$ 2,305
Cash flows from investing activities:				
Interest on investments	$ 2,567	$ 16,212	$ 17,487	$ 36,266
Net cash provided (used) by investing activities	$ 2,567	$ 16,212	$ 17,487	$ 36,266
Net increase (decrease) in cash and cash equivalents	$ (139,924)	$ 564,561	$ 2,825,566	$ 3,250,203
Cash and cash equivalents at beginning	578,016	3,033,388	1,736,133	5,347,537
Restatements - Includes beginning restricted cash				-
Cash and cash equivalents at end	$ 438,092	$ 3,597,949	$ 4,561,699	$ 8,597,740
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	$ 20,172	$ 322,135	$ 1,072,898	$ 1,415,205
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation	145,377	335,329	123,464	604,170
On-behalf payment State of MT for PERS	200	152	183	535
Changes in assets and liabilities:				
(Increase)/decrease in receivables	316	(3,315)	14,648	11,649
(Increase)/decrease in inventories	(7,649)	(8,556)	-	(16,205)
(Increase)/decrease in due from other governments	-	(632)	(983)	(1,615)
Increase/(decrease) in accounts payable	(1,646)	(1,320)	(12,828)	(15,794)
Increase/(decrease) in customer advance payments payable	-	22,793	-	22,793
Increase/(decrease) in refunds payable	-	62	-	62
Increase/(decrease) in net pension realted receivables/payables	(12,583)	(9,576)	(11,522)	(33,681)
Increase/(decrease) in other post-employment benefit payables	700	760	618	2,078
Increase/(decrease) in compensated absences	(4,834)	78	4,228	(528)
Increase/(decrease) in wages payable	(558)	1,775	(1,272)	(55)
Net cash provided (used) by operating activities	$ 139,495	$ 659,685	$ 1,189,434	$ 1,988,614

See accompanying notes to the financial statements

City of Polson, Lake County, Montana
Statement of Net Position
Fiduciary Funds
June 30, 2019

	City Court Trust Funds	Agency Funds
ASSETS		
Cash and short-term investments	$ 2,834	$ 32
Total assets	$ 2,834	$ 32
LIABILITIES		
Due to others	2,834	32
Total liabilities	$ 2,834	$ 32

NET POSITION

See accompanying Notes to the Financial Statements

City of Polson, Lake County, Montana
Statement of Changes in Net Position
Fiduciary Funds
For the Fiscal Year Ended June 30, 2019

		City Court Trust Account
ADDITIONS		
Contributions:		
Fines and forfeitures	$	70,756
Total additions	$	70,756
DEDUCTIONS		
Restitution to victims	$	6,005
Payments to governments/agencies		64,751
Total deductions	$	70,756
Change in net position	$	-

See accompanying Notes to the 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 4,875. The City provides a wide range of municipal services that include public safety (police, fire and animal control), public works (streets, water, and sewer), community development, culture and recreation (golf and parks), and general government services (courts, finance and administration).

B. FINANCIAL REPORTING ENTITY

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

In determining the financial reporting entity, the City complies with the provisions of GASB Statement 14, *The Financial Reporting Entity,* and includes all component units of which the City appointed a voting majority of the units' board; the City is either able to impose its will on the unit or a financial benefit or burden relationship exists.

The City implemented GASB Statement 77, *Tax Abatement Disclosures* in the 2017 fiscal year. This statement addresses the disclosure of tax abatements within the notes to the financial statements. The Statement provides guidance for the reporting of the 1) total tax abated in the current fiscal year; 2) the description of each tax abatement program, and 3) any obligations the City incurred with respect to the approved abatement program. This Statement is effective for fiscal years beginning after December 15, 2016. For the year ended June 30, 2019, the City had no tax abatements.

The City also adopted the provisions of the following GASB Statements in FY2019:

GASB Statement 83, *Certain Asset Retirement Obligations.* This statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. For the year ended June 30, 2019 the City did not have an ARO.

GASB Statement 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements.* The objective of this statement is to improve the information that is disclosed in the notes to governmental financial statements related to debt, including direct borrowing and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The statement requires additional essential information related to debt be disclosed in the notes to the financial statements, including unused lines of credit; assets pledged as collateral for debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subject acceleration clauses.

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 present component units are separate legal entities that meet the component criteria described above but do not meet the criteria for blending of their financial statement information with the primary government's financial information. In past years, the City has considered the Polson Fire Department Relief Association as a discretely presented component unit, however, in fiscal year 2019, it was determined not to be.

C. <u>BASIS OF FINANCIAL STATEMENT PRESENTATION</u>

The City's basic financial statements consist 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.

The Governmental Accounting Standards Board (GASB) issued Statement 62 which codified the requirements of all pre-November 30, 1989 FASB (Financial Accounting Standards Board) and AICPA (American Institute of Certified Public Accountants) pronouncements that apply to state and local governments. Both the government-wide and proprietary fund financial statements follow the guidance of the GASB. The City has adopted the provisions of GASB Statement 62.

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 as-well-as fines and forfeitures assessed 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 34 in regards to inter-fund activities, payables and receivables. All internal balances in the statement of net assets have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balance balances and eliminated in the total primary government column.

Fund Financial Statements

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

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

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

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

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

Fund Accounting

The accounts of the City of Polson 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 are maintained consistent with legal and managerial requirements. There are three categories of funds: governmental, proprietary and fiduciary.

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

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

Tax Increment District – Although this fund does not meet the criteria to be treated as a major fund, the City has chosen to classify it as a major fund to meet new State of Montana reporting guidelines for tax increment district financing. This fund receives tax increment revenues from taxpayers in the tax increment district. The base year for this district was 2002. Each year the fund receives the revenue resulting from the growth in taxable value of the district (increment) over the base year taxable value. The revenues are then used for urban renewal within the tax increment district and to make debt service payments on existing tax increment bonds.

SID #42 Streetscape Main Street Improvement Project-This fund has previously met the requirements to be reported as a major fund, but did not meet the requirement for FY19. The City has chosen to continue showing it as a major fund. 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 (Proprietary) 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 collection and treatment operations.

Fiduciary Funds

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

Private-purpose Trust Funds – To report all other trust arrangements under which the principal and income benefit individuals, private organizations, or other governments.

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

D. <u>MEASUREMENT FOCUS AND BASIS OF ACCOUNTING</u>

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 measurements 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 asset acquisitions are reported as expenditures in governmental funds and proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, franchise fees, 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. Interest expense incurred during construction of capital assets is capitalized into the cost of those assets.

The Budget Process

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

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

E. ASSETS, LIABILITIES AND NET POSITION OR EQUITY

1. Cash and 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 a repurchase agreement and STIP. Investments in the City's cash pool are considered cash equivalents in the governmental fund and proprietary fund financial statements.

All investments are reported at fair value.

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 from the State providing shared revenue figures, usually in August, in connection with the budget process. Real property (and certain attached personal property) taxes are billed within ten days after the third Monday in October and are due in equal amounts on November 30th and the following May 31st. After those dates, they become delinquent (and a lien on the property). After three years the City may exercise the lien and take title to the property.

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

Taxable valuations, mill values and mill levies for November 2018 and May 2019 property tax billings were as follows:

	Taxable Valuation	Valuation of Tax Increment	Value of Mill	Mills Levied
General Fund Levy	$ 9,272,015	$ 210,391	$ 9,272	145.37
Permissive Medical Levy	$ 9,272,015	$ 210,391	$ 9,272	12.10
Police Special Levy	$ 9,272,015	$ 210,391	$ 9,272	19.95

The taxable valuation excludes the incremental value of property within the City's tax increment district. The incremental value of the tax increment district is $210,391. 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 material. Receivables are reported net of revenues collected in advance. Delinquent Water and Sewer accounts receivable are subject to tax lien by the City (MCA 7-13-4309(2)) if the arrearage is not paid within 30 days of the property owner receiving a notice of the delinquent amount and the intent to lien the property.

5. Inventories

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

6. Restricted Assets

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

7. Capital Assets

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

The City's assets are capitalized at historical cost or estimated historical cost. City policy has set the capitalization threshold for reporting capital assets at $5,000.

Gifts or contributions of capital assets are recorded at fair market value when received. The costs of normal maintenance and repairs are charged to operations as incurred.

Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable. Depreciation is recorded on a straight-line basis over the useful lives of the assets as follows:

Assets	
Government Activities	Years
Buildings	10 - 50
Land Improvements	10 - 40
Vehicles 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/expenditure) until then. The City has one item in this category: Deferred pension expense.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has two items of this type. Deferred pension revenue and deferred tax revenue. The deferred tax revenue arises under a modified accrual basis of accounting; accordingly, the item deferred tax revenue is reported only in the governmental funds balance sheet. The governmental funds report deferred tax revenue from two sources: property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

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 their current hourly rate of pay.

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

10. Long-term Obligations

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

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

11. Net Position/Fund Balance

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

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

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

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

NOTE 2 - CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash Composition **-** The total cash and cash equivalents, restricted cash and investments at June 30, 2019, are detailed as follows:

		Primary Government
Cash on hand	$	1,250
Cash in banks:		
Demand Deposits		7,121
Savings Deposits		5,255
Non-negotiable Certificates of Deposit		1,470,000
Investments:		
State Short-Term Investment Pool (STIP)		300,000
Repurchase agreements		10,099,292
Total Cash on Hand and in Banks		11,882,918
Plus: Deposits in Transit		38,502
Less: Outstanding Checks and ACH Transactions		(162,871)
Cash Reported in Fund Financial Statements		11,758,549

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

		Unrestricted		Restricted		Total
Governmental Activities	$	2,850,771	$	307,172	$	3,157,943
Business-type Activities		7,208,396		1,389,344		8,597,740
Fiduciary Funds		2,866		-		2,866
	$	10,062,031	$	1,696,516	$	11,758,549

Restricted Cash and Investments

Fund	Description	Amount
Fire Impact Fees	Impact fees – Fire Stations and Apparatus	$ 122,824
Park Impact Fees	Impact Fees – Citywide Park Improvements	53,895
TIF District	Debt Service Reserve – Current	26,606
TIF District	Debt Service Reserve – Future	40,000
SID #42	Debt Service Reserve – Current	26,347
SID #42	Debt Service Reserve – Future	37,500
Golf	Revenue Bond – Current	11,216
Golf	Construction	59,363
Water	Impact Fees – Future System Upgrades	470,120
Water	Revenue Bond- Current	13,518
Water	Revenue Bond- Future	17,167
Sewer	Impact Fees – Future System Upgrades	235,592
Sewer	Revenue Bond – Current	231,212
Sewer	Revenue Bond – Future	351,156
Total		$1,696,516

Cash on hand - represents petty cash and change drawer amounts.

Cash in Bank Deposits and Custodial Credit Risk - cash in bank balances include deposit items such as daily demand savings accounts and money market 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, of $1,482,376, $752,376 was covered by federal depository insurance and securities investor protection corporation and $730,000 was covered by securities held by the pledging bank's trust department but not in the City's name.

Montana statutes state that the City must have pledged securities equal to at least 50% of its total bank deposits that are not insured or guaranteed. At June 30, 2019, the amount of collateral held for City deposits exceeded the amount required.

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, 2019 the City's pooled investment balances were as follows:

	Maturity in Years						
Investments (cash equivalents)	**Less than 1**	**1 - 2**	**2 - 3**	**3 - 4**	**4 - 5**	**No Maturity**	**Total**
Non-negotiable Certificates of Deposit	$ 750,000	$ 720,000	$ -	$ -	$ -	$ -	$ 1,470,000
MT Board of Investments STIP	300,000	-	-	-	-	-	300,000
Repurchase Agreements	-	-	-	-	-	10,099,292	10,099,292
Total Government Investments	$ 1,050,000	$ 720,000	$ -	$ -	$ -	$ 10,099,292	$ 11,869,292

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 investment 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 types 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.

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

The pool invests in short-term, highly liquid investments, and as such, the City has reported these investments as cash equivalents. Amounts invested by the City in STIP may be redeemed at any date at the carrying value on that date. Audited financial statements for the State of Montana's Board of Investments are available at 2401 Colonial Drive, 3rd Floor, Helena, MT 59620.
Investments in the pool are reported at fair value. The fair value of pooled investments is determined annually and is based on year-end market prices. The unit value of the pool is fixed at $1 for both participant redemptions and purchases. Investments in STIP are carried at amortized cost or "book" value. STIP is managed to closely align fair value with amortized cost. The City has currently elected to have STIP income distributed monthly to the City. STIP is not rated by a national rating agency.

The City's investment in STIP amounts to .00076% of total STIP assets. The investments managed by the City were 2.5% invested in STIP. For the year ended June 30, 2019, STIP's average rate of return was 2.2356%.

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	Long-term
SID #42	2010	15 years	$ 349,937	$ 1,213	$ 348,724
Maintenance District Assessments			828	828	-
Total			$ 350,765	$ $2,041	$ 348,724

NOTE 4 - INTERFUND RECEIVABLES AND PAYABLES

Interfund Transfers - the City uses inter-fund transfers for regular re-occurring internal charges, such as debt service, supplies and materials, capital project fund transfers, and services provided. The following is an analysis of operating transfers in and out during fiscal year 2019:

	Transfers In:				
	General Fund	Tax Increment Financing District	Nonmajor Governmental Funds	Total	Purpose
Transfers Out:					
General Fund	$ -	$ -	$ 5,000	$ 5,000	Operating Transfer
Tax Increment Financing District	-	-	2,859	2,859	Capital Transfer
Nonmajor governmental funds	12	-	-	12	Risidual Equity Transfer
Nonmajor governmental funds	113,965	-	-	113,965	Medical Levy Transfer
Total transfers out	$ 113,977	$ -	$ 7,859	$ 121,836	

NOTE 5 - DUE FROM (TO) OTHER GOVERNMENTS

The City had the following amounts due from (to) other government entities as of June 30, 2019:

Fund	Paying Government	Due From Amount	Due (To) Amount
General Fund	Lake County	$ 69,336	$ -
General Fund	CSKT	6,150	-
Police Municipal Services Levy	Lake County	7,947	-
Tax Increment District	Lake County	7,822	-
Permissive Medical Mills	Lake County	4,821	-
Stormwater System Fund	Lake County	108	-
Drug Forfeiture Fund	Lake County	215	-
Light Maintenance District #19	Lake County	320	-
Light Maintenance District #20	Lake County	283	-
SID #42 Streetscape Main Street Improvement Project	Lake County	3,875	-
Water Fund	Lake County	632	-
Sewer Fund	Lake County	983	-
Sewer Fund	State of Montana	36,500	-
Total		$ 138,992	$ -

NOTE 6 - CAPITAL GRANT REVENUE

The following are the grants received for capital purchases in the governmental funds for FY2019:

Fund	Paying Government/Agency	Amount
Pickle Ball Court Fund	Greater Polson Community Foundation	$ 1,500
Pickle Ball Court Fund	Friends of Regional Parks & Trails	1,500
Police Federal Grants Fund	U.S. Treasury Law Enforcement Block Grant	1,619
Total		$ 4,619

* Remaining amount of Capital Grants/Contributions on Statement of Activities are donations and contributions.

Enterprise capital grants for FY2019 consist of the following:

Fund	Paying Government/Agency	Amount
Sewer Fund	Community Development Block Grant	$ 9,000
Sewer Fund	State of Montana TSEP Capital Project Grant	15,000
Sewer Fund	Department of Natural Resources Grant	12,500
Total		$ 36,500

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the governmental funds for the year ended June 30, 2019 was as follows:

Governmental activities:	Balance July 1, 2018	Additions	Disposals	Restatements	Transfers	Balance June 30, 2019
Capital assets not being depreciated:						
Land	$ 267,322	$ -	$ -	$ -	$ -	$ 267,322
Construction in progress	23,599	13,737	-	-	(11,400)	25,936
Total capital assets not being depreciated	$ 290,921	$ 13,737	$ -	$ -	$ (11,400)	$ 293,258
Other capital assets:						
Buildings	$ 747,570	$ -	$ -	$ -	$ -	$ 747,570
Improvements other than buildings	1,174,835	8,200	-	-	-	1,183,035
Machinery and equipment	3,589,020	141,939	(74,505)	-	11,400	3,667,854
Infrastructure	3,242,642	-	-	-	-	3,242,642
Total other capital assets at historical cost	$ 8,754,067	$ 150,139	$ (74,505)	$ -	$ 11,400	$ 8,841,101
Less: accumulated depreciation	(4,379,949)	(374,820)	69,633	10,963	-	(4,674,173)
Total	$ 4,665,039	$ (210,944)	$ (4,872)	$ 10,963	$ -	$ 4,460,186

Governmental depreciation expense was charged to functions as follows:

Governmental Activities:	Depreciation
General Government	$ 35,043
Public Safety	109,789
Public Works	137,571
Culture and Recreation	58,965
Housing and Community Development	33,452
Total governmental activities depreciation	$ 374,820

CITY OF POLSON
LAKE COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

Capital asset activity for the business-type funds for the year ended June 30, 2019 was as follows:

Golf Fund

Business-type activities - Golf:

	Balance July 1, 2018	Additions	Transfers	Balance June 30, 2019
Capital assets not being depreciated:				
Land	$ 2,042,231	$ -	$ -	$ 2,042,231
Construction in progress	12,155	36,755	(48,910)	-
Total capital assets not being depreciated	$ 2,054,386	$ 36,755	$ (48,910)	$ 2,042,231
Other capital assets:				
Buildings	$ 806,993	$ -	$ 48,910	$ 855,903
Improvements other than buildings	1,141,626	17,896	-	1,159,522
Machinery and equipment	1,308,635	39,167	-	1,347,802
Total other capital assets at historical cost	$ 3,257,254	$ 57,063	$ 48,910	$ 3,363,227
Less: accumulated depreciation	(1,357,277)	(145,377)	-	(1,502,654)
Total	$ 3,954,363	$ (51,559)	$ -	$ 3,902,804

Water Fund

Business-type activities - Water:

	Balance July 1, 2018	Additions	Deletions	Balance June 30, 2019
Capital assets not being depreciated:				
Land	$ 227,873	$ -	$ -	$ 227,873
Construction in progress	169,653	27,134	-	196,787
Total capital assets not being depreciated	$ 397,526	$ 27,134	$ -	$ 424,660
Other capital assets:				
Source of supply	$ 2,473,802	$ -	$ (10,092)	$ 2,463,710
Pumping plant	190,204	-	-	190,204
Treatment system	15,678	-	-	15,678
Transmission and distribution	12,370,409	51,318	-	12,421,727
General plant	348,587	-	-	348,587
Total other capital assets at historical cost	$ 15,398,680	$ 51,318	$ (10,092)	$ 15,439,906
Less: accumulated depreciation	(5,875,948)	(335,329)	10,092	(6,201,185)
Total	$ 9,920,258	$ (256,877)	$ -	$ 9,663,381

Sewer Fund

Business-type activities - Sewer:

	Balance July 1, 2018	Additions	Balance June 30, 2019
Capital assets not being depreciated:			
Land	$ 19,456	$ -	$ 19,456
Construction in progress	12,432,656	4,253,544	16,686,200
Total capital assets not being depreciated	$ 12,452,112	$ 4,253,544	$ 16,705,656
Other capital assets:			
Pumping plant	$ 1,126,004	$ 15,789	$ 1,141,793
Treatment system	2,077,376	-	2,077,376
Transmission and distribution	4,229,207	42,966	4,272,173
General plant	349,120	-	349,120
Total other capital assets at historical cost	$ 7,781,707	$ 58,755	$ 7,840,462
Less: accumulated depreciation	$ (5,270,867)	$ (123,464)	$ (5,394,331)
Total	$ 14,962,952	$ 4,188,835	$ 19,151,787

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 value of taxable property. As of June 30, 2019 the debt margin was $15,943,496.

Changes in Long-Term Debt Liabilities - During the year ended June 30, 2019, the following changes occurred in liabilities reported in long-term debt:

Governmental Activities:

	Balance July 1, 2018	Additions	Decreases	Balance June 30, 2019	Due Within One Year
Special Assessment Bonds	$ 387,310	$ -	$ (51,470)	$ 335,840	$ 53,480
Tax Increment Bonds, Series 2013	532,780	-	(64,380)	468,400	66,319
2011 Dodge Ram Intercap loan	33,536	-	(11,076)	22,460	11,215
Equipment Capital Leases	10,226	14,949	(13,574)	11,601	2,652
Compensated Absences	226,819	-	(37,801)	189,018	125,865
Net Pension Liability	1,830,962	-	(390,048)	1,440,914	-
Other Post-employment Benefits Liability	63,649	5,911	-	69,560	-
Total	$ 3,085,282	$ 20,860	$ (568,349)	$ 2,537,793	$ 259,531

Business Type Activities:

	Balance July 1, 2018	Additions	Decreases	Balance June 30, 2019	Due Within One Year
Revenue Bonds, Series 2017 (Golf)	$ 937,435	$ -	$ (41,872)	$ 895,563	$ 42,909
Revenue Bonds, Series 2009 (Water)	199,000	-	(16,000)	183,000	16,000
Revenue Bonds, Series 2015 B (Water)	198,000	-	(10,000)	188,000	10,000
Revenue Bonds, Series 2017 A (Sewer)	400,000	-	-	400,000	-
Revenue Bonds, Series 2017 B (Sewer)	6,785,857	864,143	(178,000)	7,472,000	183,000
Revenue Bonds, Series 2018 C (Sewer)	55,256	4,792,130	(134,000)	4,713,386	163,000
Notes Payable (Golf)	331,049	-	(17,159)	313,890	17,900
Compensated Absences	91,034	-	(528)	90,506	63,901
Net Pension Liability	948,912	-	(217,433)	731,479	-
Other Post-employment Benefits Liability	22,375	2,078	-	24,453	-
Total	$ 9,968,918	$ 5,658,351	$ (614,992)	$ 15,012,277	$ 496,710

The City has outstanding Special Assessment bonds, Tax Increment Bonds and loans/capital leases totaling $838,301 related to governmental activities. In the business type activities the City has outstanding revenue bonds of $13,851,949 and the City has outstanding notes from direct borrowings totaling $313,890. The City does not have any unused lines of credit as of June 30, 2019.

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 of the Main Street Streetscape project. A reserve account in the amount of $37,500 was established as required by the bond resolution. The bond is a special, limited obligation of the City and does not constitute a general obligation of the City. If there are insufficient funds in the reserve account and/or the SID revolving fund, the General Fund will loan an amount as may be necessary to the SID revolving fund to ensure a minimum fund balance of 5% of the outstanding bond principal to ensure payments are made. Special assessment bonds outstanding reported in the governmental activities as of June 30, 2019 were as follows:

Purpose	Origination Date	Interest Rate	Bond Term	Maturity Date	Bond Amount	Annual Payment	Balance June 30, 2019
SID #42 Streetscape Project	9/15/2010	3.95%	15 yrs.	7/1/2025	$ 750,000	$ 66,225	$ 335,840
Total					$ 750,000		$ 335,840

Annual requirement to amortize special assessment bond debt:

For Fiscal Year Ended June 30	Principal	Interest	Total Payments
2020	$ 53,480	$ 12,743	$ 66,223
2021	55,615	10,610	66,225
2022	57,834	8,391	66,225
2023	60,140	6,085	66,225
2024	62,540	3,685	66,225
2025	46,231	1,190	47,421
Total	$ 335,840	$ 42,704	$ 378,544

Tax Increment Urban Renewal Bonds

On August 15, 2013 the City issued $800,000 of tax increment urban renewal bonds to finance the construction of the City Dock and the walking path under the bridge that connects Sacajawea Park and Riverside Park. Five bonds were issued in an amount of $160,000 each to five local banks and bear interest at the rate of 2.987%. The bonds require semi-annual payments of $79,818 on August 15th and February 15th each fiscal year. This debt matures on August 15, 2025. The bonds are special, limited obligations of the City. The bonds are not general obligations of the City and neither the general credit nor the taxing power of the City is pledged to payment of the bonds. Tax revenues from the tax increment financing district (TIFD) are pledged to pay the principal and interest on the bonds. In the event the Constitution or laws of the State are amended to abolish or substantially reduce or eliminate real or personal property taxation and State law then or thereafter provides to the City an alternate or supplemental source or sources of revenue specifically to replace or supplement reduced or eliminated Tax Increment, then the City pledges and covenants to appropriate annually, subject to the limitations of then applicable law, an amount that will, with money on hand or available be sufficient to pay the principal and interest payable in that Fiscal Year.

Tax Increment Urban Renewal bonds outstanding reported in the governmental activities as of June 30, 2019 were as follows:

Purpose	Origination Date	Interest Rate	Bond Term	Maturity Date	Bond Amount	Annual Payment	Balance June 30, 2019
TIFD City Dock and Walkpath Project	8/15/2013	2.987%	12 yrs	8/15/2025	$ 800,000	$ 79,818	$ 468,400
Total					$ 800,000		$ 468,400

Annual requirement to amortize the Tax Increment Urban Renewal Bonds:

For Fiscal Year Ended June 30	Principal	Interest	Total Payments
2020	$ 66,319	$ 13,499	$ 79,818
2021	68,314	11,504	79,818
2022	70,369	9,449	79,818
2023	72,489	7,329	79,818
2024	74,669	5,149	79,818
2025-2026	116,240	3,489	119,729
Total	$ 468,400	$ 50,419	$ 518,819

Revenue Bonds

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

Revenue Bonds (Water Fund) - In October 2009 the City issued water system revenue bonds Series 2009 B through the State of Montana's Department of Natural Resources and Conservation (DNRC) Drinking Water State Revolving Loan Program. The bond requires semi-annual principal payments ranging from $6,700 in 2010 to $18,000 in 2029. In May 2015 the City issued water system revenue bonds Series 2015 B through the State of Montana's DNRC Drinking Water State Revolving Loan Program. The bonds require semi-annual payments ranging from $3,500 in 2016 to $14,000 in 2032.

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

Revenue Bonds outstanding reported in the business type activities as of June 30, 2019 were as follows:

Purpose	Origination Date	Interest Rate	Bond Term	Maturity Date	Bond Amount	Annual Payment	Balance June 30, 2019
Revenue Bonds, Series 2017 (Golf)	6/30/2017	2.75%	18 yrs	10/1/2035	$ 951,300	$ 67,294	$ 895,563
Revenue Bonds, Series 2009 (Water)	10/16/2009	0.75%	20 yrs	7/1/2029	333,700	Varies	183,000
Revenue Bonds, Series 2015 (Water)	5/20/2015	2.50%	20 yrs	7/1/2035	217,539	Varies	188,000
Revenue Bonds, Series 2017 A & B (Sewer)*	6/15/2017	2.50%	30 yrs	7/1/2047	8,137,000	Varies	7,872,000
Revenue Bonds, Series 2018 C (Sewer)	4/11/2018	2.50%	30 yrs	1/1/2048	7,000,000	Varies	4,713,386
Total					$ 16,639,539		$ 13,851,949

* This includes the $400,000 Series 2017A Bond that will be forgiven at the end of the project, therefore, it is not included in the amortization schedule below.

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 the final year when the reserve may be applied to the debt.

Annual requirement to amortize revenue bond debt:

For Fiscal Year Ended		Principal			Interest		Total Payments
2020	$	414,909		$	329,200	$	744,109
2021		422,194			375,679		822,892
2022		432,370			365,302		797,672
2023		446,180			356,877		803,057
2024		374,162			348,019		804,181
2025-2029		2,466,316			1,230,070		3,696,386
2030-2034		2,712,864			1,299,136		4,012,000
2035-2039		2,756,568			872,547		3,629,115
2040-2044		2,989,000			519,713		3,508,713
2045-2048		2,483,000			133,613		2,616,613
Total	$	15,497,563		$	5,830,174	$	21,434,738
		400,000	*				
		(2,152,614)	**				
	$	13,451,949					

* Series 2017 A (Sewer) Bond scheduled for forgiveness at completion of project.
** Anticipated draws on Series 2018 C (Sewer) Bond in fiscal year 2020

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

1. Segregated cash accounts with restrictions on their use.
2. Accounting for the golf, water and sewer 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 golf revenue bond.
4. Net revenues of not less than 110% of the sum of the maximum amount of principal and interest due in any future fiscal year for the water and sewer revenue bonds.
5. Monthly apportionment to the revenue bond account adequate to meet current annual principal and interest requirements.
6. A reserve account established in the amount of half the annual maximum principal and interest payments sewer system revenue bonds. There is no reserve required for the golf course revenue bonds.
7. Carry property and liability insurance and surety bonds.

The City was in compliance with the above requirements at June 30, 2019.

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 2019, principal and interest payments on the revenue bond totaled $67,295 and charges for services revenue was $1,020,742. Debt service expenses represent 6.59% of golf charges for services 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 2019, principal and interest payments on the revenue bonds totaled $32,351 and charges for services revenue was $1,119,888. Debt service represents 2.89% of water charges for services revenue.

The City has pledged sewer charges for services revenue to pay for the revenue bonds outstanding in the sewer fund. The revenues are pledged until the revenue bonds are paid in full. During fiscal year 2019, principal and interest payments on the revenue bonds totaled $504,251 and charges for services revenue was $1,601,555. Debt service represents 31.49% of sewer charges for services revenue.

Capital Leases

In fiscal year 2019 the City entered into a capital lease to purchase 16 body cameras for the police department. This lease is considered a capital lease because the City will own the body cameras at the end of the lease. The lease is recorded at the present value of future minimum lease payments. The City capitalized the body cameras at a total cost of $14,949 and accumulated depreciation of $2,491 at June 30, 2019.

The following is the amount of capital leases outstanding at June 30, 2019:

Purpose	Origination Date	Interest Rate	Lease Term	Maturity Date	Lease Amount	Annual Payment	Balance June 30, 2019
Governmental Activities Police - Body Cameras	10/18/2018	6.00%	5 yrs	10/18/2022	$ 14,949	$ 3,348	$ 11,601
Total					$ 14,949		$ 11,601

Annual lease payment requirements as of June 30, 2019 are as follows:

For Fiscal Year Ended June 30	Principal	Interest	Total Payments
2020	2,652	696	3,348
2021	2,811	537	3,348
2022	2,980	368	3,348
2023	3,158	190	3,348
Total	$ 11,601	$ 1,791	$ 13,392

Other Loans/Contracted Debt

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

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

The following is the amount of other loans and contracted debt outstanding at June 30, 2019:

Purpose	Origination Date	Interest Rate	Loan Term	Maturity Date		Loan Amount		Annual Payment		Balance June 30, 2019
Governmental Activities- Street										
2011 Dodge Ram 5500	12/23/2015	1.55% - var.	5 yrs	2/15/2021	$	55,379		Varies	$	22,460
Golf - repayment of Sewer Interfund loan										
used to purchase golf cart fleet	5/2/2017	4.75%	15 yrs	4/1/2032	$	348,707	$	32,640	$	313,890
Total					$	404,086			$	336,350

Annual debt service requirements to maturity for the loans as of June 30, 2019 are as follows:

For Fiscal Year Ended June 30		Principal		Interest		Total Payments
2020	$	29,115	$	15,355	$	44,470
2021		30,045		14,105		44,150
2022		19,704		12,936		32,640
2023		20,653		11,987		32,640
2024		21,614		11,026		32,640
2025-2029		124,834		38,367		163,201
2030-2032		90,385		12,921		103,306
Total	$	336,350	$	116,697	$	453,047

Compensated Absences

See Note 1 E part 9

Net Pension Liability

See Notes 10 and 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 in January 2014 the City also began participation in the Municipal Police Officers' Retirement System (MPORS) for City police officers who elected out of their participation in PERS and transferred into MPORS. This plan is a cost sharing multiple-employer defined benefit plan that provides retirement, disability and death benefits. The plan is established and administered by the State of Montana through MPERA. For those police officers that did not elect into MPORS the City set up a deferred compensation 457(b) plan also administered by MPERA for the difference in the employer rate between MPORS and PERS which was 5.84% for fiscal year 2019.

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, 2019, were:

	PERS	MPORS
Employee	7.90%	9.00%
Employer	8.57%	14.41%
State	.10%	29.37%
Total	16.57%	52.78%

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

Year	Employee	Employer
2017	$110,889	$117,486
2018	$103,053	$110,661
2019	$103,624	$112,418

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

Year	Employee	Employer
2017	$49,175	$78,735
2018	$47,681	$76,342
2019	$49,071	$78,568

The State contribution qualifies as an on behalf payment. The City recorded revenue of $1,312 for PERS and $160,137 for MPORS with an offsetting expenditure in the various funds as additional payroll costs. The plans issue publicly available financial reports that include financial statements and required supplementary information for the plans. The report may be obtained from the following:

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

Polson Fire Department Relief Association

The Polson Fire Department Relief Association Pension Plan is a single-employer defined benefit pension plan. Montana State Law (MCA 19-18-503) requires the City to soundly fund the pension plan for non-paid volunteer firefighters. The Fire Department Relief Association, has been established to administer pension payouts and hold the funded assets. The Fire Department Relief Association is governed by a separate board of directors which includes five (5) trustees and three (3) board members made up of active members of the volunteer fire department. The City receives an apportionment from the Montana State Auditor’s office which is then passed through to the Relief Association. The City made no direct contributions to the plan in FY2019.

GASB Statement 73 – *Accounting and Financial Reporting for Pensions and Related Assets that are not within the scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* was effective for fiscal year 2017. One objective of this Statement is to provide information about the effects of pension-related transactions and other events on the elements of the basic financial statements. An additional objective is to improve the information provided in government financial reports about financial support provided by certain non-employer entities for pensions that are provided to the employees of other entities and that are not within the scope of Statement 68. As of June 30, 2019, the City has not determined the pension liability for the Polson Fire Department Relief Association pension plan. However, the pension assets have been maintained at a level equal to at least three times but no more than five times the benefits paid by the fund in the previous or current fiscal year in accordance with Montana State Law (MCA 19-18-503(a)). The assets of the Relief Association (non-employer entity) represent the City’s contributions made toward pension obligations.

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

NOTE 10 – PERS DEFINED BENEFIT PENSION PLAN MPERA Disclosures

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

CITY OF POLSON (6578)
PUBLIC EMPLOYEES' RETIREMENT SYSTEM – DEFINED BENEFIT
GASB 68 NOTES TO THE FINANCIAL STATEMENTS
FOR FISCAL YEAR ENDED
JUNE 30, 2018 (measurement date)
JUNE 30, 2019 (reporting date)

In accordance with GASB Statement 68, Accounting and Financial Reporting for Pensions, employers and the non-employer contributing entity are required to recognize and report certain amounts associated with participation in the Public Employees' Retirement System Defined Benefit Retirement Plan (the Plan). This includes the proportionate share of the collective Net Pension Liability; Pension Expense; and Deferred Outflows and Deferred Inflows of Resources associated with pensions. Employers are provided guidance in GASB Statement 68, paragraph 74, where pension amounts must be combined as a total or aggregate for reporting, whether provided through cost-sharing, single-employer, or agent plans. This report provides information for employers who are using a June 30, 2018 measurement date for the 2019 reporting. If an employer's fiscal year end is after June 30th, the employer will not use the measurements shown in this report but will need to wait for the measurement date as of June 30, 2019.

Summary of Significant Accounting Policies - 79
MPERA prepared financial statements using the accrual basis of accounting. The same accrual basis was used by MPERA for the purposes of determining the Net Pension Liability (NPL); Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions; Pension Expense; the Fiduciary Net Position; and, Additions to or Deductions from Fiduciary Net Position. Member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Revenues are recognized in the accounting period they are earned and become measurable. Benefit payments and refunds are recognized in the accounting period in which they are due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred. Investments are reported at fair value. MPERA adhered to all accounting principles generally accepted by the United States of America. MPERA applied all applicable pronouncements of the Governmental Accounting Standards Board (GASB).

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

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

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

Service retirement:
- Hired prior to July 1, 2011:
  - Age 60, 5 years of membership service
  - Age 65, regardless of membership service
  - Any age, 30 years of membership service
- Hired on or after July 1, 2011
  - Age 65, 5 years of membership service
  - Age 70, regardless of membership service

Early Retirement:

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

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

- Retired before January 1, 2016 and accumulate less than 2 years additional service credit or retired on or after January 1, 2016 and accumulate less than 5 years additional service credit:
  - A refund of member's contributions plus return interest (currently .77% effective July 1, 2017).
  - No service credit for second employment;
  - Start the same benefit amount the month following termination; and
  - Guaranteed Annual Benefit Adjustment (GABA) starts again in the January immediately following the second retirement.
- Retired before January 1, 2016 and accumulate at least 2 years of additional service credit:
  - A recalculated retirement benefit based on provisions in effect after the initial retirement; and
  - GABA starts on the recalculated benefit in the January after receiving the new benefit for 12 months.
- Retired on or after January 1, 2016 and accumulate 5 or more years of service credit:
  - The same retirement as prior to the return to service;
  - A second retirement benefit as prior to the second period of service based on laws in effect upon the rehire date; and
  - GABA starts on both benefits in the January after receiving the original and the new benefit for 12 months.

Member's highest average compensation (HAC)

- Hired prior to July 1, 2011 - highest average compensation during any consecutive 36 months;
- Hired on or after July 1, 2011 – highest average compensation during any consecutive 60 months;

Compensation Cap

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

Monthly benefit formula

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

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

Guaranteed Annual Benefit Adjustment (GABA)

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

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

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

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

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

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

Fiscal	Member		State & Universities	Local Government		School Districts	
Year	Hired < 07/01/11	Hired > 07/01/11	Employer	Employer	State	Employer	State
2019	7.900%	7.900%	8.670%	8.570%	0.100%	8.30%	0.370%
2018	7.900%	7.900%	8.570%	8.470%	0.100%	8.200%	0.370%
2017	7.900%	7.900%	8.470%	8.370%	0.100%	8.100%	0.370%
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%	0.235%
2000 - 2007	6.900%		6.900%	6.800%	0.100%	6.800%	0.100%

1. Member contributions to the system of 7.9% are temporary and will be decreased to 6.9% on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and additional member contribution rates.

2. Employer contributions to the system:
   a. Effective July 1, 2014, following the 2013 Legislative session, PERS-employer contributions increase an additional 0.1% a year and will continue over 10 years through 2024. The additional employer contributions including the 0.27% added in 2007 and 2009, will terminate on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below the 25 years following the reduction of both the additional employer and additional member contributions rates.

   b. Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.
   c. The portion of employer contributions allocated to the PCR are included in the employers reporting. The PCR was paid off effective March 2016 and the contributions previously directed to the PCR are now directed to member accounts.
3. Non-Employer Contributions:
   a. Special Funding
      i. The state contributed 0.1% of members' compensation on behalf of local government entities.
      ii. The state contributed 0.37% of members' compensation on behalf of school district entities.
      iii. The state contributed a Statutory Appropriation from the General Fund of $33,454,182.

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

GASB Statement 68 allows a measurement date of up to 12 months before the employer's fiscal year-end can be utilized to determine the Plan's TPL. The basis for the TPL as of June 30, 2018, was determined by taking the results of the June 30, 2017, actuarial valuation and applying standard roll forward procedures. The roll forward procedure uses a calculation that adds the annual normal cost (also called the service cost), subtracts the actual benefit payments and refunds for the plan year, and then applies the expected investment rate of return for the year. The roll forward procedure will include the effects of any assumption changes and legislative changes. The update procedures are in conformity with Actuarial Standards of Practice issued by the Actuarial Standards Board.

The Total Pension Liability (TPL) minus the Fiduciary Net Position equals the Net Pension Liability (NPL). The proportionate shares of the employer's and the state of Montana's NPL for June 30, 2018, and 2017, are displayed below. The employer's proportionate share equals the ratio of the employer's contributions to the sum of all employer and non-employer contributions during the measurement period. The state's proportionate share for a particular employer equals the ratio of the contributions for the particular employer to the total state contributions paid. The employer recorded a liability of $1,597,579 and the employer's proportionate share was 0.0765 percent.

As of measurement date	Net Pension Liability as of 6/30/2018	Net Pension Liability as of 6/30/2017	Percent of Collective NPL as of 6/30/2018	Percent of Collective NPL as of 6/30/2017	Change in Percent of Collective NPL
CITY OF POLSON	$ 1,597,579	$ 2,129,820	0.0765%	0.1094%	(0.0328)%
State of Montana Proportionate Share associated with Employer	$ 533,360	$ 26,329	0.1026%	0.1342%	(0.0316)%
Total	$ 2,130,940	$ 2,156,148	0.1791%	0.2435%	(0.0644)%

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

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

Changes in proportionate share: There were no changes between the measurement date of the collective NPL and the employer's reporting date that are expected to have a significant effect on the employer's proportionate share of the collective NPL.

Pension Expense – 80g, 80j: At June 30, 2018, the employer recognized $25,694 for its proportionate share of the Plan's pension expense and recognized grant revenue of $35,596 for the state of Montana proportionate share of the pension expense associated with the employer. Additionally, the employer recognized grant revenue of $0 from the State Statutory Appropriation from the General Fund. *(Two years of pension expense are documented in the table below but are not necessary for the employer's disclosures.)*

As of measurement date	Pension Expense as of 6/30/2018	Pension Expense as of 6/30/2017
Employer's Proportionate	$25,694	$185,023
Employer Grant Revenue – State of Montana Proportionate Share for	35,596	1,404
Employer Grant Revenue – State of Montana State Appropriation for	0	30,467
Total	$61,290	$216,894

NOTE 10 – PERS DEFINED BENEFIT PENSION PLAN MPERA Disclosures, continued

Recognition of Deferred Inflows and Outflows – 57, 80h, 80i: At June 30, 2018, the employer reported its proportionate share of the Plan's deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of of Resources	Deferred Inflows Resources
Expected vs. Actual Experience	$121,485	$0
Projected Investment Earnings vs. Actual Investment Earnings	0	24,810
Changes in Assumptions	135,850	0
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	0	337,284
Employer Contributions Subsequent to the Measurement Date	108,140	
Total	$365,475	$362,094

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

For the Measurement Year ended June 30:	Recognition of Deferred Outflows and Deferred Inflows in future years as an increase or (decrease) to Pension Expense
2019	$34,273
2020	$15,780
2021	$(144,618)
2022	$(10,194)
2023	$0
Thereaf	$0

Actuarial Assumptions - 77: **The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions.**

Investment Return (net of admin expense)	7.65%
Admin Expense as % of Payroll	0.26%
General Wage Growth * *includes Inflation at	3.50% 2.75%
Merit Increases	0% to 6.30%
Postretirement Benefit Increases 1. Guaranteed Annual Benefit Adjustment (GABA) each January • After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of all other adjustments to the member's benefit. • Members hired prior to July 1, 2007 • Members hired between July 1, 2007 & June 30, 2013 • Members hired on or after July 1, 2013 • For each year PERS is funded at or above 90% • The 1.5% is reduced by 0.1% for each 2.0% PERS is funded below 90% • 0% whenever the amortization period for PERS is 40 years or more	 3.0% 1.5% 1.5% 0%
Mortality: • Contributing members, , service retired members & beneficiaries • Disabled Members	 RP-2000 Combined Employee and Annuitant Mortality Tables projected to 2020 with scale BB, set back one year for males RP-2000 Combined Mortality Tables, with no projections

The most recent experience study, performed for the period covering fiscal years 2011 through 2016, is outlined in a report dated May 5, 2017 and can be located on the MPERA website. The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the Plan. Several factors are considered in evaluating the long-term rate of return assumption including historical rates of return, rate of return assumptions adopted by similar public-sector systems, and by using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation (78c & 78f) as of June 30, 2018, are summarized in the table on the top of the next page.

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return Arithmetic Basis
Cash Equivalents	2.6%	4.00%
Domestic Equity	36.0%	4.55%
Foreign Equity	18.0%	6.35%
Fixed Income	23.4%	1.00%
Private Equity	12.0%	7.75%
Real Estate	8.0%	4.00%
Total	100.0%	

Discount Rate – 78a, 78b, 78d, 78e: The discount rate used to measure the TPL was 7.65%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities would be made based on the Board's funding policy, which established the contractually required rates under the Montana Code Annotated. The state contributed 0.10% of the salaries paid by local governments and 0.37% paid by school districts. In addition, the state contributed a statutory appropriation from the general fund. Based on those assumptions, the Plan's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2121. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL. A municipal bond rate was not incorporated in the discount rate.

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

As of measurement date	1.0% Decrease (6.65%)	Current Discount Rate	1.0% Increase (8.65%)
CITY OF POLSON's Net Pension Liability	$2,310,470	$1,597,579	$1,012,183

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

All new PERS members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-DCRP by filing an irrevocable election. Members may not be participants of both the *defined benefit* and *defined contribution* retirement plans.

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

Benefits are dependent upon eligibility and individual account balances. Participants are vested immediately in their own contributions and attributable income. Participants are vested after 5 years of membership service for the employer's contributions to individual accounts and the attributable income. Non-vested contributions are forfeited upon termination of employment per 19-3-2117(5), MCA. Such forfeitures are used to cover the administrative expenses of the PERS-DCRP.
At the plan level for the measurement period ended June 30, 2018, the PERS-DCRP employer did not recognize any net pension liability or pension expense for the *defined contribution* plan. Plan level non-vested forfeitures for the 316 employers that have participants in the PERS-DCRP totaled $746,144.

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

NOTE 11 – MPORS DEFINED BENEFIT PENSION PLAN MPERA Disclosures

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

CITY OF POLSON (6578) MUNICIPAL POLICE OFFICERS' RETIREMENT SYSTEM GASB 68 NOTES TO THE FINANCIAL STATEMENTS FOR FISCAL YEAR ENDED JUNE 30, 2018 (measurement date) JUNE 30, 2019 (reporting date)

In accordance with GASB Statement 68, *Accounting and Financial Reporting for Pensions*, employers and the non-employer contributing entity are required to recognize and report certain amounts associated with participation in the Municipal Police Officers' Retirement System (the Plan). This includes the proportionate share of the collective Net Pension Liability; Pension Expense; and Deferred Outflows and Deferred Inflows of Resources associated with pensions. Employers are provided guidance in GASB Statement 68, paragraph 74, where pension amounts must be combined as a total or aggregate for reporting. Whether provided through cost- sharing, single-employer, or agent plans. This report provides information for employers who are using a June 30, 2018 measurement date for the 2019 reporting.

Summary of Significant Accounting Policies – 79
MPERA prepared financial statements using the accrual basis of accounting. The same accrual basis was used by MPERA for the purposes of determining the Net Pension Liability (NPL); Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions; Pension Expense; the Fiduciary Net Position; and, Additions to or Deductions from Fiduciary Net Position. Member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Revenues are recognized in the accounting period they are earned and become measurable. Benefit payments and refunds are recognized in the accounting period in which they are due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred. Investments are reported at fair value. MPERA adhered to all accounting principles generally accepted by the United States of America. MPERA applied all applicable pronouncements of the Governmental Accounting Standards Board (GASB).
General Information about the Pension Plan – 76a, 76b, 76c

Plan Description – 76a: The Municipal Police Officers' Retirement System (MPORS), administered by the Montana Public Employee Retirement Administration (MPERA), is a multiple-employer, cost-sharing defined benefit plan established in 1974 and governed by Title 19, chapters 2 & 9, Montana Code Annotated (MCA). This plan provides retirement benefits to all municipal police officers employed by first- and second-class cities and other cities that adopt the plan. Benefits are established by state law and can only be amended by the Legislature.

Deferred Retirement Option Plan (DROP): Beginning July 2002, eligible members of MPORS can participate in the DROP by filing a one-time irrevocable election with the Board. The DROP is governed by Title 19, Chapter 9, Part 12, MCA. A member must have completed at least twenty years of membership service to be eligible. They may elect to participate in the DROP for a minimum of one month and a maximum of 60 months and may only participate in the DROP once. A participant remains a member of the MPORS, but will not receive membership service or service credit in the system for the duration of the member's DROP period. During participation in the DROP, all mandatory contributions continue to the retirement system. A monthly benefit is calculated based on salary and years of service to date as of the beginning of the DROP period. The monthly benefit is paid into the member's DROP account until the end of the DROP period. At the end of the DROP period, the participant may receive the balance of the DROP account in a lump-sum payment or in a direct rollover to another eligible plan, as allowed by the IRS. If the participant continues employment after the DROP period ends, they will again accrue membership service and service credit. The DROP account cannot be distributed until employment is formally terminated.

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

Service retirement and monthly benefit formula:

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

Second retirement:

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

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

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

- If the member works more than 480 hours in a calendar year and accumulates less than 5 years of service credit before terminating again, the member:
  - is not awarded service credit for the period of reemployment;
  - is refunded the accumulated contributions associated with the period of reemployment;
    starting the first month following termination of service, receives the same retirement benefit previously paid to the member; and
  - does not accrue post-retirement benefit adjustments during the term of reemployment but receives a Guaranteed Annual Benefit Adjustment (GABA) in January immediately following second retirement.

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

Member's final average compensation (FAC)

- Hired prior to July 1, 1977 - average monthly compensation of final year of service;
- Hired on or after July 1, 1977 - final average compensation (FAC) for last consecutive 36 months.

Compensation Cap

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

Guaranteed Annual Benefit Adjustment (GABA)

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

Minimum benefit adjustment (non-GABA)

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

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

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

Fiscal Year	Member Hired < 7/1/75	Hired > 6/30/75	Hired > 6/30/79	Hired > 6/30/97 GABA	Employer	State
2000 - 2019	5.800%	7.000%	8.500%	9.000%	14.410%	29.370%
1998 - 1999	7.800%	9.000%	10.500%	11.000%	14.410%	29.370%
1997	7.800%	9.000%	10.500%		14.360%	29.370%

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

GASB Statement 68 allows a measurement date of up to 12 months before the employer's fiscal year-end can be utilized to determine the Plan's TPL. The basis for the TPL as of June 30, 2018, was determined by taking the results of the June 30, 2017, actuarial valuation and applying standard roll forward procedures. The roll forward procedure uses a calculation that adds the annual normal cost (also called the service cost), subtracts the actual benefit payments and refunds for the plan year, and then applies the expected investment rate of return for the year. The roll forward procedure will include the effects of any assumption changes and legislative changes. The update procedures are in conformity with Actuarial Standards of Practice issued by the Actuarial Standards Board.

The Total Pension Liability (TPL) minus the Fiduciary Net Position equals the Net Pension Liability (NPL). The proportionate shares of the employer's and the State of Montana's NPL for June 30, 2018, and 2017, are displayed below. The employer's proportionate share equals the ratio of the employer's contributions to the sum of all employer and non-employer contributions during the measurement period. Due to the existence of the special funding situation, the state is required to report a proportionate share of a local government's collective NPL that is associated with the non-state employer. The state's proportionate share for a particular employer equals the ratio of the contributions for the particular employer to the total state contributions paid. The employer recorded a liability of $574,814 and the employer's proportionate share was 0.3356 percent.

As of measurement date	Net Pension Liability as of 6/30/2018	Net Pension Liability as of 6/30/2017	Percent of Collective NPL as of 6/30/2018	Percent of Collective NPL as of 6/30/2017	Change in Percent of Collective NPL
CITY OF POLSON Proportionate Share	$ 574,814	$ 650,054	0.3356%	0.3654%	(0.0298)%
State of Montana Proportionate Share associated with Employer	1,175,034	1,324,918	1.0222%	1.1101%	(0.0879)%
Total	$ 1,749,848	$ 1,974,972	1.3578%	1.4755%	(0.1177)%

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

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

Changes in proportionate share: There were no changes between the measurement date of the collective NPL and the employer's reporting date that are expected to have a significant effect on the employer's proportionate share of the collective NPL.

Pension Expense -80g, 80j: At June 30, 2018 measurement date, the employer recognized its proportionate share of the Plan's pension expense of $152,529. The employer also recognized grant revenue of $161,981 for the support provided by the State of Montana for the proportionate share of the pension expense that is associated with the employer. *(Two years of pension expense are documented in the table below but are not necessary for the employer's disclosures.)*

As of measurement date	Pension Expense as of 6/30/2018	Pension Expense as of 6/30/2017
CITY OF POLSON's Proportionate Share	$152,529	$178,672
Employer Grant Revenue - State of Montana Proportionate Share for Employer	161,981	160,476
Total	$314,509	$339,148

Recognition of Deferred Inflows and Outflows – 57, 80h, 80i: At June 30, 2018, the employer reported its proportionate share of the Plan's deferred outflows of resources and deferred inflows of resources from the following sources:

As of measurement date	Deferred Outflows of Resources	Deferred Inflows of Resources
Expected vs. Actual Experience	$1,611	$11,465
Projected Investment Earnings vs. Actual Investment	0	4,359
Changes in Assumptions	26,871	0
Changes in Proportion and Differences Between Employer	3,690	0
Employer Contributions Subsequent to the Measurement	78,568	
Total	$110,740	$15,823

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

For the Measurement Year ended June 30:	Recognition of Deferred Outflows and Deferred Inflows in future years as an increase or (decrease) to Pension Expense
2019	$40,078
2020	$2,431
2021	$(23,596)
2022	$(2,563)
2023	$0
Thereaf	$0

Actuarial Assumptions - 77: The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions.

Investment Return (net of admin expense)	7.65%
Admin Expense as % of Payroll	0.24%
General Wage Growth * *includes Inflation at	3.50% 2.75%
Merit Increases	0% to 6.60%
Postretirement Benefit Increases 1. Guaranteed Annual Benefit Adjustment (GABA) each January • Members hired on or after July 1, 1997 or those electing GABA • Requires 12 full months of retirement before GABA will be made 2. Minimum Benefit Adjustment (non-GABA) • Benefit for a retired member or member's survivor and member did not elect GABA	3.0% The minimum benefit provided should not be less than 50% of the monthly compensation paid to a newly confirmed police officer of the employer that last employed the member as a police officer
Mortality: • Contributing members, Service Retired Members & beneficiaries • Disabled Retirees	RP-2000 Combined Employee and Annuitant Mortality Tables projected to 2020 with scale BB, set back one year for males RP-2000 Combined Mortality Tables with no projects

The most recent experience study, performed for the period covering fiscal years 2011 through 2016, is outlined in a report dated May 5, 2017 and can be located on the MPERA website. The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the Plan. Several factors are considered in evaluating the long-term rate of return assumption including historical rates of return, rate of return assumptions adopted by similar public-sector systems, and by using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation (78c & 78f) as of June 30, 2018, are summarized below.

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return Arithmetic Basis
Cash Equivalents	2.6%	4.00%
Domestic Equity	36.0%	4.55%
Foreign Equity	18.0%	6.35%
Fixed Income	23.4%	1.00%
Private Equity	12.0%	7.75%
Real Estate	8.0%	4.00%
Total	100.0%	

Discount Rate – 78a, 78b, 78d, 78e: The discount rate used to measure the TPL was 7.65%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities would be made based on the Board's funding policy, which established the contractually required rates under the Montana Code Annotated. The state contributed 29.37% of the salaries paid by employers. Based on those assumptions, the Plan's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2132. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL. A municipal bond rate was not incorporated in the discount rate.

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

As of measurement date	1.0% Decrease (6.65%)	Current Discount Rate	1.0% Increase (8.65%)
CITY OF POLSON's Net Pension Liability	$872,946	$574,814	$336,388

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

NOTE 12 – POST-EMPLOYMENT HEALTHCARE PLAN

As required by Montana State Law (MCA 2-18-704), the City allows it employees who retire and their spouses and dependents the option to continue to participate in the City's group health insurance plan. The City also allows terminated employees to continue their health care coverage for 18 months past the date of termination as required by the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA). To continue coverage, retirees are required to pay the full cost of the benefits. State law requires the City to offer insurance to retirees but it does not require the City to offer it at the same rate as all participants. Furthermore, there are no legal or contractual agreements requiring the City to pay any portion of a retiree's insurance or to offer the insurance at a specified rate.

The City implemented Governmental Accounting Standards Board (GASB) Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (OPEB) in fiscal year 2010 and its replacement, GASB Statement 75, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* in fiscal year 2018. Since the first actuarial study was done in 2010, the City 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 was paying age-related premiums for each employee and any retirees would also pay the total age-related premium. As a result of this change, the City had been advised by its actuary that there was no "implicit rate subsidy" for retirees and there was no need to accrue a liability. In fiscal year 2018, the City again started paying a level premium for all employees creating an implicit rate subsidy. This creates a defined benefit Other Post-Employment Benefits (OPEB) plan, since retirees are usually older than the average age of the plan participants and thus receive a benefit of lower insurance rates. The OPEB plan is a single-employer defined benefit plan administered by the City. The City has not created a trust to accumulate assets to assist in covering the defined benefit plan costs, and covers these costs when they become due. The City has less than 100 plan members and thus qualifies to use the "Alternative Measurement Method" for calculating the liability. The above described OPEB plan does not provide a stand-alone financial report.

Plan Description. The City has a single-employer group health plan through Blue Cross Blue Shield of Montana which provides medical benefits. Dental and vision benefits are provided by other companies. The health insurance plan has two options; one lower deductible health plan and one high deductible health plan (HDHP) which qualifies for a 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 70% of eligible medical expenses until the maximum out of pocket is reached. Premiums are $545 for individuals (currently there are no spouse or families on this plan). The employee pays $100 for individual coverage and the City pays the remaining amount; the employee pays the full premium for spouse and family coverage. The HDHP has a $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 until the maximum out of pocket is reached. The monthly premium cost ranges from $381 to $1,182 depending on coverage options. Of the monthly premium, the employee pays $40 for employee only coverage; $80 for employee and spouse coverage; $85 for employee and child coverage; and $125 for employee and family coverage and the City pays the remainder of the premium for each active eligible employee including spouse, child and family coverage.

Benefits Provided. The City provides healthcare insurance benefits for retirees and their dependents upon reaching the age and service years defined in MCA 2-18-704. The City is no longer obligated to provide the benefits once the employee is eligible for Medicare. 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 benefit terms require that eligible retirees pay 100 percent of the health insurance premiums.

Employees covered by benefit terms. At June 30, 2019 the following employees were covered by the benefit terms:

Inactive employees or beneficiaries receiving benefit payments	1
Active employees	42
Total employees	43

Total OPEB Liability

The City's total OPEB liability of $94,013 at June 30, 2019 was determined by the alternate measurement method as of that date. It is important to note that the liability is highly sensitive to the participation rate assumption. Based on historical data for the prior ten years, the City used a 10% participation rate.

Actuarial assumptions and other input. The total OPEB liability in the June 30, 2019 alternative measurement method was determined using the following assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Average age of retirement (based on historical data)	62
Discount rate (average anticipated rate)	3.96%
Average salary increase (Consumer Price Index)	3.00%

Health care cost rate trend (Federal Office of the Actuary)

Year	**% Increase**
2019	5.2%
2020	6.1%
2021	5.9%
2022	5.8%
2023	5.9%
2024	5.9%
2025	5.7%
2026	6.5%
2027	6.5%
2028	6.5%
2029 and thereafter	6.5%

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

Life expectancy of employees was based on the United States Life Tables, 2014 for Males: Table 2 and Females: Table 3 as published in the National Vital Statistics Reports, Vol. 66, No. 4, August 14, 2017.

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

Changes in the Total OPEB Liability

		Total OPEB Liability
Balance at 06/30/2018	$	86,024
Changes for the year:		
Service Cost		7,989
Net changes	$	7,989
Balance at 06/30/2019	$	94,013

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

	1.0% Decrease (2.96%)	**Current Discount Rate (3.96%)**	**1.0% Increase (4.96%)**
Total OPEB Liability	$109,112	$94,013	$81,760

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

	1.0% Decrease	**Healthcare Cost Trends***	**1.0% Increase**
Total OPEB Liability	$79,147	$94,013	$112,709

**Reference the assumption notes above to determine the healthcare cost trends used to calculate the OPEB liability.*

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

For the year ended June 30, 2019, the City recognized an OPEB expense of $7,989. The City does not report deferred outflows of resources and deferred inflows of resources related to OPEB as there were no differences between expected and actual experience or changes in assumptions performed in the alternative measurement method. In addition, since the City records costs as they come due there are no deferred outflows of resources for contributions to the OPEB plan.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

The City is committed to spend $1,160,303 in FY2020 for completion of construction of the wastewater resource recovery facility on the site of the existing sewer lagoon. The City is also committed to spend approximately $199,368 on construction engineering and equipment in FY2020. The City has recorded a liability for liquidated damages (recorded in accounts payable) withheld from contractor payments in the amount of $187,500 that will need to be resolved at the conclusion of the project.

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

The City has entered into a contract for construction of an addition to the Skate Park in the amount of $220,000. Construction will not begin until the entire cost of the construction is available to the City through private donations and grants. Construction is not expected to begin until fiscal year 2020.

The City is committed to match 13.42% of the MACI grant ($26,516) for the purchase of a new flush truck to be shared by the Fire department and Street department. The total grant revenue will be $171,073.

The City is committed to award tax increment financing urban renewal grants in the amount of $174,325 in FY2020.

The City entered into a contractual agreement on December 12, 2012 to refund 50% of future water impact fee revenue 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 $108,405 has been paid per the agreement and an additional $91,595.00 was considered paid in a non-cash transaction involving assignment of the private entity's payment for a total of $200,000 which fulfills the commitment at June 30, 2019.

The City was committed to spend $37,141 of 2018 Bridge and Road Safety and Accountability Program (BARSAA) HB473 Fuel Tax Allocation revenue. The funds will be used on the 2nd Street East project.

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, 2019, the City had protested taxes in the amount of $3,525.

As of June 30, 2019, delinquent assessments on SIDs were $1,213. The delinquencies are due from various residential and commercial property owners. The City anticipates payment of the delinquencies from the land owners and will proceed with tax deeds on the property if the assessments are not paid current before the end of the SID bond terms.

NOTE 14 - DEFICIT FUND BALANCES/NET ASSETS

The City had no deficit fund balances at June 30, 2019.

NOTE 15 – PRIOR PERIOD ADJUSTMENTS

The following prior period adjustments were made for the fiscal year 2019:

Fund		Amount	Reason
Government-wide governmental funds	$	10,963	Adjust beginning accumulated depreciation
Component unit		(152,850)	Remove component unit from reporting
Total Government-wide activities	$	(141,887)	

NOTE 16 - JOINT VENTURES

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

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

NOTE 17 - COUNTY PROVIDED SERVICES

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

NOTE 18 - RISK MANAGEMENT

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

NOTE 19 – LITIGATION

The City is party to certain litigation under which it may be required to pay certain monies upon the decision of the courts. The office of the City Attorney reports various contingent liabilities based on the amount of damages alleged in various cases. However, it is the opinion of the City Attorney that the City's liability in the cases not covered by insurance, are not material to the financial statements. The amount of that liability is not measurable at June 30, 2019 and accordingly, no provision has been made in the financial statements for these contingent liabilities.

NOTE 20 - SPENDING POLICY

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

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

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

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

NOTE 21 – FUND EQUITY

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

At June 30, 2019 the City had a total fund balance in governmental funds of $3,171,462. In accordance with GASB Statement 54, this fund balance has been classified as follows:

General Fund		
Unassigned	$ 627,867	Balance after any restricted, committed or assigned fund balance
Major Special Revenue Fund		
Restricted	887,237	State law for Tax Increment Financing Districts and bond resolution for debt service requirements
Non-major Special Revenue Funds		
Restricted	1,382,123	State and Federal and local law for law enforcement, building construction inspections, public works maintenance, grant restrictions and external party restrictions
Committed	47,854	City Ordinance for specific budgeted programs
Assigned	925	Specific special revenue fund programs
Major Debt service Fund		
Restricted	67,304	Bond resolution for debt service requirements
Non-major Debt service Funds		
Restricted	58,548	State law for debt service revolving funds
Assigned	99,595	Specified special revenue fund programs
Non-major Capital Projects Fund		
Restricted	9	Bond resolution requirements
Total Governmental Fund Balance	**$ 3,171,462**	

NOTE 22. PENDING LITIGATION

The following is a list of litigations pending against the City. The City attorney has made no evaluations as to the outcome of each case. The City has liability insurance which may cover all or part of the damages requested

Case	Damages Requested	Potential of Loss
Matthew Temple v. City of Polson	Unknown	Unknown
John & Claudia Adams v. City of Polson	Unknown	Unknown

NOTE 22. SUBSEQUENT EVENTS

A firm has been hired to conduct the hiring process for a new City Manager in conjunction with the search committee with the expectation that it will be completed in the spring of 2020.

Covid-19 Virus
The government, like all governments in the United States is dealing with the effects of the Covid 19 virus. Possible government operational changes or even shutdowns may occur. Additionally, the financial effects to the government are equally as uncertain.

REQUIRED SUPPLEMENTAL INFORMATION

City of Polson, Lake County, Montana
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2019

	General			
	BUDGETED AMOUNTS		ACTUAL AMOUNTS (BUDGETARY BASIS) See Note A	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL		
RESOURCES (INFLOWS):				
Taxes and assessments	$ 1,477,898	$ 1,477,898	$ 1,467,302	$ (10,596)
Licenses and permits	44,550	44,550	21,099	(23,451)
Intergovernmental	1,069,526	1,069,526	868,262	(201,264)
Charges for services	188,273	188,273	185,588	(2,685)
Fines and forfeitures	45,100	45,100	49,592	4,492
Miscellaneous	61,500	61,500	73,677	12,177
Investment earnings	2,000	2,000	2,592	592
Amounts available for appropriation	$ 2,888,847	$ 2,888,847	$ 2,668,112	$ (220,735)
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
General government	$ 749,178	$ 749,178	$ 709,060	$ 40,118
Public safety	1,798,724	1,798,724	1,563,603	235,121
Public works	234,930	234,930	224,573	10,357
Culture and recreation	216,843	216,843	193,737	23,106
Debt service - principal	-	-	13,573	(13,573)
Debt service - interest	-	-	780	(780)
Miscellaneous	35,000	35,000	-	35,000
Capital outlay	211,227	211,227	111,666	99,561
Total charges to appropriations	$ 3,245,902	$ 3,245,902	$ 2,816,992	$ 428,910
OTHER FINANCING SOURCES (USES)				
Proceeds of general long term debt	$ 100,000	$ 100,000	$ 14,949	$ (85,051)
Proceeds from the sale of general capital asset disposition	25,000	25,000	28,000	3,000
Other financing use (expenditure)	(5,000)	(5,000)	-	5,000
Transfers in	119,013	119,013	113,977	(5,036)
Transfers out	-	-	(5,000)	(5,000)
Total other financing sources (uses)	$ 239,013	$ 239,013	$ 151,926	$ (87,087)
Net change in fund balance			$ 3,046	
Fund balance - beginning of the year			$ 624,822	
Fund balance - end of the year			$ 627,868	

City of Polson, Lake County, Montana
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2019

	Tax Increment District			
	BUDGETED AMOUNTS		ACTUAL AMOUNTS (BUDGETARY	VARIANCE WITH FINAL
	ORIGINAL	FINAL	BASIS) See Note A	BUDGET
RESOURCES (INFLOWS):				
Taxes and assessments	$ 151,000	$ 151,000	$ 151,703	$ 703
Intergovernmental	13,081	13,081	13,081	-
Investment earnings	1,500	1,500	5,300	3,800
Amounts available for appropriation	$ 165,581	$ 165,581	$ 170,084	$ 4,503
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
Housing and community development	$ 424,871	$ 424,871	$ 38,427	$ 386,444
Debt service - principal	-	-	64,381	(64,381)
Debt service - interest	-	-	14,024	(14,024)
Total charges to appropriations	$ 424,871	$ 424,871	$ 116,832	$ 308,039
OTHER FINANCING SOURCES (USES)				
Transfers out	$ -	$ -	$ (2,859)	$ (2,859)
Total other financing sources (uses)	$ -	$ -	$ (2,859)	$ (2,859)
Net change in fund balance			$ 50,393	
Fund balance - beginning of the year			$ 836,844	
Fund balance - end of the year			$ 887,237	

City of Polson, Lake County, Montana
Budgetary Comparison Schedule
Budget-to-GAAP Reconciliation

Note A - Explanation of differences between budgetary inflows and outflows and GAAP Revenues and Expenditures

	General	Tax Increment District
Sources/Inflows of resources		
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	$ 2,668,112	$ 170,084
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances-governmental funds.	$ 2,668,112	$ 170,084
Actual amounts (Budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	$ 2,816,992	$ 116,832
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	$ 2,816,992	$ 116,832

City of Polson, Lake County, Montana
Required Supplementary Information
Schedule of Changes in the Total OPEB Liability
and Related Ratios
For the Year Ended June 30, 2019

	2019	2018
Total OPEB liability		
Service Cost	$ 7,989	$ 7,991
Net change in total OPEB liability	7,989	7,991
Total OPEB Liability - beginning	86,024	-
Restatement	-	78,033
Total OPEB Liability - ending	$ 94,013	$ 86,024
Covered-employee payroll	$ 1,936,771	$ 1,936,771
Total OPEB liability as a percentage of covered -employee payroll	4.9%	4.4%

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

City of Polson, Lake County, Montana
Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Liability
For the Year Ended June 30, 2019

As of measurement date	PERS 2018	PERS 2017	PERS 2016	PERS 2015	PERS 2014
Employer’s proportion of the net pension liability	0.0765%	0.1094%	0.0995%	0.1013%	0.1212%
Employer’s proportionate share of the net pension liability associated with the Employer	$ 1,597,579	$ 2,129,820	$ 1,694,525	$ 1,416,630	$ 1,510,614
State of Montana’s proportionate share of the net pension liability associated with the Employer	$ 533,360	$ 26,329	$ 20,705	$ 17,401	$ 18,447
Total	$ 2,130,939	$ 2,156,148	$ 1,715,230	$ 1,434,031	$ 1,529,060
Employer’s covered payroll	$ 1,258,806	$ 1,356,566	$ 1,191,622	$ 1,182,681	$ 1,380,329
Employer’s proportionate share of the net pension liability as a percentage of its covered payroll	126.91%	157.00%	142.20%	119.78%	111.22%
Plan fiduciary net position as a percentage of the total pension liability	73.47%	73.75%	74.71%	78.40%	79.87%

As of measurement date	MPORS 2018	MPORS 2017	MPORS 2016	MPORS 2015	MPORS 2014
Employer’s proportion of the net pension liability	0.3356%	0.3654%	0.3558%	0.2779%	0.1355%
Employer’s proportionate share of the net pension liability associated with the Employer	$ 574,814	$ 650,054	$ 640,399	$ 459,714	$ 212,969
State of Montana’s proportionate share of the net pension liability associated with the Employer	$ 1,175,034	$ 1,324,918	$ 1,271,220	$ 931,424	$ 430,223
Total	$ 1,749,848	$ 1,974,972	$ 1,911,619	$ 1,391,139	$ 643,192
Employer’s covered payroll	$ 529,791	$ 546,393	$ 502,202	$ 384,627	$ 181,848
Employer’s proportionate share of the net pension liability as a percentage of its covered payroll	108.50%	118.97%	127.52%	119.52%	117.11%
Plan fiduciary net position as a percentage of the total pension liability	70.95%	68.34%	65.62%	66.90%	67.01%

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

City of Polson, Lake County, Montana
Required Supplementary Information
Schedule of Contributions
For the Year Ended June 30, 2019

As of most recent FYE (reporting date)	**PERS 2019**	**PERS 2018**	**PERS 2017**	**PERS 2016**	**PERS 2015**
Contractually required contributions	$ 108,140	$ 106,621	$ 113,545	$ 101,461	$ 99,155
Contributions in relation to the contractually required contributions	$ 108,140	$ 106,621	$ 113,545	$ 101,461	$ 99,155
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
City's covered payroll	$ 1,261,837	$ 1,258,806	$ 1,356,566	$ 1,191,622	$ 1,182,681
Contributions as a percentage of covered payroll	8.57%	8.47%	8.37%	8.51%	8.38%

As of most recent FYE (reporting date)	**MPORS 2019**	**MPORS 2018**	**MPORS 2017**	**MPORS 2016**	**MPORS 2015**
Contractually required contributions	$ 78,568	$ 79,239	$ 78,735	$ 73,566	$ 55,756
Contributions in relation to the contractually required contributions	$ 78,568	$ 79,239	$ 78,735	$ 73,566	$ 55,756
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
City's covered payroll	$ 529,791	$ 529,791	$ 546,393	$ 502,202	$ 384,627
Contributions as a percentage of covered payroll	14.83%	14.41%	14.41%	14.65%	14.50%

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

<u>Public Employees' Retirement System of Montana (PERS)</u>

Changes of Benefit Terms
The following changes to the plan provision were made as identified:

2013 Legislative Changes

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

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

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

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

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

Guaranteed Annual Benefit Adjustment (GABA) - for PERS
After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of all other adjustments to the member's benefit.

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

2015 Legislative Changes

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

Second Retirement Benefit - for PERS

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

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

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

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

Changes in Actuarial Assumptions and Methods
Method and assumptions used in calculations of actuarially determined contributions

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

Admin Expense as % of Payroll	0.27%

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

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

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

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

Changes of Benefit Terms
The following changes to the plan provisions were made as identified:

2017:
Working Retiree Limitations – for PERS
Effective July 1, 2017, if a PERS retiree returns as an independent contractor to what would otherwise be PERS-covered employment,
general contractor overhead costs are excluded from PERS working retiree limitations.

Refunds
1) Terminating members eligible to retire may, in lieu of receiving a monthly retirement benefit, refund their accumulated contributions in a lump sum.
2) Terminating members with accumulated contributions between $200 and $1,000 who wish to rollover their refund must do so within 90 days of termination of service.
3) Trusts, estates, and charitable organizations listed as beneficiaries are entitled to receive only a lump-sum payment.

Interest credited to member accounts – Effective July 1, 2017, the interest rate credited to member accounts increased from 0.25% to 0.77%.

Lump-sum payouts
Effective July 1, 2017, lump-sum payouts in all systems are limited to the member's accumulated contributions rate than the present value of the member's benefit.

Disabled PERS Defined Contribution (DC) Members
PERS members hired after July 1, 2011 have a normal retirement age of 65. PERS DC members hired after July 1, 2011 who became disabled were previously only eligible for a disability benefit until age 65. Effective July 1, 2017, these individuals will be eligible for a disability benefit until they reach 70, thus ensuring the same 5-year time period available to PERS DC disabled members hired prior to July 1, 2011 who have a normal retirement age of 60 and are eligible for a disability benefit until age 65.

Changes in Actuarial Assumptions and Methods

Method and assumptions used in calculations of actuarially determined contributions

The following Actuarial Assumptions were adopted from the June 2016 Experience Study:

General Wage Growth*	3.50%
Investment Rate of Return*	7.65%
*Includes inflation at	2.75%
Merit salary increase	0% to 6.30%
Asset valuation method	Four-year smoothed market
Actuarial cost method Entry age	Normal
Amortization method	Level percentage of payroll, open
Remaining amortization period	30 years
Mortality (Healthy members)	For Males and Females: RP 2000 Combined Employee and Annuitant Mortality Table projected to 2020 using Scale BB, males set back 1 year
Mortality (Disabled members)	For Males and Females: RP 2000 Combined Mortality Table, with no projections
Admin Expense as % of Payroll	0.26%

Administrative expenses are recognized by an additional amount added to the normal cost contribution rate for the System. This amount varies from year to year based on the prior year's actual administrative expenses.

<u>Montana Municipal Police Officers' Retirement System of Montana(MPORS)</u>

Changes of Benefit Terms

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

2013 Legislative Changes

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

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

2015 Legislative Changes

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

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

Changes in Actuarial Assumptions and Methods
Method and assumptions used in calculations of actuarially determined contributions

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

Admin Expense as % of Payroll	0.20%

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

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

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

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

Changes of Benefit Terms
The following changes to the plan provision were made as identified:

2017:
Working Retiree Limitations – for MPORS
Applies to retirement system members who return on or after July 1, 2017 to covered employment in the system from which they retired.

- Members who return for less than 480 hours in a calendar year:
  - May not become an active member in the system; and
  - Are subject to a $1 reduction in their retirement benefit for each $3 earned in excess of $5,000 in the calendar year.
- Members who return for 480 or more hours in a calendar year:
  - Must become an active member of the system;
  - Will stop receiving a retirement benefit from the system; and
  - Will be eligible for a second retirement benefit if they earn 5 or more years of service credit through their second employment.
- Employee, employer and state contributions, if any, apply as follows:
  - Employer contributions and state contributions (if any) must be paid on all working retirees;

- Employee contributions must be paid on working retirees who return to covered employment for 480 or more hours in a calendar year.

Second Retirement Benefit – for MPORS
Applies to retirement system members who return on or after July 1, 2017 to active service covered by the system from which they retired.

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

Refunds

- Terminating members eligible to retire may, in lieu of receiving a monthly retirement benefit, refund their accumulated
- contributions in a lump sum.
- Terminating members with accumulated contributions between $200 and $1,000 who wish to rollover their refund must do so
- within 90 days of termination of service.
- Trusts, estates, and charitable organizations listed as beneficiaries are entitled to receive only a lump-sum payment.

Interest credited to member accounts

- Effective July 1, 2017, the interest rate credited to member accounts increased from 0.25% to 0.77%.

Lump-sum payouts

- Effective July 1, 2017, lump-sum payouts in all systems are limited to the member's accumulated contributions rate than the present value of the member's benefit.

Changes in Actuarial Assumptions and Methods

Method and assumptions used in calculations of actuarially determined contributions

The following Actuarial Assumptions were adopted from the June 30, 2017 actuarial valuation:

General Wage Growth*	3.50%
Investment Rate of Return*	7.65%
*Includes inflation at	2.75%
Merit salary increases	0% to 6.60%
Asset valuation method	Four-year smoothed market
Actuarial cost method Entry Age	Normal
Amortization method	Level percentage of pay, open
Mortality (Healthy members)	For Males and Females: RP 2000 Combined Employee and Annuitant Mortality Table projected to 2020 using Scale BB, males set back 1 year
Mortality (Disabled members)	For Males and Females: RP 2000 Combined Mortality Table
Admin Expense as % of Payroll	0.24%

Administrative expenses are recognized by an additional amount added to the normal cost contribution rate for the System. This amount varies from year to year based on the prior year's actual administrative expenses.

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

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing* Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of City of Polson, Lake County, Montana, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City of Polson's basic financial statements and have issued our report thereon dated June 26, 2020.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the City of Polson's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards* and which are described below as item(s) 2019-001.

2019-001 Timely Filing of Annual Financial Report (Repeat Finding 2018-1)

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

Context:
As part of compliance testing, we reviewed the State's website to determine when the AFR FY2019 was submitted.

Criteria:
Montana Code 2-7-503 requires local governments to file an AFR within 6 months of the close of the government's fiscal year (fiscal year ended June 30, 2019 deadline was December 31, 2019).

Effect:
The City did not comply with MCA 2-7-503 in filing of its fiscal year 2019 AFR.

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

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

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

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

Denning, Downey and Associates, CPA's, P.C.

June 26, 2020

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

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

REPORT ON PRIOR AUDIT REPORT RECOMMENDATIONS

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

The prior audit report contained one recommendation. The action taken on each recommendation is as follows:

Recommendation	Action Taken
Timely Filing of Annual Financial Report	Repeated

Denning, Downey and Associates, CPA's, P.C.

June 26, 2020

CITY OF POLSON
Administration & Finance Dept.
106 1st Street E. | Polson, MT 59860
T: 406-883-8204 | F: 406-883-8238
E: finance@cityofpolson.com
W: www.cityofpolson.com

<u>Contact Person:</u>

Cynda M Dooley, CPA
Finance Officer for City of Polson
106 1st St E
Polson, Montana 59860
406-883-8204

<u>Expected Completion Date of Corrective Action Plan:</u>
September 30, 2020

CORRECTIVE ACTION PLAN

FINDING 2019-001: Timely Filing of Annual Finance Report (repeat 2018-001)

<u>Response:</u>
The Finance Officer is currently without an assistant again, so the first priority will be to hire a part-time assistant for the Finance Officer but this will not occur until after the new City Manager is hired as this person will also be a part-time assistant to the City Manager.

The Finance Office did file the 2019 report by January 31, 2020 which was an improvement over the prior year's filing on February 28, 2019 for the 2018 report.

The Finance Officer will again prepare a calendar with major milestone dates for completion of various parts of the AFR.

STATUS OF PRIOR AUDIT FINDINGS

FINDING 2018-001: Timely Filing of Annual Finance Report

Response: See response to finding 2019-001