

**TOWN OF STEVENSVILLE**  
**RAVALLI COUNTY**  
**STEVENSVILLE, MONTANA**

**FINANCIAL AND COMPLIANCE REPORT**

**Fiscal Year Ended June 30, 2019**

**Strom & Associates, P. C.**  
PO BOX 1980  
Billings, Montana 59103

TOWN OF STEVENSVILLE  
RAVALLI COUNTY  
STEVENSVILLE, MONTANA 59870

TABLE OF CONTENTS

	Page No
TABLE OF CONTENTS .....	1
ORGANIZATION - MAYOR, TOWN COUNCIL, AND OFFICIALS .....	2
MANAGEMENT'S DISCUSSION AND ANALYSIS .....	3 - 13
INDEPENDENT AUDITOR'S REPORT .....	14 - 15
BASIC FINANCIAL STATEMENTS:	
Statement of Net Position .....	16
Statement of Activities.....	17
Balance Sheet – Governmental Funds and a Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position .....	18
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds .....	19
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds to the Statement of Activities .....	20
Statement of Net Position - Proprietary Funds.....	21
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds .....	22
Statement of Cash Flows – Proprietary Funds .....	23
Statement of Fiduciary Net Position .....	24
Notes to the Financial Statements .....	25 - 47
REQUIRED SUPPLEMENTAL INFORMATION:	
Schedule of Funding Progress – Postemployment Benefits Other Than Pensions.....	48
Schedule of Proportionate Share of Net Pension Liability.....	49
Schedule of Contributions to Montana Retirement Systems.....	50
Notes to the Schedule of Proportionate Share of Net Pension Liability and Schedule of Contributions to Montana Retirement Systems .....	51 - 52
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – All Budgeted Major Funds.....	53
Notes to the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual .....	54 - 55
INDEPENDENT AUDITOR'S REPORTS:	
Report on Internal Control over Financial Reporting and on Compliance and other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	56 - 57
SCHEDULE OF FINDINGS AND RESPONSES .....	58 - 60
CORRECTIVE ACTION PLAN .....	61 - 66

TOWN OF STEVENSVILLE  
RAVALLI COUNTY  
STEVENSVILLE, MONTANA 59870

ORGANIZATION

MAYOR, TOWN COUNCIL, AND OFFICIALS

Brandon E. Dewey ..... Mayor  
Robert Michalson ..... President  
Robin Holcomb ..... Council  
Stacie Barker ..... Council  
Jerry Phillips ..... Council

OFFICIALS

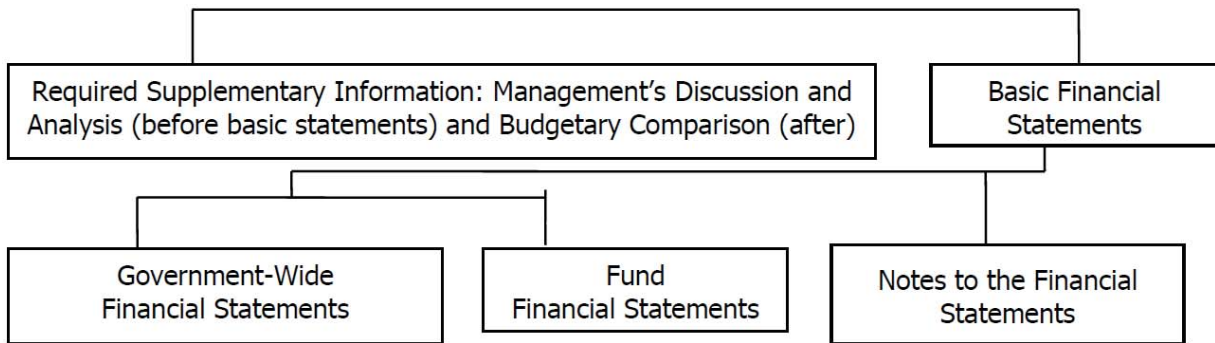
Robert Underwood ..... Town Clerk  
George Thomas ..... Public Utilities Supervisor  
Maureen O'Connor ..... Town Judge  
Jill Gerdrum ..... Town Attorney

As management of the Town of Stevensville (Town), we offer readers of the Town’s financial statements this narrative overview and analysis of the financial activities of the town for the fiscal year ended June 30, 2019. We encourage readers to read the information presented here in conjunction with additional information we have furnished in the Town’s financial statements, which follow this narrative. In this discussion a column for the last audited year, prior to current financial statements, is included for comparison.

**Overview of the Financial Statements**

The management’s discussion and analysis (MD&A) is intended to serve as an introduction to the Town’s basic financial statements. The Town’s basic financial statements consist of four components (see figure 1.); 1) government-wide financial statements, 2) fund financial statements, 3) notes to the financial statements, and 4) other required supplementary information in addition to the basic financial statements themselves. The basic financial statements present two different views of the Town through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains supplemental information what will enhance the reader’s understanding of the financial condition of the Town.

**Figure 1-Required Components of Basic Financial Statements**



**Basic Financial Statements**

The first two statements in the basic financial statements are **Government-Wide Financial Statements**. They provide both short and long-term information about the Town’s financial status. The next statements are **Fund Financial Statements**. These statements focus on activities of the individual parts of the Town’s government. These statements provide more detail than government-wide statements. There are three parts to the fund financial statements: 1) governmental funds statements; 2) proprietary funds statements, and 3) fiduciary fund statements.

The next section of the basic financial statements is the **Notes**. The notes to the financial statements explain in detail some of the data contained in the government-wide and fund financial statements. After the notes, **Required Supplementary Information (RSI)** is provided to show details about the Town's individual major funds budgetary information and required information relating to net pension liability other post-employment benefits. This MD&A is also required supplementary information though it precedes the rest of the information.

### **Government-Wide Financial Statements**

Government-wide financial statements are designed to provide the reader with a broad overview of the Town's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the town's financial status as a whole. The two government-wide statements in this report show the Town's net position and how they have changed. Net position is the difference between the Town's total assets and total liabilities. Government-wide funds use **accrual accounting**. Measuring net position is one way to gauge the Town's financial condition.

Government-wide statements are divided into two categories: governmental activities and business-type activities. The governmental activities include most of the Town's basic services, such as public safety, public works, parks, streets, recreation, and general administration. Property taxes and state and federal grants finance most of these activities. The business-like activities are those that the Town charges customers to provide. These include the water and sewer services offered by the Town. Condensed government-wide financial statements are in figures 2 through 5 of this MD&A.

### **Fund Financial Statements**

The fund financial statements provide a more detailed look at the Town's most significant activities. 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 Town, like all other governmental entities in Montana, uses fund accounting to ensure and demonstrate compliance (or non-compliance) with finance-related legal requirements, such as general statutes of the Town's budget ordinance.

**Governmental Funds**—Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending next year.

Governmental funds are reported using an accounting method called **modified accrual accounting** that provides a *short-term spending focus*. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps the reader determine if there are more or less financial resources available to finance the Town's programs. The relationship between governmental activities (reported in the statement of net position and the statement of activities) and the governmental funds (reported in the balance sheet and the statement of revenues, expenditures, and changes in fund balance) is described in reconciliations that are part of the fund financial statements.

**Proprietary Funds**— The Town has one kind of proprietary business-type funds. Enterprise funds are used to report the functions presented as business-type activities in the government-wide financial statements. The Town uses enterprise funds to account for its water, sewer and airport services. The funds use **accrual accounting** and are those functions shown in the business-type activities in the statement of net position and the statement of activities.

**Fiduciary Funds**—Fiduciary funds report activities for which the Town serves solely as financial administrator or custodian. Fiduciary funds appear in the fund financial statements to demonstrate compliance but are not included in the government-wide statements

**Notes to the Financial Statements**—The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements and fulfill disclosure requirements to conform with accounting principles generally accepted in the U.S. (GAAP) for governments.

**Other Required Supplementary Information**—In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Town including budgetary control within individual major funds.

Budgetary comparison statements use the budgetary basis of accounting and are presented using the same format, language, and classifications as the legal budget document. The statement shows six columns: 1) the original budget as adopted by the council; 2) the final budget as amended by the council; 3) the actual resources, charges to appropriations and ending balances in the fund; 4) the difference or variance between the final budget and the actual resources and charges; and 5 and 6) a reconciliation showing the difference between the budgetary basis of accounting and the modified accrual basis. GAAP requires budgetary presentations for the general fund and major special revenue funds.

The Town adopts an annual budget for its governmental funds, and for its proprietary funds, as required by general statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town, and the decisions of the

TOWN OF STEVENSVILLE

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)  
For the year ended June 30, 2019

Council about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current period activities. The budgetary statements demonstrate how well the Town complied with budget ordinances and whether or not the Town succeeded in providing services as planned when budgets were adopted.

**Government-Wide Financial Analysis**

Net position serves, over time, as one useful indicator of a government's financial condition. As shown in the statement of net position, assets plus deferred outflows of the Town exceeded total liabilities plus deferred outflows (net position) at the end of June 30, 2019 by \$ 14,966,039. The City's net position in operations (figures 2 and 3) decreased for the fiscal year ended June 30, 2019 by \$23,115 offset by capitalizing \$43,748 of fiscal 2018 expenses for a net increase in net position of \$20,633. Governmental net position increased by \$15,617 (figure 4) and business-type net position from operations decreased by (\$38,7221) offset by the FY 2018 capitalization for a net increase of \$5,026 (figure 5) to create a total Town net position increase at June 30, 2019.

**Figure 2-Governmental-Net Position**

	2019	2018	Change
Current Assets	\$ 1,102,152	\$ 1,003,652	\$ 98,500
Capital Assets-Net	<u>795,120</u>	<u>815,451</u>	<u>(20,331)</u>
Total Assets	<u>\$ 1,897,272</u>	<u>\$ 1,819,103</u>	<u>\$ 78,169</u>
Deferred Outflow of Resources	<u>\$ 76,876</u>	<u>\$ 104,037</u>	<u>\$ (27,161)</u>
Total Deferred Outflows of Resources	<u>\$ 76,876</u>	<u>\$ 104,037</u>	<u>\$ (27,161)</u>
Current Liabilities	\$ 75,847	\$ 51,476	\$ 24,371
Non-Current Liabilities	<u>405,688</u>	<u>433,544</u>	<u>(27,856)</u>
Total Liabilities	<u>\$ 481,535</u>	<u>\$ 485,020</u>	<u>\$ (3,485)</u>
Deferred Inflows of Resources	<u>\$ 43,410</u>	<u>\$ 4,524</u>	<u>\$ 38,886</u>
Total Deferred Inflows of Resources	<u>\$ 43,410</u>	<u>\$ 4,524</u>	<u>\$ 38,886</u>
Net Position:			
Net Investment in Capital Assets	\$ 795,120	\$ 815,451	\$ (20,331)
Restricted	689,878	505,533	184,345
Unrestricted Net Position	<u>(35,795)</u>	<u>112,612</u>	<u>(148,407)</u>
Total Net Position	<u>\$ 1,449,203</u>	<u>\$ 1,433,596</u>	<u>\$ 15,607</u>

As observed in Figure 2, governmental net position increased between June 30, 2018 and June 30, 2019. Net position changes generally are due primarily to operational activities with revenues and expenditures. In this case, the Town's governmental activities' revenue decreased and the expenditures decreased enough to produce an increase in net position; part of this is attributable to positive changes in the net pension liability deferred inflows.

TOWN OF STEVENSVILLE

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)  
For the year ended June 30, 2019

**Figure 3-Business-type Activities-Net Position**

	2019	2018	Change
Current Assets	\$ 1,548,666	\$ 1,404,669	\$ 143,997
Non-Current Assets	926,976	953,247	(26,271)
Capital Assets-Net	<u>16,900,441</u>	<u>17,116,691</u>	<u>(216,250)</u>
Total Assets	<u>\$ 19,376,083</u>	<u>\$ 19,474,607</u>	<u>\$ (98,524)</u>
Deferred Outflow of Resources	\$ 59,872	\$ 82,931	\$ (23,059)
Total Deferred Outflows of Resources	<u>\$ 59,872</u>	<u>\$ 82,931</u>	<u>\$ (23,059)</u>
Current Liabilities	\$ 194,912	\$ 193,077	\$ 1,835
Non-Current Liabilities	<u>5,687,281</u>	<u>5,848,607</u>	<u>(161,326)</u>
Total Liabilities	<u>\$ 5,882,193</u>	<u>\$ 6,041,684</u>	<u>\$ (159,491)</u>
Deferred Inflows of Resources	\$ 36,926	\$ 4,044	\$ 32,882
Total Deferred Inflows of Resources	<u>\$ 36,926</u>	<u>\$ 4,044</u>	<u>\$ 32,882</u>
Net Position:			
Investment in Capital Assets	\$ 11,422,923	\$ 11,517,075	\$ (94,152)
Restricted for Debt Service and Bond Indenture	926,976	953,247	(26,271)
Unrestricted Net Position	<u>1,166,937</u>	<u>1,041,488</u>	<u>125,449</u>
Total Net Position	<u>\$ 13,516,836</u>	<u>\$ 13,511,810</u>	<u>\$ 5,026</u>

Total business-type activities net position increased between June 30, 2018 and June 30, 2019. There was an operational decrease in net position of (\$38,722) but \$ 43,748 of fiscal 2018 airport project disbursements were re-classified to construction in progress at June 30, 2019. The prior period adjustment offset the operational decrease to produce a positive \$5,026 change in net position.

**Total Net Position of the Governmental and Business-type Activities combined were:**

	2019	2018	Change
Net Investment in Capital Assets	\$ 12,218,043	\$ 12,332,526	\$ (114,483)
Restricted Net Position	1,616,854	505,533	1,111,321
Unrestricted Net Position	<u>1,131,142</u>	<u>2,107,347</u>	<u>(976,205)</u>
Total Net Position	<u>\$ 14,966,039</u>	<u>\$ 14,945,406</u>	<u>\$ 20,633</u>

Net capital assets are a significant portion of total assets but are not intended to be liquidated because capital assets represent buildings, equipment and other items needed to conduct the Town's business. For Stevensville, the resources to pay governmental debt is current operating income. Resources to pay business-type debt are sewer and water fees pledged to pay bonds for construction of water and sewer facilities and operating revenues used to pay for equipment Net position restricted for debt service and bond indentures in the business-type funds represent cash accrued for upcoming bond payments, plus restricted accounts, required by conditions of funders, for reserves to cover payments and accumulation for replacement



TOWN OF STEVENSVILLE

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)  
For the year ended June 30, 2019

and repair. Unrestricted net position generally represents cash and receivables which could be available to satisfy operations; the government-wide statement of net position presents more detailed information on these net positions including, showing current assets and liabilities which are likely to be received or paid within 12 months and non-current assets or debt.

**Figure 4-Governmental-Changes in Net Position (accrual basis for all governmental funds)**

	2019	2018	Change
Revenues			
Program Revenues:			
Charges for Services, Fines, etc.	\$ 156,493	\$ 354,726	\$ (198,233)
Operating Grants and Contributions	197,197	52,422	144,775
Capital Grants and Contributions	-	191,865	(191,865)
General Revenues:			
Property & Local Option Taxes	\$ 387,916	\$ 380,596	\$ 7,320
Unrestricted Federal/State Shared Revenue	217,464	217,918	(454)
Interest revenue	500	497	3
Other and miscellaneous	6,869	34,653	(27,784)
Sale of retired assets	45,000	-	45,000
Transfers	(11,250)	(88,303)	77,053
Total Revenues	<u>\$ 1,000,189</u>	<u>\$ 1,144,374</u>	<u>\$ (144,185)</u>
Expenses:			
General Government	\$ 372,311	\$ 179,223	\$ 193,088
Public Safety	377,940	563,379	(185,439)
Public Works	177,075	128,570	48,505
Culture and Recreation	57,256	58,715	(1,459)
Total Expenses	<u>\$ 984,582</u>	<u>\$ 929,887</u>	<u>\$ 54,695</u>
Change in Net Position	\$ 15,607	\$ 214,487	\$ (198,880)
Net Position, July 1	1,433,596	1,253,152	180,444
Prior Period Adjustment	-	(34,043)	34,043
Net Position, June 30	<u>\$ 1,449,203</u>	<u>\$ 1,433,596</u>	<u>\$ 15,607</u>

**Governmental Activities Change:** Changes in governmental activities from 2018 to 2019 in charges for services, operating grants and unrestricted federal and state shared revenues are partly a re-classification in preparing fiscal 2019 financial statements.

TOWN OF STEVENSVILLE

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)  
For the year ended June 30, 2019

**Figure 5-Business Activities-Changes in Net Position (accrual basis for all proprietary funds)**

	2019	2018	Change
Operating Revenues			
Charges for Services	\$ 1,157,296	\$ 1,161,826	\$ (4,530)
Operating grants	8,645	4,396	4,249
Total Operating Revenues	<u>\$ 1,165,941</u>	<u>\$ 1,166,222</u>	<u>\$ (281)</u>
Operating Expenses:			
Water	\$ 522,355	\$ 486,560	\$ 35,795
Sewer	658,618	652,895	5,723
Airport	179,930	177,597	2,333
Total Operating Expenses	<u>\$ 1,360,903</u>	<u>\$ 1,317,052</u>	<u>\$ 43,851</u>
Operating Income(Loss)	\$ (194,962)	\$ (150,830)	\$ (44,132)
Non-Operating Revenues/(Expenses)			
Dedicated taxes	\$ 6,126	\$ 4,492	\$ 1,634
Interest revenue	5,570	5,506	64
Donation	560	-	560
Total Non-Operating Revenues(Expenses)	<u>\$ 12,256</u>	<u>\$ 9,998</u>	<u>\$ 2,258</u>
Increase/(Decrease) in Net Position before Transfers & Contributions	<u>\$ (182,706)</u>	<u>\$ (140,832)</u>	<u>\$ (41,874)</u>
Capital Grants and Contributions	132,734	176,305	(43,571)
Transfers from governmental funds	11,250	88,303	(77,053)
Change in Net Position	<u>\$ (38,722)</u>	<u>\$ 123,776</u>	<u>\$ (162,498)</u>
Net Position, July 1	13,511,810	13,427,020	84,790
Prior Period Adjustment	43,748	(38,986)	82,734
Beginning Net Position Restated	<u>\$ 13,555,558</u>	<u>\$ 13,388,034</u>	<u>\$ 167,524</u>
Net Position, June 30	<u>\$ 13,516,836</u>	<u>\$ 13,511,810</u>	<u>\$ 5,026</u>

**Business-type Activities Change:** Business-type activities operations decreased net position but a prior period adjustment netted an increase in net position for the year ended June 30, 2019.

**Financial Analysis of the Town's Funds**

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

**Governmental Funds:** The focus of the Town's governmental funds is to provide information in near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Town's financing requirements. Specifically, unreserved fund balances can be a useful measure of a government's net resources available for spending at the end of the fiscal year. The term expenditures used in the "fund" financial statements indicates the near cash basis of reporting these non-business operations versus fully accrued expenses in the government wide statements.

TOWN OF STEVENSVILLE

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)  
For the year ended June 30, 2019

The general fund is the chief operating fund of the Town. Expenditures from this fund pay for mayor and Town council, administration and finance, judicial, police and fire operations, street operations not funded by gas tax revenues, cemetery, park and pool operations. Special revenue funds such as activities financed by tax revenues and special assessments for street lighting, building permit fees, grants, and gas tax revenues are part of the "other" governmental funds.

Fund balance approximates easily solvent resources available for operations; under Montana statute the reserve in any fund which receives tax revenues may not exceed one-half (1/2) of the total amount appropriated and authorized to be spent in the current fiscal year. Some "other" governmental funds do not receive tax revenue.

**Figure 6-Governmental Fund Balances and Changes (modified accrual basis)**

	Major Funds			Total
	General Fund	Economic Development Fund	Other Governmental Funds	
Fund Balances July 1, 2017	\$ 240,847	\$ -	710,869	\$ 951,716
Fiscal Year 18 Revenues	864,809	-	145,030	1,009,839
Fiscal Year 18 Expenditures	(739,772)	-	(192,069)	(931,841)
Other Financing Sources(uses)	(73,978)	-	(14,325)	(88,303)
Prior Period Adjustment	(19,210)	-	(1,210)	(20,420)
Fund Balances June 30, 2018	\$ 272,696	\$ -	648,295	\$ 920,991
Re-classify Economic Development fund balance		43,492	(43,492)	-
Fiscal Year 19 Revenues	668,565	150,000	219,673	1,038,238
Fiscal Year 19 Expenditures	(610,685)	(178,788)	(133,348)	(922,821)
Other Financing Sources(uses)	23,361	-	(34,611)	(11,250)
Fund Balances June 30, 2019	\$ 353,937	\$ 14,704	656,517	\$ 1,025,158

Total governmental fund balances increased for the year ended June 30, 2019 by \$ 104,167.

**Proprietary Funds:** Business-type activity changes are the same at the government-wide and the fund level because they always use the accrual basis of accounting. Refer to figure 5 for business-type changes at the fund level or look at the water and sewer fund statements, including a statement of cash flows, which are in the basic financial statements following this MD&A.

TOWN OF STEVENSVILLE

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)  
For the year ended June 30, 2019

**Figure 7-Budgetary Report Significant Differences**

General Fund	2018		2018		2018	
		Original Budget		Final Budget		Actual
Revenues	\$	789,477	\$	789,477	\$	864,809
Expenditures	\$	776,218	\$	776,218	\$	739,772

General fund	2019		2019		2019	
		Original Budget		Final Budget		Actual
Revenues	\$	655,009	\$	655,009	\$	661,123
Expenditures	\$	650,812	\$	650,812	\$	603,243

For both the 2018 fiscal year and the 2019 fiscal year, actual revenues were more than the budgeted amount and actual expenditures were less than the budgeted amount contributing to net increases in fund balance available for a reserve and reappropriation.

**Capital Assets and Debt Administration**

**Capital Assets:** The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2019 was \$ 17,695,561 (net of related accumulated depreciation). Associated These assets include land, buildings, improvements other than buildings, machinery and equipment, roads and street infrastructure, and utility system infrastructure and systems. See figures 8 and 9 for end of year balances.

Net investment in capital assets shown in the net position of the Statement of Net Position consists of the capital assets net of depreciation (as noted above) of \$17,695,561 less outstanding debt of \$ 5,477,518.

**Figure 8-Governmental-Capital Assets**

The following is a listing of governmental capital asset balances at June

	2019	2018	Change
Land	\$ 2,707	\$ 2,707	\$ -
Depreciable assets:			
Buildings	434,985	427,934	7,051
Improvements other than Buildings	301,470	286,079	15,391
Machinery and Equipment	1,010,054	975,588	34,466
Infrastructure	136,440	136,440	-
Total Capital Assets	\$ 1,885,656	\$ 1,828,748	\$ 56,908
Less Accumulated Depreciation	(1,090,536)	(1,013,297)	(77,239)
Net Governmental Capital Assets	\$ 795,120	\$ 815,451	\$ (20,331)

TOWN OF STEVENSVILLE

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)  
For the year ended June 30, 2019

During FY 2019 the Town. purchased an excavator and mower, performed some improvements to the town hall and upgraded a park bathroom.

**Figure 9-Business Activities-Capital Assets**

The following is a listing of business-type capital asset balances at June 30:

	<u>2019</u>	<u>2018</u>	<u>Change</u>
Land	\$ 663,198	\$ 663,198	\$ -
Construction in progress	183,878	-	183,878
Buildings and other improvements	5,515,308	5,515,308	-
Machinery and Equipment	497,177	441,068	56,109
Infrastructure and systems	<u>16,570,564</u>	<u>16,528,365</u>	<u>42,199</u>
Total Capital Assets	\$ <u>23,430,125</u>	\$ <u>23,147,939</u>	\$ <u>282,186</u>
Less Accumulated Depreciation	<u>(6,529,684)</u>	<u>(6,031,248)</u>	<u>(498,436)</u>
Net Business-type Capital Assets	\$ <u><u>16,900,441</u></u>	\$ <u><u>17,116,691</u></u>	\$ <u><u>(216,250)</u></u>

During FY 19 the Town added a pickup, paid part of the excavator from utilities, replaced a blower in the sewer facility and continued work on a runway upgrade at the airport.

**Figure 10-Governmental-Outstanding Debt**

The following is a listing of governmental debt balances at June 30:

	<u>2019</u>	<u>2018</u>	<u>Change</u>
Compensated absences	\$ 33,230	\$ 26,752	\$ 6,478
Net Pension Liability	332,845	366,997	(34,152)
OPEB liability	56,228	53,171	3,057
Total	\$ <u><u>422,303</u></u>	\$ <u><u>446,920</u></u>	\$ <u><u>(24,617)</u></u>

Compensated absences and the Other Post-Employment Benefits (OPEB) liability increased slightly while the Net Pension Liability decreased significantly. All three obligations are accruals related to employee benefits.

**Figure 11-Business Activities-Outstanding Debt**

The following is a list of business-type debt balances at June 30:

	<u>2019</u>	<u>2018</u>	<u>Change</u>
Bonds and notes	\$ 5,477,518	\$ 5,599,616	\$ (122,098)
Compensated Absences	16,990	39,536	(22,546)
Net Pension liability	259,224	292,526	(33,302)
OPEB liability	<u>60,974</u>	<u>57,602</u>	<u>3,372</u>
Total	\$ <u><u>5,814,706</u></u>	\$ <u><u>5,989,280</u></u>	\$ <u><u>(174,574)</u></u>

TOWN OF STEVENSVILLE

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)  
For the year ended June 30, 2019

---

Two accruals related to employee benefits obligations, compensated absences and net pension liability decreased significantly; while the OPB liability increased slightly. The balance for bonds and notes liability decreased due to payment, no new debt was issued.

**Known Facts, Decisions or Conditions that May Have a Significant Impact in Future Years**

The Town continues progress on resolving water rights issues and well permitting through the DNRC. A preliminary Engineering Report will be done in FY 21 to outline future needs of storage and water rights. Leak detection is on-going and leaks are being prioritized for repair.

**Requests for Information**

This report is designed to provide an overview of the City's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to:

Robert Underwood Finance Officer

Town of Stevensville

Town Hall 406-777-5271



# *STROM & ASSOCIATES, P.C.*

*Certified Public Accountants*

3203 3<sup>rd</sup> Ave N. Suite 208  
PO Box 1980  
Billings, MT 59103

Phone: 406-252-2765  
E-mail: [audit@stromcpa.net](mailto:audit@stromcpa.net)

---

## INDEPENDENT AUDITOR'S REPORT

Mayor and City Council  
Town of Stevensville  
Ravalli County  
Stevensville, Montana 59870

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Stevensville as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Town of Stevensville'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 of the Town of Stevensville as of 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.

### **Change in Accounting Principle**

As described in Note 1 to the financial statements, in year ended June 30, 2019, the Town of Stevensville changed its method of reporting outstanding items in the payroll and claims clearing fund. In past years, the Town of Stevensville reported these items in the clearing funds as existing rights and obligations of the agency funds. In accordance with GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis of State and Local Governments*, the Town of Stevensville now accounts for the items as outstanding items of the governmental or proprietary funds, as applicable. Our opinions are not modified with respect to this matter.

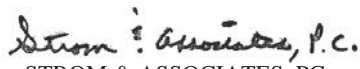
### **Other Matters**

#### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (pages 3-13), the Schedule of Funding Progress - Postemployment Benefits Other than Pensions (page 48), the Schedule of Proportionate Share of Net Pension Liability and Schedule of Contributions to Montana Retirement Systems (pages 49-52), and the Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (pages 53-55) 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 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 inquires 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 October 14, 2020 on our consideration of the Town of Stevensville 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 solely 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 performed in accordance with *Government Auditing Standards* in considering the Town of Stevensville internal control over financial reporting and compliance.

  
STROM & ASSOCIATES, PC  
Billings, Montana  
October 14, 2020



STATEMENT OF NET POSITION  
June 30, 2019

	Governmental Activities	Business-type Activities	Total
<b>ASSETS:</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 1,063,822	\$ 1,408,826	\$ 2,472,648
Taxes Receivable	17,762	-	17,762
Accounts Receivable - Net	-	133,306	133,306
Internal Balances	3,050	(3,050)	-
Due from Other Governments	15,471	9,759	25,230
Total Current Assets	<u>1,100,105</u>	<u>1,548,841</u>	<u>2,648,946</u>
Noncurrent Assets:			
Restricted Cash and Cash Equivalents	-	926,976	926,976
Capital Assets:			
Land	2,707	663,198	665,905
Construction in Progress	-	183,878	183,878
Net Depreciable Assets	792,413	16,053,364	16,845,777
Total Noncurrent Assets	<u>795,120</u>	<u>17,827,416</u>	<u>18,622,536</u>
Total Assets	<u>1,895,225</u>	<u>19,376,257</u>	<u>21,271,482</u>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>			
Employer Pension Plan Activities	76,860	59,872	136,732
Employer Other Postemployment Benefits Activities	33	-	33
Total Deferred Outflows of Resources	<u>76,893</u>	<u>59,872</u>	<u>136,765</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 1,972,118</u>	<u>\$ 19,436,129</u>	<u>\$ 21,408,247</u>
<b>LIABILITIES:</b>			
Current Liabilities:			
Accounts Payable	\$ 38,285	\$ 35,043	\$ 73,328
Unearned Revenue	-	5,123	5,123
Accrued Payroll	21,007	13,646	34,653
Current Portion of Compensated Absences	16,615	15,445	32,060
Current Portion of Long-term Capital Obligations	-	125,880	125,880
Total Current Liabilities	<u>75,907</u>	<u>195,137</u>	<u>271,044</u>
Noncurrent Liabilities:			
Compensated Absences	16,615	15,445	32,060
Net Pension Accrual	332,845	259,224	592,069
Other Postemployment Benefits	56,179	60,974	117,153
Long-term Capital Debt Obligations	-	5,351,638	5,351,638
Total Noncurrent Liabilities	<u>405,639</u>	<u>5,687,281</u>	<u>6,092,920</u>
Total Liabilities	<u>481,546</u>	<u>5,882,418</u>	<u>6,363,964</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>			
Employer Pension Plan Activities	32,161	27,892	60,053
Employer Other Postemployment Benefits Activities	11,251	9,034	20,285
Total Deferred Inflows of Resources	<u>43,412</u>	<u>36,926</u>	<u>80,338</u>
<b>NET POSITION:</b>			
Net Investment in Capital Assets	795,120	11,422,922	12,218,042
Restricted	692,740	926,976	1,619,716
Unrestricted (Deficit)	(40,700)	1,166,887	1,126,187
Total Net Position	<u>1,447,160</u>	<u>13,516,785</u>	<u>14,963,945</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 1,972,118</u>	<u>\$ 19,436,129</u>	<u>\$ 21,408,247</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

STATEMENT OF ACTIVITIES  
For the year ended June 30, 2019

	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
	Expenses	Charge for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>GOVERNMENT OPERATIONS:</b>						
General Government	\$ 387,956	\$ 11,182	\$ 150,000	\$ (226,774)		\$ (226,774)
Public Safety	376,291	4,012	-	(372,279)		(372,279)
Public Works	169,005	20,890	47,197	(100,918)		(100,918)
Culture and Recreation	58,728	17,310	-	(41,418)		(41,418)
Total Governmental Operations	<u>991,980</u>	<u>53,394</u>	<u>197,197</u>	<u>(741,389)</u>		<u>(741,389)</u>
<b>BUSINESS-TYPE ACTIVITIES:</b>						
Water	522,359	555,434	4,255		37,330	37,330
Sewer	658,623	577,778	4,266		(76,579)	(76,579)
Airport	179,913	30,211	132,858		(16,844)	(16,844)
Total Business-type Activities	<u>1,360,895</u>	<u>1,163,423</u>	<u>141,379</u>		<u>(56,093)</u>	<u>(56,093)</u>
Total Primary Government	<u>\$ 2,352,875</u>	<u>\$ 1,216,817</u>	<u>\$ 338,576</u>	<u>\$ (741,389)</u>	<u>\$ (56,093)</u>	<u>\$ (797,482)</u>
<b>GENERAL REVENUES:</b>						
Taxes and Assessments				317,624	-	317,624
Local Option Taxes				59,490	-	59,490
State Equalization				222,020	-	222,020
Licenses and Permits				83,103	-	83,103
Federal/State Shared Revenues				20,584	-	20,584
Miscellaneous				62,922	5,510	68,432
Investment and Royalty Earnings				460	-	460
Gain (loss) on Sale of Assets				-	560	560
Internal Balances				(11,250)	11,250	-
Total General Revenues				<u>754,953</u>	<u>17,320</u>	<u>772,273</u>
Change in Net Position				13,564	(38,773)	(25,209)
<b>NET POSITION:</b>						
Beginning of the Year				1,433,596	13,511,810	14,945,406
Prior Period Adjustments				-	43,748	43,748
End of the Year				<u>\$ 1,447,160</u>	<u>\$ 13,516,785</u>	<u>\$ 14,963,945</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2019

	MAJOR			
	General	Economic Development	Other Governmental Funds	Total Governmental Funds
<b>ASSETS:</b>				
Current Assets:				
Cash and Cash Equivalents	\$ 356,624	\$ 30,475	\$ 676,723	\$ 1,063,822
Taxes Receivable	14,863	-	2,899	17,762
Interfund Receivable	21,661	-	-	21,661
Due from Other Governments	11,459	-	4,012	15,471
Total Assets	<u>404,607</u>	<u>30,475</u>	<u>683,634</u>	<u>1,118,716</u>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>				
Total Deferred Outflows of Resources	-	-	-	-
Total Assets and Deferred Outflows of Resources	<u>\$ 404,607</u>	<u>\$ 30,475</u>	<u>\$ 683,634</u>	<u>\$ 1,118,716</u>
<b>LIABILITIES:</b>				
Current Liabilities:				
Accounts Payable	\$ 18,158	\$ 15,712	\$ 4,415	\$ 38,285
Interfund Payable	-	-	18,611	18,611
Accrued Payroll	19,719	59	1,229	21,007
Total Liabilities	<u>37,877</u>	<u>15,771</u>	<u>24,255</u>	<u>77,903</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>				
Unavailable Property Taxes Receivable	14,863	-	2,899	17,762
Total Deferred Inflows of Resources	<u>14,863</u>	<u>-</u>	<u>2,899</u>	<u>17,762</u>
<b>FUND BALANCE (DEFICITS):</b>				
Restricted	-	14,704	675,137	689,841
Unassigned	351,867	-	(18,657)	333,210
Total Fund Balance	<u>351,867</u>	<u>14,704</u>	<u>656,480</u>	<u>1,023,051</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 404,607</u>	<u>\$ 30,475</u>	<u>\$ 683,634</u>	<u>\$ 1,118,716</u>
<b>RECONCILIATION TO THE STATEMENT OF NET POSITION</b>				
Total Fund Balance Reported Above				\$ 1,023,051
Unavailable Property Taxes Receivable				17,762
Governmental Capital Assets				795,120
Employer Pension Plan Activities				76,860
Other Postemployment Benefits Activities				33
Long-term Liabilities				
Compensated absences				(33,230)
Net Pension Accrual				(332,845)
Other Postemployment Benefits				(56,179)
Employer Pension Plan Activities				(32,161)
Other Postemployment Benefits Activities				(11,251)
Net Position of Governmental Activities				<u>\$ 1,447,160</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For the year ended June 30, 2019

	MAJOR			Total Governmental Funds
	General	Economic Development	Other Governmental Funds	
<b>REVENUES:</b>				
Taxes and Assessments	\$ 372,227	\$ -	\$ 42,478	\$ 414,705
Licenses and Permits	16,065	-	67,038	83,103
Intergovernmental Revenues	213,452	150,000	51,209	414,661
Charges for Services	35,652	-	2,548	38,200
Fines and Forfeitures	11,182	-	-	11,182
Miscellaneous	17,922	-	55,918	73,840
Investment and Royalty Earnings	17	-	443	460
<b>Total Revenues</b>	<u>666,517</u>	<u>150,000</u>	<u>219,634</u>	<u>1,036,151</u>
<b>EXPENDITURES:</b>				
General Government	176,816	178,788	2,444	358,048
Public Safety	246,587	-	63,542	310,129
Public Works	89,408	-	52,624	142,032
Culture and Recreation	55,724	-	-	55,724
Capital Outlay	13,172	-	43,736	56,908
<b>Total Expenditures</b>	<u>581,707</u>	<u>178,788</u>	<u>162,346</u>	<u>922,841</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>84,810</u>	<u>(28,788)</u>	<u>57,288</u>	<u>113,310</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Fund Transfers In	-	-	5,639	5,639
Fund Transfers (Out)	(5,639)	-	(11,250)	(16,889)
<b>Total Other Financial Sources (Uses)</b>	<u>(5,639)</u>	<u>-</u>	<u>(5,611)</u>	<u>(11,250)</u>
<b>Net Change in Fund Balance</b>	<u>79,171</u>	<u>(28,788)</u>	<u>51,677</u>	<u>102,060</u>
<b>FUND BALANCE:</b>				
Beginning of the Year	<u>272,696</u>	<u>43,492</u>	<u>604,803</u>	<u>920,991</u>
End of the Year	<u>\$ 351,867</u>	<u>\$ 14,704</u>	<u>\$ 656,480</u>	<u>\$ 1,023,051</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

Town of Stevensville  
Ravalli County  
Stevensville, Montana 59870

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
For the year ended June 30, 2019

Net Changes in Fund Balance		\$	102,060
Revenues on the Statement of Activities not Included in Governmental Funds Statement:			
Increase (decrease) in Taxes Receivable	(26,799)		
State Pension Aid	<u>7,442</u>		(19,357)
Expenses on the Statement of Activities not Included in the Governmental Funds Statement:			
Depreciation Expense	(77,239)		
Actuarial Pension Expense	(29,616)		
(Increase) decrease in Other Postemployment Benefits	(12,714)		
(Increase) decrease in Compensated Absence Liability	<u>(6,478)</u>		(126,047)
Expenditures Reported in the Governmental Funds Statement not Included in the Statement of Activities			
Capital Outlays			<u>56,908</u>
Change in Net Position Reported on the Statement of Activities		\$	<u><u>13,564</u></u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
June 30, 2019

	MAJOR			Total Enterprise Funds
	Water	Sewer	Airport	
<b>ASSETS:</b>				
Current Assets:				
Cash and Cash Equivalents	\$ 959,968	\$ 339,565	\$ 109,293	\$ 1,408,826
Accounts Receivable - Net	65,141	68,165	-	133,306
Due from Other Governments	-	-	9,759	9,759
Total Current Assets	<u>1,025,109</u>	<u>407,730</u>	<u>119,052</u>	<u>1,551,891</u>
Noncurrent Assets:				
Restricted Cash and Cash Equivalents	624,693	302,283	-	926,976
Capital Assets:				
Land	49,008	16,627	597,563	663,198
Construction in Progress	-	-	183,878	183,878
Net Depreciable Assets	<u>4,563,429</u>	<u>7,934,525</u>	<u>3,555,410</u>	<u>16,053,364</u>
Total Noncurrent Assets	<u>5,237,130</u>	<u>8,253,435</u>	<u>4,336,851</u>	<u>17,827,416</u>
Total Assets	<u>6,262,239</u>	<u>8,661,165</u>	<u>4,455,903</u>	<u>19,379,307</u>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>				
Employer Pension Plan Activities	<u>29,241</u>	<u>29,350</u>	<u>1,281</u>	<u>59,872</u>
Total Deferred Outflows of Resources	<u>29,241</u>	<u>29,350</u>	<u>1,281</u>	<u>59,872</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 6,291,480</u>	<u>\$ 8,690,515</u>	<u>\$ 4,457,184</u>	<u>\$ 19,439,179</u>
<b>LIABILITIES:</b>				
Current Liabilities:				
Accounts Payable	\$ 22,017	\$ 11,413	\$ 1,613	\$ 35,043
Unearned Revenue	5,123	-	-	5,123
Interfund Payable	-	-	3,050	3,050
Accrued Payroll	6,634	6,634	378	13,646
Current Portion of Compensated Absences	7,722	7,723	-	15,445
Current Portion of Long-term Capital Obligations	<u>36,153</u>	<u>80,971</u>	<u>8,756</u>	<u>125,880</u>
Total Current Liabilities	<u>77,649</u>	<u>106,741</u>	<u>13,797</u>	<u>198,187</u>
Noncurrent Liabilities:				
Compensated Absences	7,722	7,723	-	15,445
Net Pension Accrual	126,604	127,074	5,546	259,224
Other Postemployment Benefits	29,315	29,316	2,343	60,974
Long-term Capital Debt Obligations	<u>1,975,074</u>	<u>3,320,240</u>	<u>56,324</u>	<u>5,351,638</u>
Total Noncurrent Liabilities	<u>2,138,715</u>	<u>3,484,353</u>	<u>64,213</u>	<u>5,687,281</u>
Total Liabilities	<u>2,216,364</u>	<u>3,591,094</u>	<u>78,010</u>	<u>5,885,468</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>				
Employer Pension Plan Activities	13,610	13,657	625	27,892
Employer Other Postemployment Benefits Activities	<u>4,346</u>	<u>4,346</u>	<u>342</u>	<u>9,034</u>
Total Deferred Inflows of Resources	<u>17,956</u>	<u>18,003</u>	<u>967</u>	<u>36,926</u>
<b>NET POSITION:</b>				
Net Investment in Capital Assets	2,601,210	4,549,941	4,271,771	11,422,922
Restricted for Bond Covenants	624,693	302,283	-	926,976
Unrestricted (Deficit)	<u>831,257</u>	<u>229,194</u>	<u>106,436</u>	<u>1,166,887</u>
Total Net Position	<u>4,057,160</u>	<u>5,081,418</u>	<u>4,378,207</u>	<u>13,516,785</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 6,291,480</u>	<u>\$ 8,690,515</u>	<u>\$ 4,457,184</u>	<u>\$ 19,439,179</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
For the year ended June 30, 2019

	MAJOR			Total Enterprise Funds
	Water	Sewer	Airport	
<b>OPERATING REVENUES:</b>				
Charges for Services	\$ 555,434	\$ 577,778	\$ 30,211	\$ 1,163,423
Total Operating Revenues	<u>555,434</u>	<u>577,778</u>	<u>30,211</u>	<u>1,163,423</u>
<b>OPERATING EXPENSES:</b>				
Personal Services	150,725	156,427	9,122	316,274
Supplies	76,513	39,862	476	116,851
Purchased Services	111,452	110,407	7,315	229,174
Fixed Charges	8,963	16,866	4,207	30,036
Depreciation	118,936	222,014	157,486	498,436
Total Operating Expense	<u>466,589</u>	<u>545,576</u>	<u>178,606</u>	<u>1,190,771</u>
Operating Income (Loss)	<u>88,845</u>	<u>32,202</u>	<u>(148,395)</u>	<u>(27,348)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Intergovernmental	4,255	4,266	132,858	141,379
Interest	3,182	2,110	218	5,510
Debt Service Interest	(55,770)	(113,047)	(1,307)	(170,124)
Gain (Loss) on Sale of Capital Assets	-	-	560	560
Total Nonoperating Revenue (Expenses)	<u>(48,333)</u>	<u>(106,671)</u>	<u>132,329</u>	<u>(22,675)</u>
<b>INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS</b>				
Transfers (Out)	-	-	11,250	11,250
Change in Net Position	40,512	(74,469)	(4,816)	(38,773)
<b>NET POSITION:</b>				
Beginning of the Year	4,016,648	5,155,887	4,339,275	13,511,810
Prior Period Adjustments	-	-	43,748	43,748
End of the Year	<u>\$ 4,057,160</u>	<u>\$ 5,081,418</u>	<u>\$ 4,378,207</u>	<u>\$ 13,516,785</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
For the Year Ended June 30, 2019

	MAJOR			Total Enterprise Funds
	Water	Sewer	Airport	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from Customers	\$ 546,649	\$ 572,080	\$ 30,211	\$ 1,148,940
Payments to Employees	(141,813)	(141,806)	(7,352)	(290,971)
Payments to Suppliers	(58,303)	(30,734)	(33,671)	(122,708)
Payments for Purchased Services	(120,415)	(127,273)	(11,522)	(259,210)
Net Cash Provided (Used) by Operating Activities	<u>226,118</u>	<u>272,267</u>	<u>(22,334)</u>	<u>476,051</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>				
Operating Subsidies and Transfers Between Funds	-	-	14,300	14,300
Subsidies from Other Governments	1,424	1,425	153,975	156,824
Net Cash Provided (Used) by Non-capital Financing Activities	<u>1,424</u>	<u>1,425</u>	<u>168,275</u>	<u>171,124</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Purchases of Capital Assets	(64,668)	(33,639)	(140,130)	(238,437)
Principal Paid on Capital Debt	(35,237)	(76,481)	(10,380)	(122,098)
Interest Paid on Capital Debt	(55,770)	(113,047)	(1,307)	(170,124)
Gain/(Loss) on Sale of Capital Assets	-	-	560	560
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(155,675)</u>	<u>(223,167)</u>	<u>(151,257)</u>	<u>(530,099)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest and Dividends	3,182	2,110	218	5,510
Net Cash Provided (Used) by Investing Activities	<u>3,182</u>	<u>2,110</u>	<u>218</u>	<u>5,510</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>75,049</u>	<u>52,635</u>	<u>(5,098)</u>	<u>122,586</u>
<b>BALANCE:</b>				
Beginning of the year	1,509,612	589,213	114,391	2,213,216
End of the year	<u>\$ 1,584,661</u>	<u>\$ 641,848</u>	<u>\$ 109,293</u>	<u>\$ 2,335,802</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>				
Operating income (loss)	\$ 88,845	\$ 32,202	\$ (148,395)	\$ (27,348)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation expense	118,936	222,014	157,486	498,436
GASB 68 pension expense	12,066	17,773	1,968	31,807
Changes in assets and liabilities:				
Accounts receivable	(13,908)	(5,698)	-	(19,606)
Accounts payable	18,210	9,128	(33,195)	(5,857)
Compensated absences	(4,222)	(4,220)	(204)	(8,646)
Accrued payables	1,068	1,068	6	2,142
Revenues collected in advance	5,123	-	-	5,123
Net cash provided (used) by operating activities	<u>\$ 226,118</u>	<u>\$ 272,267</u>	<u>\$ (22,334)</u>	<u>\$ 476,051</u>
Supplemental schedule of noncash activities				
GASB 68 state contribution	<u>\$ 2,831</u>	<u>\$ 2,841</u>	<u>\$ 124</u>	<u>\$ 5,796</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.



Town of Stevensville  
Ravalli County  
Stevensville, Montana 59870

STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
June 30, 2019

	<u>Agency Funds</u>
ASSETS:	
Current Assets:	
Cash and Cash Equivalents	\$ 3
Total Assets	<u>\$ 3</u>
LIABILITIES:	
Current Liabilities:	
Due to Others	<u>3</u>
Total Liabilities	<u>\$ 3</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

TOWN OF STEVENSVILLE

NOTES TO THE FINANCIAL STATEMENTS  
For the year ended June 30, 2019

---

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. a. REPORTING ENTITY

The basic financial statements of the Town of Stevensville (Town) have been prepared on a prescribed basis of accounting that demonstrates compliance with the accounting and budget laws of the State of Montana (Montana), which conforms to Generally Accepted Accounting Principles (GAAP). The Town applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

At the end of fiscal year 2019 the Town adopted the following GASB Statements:

- GASB Statement No. 90 – *Majority Equity Interests*. This Statement improves the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government’s holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. The Town determined that this Statement does not significantly affect its reporting. The Town holds no ownership of shares of an organization’s stock or measurable rights to net resources of other organizations.
- GASB Statement No. 91 – *Conduit Debt Obligations*. This Statement provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The Town determined that this Statement does not significantly affect its reporting. The Town does not have any conduit debt, but will comply with this statement if it enters into any such debt arrangements in the future.
- GASB Statement No. 95 – *Postponement of the Effective Dates of Certain Authoritative Guidance*. This Statement extends the effective dates of certain accounting and financial reporting provisions in Statements and Implementation Guides that were first effective for reporting periods beginning after June 15, 2018. The requirements of this Statement apply to the financial statements of all state and local governments.

The following is a listing of GASB Statements which have been issued and the Town’s assessment of effects to the financial statements when implemented.

- GASB Statement No. 84 – *Fiduciary Activities*. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The Town plans to implement this Statement once Montana updates the standard chart of accounts.
- GASB Statement No. 87 – *Leases*. This Statement increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments’ leasing activities. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021. The Town plans to implement this Statement once it has identified all leases and has reviewed the Q&A on this Statement.

## TOWN OF STEVENSVILLE

### NOTES TO THE FINANCIAL STATEMENTS (continued) For the year ended June 30, 2019

---

#### Change in Accounting Principle

Beginning in fiscal year 2019, the Town changed its method of reporting outstanding claims on cash balances. Previously, the Town reported the outstanding claims in the agency funds. In the current year, the Town determined that the balances did not meet agency fund requirements provided in GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. The Town now accounts for the claims as outstanding items of the cash balances of the governmental and proprietary funds, as applicable. The change in accounting principle had no impact on the fund balances of the primary government but resulted in a decrease to the assets and liabilities of the agency fund financial statements.

The Town provides a full range of governmental services to the citizens of the Town. These services include but are not limited to construction, reconstruction, maintenance and repair of roads, streets and alleys, parks and recreation, library, public safety, and other municipal services. Water, sewer, and airport services are provided and accounted for in enterprise funds. The mayor and Town council are elected by the public and have the authority to make decisions, appoint administrators and managers, and significantly influence operations.

The Town was incorporated under the laws of Montana and, as required by GAAP, the financial statements of the reporting entity include those of the Town (the primary government) and any component units. The criteria for including organizations as component units within the Town's reporting entity are set forth in Section 2100 of the *GASB Codification of Government Accounting and Financial Reporting Standards*. The basic criteria include appointing a voting majority of an organization's governing body, as well as the Town's ability to impose its will on that organization, or the potential for the organization to provide specific financial benefit to, or impose specific financial burdens on, the Town. Based on those criteria, the Town has no component units.

**Related Organizations:** Some activities controlled by governing boards of other organizations and which may be appointed by the Mayor and Council or otherwise considered dependent on the Town are as follows:

- The Fire Department Relief Association (FDRA) Disability and Pension Fund, a legally separate organization, is reflected as an Agency Fund, since the Town holds assets for pension purposes in accordance with GASB 73, paragraph 116.

#### 1. b. BASIS OF PRESENTATION AND ACCOUNTING

##### 1. b. 1. GOVERNMENT-WIDE STATEMENTS

The government-wide financial statements include the Statement of Net Position and the Statement of Activities. The governmental activities column incorporates data from governmental funds, while business-type activities incorporate data from the government's enterprise funds (primary government). Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

The government-wide financial statements report using the economic resource measurement focus and the accrual basis of accounting and generally include the elimination of internal activity between or within funds. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes and assessments are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

The Statement of Activities reports the direct expenses of a given governmental function or business-type segment offset by program revenues directly connected with the functional program or segment. Direct expenses are those that are specifically associated with a function or segment. Program revenues include:

- Charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and
- Operating and Capital grants that are restricted to a particular function or segment.

Property taxes, investment earnings, state entitlement payments, and other revenue sources not properly included with program revenue are reported as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each governmental function or business-type segment is self-supporting or drawing from general revenues.

TOWN OF STEVENSVILLE

NOTES TO THE FINANCIAL STATEMENTS (continued)  
For the year ended June 30, 2019

---

1. b. 2. FUND ACCOUNTING

The fund financial statements provide information about the government's funds, including its fiduciary funds. Separate statements for each fund category – governmental, proprietary, and fiduciary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds. All remaining governmental and enterprise funds are aggregated and reported as non-major funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements. The FDRA is reported as a fiduciary fund. Since the resources in the fiduciary funds cannot be used for Town operations, they are not included in the government-wide statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities, and fund balance are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets. Revenues are recorded when they are both measurable and available. Available means collectible within the current period – anything collected after June 30 is generally not material. Unavailable income is recorded in governmental funds for delinquent taxes and assessments. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt and compensated absence payments which are recognized when due. Capital assets are functional expenditures in governmental funds.

Revenues from local sources consist primarily of property taxes and assessments. Property tax and assessments revenue and revenues received from the State of Montana are recognized when susceptible to accrual. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are measurable and available. Cost reimbursement grant funds are considered to be both measurable and available to the extent the related expenditures were made under the provisions of the grant. When such funds are received before the expenditure was incurred, they are recorded as unearned grant revenues. All other revenue items are considered to be measurable and available only when cash is received by the Town.

Proprietary, trust, and agency fund financial statements use the economic resources measurement focus and are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. On an accrual basis, revenue from property taxes and assessments are recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water, sewer and airport funds are charges to customers for sales and services. The water fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Resources received for capital acquisition or construction are reported as separate items.

Major fund determination - GASB Statement No. 34 requires the General fund be reported as a major fund. Other individual governmental and enterprise funds should be reported in separate columns as major funds based on these criteria:

- Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10% of the corresponding total (assets, liabilities, etc.) for all funds of that category or type (e.g., total governmental or total enterprise funds)
- Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5% of the corresponding total for all governmental and enterprise funds combined.

The Town reports the following major governmental funds:

- General Fund – The Economic Development Fund accounts for the purchasing land for industrial parks, constructing buildings to house manufacturing and processing operations, conducting preliminary feasibility studies, promoting economic development opportunities in a particular area, and other activities generally associated with economic development.
- Economic Development – This fund is used to account for various economic development projects of the Town, with the majority in fiscal year 2019 related to the pass through of a Big Sky Economic Development Grant.

TOWN OF STEVENSVILLE

NOTES TO THE FINANCIAL STATEMENTS (continued)  
For the year ended June 30, 2019

---

The Town reports the following major enterprise funds:

- Water Fund – This fund is used to account for financing the activities of the Town’s water distribution operations and to collect and administer water impact fees.
- Sewer Fund – This fund is used to account for financing the activities of the Town’s sewer collection and treatment operations and includes the storm sewer system.
- Airport Fund – This fund accounts for charges for services and grant revenues as well as other miscellaneous revenues and the related expenses for the operating and maintenance of the airport facilities.

1. b. 3. OTHER FUND TYPES

Agency Funds – These funds account for assets that the Town holds on behalf of others as their agent. This fund primarily consists of revenues collected by the Town on behalf of other governments. The Town also receives funds for the FDRA Pension Plan for state insurance pass-through funds. The Town collects these funds and passes them through to the FDRA Pension Plan. These funds also include employee payroll tax withholdings. Cash is held for payroll tax liabilities which have been incurred but not paid by the Town Treasurer.

In addition, warrants written but not redeemed are reported in the Town’s payroll and claims clearing funds in the accounting system. However, for financial reporting purposes, these are treated as a cash reconciling items and not presented in these financial statements. Cash in the accounting system is held for warrants which were written but have not been paid by the Town Treasurer. A warrant is an order by which the drawer (the person with authority to make the order) directs the Town trustee to pay a particular sum of money to a payee (person or entity) from funds in the Town treasury which are or may become available.

1. c. ASSETS, LIABILITIES AND NET POSITION (FUND BALANCE)

1. c. 1 CASH AND INVESTMENTS

Allowable Depositories – Cash includes amounts in demand deposits, as well as short-term investments as authorized by Montana statutes. Montana Code Annotated (MCA) allows Montana local governments to invest public money not necessary for immediate use in:

- United States government treasury bills, notes, or bonds
- Certain United States treasury obligations
- United States government security money market fund, if investments consist of those listed above
- Time or savings deposits with a bank or credit union which is Federal Deposit Insurance Corporation or National Credit Union Association insured
- Repurchase agreements as authorized by MCA
- State of Montana Short-Term Investment Pool

Interest earned on the pooled investments is distributed to each contributing entity and fund on a pro rata basis. Investments are recorded at fair market value.

Statement of Cash Flows – For purposes of the Statement of Cash Flows, the Town considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Restricted Cash – Restricted cash accounts of the enterprise fund are restricted for specific use as required by the bond indenture agreement covenants established with the issuance and sale of the revenue bonds that represent a liability to the enterprise fund. These restricted cash accounts are used to repay current debt, establish a reserve for future debt, and to establish a replacement and depreciation reserve for the purpose of replacing the system in the future.

1. c. 2. TAXES AND SPECIAL ASSESSMENTS

Property Tax Levies – Property tax levies are set in connection with the budget process and are based on taxable values listed as of January 1 for all property located in the Town. Taxable values are established by the Montana Department of Revenue based on market values. A revaluation of all property is required to be completed on a periodic basis. Taxable value is defined by Montana statute as a fixed percentage of market value.

TOWN OF STEVENSVILLE

NOTES TO THE FINANCIAL STATEMENTS (continued)  
For the year ended June 30, 2019

Special Assessments – Special Assessments are set in connection with the budget process and are based on assessable area. Assessable area means the portion of a lot or parcel of land that is benefited by the special district. The assessable area may be less than but may not exceed the actual area of the lot or parcel. The governing body shall estimate annually, as near as practicable, the costs and expenses covered by the special assessment.

Collections – Property taxes and special assessments are collected by the Ravalli County (County) Treasurer, who credits to the Town funds its respective share of the collections. Tax levies are collectible in two installments, which become delinquent after November 30 and May 31. After a period of three years, the County may begin foreclosure proceedings and sell the property at auction.

Delinquency – Unpaid property taxes are liens on the property being taxed. Taxes and special assessments that become delinquent are charged interest at the rate of 5/6 of 1% per month plus a penalty of 2%. After a period of three years, the County may begin foreclosure proceedings and sell real property at auction. In the case of personal property, the property may be seized and sold after the taxes become delinquent. The Town receives its share of the sale proceeds of any such auction.

1. c. 3. INVENTORIES

Materials and supplies inventory are reported as expenditures when acquired in governmental funds (using the purchases method) since the focus of governmental funds is on the use of current financial resources. At year-end, inventories were not material.

1. c. 4. CAPITAL ASSETS

The Town’s property, plant, equipment, and infrastructure (e.g., roads, bridges, sidewalks, lighting) are stated at historical cost and comprehensively reported in the government-wide financial statements. Historical cost was established when the capital assets were initially recorded by determining the actual cost or estimating the cost using standard costing procedures. The Town considers capital assets to be items with a historical cost in excess of \$5,000 and with a useful life in excess of one year. The costs of normal maintenance and repair are not capitalized. Depreciation on capital assets is provided over their estimated useful lives on the straight-line method. Land and construction in progress are not depreciated. The useful life of depreciable assets has been estimated as follows:

<u>Capital Asset Classes</u>	<u>Useful Life</u>
Buildings	39 years
Improvements other than buildings	10 - 39 years
Machinery and Equipment	7 - 50 years
Infrastructure	15 - 70 years

1. c. 5. DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

In addition to assets, the Statement of Financial Position reports a separate section for Deferred Outflows of Resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and, as such, will not be recognized as an outflow of resources (e.g., expense/expenditure) until that time.

In addition to liabilities, the Statement of Financial Position reports a separate section for Deferred Inflows of Resources. This separate financial statement element represents an increase to net position that applies to a future period(s) and, as such, will not be recognized as an inflow of resources (e.g., revenue) until that time.

Pension Liability– Deferred Outflows and Inflows – The Town recognizes a net pension liability for each qualified pension plan in which it participates. Changes in the net pension liability during the fiscal year are recorded as pension expense, deferred inflows of resources, or deferred outflows of resources depending on the nature of the change and the period incurred. Those changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the respective qualified pension plan and recorded as a component of pension expense beginning with the period in which they are incurred. Projected earnings on qualified pension plan investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense.

TOWN OF STEVENSVILLE

NOTES TO THE FINANCIAL STATEMENTS (continued)  
For the year ended June 30, 2019

Property Taxes and Special Assessments– Deferred Inflows– The Town reports deferred inflows under the modified accrual basis of accounting in the governmental funds for property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. In the governmental fund Balance Sheet, they are reported as unavailable from property taxes and special assessments receivable.

1. c. 6. VACATION AND SICK LEAVE

Town employees accumulate vacation and sick leave for later use or for payment upon termination, death, or retirement. Town employees earn vacation leave at the rate of 15 days per year during the first 10 years of employment and at increasing rates thereafter to a maximum of 24 days per year after 20 years of employment. There is no requirement that vacation leave be taken, but the maximum permissible accumulation is the amount earned in the most recent two-year period. At termination, employees are paid for any accumulated vacation leave at the current rate of pay. Town employees earn sick leave at the rate of one day per month. There is no limit on the accumulation of unused sick leave. At termination, 25% of accumulated sick leave is paid at the employee’s current rate of pay.

Liabilities incurred because of unused vacation and sick leave accumulated by employees are reflected in the financial statements. Expenditures for unused leave are recorded when paid in governmental funds and when accrued on the Statement of Activities. At June 30, 2019, the amount expected to be paid within one year related to governmental activities amounted to \$16,615 and is generally paid out of the General fund. At June 30, 2019, the amount expected to be paid within one year related to business-type activities amounted to \$15,445 and is paid out of the fund that incurred the liability.

1. c. 7. NET POSITION AND FUND BALANCE

The Statement of Net Position includes the following:

- Net Investment in Capital Assets – This component of net position is comprised of the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt that is directly attributable to the acquisition, construction, or improvement of these capital assets.
- Restricted – This component of net position is restricted externally by creditors (e.g., debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.
- Unrestricted – This component of net position is difference between the assets and liabilities that are not reported in the other components of net position.

Governmental fund financial statements include the following fund balances:

- Restricted – This balance includes amounts that can be spent only for the specific purposes stipulated by the constitution, external resource providers, or through enabling legislation.
- Unassigned – This balance includes amounts that are available for any purpose. These amounts are reported only in the general fund

At June 30, 2019, fund balance components other than unassigned fund balance were as follows:

<u>Purpose</u>	<u>Restricted</u>
General Government	\$ 2,591
Public Safety	107,354
Public Works	125,232
Culture and Recreation	75,000
Housing and Community Development	212,250
Future Capital Costs	<u>167,414</u>
Total	<u>\$ 689,841</u>

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance are available, the Town considers restricted funds to have been spent first. When an expenditure is incurred and unassigned fund balances are available, the Town considers amounts to have been spent first from unassigned funds as needed, unless the Mayor and City Council has provided otherwise.

TOWN OF STEVENSVILLE

NOTES TO THE FINANCIAL STATEMENTS (continued)  
For the year ended June 30, 2019

1. d. OTHER

1. d. 1. USE OF ESTIMATES

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

1. d. 2. COUNTY PROVIDED SERVICES

The Town is provided various financial services by the County. The County also serves as cashier and treasurer for the Town for tax and assessment collections and other revenues received by the County which are subject to distribution to the various taxing jurisdictions located in the County. The collections made by the County on behalf of the Town are accounted for in an agency fund in the Town's name and are periodically remitted to the Town by the County Treasurer. No service charges have been recorded by the Town or County.

NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

At June 30, 2019, cash and cash equivalents for governmental activities, business-type activities, component units, and fiduciary funds were as follows:

<u>Account Type</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash and Cash Equivalents	\$ 1,063,822	\$ 1,408,826	\$ 3	\$ 2,472,651
Restricted Cash and Cash Equivalents	0	926,976	0	926,976
Total	<u>\$ 1,063,822</u>	<u>\$ 2,335,802</u>	<u>\$ 3</u>	<u>\$ 3,399,627</u>

The carrying amounts of cash and cash equivalents at June 30, 2019 were as follows:

	<u>Amount</u>
Demand Accounts	\$ 1,926,362
Time Deposits	1,473,265
Total	<u>\$ 3,399,627</u>

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that, in the event of a bank failure, the Town's deposits may not be returned. The Town does not have a deposit policy for custodial credit risk. At June 30, 2019, the Town's bank balances were exposed to custodial credit risk as follows:

<u>Deposits</u>	<u>Fair Value June 30, 2019</u>
Covered by Depository Insurance	\$ 319,691
Collateral Held by the Pledging Bank's Trust Department but not in the Town's Name	3,033,936
Uninsured and Uncollateralized	85,472
Total Bank Balance	<u>\$ 3,439,099</u>

2. a. RESTRICTED ASSETS

Restricted cash was held by the Town Treasurer at June 30, 2019 as follows:

<u>Fund Name</u>	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Restricted for Debt Service	\$ 91,008	\$ 172,314	\$ 263,322
Restricted for Replacement and Depreciation	169,000	0	169,000
Restricted for Construction	364,685	0	364,685
Restricted for Bond Covenants	0	129,969	129,969
Total	<u>\$ 624,693</u>	<u>\$ 302,283</u>	<u>\$ 926,976</u>



TOWN OF STEVENSVILLE

NOTES TO THE FINANCIAL STATEMENTS (continued)  
For the year ended June 30, 2019

The ordinances authorizing the water and sewer system revenue bonds require:

- That the Town establish sinking funds or cash restricted for payment of principal and interest on all revenue bonds. At June 30, 2019, the sinking fund balance was sufficient to satisfy such bond ordinance requirements.
- That the proceeds from the sale of revenue bonds be expended for certain capital improvements to the water and sewer system. The proceeds are maintained as restricted assets - bond construction fund until such time as needed to fund the water and sewer system construction program.

**NOTE 3. TAXES RECEIVABLE**

The Town is permitted by Montana statutes to levy taxes up to certain fixed limits for various purposes. The assessed value of the roll as of January 1, 2018, upon which the levy for the 2019 fiscal year was based, amounted to \$2,674,917. The tax rates assessed for the year ended June 30, 2019 to finance Town operations and applicable taxes receivable were as follows:

<b>Fund</b>	<b>Mill Levy</b>	<b>Taxes Receivable</b>
General *	106.73	\$ 14,863
Tax Increment Financing	0.00	(235)
Targeted Economic Development	0.00	3,060
Twin Creeks Lighting #5	0.00	74
<b>Total</b>	<b>106.73</b>	<b>\$ 17,762</b>

\* Denotes Major Fund

Property taxes assessed may be paid under protest and held by the County Treasurer until the action is finally determined to be in favor of or against the governmental entity levying the tax. Money paid under protest is accounted for by the County in a protested tax agency fund until the final determination. The amount reported above includes \$858 of taxes paid under protest.

**NOTE 4. ACCOUNTS RECEIVABLE**

Accounts receivable represent the outstanding balances of amounts billed for services the Town has provided for water and sewer. An allowance for doubtful accounts has not been established since the outstanding amount is not material. In addition, Montana law allows the Town to place delinquent utility balances on the tax rolls for collection.

<b>Fund</b>	<b>Accounts Receivable</b>
Water *	\$ 65,141
Sewer *	68,165
<b>Total</b>	<b>\$ 133,306</b>

\* Denotes Major Fund

**NOTE 5. OTHER ASSETS**

5. a. DUE FROM OTHER GOVERNMENTS

Due from other governments represent amounts due to the Town for costs incurred but not reimbursed by third party governments. The amounts due from other governments as of June 30, 2019 were as follows:

<b>Fund</b>	<b>Amount</b>	<b>Due From</b>	<b>Reason</b>
<b>Governmental Activities</b>			
General *	\$ 10,928	Ravalli County	Tax collections not yet remit to the Town
Police Training	4,012	State of Montana	State share insurance premium apportionment
General*	531	City Court	City court collections due to the Town
<b>Business-type Activities</b>			
Airport *	9,759	FAA	FAA Reimbursable grant accrual
<b>Total</b>	<b>\$ 25,230</b>		

\* Denotes Major Fund

TOWN OF STEVENSVILLE

NOTES TO THE FINANCIAL STATEMENTS (continued)  
For the year ended June 30, 2019

5. b. INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables represent the loan of resources from one fund to another fund experiencing a temporary cash shortage. Each fund is a separate fiscal entity and therefore presents interfund borrowing on fund level financial statements. Liabilities arising from interfund borrowing do not constitute general long-term debt. Interfund amounts reported as of June 30, 2019 were as follows:

<b>Interfund Receivable</b>	<b>Amount</b>	<b>Interfund Payable</b>	<b>Purpose</b>
General *	\$ 4,592	Ambulance	Short term loan for cash deficit
General *	14,019	Planning	Short-term loan for cash deficit
General *	<u>3,050</u>	Airport *	Short-term loan for cash deficit
Total	<u>\$ 21,661</u>		

\* Denotes Major Fund

NOTE 6. CAPITAL ASSETS, DEPRECIATION, AND NET CAPITAL ASSETS

6. a. GENERAL CAPITAL ASSETS

The schedule of changes in general capital assets for the year ended June 30, 2019 follows:

<b>Governmental Activities:</b>	<b>Balance July 1, 2018</b>	<b>Additions</b>	<b>Balance June 30, 2019</b>
<u>Non-depreciable Assets:</u>			
Land	\$ 2,707	\$ 0	\$ 2,707
<u>Depreciable Assets:</u>			
Buildings	427,934	7,052	434,986
Improvements Other than Buildings	286,079	15,391	301,470
Machinery and Equipment	975,588	34,465	1,010,053
Infrastructure	<u>136,440</u>	<u>0</u>	<u>136,440</u>
Total Depreciable Assets	1,826,041	56,908	1,882,949
<u>Accumulated Depreciation:</u>			
Buildings	(353,907)	(5,609)	(359,516)
Improvements Other than Buildings	(114,952)	(14,659)	(129,611)
Machinery and Equipment	(521,973)	(47,875)	(569,848)
Infrastructure	<u>(22,465)</u>	<u>(9,096)</u>	<u>(31,561)</u>
Total Accumulated Depreciation	<u>(1,013,297)</u>	<u>(77,239)</u>	<u>(1,090,536)</u>
Net Depreciable Assets	<u>812,744</u>	<u>(20,331)</u>	<u>792,413</u>
Net General Capital Assets	<u>\$ 815,451</u>	<u>\$ (20,331)</u>	<u>\$ 795,120</u>

Depreciation expense charged to governmental functions was as follows:

<b>Function</b>	<b>Amount</b>
General Government	\$ 5,504
Public Safety	41,758
Public Works	26,973
Culture and Recreation	<u>3,004</u>
Total	<u>\$ 77,239</u>

TOWN OF STEVENSVILLE

NOTES TO THE FINANCIAL STATEMENTS (continued)  
For the year ended June 30, 2019

6. b. BUSINESS-TYPE CAPITAL ASSETS

The schedule of changes in business-type capital assets for the year ended June 30, 2019 follows:

<b>Business-type Activities:</b>	<b>Balance July 1, 2018</b>	<b>Additions/ Adjustments</b>	<b>Balance June 30, 2019</b>
<b>Non-depreciable Assets:</b>			
Land	\$ 663,198	\$ 0	\$ 663,198
Construction in Progress	<u>0</u>	<u>183,878</u>	<u>183,878</u>
Total Non-depreciable Assets	663,198	183,878	847,076
<b>Depreciable Assets:</b>			
Buildings	155,977	0	155,977
Improvements Other than Buildings	5,359,331	42,199	5,401,530
Machinery and Equipment	441,068	56,108	497,176
Source of Supply	3,584,682	0	3,584,682
Pumping Plant	18,900	0	18,900
Treatment Plant	10,276,790	0	10,276,790
Transmission and Distribution	2,214,425	0	2,214,425
Infrastructure	<u>433,568</u>	<u>0</u>	<u>433,568</u>
Total Depreciable Assets	22,484,741	98,307	22,583,048
<b>Accumulated Depreciation:</b>			
Buildings	(111,602)	(2,699)	(114,301)
Improvements Other than Buildings	(1,996,368)	(119,635)	(2,116,003)
Machinery and Equipment	(336,521)	(27,945)	(364,466)
Source of Supply	(294,750)	(69,999)	(364,749)
Pumping Plant	(18,900)	0	(18,900)
Treatment Plant	(2,883,543)	(209,843)	(3,093,386)
Transmission and Distribution	(251,493)	(39,411)	(290,904)
Infrastructure	<u>(138,071)</u>	<u>(28,904)</u>	<u>(166,975)</u>
Total Depreciation	<u>(6,031,248)</u>	<u>(498,436)</u>	<u>(6,529,684)</u>
Net Depreciable Assets	<u>16,453,493</u>	<u>(400,129)</u>	<u>16,053,364</u>
Net Business-type Capital Assets	<u>\$ 17,116,691</u>	<u>\$ (216,251)</u>	<u>\$ 16,900,440</u>

**NOTE 7. LONG-TERM DEBT**

7. a. GENERAL LONG-TERM DEBT

The schedule of changes in general long-term debt for the year ended June 30, 2019 follows:

<b>Governmental Activities:</b>	<b>Balance July 1, 2018</b>	<b>New Debt and Other Additions</b>	<b>Principal Payments and Other Reductions</b>	<b>Balance June 30, 2019</b>	<b>Due within One Year</b>
Compensated Absences	26,752	6,478	0	33,230	16,615
Accrued Pension	366,997	0	(34,152)	332,845	0
Other Postemployment Benefits	<u>53,171</u>	<u>3,008</u>	<u>0</u>	<u>56,179</u>	<u>0</u>
Total Governmental Activities - Long-term Debt	<u>\$ 446,920</u>	<u>\$ 9,486</u>	<u>\$ (34,152)</u>	<u>\$ 422,254</u>	<u>\$ 16,615</u>

TOWN OF STEVENSVILLE

NOTES TO THE FINANCIAL STATEMENTS (continued)  
For the year ended June 30, 2019

7. b. BUSINESS-TYPE LONG-TERM DEBT

The schedule of changes in Business-type long-term debt for the year ended June 30, 2019 follows:

<b>Business-type Activities:</b>	<b>Balance July 1, 2018</b>	<b>New Debt and Other Additions</b>	<b>Principal Payments and Other Reductions</b>	<b>Balance June 30, 2019</b>	<b>Due within One Year</b>
<b>Bonds and Notes Payable:</b>					
Revenue Bonds	\$ 5,524,156	\$ 0	\$ (111,717)	\$ 5,412,439	\$ 117,124
Notes Payable	<u>75,460</u>	<u>0</u>	<u>(10,381)</u>	<u>65,079</u>	<u>8,756</u>
Total Bonds and Notes Payable	5,599,616	0	(122,098)	5,477,518	125,880
<b>Other Liabilities:</b>					
Compensated Absences	39,536	0	(8,646)	30,890	15,445
Accrued Pension	292,526	781	(34,083)	259,224	0
Other Postemployment Benefits	<u>57,602</u>	<u>3,372</u>	<u>0</u>	<u>60,974</u>	<u>0</u>
Total Other Liabilities	<u>389,664</u>	<u>4,153</u>	<u>(42,729)</u>	<u>351,088</u>	<u>15,445</u>
Total Business-type Activities - Long-term Debt	<u>\$ 5,989,280</u>	<u>\$ 4,153</u>	<u>\$ (164,827)</u>	<u>\$ 5,828,606</u>	<u>\$ 141,325</u>

7. b. 1 REVENUE BONDS

Revenue Bonds constitute special obligations of the Town solely secured by a lien on and pledge of the net revenues of the water system and sewer system. These bonds were issued for the terms and payment schedules as follows:

<b>Description</b>	<b>Issue Date</b>	<b>Interest Rate</b>	<b>Term</b>	<b>Maturity Date</b>	<b>Amount Issued</b>	<b>Outstanding June 30, 2019</b>
Water Bond No. 1	6/15/2010	2.750%	40 years	6/14/2050	\$2,173,000	\$ 2,011,227
Sewer Rus No. 1 (2000A)	3/26/1997	4.500%	40 years	3/25/2037	1,250,000	925,968
Sewer Rus No. 3 (2000B)	6/18/1999	4.500%	40 years	6/17/2039	814,000	602,990
Sewer Bond No. 2 (2011)	3/24/2010	3.000%	40 years	3/23/2050	780,000	694,976
Sewer Bond (2016A)	2/10/2016	1.875%	40 years	2/9/2056	800,000	753,471
Sewer Bond (2016B)	2/10/2016	1.875%	40 years	2/9/2056	<u>450,000</u>	<u>423,807</u>
					<u>\$6,267,000</u>	<u>\$ 5,412,439</u>

Debt service requirements to maturity for principal and interest for these bonded long-term obligations were as follows:

<b>For the year ended June 30:</b>	<b>Principal</b>	<b>Interest</b>
2020	\$ 115,313	\$ 165,223
2021	119,142	161,394
2022	123,112	157,424
2023	127,227	153,309
2024	131,492	149,044
2025-2029	727,175	675,505
2030-2034	860,260	542,420
2035-2039	1,020,369	382,311
2040-2044	777,620	222,819
2045-2049	713,432	131,968
2050-2054	631,026	38,542
2055-2056	<u>66,271</u>	<u>994</u>
Totals	<u>\$ 5,412,439</u>	<u>\$ 2,780,953</u>

The revenue bonds are collateralized by the revenues of the water and sewer systems and the various special funds established by the bond ordinances. The ordinances provide that the revenues of the systems are to be used first to pay operating and maintenance expenses of the systems and second to establish and maintain the revenue bond funds. Any remaining revenues may then be used for any lawful purpose.

TOWN OF STEVENSVILLE

NOTES TO THE FINANCIAL STATEMENTS (continued)  
For the year ended June 30, 2019

The bond ordinances also require that water rates be sufficient to provide for operations, maintenance, and 125% of the maximum amount of principal and interest requirements in any future fiscal year of the Town. The more significant covenants:

- 1) Require that cash be restricted and reserved for operations, construction, debt service, and replacement and depreciation;
- 2) Specify minimum required operating revenue; and
- 3) Provide specific and timely reporting of financial information to bond holders and the registrar.

As of June 30, 2019, the Town was in compliance with the applicable covenants.

7. b. 2 NOTES PAYABLE

The Town entered into loan agreements in prior years with the Aeronautics Division of the Montana Department of Transportation. The loans were issued for the terms and payment schedule indicated below:

Description	Issue Date	Interest Rate	Term	Maturity Date	Amount Issued	Outstanding June 30, 2019
Montana Aeronautics 2014GL	3/1/2014	1.625%	40 years	2/28/2024	\$ 16,557	\$ 8,279
Montana Aeronautics 2017GL	3/1/2017	1.750%	40 years	2/28/2027	71,000	56,800
					<u>\$ 87,557</u>	<u>\$ 65,079</u>

Debt service requirements to maturity for principal and interest for these notes were as follows:

For the year ended June 30:	Principal	Interest
2020	\$ 8,756	\$ 1,129
2021	8,756	978
2022	8,756	827
2023	8,756	675
2024	8,755	524
2025-2027	21,300	746
Totals	<u>\$ 65,079</u>	<u>\$ 4,879</u>

NOTE 8. DEFERRED INFLOWS OF RESOURCES

The Town reported deferred inflows of resources in governmental funds at June 30, 2019 as follows:

Fund	Amount	Reason
General *	\$ 14,863	Taxes receivable
Tax Increment Financing	(235)	Taxes receivable
Targeted Economic Development	3,060	Taxes receivable
Twin Creeks Lighting #5	74	Taxes receivable
Total	<u>\$ 17,762</u>	

\* Denotes Major Fund

NOTE 9. DEFICIT FUND BALANCES

Deficit fund balances result from commitments that exceed the associated resources. The Town reported deficit fund balances at June 30, 2019 as follows:

Fund	Amount	Plan to Correct
Ambulance	\$ (5,904)	Future transfers
Planning	<u>(12,753)</u>	Future transfers
Total	<u>\$ (18,657)</u>	

TOWN OF STEVENSVILLE

NOTES TO THE FINANCIAL STATEMENTS (continued)  
For the year ended June 30, 2019

NOTE 10. PRIOR PERIOD ADJUSTMENT

The Town recorded prior period adjustments at June 30, 2019 as follows:

<b>Fund</b>	<b>Propriety Funds</b>	<b>Total Primary Government</b>	<b>Reason</b>
Airport *	\$ 43,748	\$ 43,748	Prior year paving costs not previously capitalized
* Denotes Major Fund			

NOTE 11. INTERFUND TRANSFERS IN AND OUT

The Town recorded interfund transfers during the year ended June 30, 2019 as follows:

<b>Operating Fund In</b>	<b>Amount</b>	<b>Operating Fund Out</b>	<b>Purpose</b>
Special Gas Tax	\$ 639	General *	Match for Bridge and Road Safety and Accountability Act
Capital Improvements	5,000	General *	Future capital improvements
Airport *	<u>11,250</u>	General *	TED payoff of FAA loan
Total	<u>\$ 16,889</u>		
* Denotes Major Fund			

NOTE 12. OTHER POSTEMPLOYMENT BENEFITS

12. a. PLAN DESCRIPTION

The Town maintains a single-employer defined benefit healthcare plan called the Town of Stevensville Employee Group Benefits Plan (the Plan). The plan is administered by Montana Municipal Interlocal Authority. Benefit provisions are set annually by the Town's governing board. Terminated employees may remain on the Town's health insurance plan for up to 18 months if they pay the monthly premiums. This benefit is required under federal C.O.B.R.A. law. As required by State law (MCA 2-18-704), the Town allows its retiring employees with at least five years of service and who are at least 50 years of age, along with their eligible spouses and dependents, the option to continue participation in the government's group health insurance plan until the retiree becomes eligible for Medicare coverage. This option creates a defined benefit other postemployment benefits plan (OPEB) since retirees are typically older than the average age of active plan participants and therefore receive a benefit of lower insurance rates. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75.

12. b. FUNDING POLICY

The Town provides no direct subsidy to the health insurance premiums for retirees. Eligible participating retirees pay for the entire cost of the health insurance premium. The Town funds OPEB costs when they come due, on a pay-as-you-go basis and does not plan to set aside assets to fund the OPEB liability since it has paid the full amount due each month.

12. c. REPORTING REQUIREMENTS

The Town had fewer than 100 employees (active and inactive) that are provided with OPEB through the Plan and, as such, the Town qualified and elected to use the alternative measurement method for calculating the total OPEB liability. Per GASBS 75, all employers must have a valuation performed at least every two years as of the first fiscal year beginning after June 15, 2017.

12. d. BENEFITS PROVIDED

The plan provided healthcare, dental, vision, and prescription drugs insurance benefits for retirees and eligible spouses and dependents as defined in MCA 2-18-704.

Medicare Retiree - For retirees who are 65 years of age or older, Medicare is primary and the Plan will be secondary for the covered retiree if he/she is an individual who is enrolled in Medicare Part A or Part B as a result of age and retired.

TOWN OF STEVENSVILLE

NOTES TO THE FINANCIAL STATEMENTS (continued)  
For the year ended June 30, 2019

Medicare is primary and the Plan will be secondary for the covered retiree's dependent spouse who is enrolled in Medicare Part A or B if both the covered retiree and his/her covered dependent spouse are enrolled in Medicare Part A or Part B as a result of age and retired.

Medicare is primary for the retiree's dependent spouse when the retiree is not enrolled for Medicare Part A or Part B as a result of age and the retiree's dependent spouse is enrolled in Medicare Part A or Part B as a result of age.

12. e. HEALTH INSURANCE PREMIUMS

The Town pays \$594 of the premium for its active employees and contributes nothing to the premium for its retirees. The Town also pays 50% of dental and vision premiums for active employees and nothing for its retirees.

12. f. EMPLOYEES COVERED BY BENEFIT TERMS

At as of June 30, 2019, the measurement date, the following employees were covered by the benefit terms:

Active employees	7
Inactive employees entitled to but not yet receiving benefit payments	0
Inactive employees or beneficiaries currently receiving benefit payments	<u>1</u>
	8

12. g. TOTAL OPEB LIABILITY

As of June 30, 2019, the Town's total OPEB liability amounted to \$117,153 and was determined using an alternative measurement method as of June 30, 2018 with a roll-forward estimate as of June 30, 2019.

12. h. ALTERNATIVE MEASUREMENT METHOD ASSUMPTIONS AND OTHER INPUTS

Total OPEB liability as of June 30, 2019 was determined using the following assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

	<u>OPEB Valuation</u>	<u>Roll-forward</u>
Average age of retirement based on historical data	58.1	
Turnover rate	4.00%	
Discount rate	3.87%	3.87%
Average salary increase	4.00%	
Health care cost rate trend:		

<u>From Year</u>	<u>To Year</u>	<u>Annual % Increase</u>	<u>From Year</u>	<u>To Year</u>	<u>Annual % Increase</u>
2018	2019	20.24%	2049	2053	4.80%
2019	2020	6.50%	2053	2058	4.70%
2020	2021	6.00%	2058	2065	4.60%
2021	2022	5.90%	2065	2066	4.50%
2022	2023	5.70%	2066	2067	4.40%
2023	2024	5.60%	2067	2068	4.30%
2024	2025	5.50%	2068	2070	4.20%
2025	2026	5.30%	2070	2071	4.10%
2026	2043	5.20%	2071	2073	4.00%
2043	2044	5.10%	2073	2074	3.90%
2044	2046	5.00%	2074	+	3.80%
2046	2049	4.90%			

TOWN OF STEVENSVILLE

NOTES TO THE FINANCIAL STATEMENTS (continued)  
For the year ended June 30, 2019

12. i. CHANGES IN THE TOTAL OPEB LIABILITY

Balance at June 30, 2018	\$ 110,773
Changes for the year:	
Service cost (OPEB expense)	22,057
Interest	5,141
Changes in assumptions or other inputs	(17,101)
Benefit payments	<u>(3,717)</u>
Net Changes	<u>6,380</u>
Balance at June 30, 2019	<u>\$ 117,153</u>

12. j. SENSITIVITY ANALYSIS

Discount Rate The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using a discount rate that is 1% lower (2.87%) or 1% higher (4.87%) than the current discount rate:

	<u>1% Decrease</u>	<u>Discount Rate</u>	<u>1% Increase</u>
Total OPEB Liability	\$ 129,651	\$ 117,153	\$ 106,240

Healthcare Cost Trend Rates The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1% lower (5.50% decreasing to 2.80%) or 1% higher (7.50% increasing to 4.80%) than the current healthcare cost trend rates:

	<u>1% Decrease</u>	<u>Healthcare Cost Trend Rate</u>	<u>1% Increase</u>
Total OPEB Liability	\$ 106,608	\$ 117,153	\$ 133,189

12. k. OPEB EXPENSE AND DEFERRED OUTFLOWS AND DEFERRED INFLOWS OF RESOURCES

For the year ended June 30, 2019, the Town recognized OPEB expense of \$6,380.

At June 30, 2019, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference Between Expected and Actual Experience	\$ 33	\$ 0
Changes of Assumptions	<u>0</u>	<u>(20,285)</u>
Total	<u>\$ 33</u>	<u>\$ (20,285)</u>

Amounts reported as deferred outflows (inflows) of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year ended June 30:</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2020	\$ (432)	\$ (2,347)
2021	(432)	(2,347)
2022	(432)	(2,347)
2023	(432)	(2,347)
2024	(432)	(2,347)
Thereafter (8yrs)	(991)	(7,713)



TOWN OF STEVENSVILLE

NOTES TO THE FINANCIAL STATEMENTS (continued)  
For the year ended June 30, 2019

---

NOTE 13. RISK MANAGEMENT

The Town faces a considerable number of risks of loss, including:

- Damage to and loss of property and contents
- Employee torts
- Professional liability, e.g., errors and omissions
- Environmental damage
- Workers' compensation
- Medical insurance costs of employees

A variety of methods are used to provide insurance for these risks. Commercial policies, transferring all risk of loss except for relatively small deductible amounts, are purchased for property and content damage and professional liabilities. Given the lack of coverage available, the Town has no coverage for potential losses from environmental damages. The Town participates in three statewide public risk pools operated by the Montana Municipal Interlocal Authority, for workers' compensation, tort liability, and property coverage.

Coverage limits and the deductibles in the commercial policies have stayed relatively constant for the last several years. The premiums for the policies are allocated between the Town's general fund and other funds based upon the insurance needs of the funds. Settled claims resulting from these risks did not exceed commercial insurance coverage for each of the past three years.

In 1986, the Town joined other Montana cities in the Montana Municipal Interlocal Authority which established a workers' compensation plan and a tort liability plan. In 1996, the Montana Municipal Interlocal Authority created a property insurance plan. The public entity risk pools currently operate as common risk management and insurance programs for the member governments. The liability limits for damages in tort action are \$750,000 per claim and \$1.5 million per occurrence with a \$750 deductible per government. State tort law limits the Town's liability to \$1.5 million. The Town pays an annual premium for its employee injury insurance coverage, which is allocated to the employer funds based on total salaries and wages. The agreements for formation of the pools provide that they will be self-sustaining through member premiums.

Separate audited financial statements are available from the Montana Municipal Interlocal Authority.

NOTE 14. EMPLOYEE RETIREMENT SYSTEM

The Town participates in one state-wide, cost-sharing multiple employer defined benefit retirement plan which cover all Town employees, except certain part-time, employees. The Public Employee Retirement System (PERS) covers employees. The plan is established under Montana law and are administered by the State.

The plan issue publicly available annual reports, stand-alone financial statements, actuarial valuations, experience studies, and plan audited financial statements. Those reports may be obtained from the following:

Public Employees Retirement System  
P.O. Box 200131  
100 N. Park Avenue Suite 200  
Helena, MT 59620-0131  
Phone: 406-444-3154  
[www.mpera.mt.gov](http://www.mpera.mt.gov)

14. a. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES OF RETIREMENT SYSTEMS

The Montana Public Employee Retirement Administration (MPERA) prepares their financial statements using the accrual basis of accounting. For the purposes of measuring the net pension liability, deferred inflows of resources and deferred outflows of resources related to pensions, pension expense, and information about the fiduciary net position and additions to and deductions from fiduciary net position have been determined on the same accrual basis as they are reported by MPERA. For this purpose, member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Revenues are recognized in the accounting period they are earned and become measurable. Benefit payments and refunds are recognized in the accounting period when due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred.

TOWN OF STEVENSVILLE

NOTES TO THE FINANCIAL STATEMENTS (continued)  
For the year ended June 30, 2019

Investments are reported at fair value. MPERA adheres to all applicable GASB statements.

14. b. PUBLIC EMPLOYEE RETIREMENT SYSTEM

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

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

14. b. 1. SUMMARY OF BENEFITS

Eligibility for benefits

Service Retirement:

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

Early Retirement:  
(actuarially reduced)

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

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

- Retire before January 1, 2016 and accumulate less than 2 years additional service credit or retire 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.
- Retire before January 1, 2016 and accumulate at least 2 years additional service credit:
  - A recalculated retirement benefit based on provision in effect after the initial retirement; and
  - GABA starts on the recalculation benefit in the January after receiving the new benefit for 12 months.
- Retire on or after January 1, 2016 and accumulate 5 or more years additional 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.

Vesting:

5 years of membership service

Member's Highest Average Compensation (HAC):

- Hired prior to July 1, 2011:
  - HAC during any consecutive 36 months.
- Hired on or after July 1, 2011:
  - HAC during any consecutive 60 months.

Compensation Cap:

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

TOWN OF STEVENSVILLE

NOTES TO THE FINANCIAL STATEMENTS (continued)  
For the year ended June 30, 2019

- Monthly Benefit Formula:
- Hired prior to July 1, 2011:
    - Less than 25 years of membership service - 1.785% of HAC per year of service credit; or
    - 25 years of membership service or more - 2% of HAC per year of service credit.
  - 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; or
    - 30 years or more of membership service - 2% of HAC per year of service credit.

Guaranteed Annual Benefit Adjustment: After the member has completed 12 full months of retirement, the member’s benefit increases by the following percentage each January, inclusive of other adjustments to the member’s benefit:

- 3% for members hired prior to July 1, 2007
- 1.5% for members hired between July 1, 2007 and June 30, 2013
- Members hired on or after July 1, 2013:
  - 1.5% for each year PERS is funded at or above 90%;
  - 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and
  - 0% whenever the amortization period for PERS is 40 years or more.

14. b. 2. OVERVIEW OF CONTRIBUTIONS

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

Fiscal Year	Member		State & Universities	Local Government	School Districts		
	Hired <07/01/11	Hired >07/01/11	Employer	Employer	State	Employer	State
2019	7.900%	7.900%	8.670%	8.570%	0.100%	8.300%	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 an actuary valuation that shows 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.
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 amounting to \$33,454,182.

TOWN OF STEVENSVILLE

NOTES TO THE FINANCIAL STATEMENTS (continued)  
For the year ended June 30, 2019

- b. Not Special Funding
  - i. The State contributed a portion of Coal Severance Tax income and earnings from the Coal Severance Tax fund.

14. b. 3. ACTUARIAL ASSUMPTIONS

The Total Pension Liability (TPL) used to calculate the Net Pension Liability (NPL) as of June 30, 2018 was determined by taking the results of the June 30, 2017 actuarial valuation and applying standard roll forward procedures. There were several significant assumptions and other inputs used to measure the TPL. Among those assumptions were the following:

- Investment Return (net of admin expenses) 7.65%
- Admin Expense as % of Payroll 0.26%
- General Wage Growth (includes inflation at 2.75%) 3.50%
- Merit Increases 0.00% to 6.3%
- Postretirement Benefit Increases:
  - GABA. After the member has completed 12 full months of retirement, the member's benefit increases by the following percentage 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 between July 1, 2007 and June 30, 2013
    - Members hired on or after July 1, 2013:
      - 1.5% for each year PERS is funded at or above 90%;
      - 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and
      - 0% whenever the amortization period for PERS is 40 years or more.
- Mortality assumptions among contributing members and service retired members and beneficiaries were based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2020 with scale BB, males set back 1 year.
- Mortality assumptions among disabled members are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections.

14. b. 4. DISCOUNT RATE

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 MCA. The State contributed 0.1% of salaries for local governments and 0.37% for school districts. In addition, the State contributed coal severance tax and interest money from the general fund. The interest was contributed monthly and the severance tax was contributed quarterly. 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.

14. b. 5. TARGET ALLOCATIONS

The long-term expected return on pension plan assets was reviewed as part of the regular experience study prepared for the Plan. The most recent analysis, performed for the period of July 1, 2011 to June 30, 2016, was outlined in a report dated May 2017 and can be located on the MPERA website. The long-term rate of return on pension plan investments was determined by considering information from various sources, 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 allocations as of June 30, 2018 are summarized below.

TOWN OF STEVENSVILLE

NOTES TO THE FINANCIAL STATEMENTS (continued)  
For the year ended June 30, 2019

Asset Class	Target Asset	Long-Term	Long-Term
	Allocation	Expected Real	Expected Real
	(a)	Rate of Return	Rate of Return
		Arithmetic Basis	(a) x (b)
Cash Equivalents	2.60%	4.00%	0.10%
Domestic Equity	36.00%	4.55%	1.64%
Foreign Equity	18.00%	6.35%	1.14%
Fixed Income	23.40%	1.00%	0.23%
Private Equity	12.00%	7.75%	0.93%
Real Estate	8.00%	4.00%	0.32%
Total	100.00%		4.36%
Inflation			2.75%
Portfolio Return Expectation			7.11%

The long-term expected nominal rate of return of 7.11% is an expected portfolio rate of return provided by Board of Investments, which differs from the total long-term assumed rate of return of 7.65% in the experience study. The assumed investment rate is comprised of a 2.75% inflation rate and a long-term expected real rate of return of 4.36%.

14. b. 6. DEFINED CONTRIBUTION PLAN

The Town contributed to the state of Montana Public Employee Retirement System Defined Contribution Retirement Plan (Defined Contribution plan) for employees that have elected the Defined Contribution plan. The Defined Contribution plan is administered by the Montana Public Employees Retirement Board (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 Defined Benefit plan and have a 12-month window during which they may choose to remain in the Defined Benefit plan or join the PERS- Defined Contribution Retirement Plan (Defined Contribution plan) 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 Defined Contribution plan.

At the plan level for the measurement period ended June 30, 2018, the Defined Contribution plan 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.

14. c. SENSITIVITY ANALYSIS

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the below table presents the net pension liability calculated using the discount rate of 7.65% for PERS, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower or 1.00% higher than the current rate.

As of measurement date	1.0% Decrease (6.65%)	Current Discount Rate (7.65%)	1.0% Increase (8.65%)
Net Pension Liability	\$ 3,018,490,542	\$ 2,087,141,869	\$ 1,322,356,189
Town's Net Pension Liability	856,270	592,070	375,119

TOWN OF STEVENSVILLE

NOTES TO THE FINANCIAL STATEMENTS (continued)  
For the year ended June 30, 2019

14. d. NET PENSION LIABILITY

In accordance with GASB Statement 68, *Accounting and Financial Reporting for Pensions*, employers are required to recognize, and report certain amounts associated with their participation in the PERS. Statement 68 became effective June 30, 2015 and includes requirements to record and report their proportionate share of the collective NPL, Pension Expense, and Deferred Inflows and Deferred Outflows of resources associated with pensions. In accordance with Statement 68, PERS have special funding situations in which the State of Montana is legally responsible for making contributions directly to PERS that are used to provide pension benefits to the retired members. Due to the existence of this special funding situation, employers are also required to report the portion of the State of Montana’s proportionate share of the collective Net Pension Liability that is associated with the employer.

As of measurement date	NPL		Percent of	Percent of	Change in
	as of 6/30/18	as of 6/30/17	Collective NPL as of 6/30/18	Collective NPL as of 6/30/17	Percent of Collective NPL
Town Proportionate Share State of Montana	\$ 592,070	\$ 659,522	0.0284%	0.0339%	(0.0055)%
Proportionate Share associated with Employer	198,349	8,890	0.0381%	0.0453%	(0.0072)%
Total	<u>\$ 790,419</u>	<u>\$ 668,412</u>	<u>0.0665%</u>	<u>0.0792%</u>	<u>(0.0127)%</u>

At June 30, 2019, the employer recorded a liability for its proportionate share of the NPL of \$592,070. At June 30, 2019, the employer’s proportion was 0.0284 percent.

The NPL was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017 and applying standard roll forward procedures. The roll forward procedures 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 update procedures are in conformity with Actuarial Standards of Practice issued by the Actuarial Standards Board.

Changes in actuarial assumptions, other inputs, and methods:

Effective July 1, 2017, the following assumption changes were used:

- Lowered the interest rate from 7.75% to 7.65%.
- Lowered the inflation rate from 3.00% to 2.75%.
- Updated non-disabled mortality to the RP 2000 Combined Employee and Annuitant projected to 2020 using scale BB, males set back one year.
- Increased rates of withdrawal.
- Lowered the merit component of the total salary increase.
- Lowered the wage base component of the total salary increase from 4.00% to 3.50%.
- Decreased the administrative expense load from 0.27% to 0.26%.

Effective July 1, 2017, the following method changes were used:

- Administrative expenses are recognized by an additional amount added to the normal cost contribution rate for PERS. This amount will vary from year to year based on the prior year’s actual administrative expenses.
- To be consistent with the wage base growth change, the payroll growth assumption for amortization as a level percent of pay was reduced from 4.00% to 3.50%.

Changes in benefit terms:

Effective July 1, 2017, the following were benefit changes:

- Working Retiree Limitation – 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 roll-over 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.
- The interest rate credited to member accounts increased from 0.25% to 0.77%.
- Lump sum payouts are limited to the member’s accumulated contributions rather than the present value of the member’s benefit.

TOWN OF STEVENSVILLE

NOTES TO THE FINANCIAL STATEMENTS (continued)  
For the year ended June 30, 2019

- 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 proportionate share: There were no changes between the measurement date of the collective NPL and the employer’s reporting date.

14. e. PENSION EXPENSE

(As of measurement date)	Pension Expense as of 6/30/18	Pension Expense as of 6/30/17
Town’s Proportionate Share	\$ 73,286	\$ 91,236
Employer Grant Revenue – State of Montana Proportionate Share for employer	13,238	474
Employer Grant Revenue – State of Montana State Appropriation for employer	<u>0</u>	<u>9,435</u>
Total	<u>\$ 86,524</u>	<u>\$ 101,145</u>

At June 30, 2019, the employer recognized a Pension Expense of \$ 86,524 for its proportionate share. The employer also recognized grant revenue of \$13,238 for the support provided by the State of Montana for its proportionate share of the Pension Expense that is associated with the employer.

14. f. DEFERRED INFLOWS AND OUTFLOWS

At June 30, 2019, the employer reported its proportionate share of PERS deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected economic experience	\$ 45,023	\$ 0
Changes in actuarial assumptions	0	9,326
Difference between projected and actual investment earnings	50,347	0
Changes in proportion and differences between employer contributions and proportionate share of contributions	0	50,727
Contributions paid subsequent to the measurement date – FY 2019 Contributions	<u>41,362</u>	<u>0</u>
Total	<u>\$ 136,732</u>	<u>\$ 60,053</u>

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

Year Ended June 30	Amount of Deferred Out- flows and Deferred Inflows Recognized in Future Years as an Increase or (Decrease) to Pension Expense
2019	\$ 42,225
2020	23,117
2021	(26,116)
2022	(3,778)
2023	0
Thereafter	0

TOWN OF STEVENSVILLE

NOTES TO THE FINANCIAL STATEMENTS (continued)  
For the year ended June 30, 2019

14. g. EMPLOYER'S PROPORTION OF PENSION AMOUNTS

	<b>Employer's Proportionate Share</b>
Total Pension Liability	\$ 2,231,700
Fiduciary Net Position	<u>1,639,630</u>
Net Pension Liability	592,070
Deferred Outflows of Resources	136,732
Deferred Inflows of Resources	60,053
Pension Expense	86,524

NOTE 15. FIRE DEPARTMENT RELIEF ASSOCIATION DISABILITY AND PENSION FUND

Town volunteer firefighters are covered by the Fire Department Relief Association Disability and Pension Fund (the Association), which is established by Montana Law. The Association is managed by a Board of Trustees made up of members of the fire department. A member of a volunteer fire department who has served 20 years or more is entitled to benefits after attaining age 50. Volunteers serving less than 20 years but more than 10 years may receive reduced benefits. The amount of the pension benefits is set by the Association's Board of Trustees.

Montana law requires that the disability and pension fund contain at least three times but no more than five times the benefits paid by the fund in the previous or current fiscal year, whichever is greater. The Town's contribution to the plan for the fiscal year ended June 30, 2019 was \$0. The State contributes, out of moneys received for insurance premium taxes, an amount equal to 1½ mills times the total taxable value of the Town, but not less than \$100. The State's contribution to the plan for the fiscal year was \$3,888. The plan's benefits are established by the Association's Board of Trustees. Total benefits paid in the fiscal year ended June 30, 2019 amounted to \$18,900.

No actuarial valuation or report of unfunded past service costs had been prepared for the Town's Fire Department Relief Association Disability and Pension Fund.

NOTE 16. SUBSEQUENT REPORTABLE EVENTS

Due to the COVID19 pandemic, the Town may realize in future periods delayed collections and receipts. The likelihood and impact of the potential delay are uncertain.

NOTE 17. CONTINGENCIES

The government participates in various federal grant programs, the principal of which are subject to program compliance audits pursuant to the Single Audit Act as amended. Accordingly, the government's compliance with applicable grant requirements will be established at a future date. The amount of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the government anticipates such amounts, if any, will be immaterial.

The government is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the government's legal counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the government.



TOWN OF STEVENSVILLE

SCHEDULE OF FUNDING PROGRESS  
 Other Postemployment Benefits Other Than Pensions  
 For the year ended June 30, 2019

**OTHER POSTEMPLOYMENT BENEFITS  
CHANGE IN LIABILITY**

<b>Fiscal Year End</b>	<b>Service Cost (a)</b>	<b>Interest (b)</b>	<b>Changes in Benefit Terms (c)</b>	<b>Changes in Assumptions or Other Inputs (d)</b>	<b>Benefit Payments (e)</b>	<b>Net Change in Total OPEB Liability Sum of (a) to (e)=(f)</b>	<b>Total OPEB Liability Beginning (g)</b>	<b>Total OPEB Liability Ending (f)+(g)=(h)</b>
6/30/18	\$ 26,734	\$ 0	\$ 0	\$ 3,151	\$ (10,228)	\$ 19,657	\$ 91,116	\$ 110,773
6/30/19	22,057	5,141	0	(17,101)	(3,717)	6,380	110,773	117,153

**OTHER POSTEMPLOYMENT BENEFITS  
PAYROLL RATIO**

<b>Fiscal Year End</b>	<b>Covered Employee Payroll (i)</b>	<b>Total OPEB Liability as a Percentage of Covered Employee Payroll (h)/(i)=(j)</b>
6/30/18	\$ 302,204	36.66%
6/30/19	314,292	37.28%

These schedules are intended to show information for 10 years. Additional years will be displayed as they become available.

TOWN OF STEVENSVILLE

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY  
 (Determined as of the measurement date)  
 For the year ended June 30, 2019

**PUBLIC EMPLOYEES RETIREMENT SYSTEM**

<b>Year Ended June 30:</b>	<b>Employer's Proportion of the Net Pension Liability</b>	<b>Employer's Proportionate Share of the Net Pension Liability Associated with the Employer (a)</b>	<b>State of Montana's Proportionate Share of the Net Pension Liability Associated with the Employer (b)</b>	<b>Total (a)+(b)=(c)</b>	<b>Employer's Covered Payroll (d)</b>	<b>Employer's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Payroll (a)/(d)</b>	<b>Plan Fiduciary Net Position as a Per- centage of the Total Pension Liability</b>
2014	0.0293%	\$ 364,891	\$ 4,456	\$ 369,347	\$ 337,990	111.22%	79.87%
2015	0.0304%	425,435	5,226	430,661	355,176	119.78%	78.40%
2016	0.0329%	559,672	6,839	566,511	393,572	142.20%	74.71%
2017	0.0339%	659,522	8,890	668,412	416,297	158.43%	73.75%
2018	0.0284%	592,070	198,349	790,419	466,519	126.91%	73.47%

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

TOWN OF STEVENSVILLE

SCHEDULE OF CONTRIBUTIONS TO MONTANA RETIREMENT SYSTEMS  
 (Determined as of the reporting date)  
 For the year ended June 30, 2019

**PUBLIC EMPLOYEES RETIREMENT SYSTEM**

<b>Year Ended June 30:</b>	<b>Contractually Required Contributions (a)</b>	<b>Plan Choice Rate Required Contribution (b)</b>	<b>Contributions in Relation to Contractually Required Contributions (c)</b>	<b>Contribution Deficiency (Excess) (a)+(b)- (c)=(d)</b>	<b>Employer's Covered Payroll (e)</b>	<b>Contributions as a Percentage of Covered Payroll ((a)+(b))/(e)</b>
2015	\$ 29,268	\$ 3,614	\$ 32,882	\$ 0	\$ 355,176	9.26%
2016	32,897	2,133	35,030	0	393,572	8.90%
2017	35,161	0	35,161	0	416,297	8.45%
2018	39,514	0	39,514	0	466,519	8.47%
2019	41,362	0	41,362	0	462,897	8.94%

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

TOWN OF STEVENSVILLE

NOTES TO THE SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY AND  
SCHEDULE OF CONTRIBUTIONS TO MONTANA RETIREMENT SYSTEMS  
For the year ended June 30, 2019

---

**NOTE 1. PUBLIC EMPLOYEE RETIREMENT SYSTEM**

**1. a. CHANGES OF BENEFIT TERMS**

The following changes to the Public Employee Retirement System (PERS) plan provision 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	0.00% 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

TOWN OF STEVENSVILLE

NOTES TO THE SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY AND  
SCHEDULE OF CONTRIBUTIONS TO MONTANA RETIREMENT SYSTEMS (continued)  
For the year-ended June 30, 2019

---

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.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
Budget and Actual  
ALL BUDGETED MAJOR GOVERNMENTAL FUNDS  
For the year ended June 30, 2019

	General			Economic Development		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
<b>REVENUES:</b>						
Taxes and Assessments	\$ 282,129	\$ 282,129	\$ 372,227	\$ -	\$ -	\$ -
Licenses and Permits	-	-	16,065	-	-	-
Intergovernmental Revenues	-	-	213,452	150,000	150,000	150,000
Charges for Services	-	-	35,652	-	-	-
Fines and Forfeitures	-	-	11,182	-	-	-
Miscellaneous	372,880	372,880	17,922	-	-	-
Investment and Royalty Earnings	-	-	17	-	-	-
<b>Total Revenues</b>	<b>655,009</b>	<b>655,009</b>	<b>666,517</b>	<b>150,000</b>	<b>150,000</b>	<b>150,000</b>
<b>EXPENDITURES:</b>						
General Government	171,372	171,372	176,816	172,238	182,238	178,788
Public Safety	270,029	270,029	246,587	-	-	-
Public Works	136,887	136,887	89,408	-	-	-
Culture and Recreation	72,524	72,524	55,724	-	-	-
Capital Outlay	-	-	13,172	-	-	-
<b>Total Expenditures</b>	<b>650,812</b>	<b>650,812</b>	<b>581,707</b>	<b>172,238</b>	<b>172,238</b>	<b>178,788</b>
Excess (Deficiency) of Revenues Over Expenditures	4,197	4,197	84,810	(22,238)	(22,238)	(28,788)
<b>OTHER FINANCING SOURCES (USES):</b>						
Fund Transfers (Out)	(639)	-	(5,639)	-	-	-
<b>Total Other Financial Sources (Uses)</b>	<b>(639)</b>	<b>-</b>	<b>(5,639)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Change in Fund Balance</b>	<b>3,558</b>	<b>4,197</b>	<b>79,171</b>	<b>(22,238)</b>	<b>(22,238)</b>	<b>(28,788)</b>
<b>FUND BALANCE:</b>						
Beginning of the Year			272,696			43,492
End of the Year			<u>\$ 351,867</u>			<u>\$ 14,704</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

TOWN OF STEVENSVILLE

NOTES TO THE SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 BUDGET AND ACTUAL  
 For the year ended June 30, 2019

**NOTE 1. BUDGETS**

Budgets are adopted in accordance with Montana budget laws (Title 7, Chapter 6, Part 40, MCA) which are consistent with generally accepted accounting principles (GAAP). Annual appropriated budgets are adopted for all funds of the Town. All annual appropriations lapse at fiscal year end, unless the Town elects to encumber supplies and personal property ordered but not received at year end. The Town does not use a formal encumbrance system.

1. a. GENERAL BUDGET POLICIES

Budgeted funds are those for which a legal budget must be adopted to have expenditures as noted above. The Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual has been prepared on the modified accrual basis of accounting and contains financial information for only the major and special revenue budgeted funds. The Water, Sewer, and Airport funds are major funds, but are not included because they are enterprise funds.

1. b. BUDGET OPERATIONS

The Town operates within the budget requirements for incorporated cities or towns as specified by Montana law. The financial report reflects the following budgetary standards:

- A local government shall submit a complete copy of the final budget together with a statement of tax levies to the Department of Administration by the later of October 1 or 60 days after receipt of taxable values from the Department of Revenue.
- Local government officials may not make a disbursement or expenditure, or incur an obligation, in excess of the total budgeted appropriations for a fund.
- The governing body may amend the budget during the fiscal year by conducting public hearings at regularly scheduled meetings. Budget amendments providing for additional appropriations must identify the fund reserves, unanticipated revenue, or previously unbudgeted revenue that will fund the appropriations.
- The governing body and each municipal city or town are legally limited to the amount of appropriations and to the classifications in the annual appropriation resolution when making disbursements or expenditures or incurring liabilities, except where appropriations have been adjusted according to procedures authorized by the governing body for:
  - Debt service funds for obligations related to debt approved by the governing body
  - Trust funds for obligations authorized by trust covenants
  - Any fund for federal, state, local, or private grants and shared revenue accepted and approved by the governing body
  - Any fund for special assessments approved by the governing body
  - The proceeds from the sale of land
  - Any fund for gifts or donations
  - Money borrowed during the fiscal year
- If an expenditure is to be financed from a tax levy required to be authorized and approved at an election, the expenditure may not be made or an obligation may not be incurred until the tax levy is authorized and approved.
- At the end of a fiscal year, unencumbered appropriations lapse unless specifically obligated by the Town.

**NOTE 2. BUDGET AMENDMENT**

The Town approved a budget amendment due to unanticipated costs and receipt of grant awards.

<b>Fund</b>	<b>Amount</b>	<b>Reason</b>
Drug Fines-Forfeitures	\$ 400	Unanticipated supplies expenditures
Building Code Enforcement	53,188	Unanticipated retirement costs and hiring of new employee
Economic Development	10,000	Received grant award
Fire Engine Capital Improvement	18,000	Unanticipated capital expenditures
Sewer *	189,528	Revise amounts expected to be paid for principal and interest
Total	<u>\$ 271,116</u>	

\* Denotes major fund

TOWN OF STEVENSVILLE

NOTES TO THE SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL (continued)  
For the year ended June 30, 2019

---

NOTE 3. EXCESS EXPENDITURES OVER APPROPRIATIONS

<u>Fund</u>	<u>Amount</u>	<u>Reason</u>
Dayton Lighting #1 District 55	\$ 308	Budget amendment not approved by City Council
Geo Smith Lighting #3 District 76	334	Budget amendment not approved by City Council
Creekside Lighting #4 District 77	271	Budget amendment not approved by City Council
Twin Creeks Lighting #5 District	<u>544</u>	Budget amendment not approved by City Council
Total	<u>\$ 1,457</u>	





# STROM & ASSOCIATES, P.C.

*Certified Public Accountants*

3203 3<sup>rd</sup> Ave N. Suite 208  
PO Box 1980  
Billings, MT 59103

Phone: 406-252-2765  
E-mail: [audit@stromcpa.net](mailto:audit@stromcpa.net)

---

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

INDEPENDENT AUDITOR'S REPORT

Mayor and Town Council  
Town of Stevensville  
Ravalli County  
Stevensville, Montana 59870

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 *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Stevensville as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Town of Stevensville's basic financial statements and have issued our report thereon dated October 14, 2020.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Town of Stevensville'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Town of Stevensville's internal control. Accordingly, we do not express an opinion on the effectiveness of Town of Stevensville's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses we identified certain deficiencies in internal control which we consider to be material weaknesses or significant deficiencies.

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 Town of Stevensville's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies, as described in the accompanying Schedule of Findings and Responses as items 2019-001 and 2019-002, to be material weaknesses.

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. We consider the deficiencies, as described in the accompanying Schedule of Findings and Responses as items 2019-003, 2019-004, and 2019-005, to be significant deficiencies.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Town of Stevensville'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 *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2019-006 and 2019-007.

### **Town of Stevensville's Response to Findings**

Town of Stevensville's response to the findings identified in our audit are described in the accompanying Corrective Action Plan. The Town of Stevensville's response was not subjected 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 on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Strom & Associates, P.C.*

STROM & ASSOCIATES, PC

Billings, Montana

October 14, 2020

TOWN OF STEVENSVILLE  
 SCHEDULE OF FINDINGS AND RESPONSES  
 For the year ended June 30, 2019

**Prior year findings/status**

The following is the status of prior year findings and updated for the fiscal year ended June 30, 2019.

2018-001 – Fire Department Relief Association Accrued Liability	Repeated as finding 2019-003 below
2018-002 – Budget Submission	Implemented
2018-003 – Cash Reserve	Implemented
2018-004 – VISA card documentation	Implemented

**Current year findings**

<b>2019-001</b>	<b>Major Fund Reporting</b>
Criteria:	Per Governmental Accounting Standards Board (GASB) statement 34 paragraph 76(a) “Other individual governmental and enterprise funds should be reported in separate columns as major funds based on these criteria: the total of ... revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding elements total for all funds of that category and the same element that met the 10 percent criterion is at least 5 percent of the corresponding element total for all governmental and enterprise funds combined.”
Condition:	In its June 30, 2019 Annual Financial Report (AFR), the Town did not report the Economic Development fund as a major fund while it met the major fund criteria, which is not in compliance with GASB 34. This was corrected in the accompanying financial statements.
Effect:	The Economic Development fund was not treated as a major fund for reporting purposes.
Context:	The Town did not determine that the Economic Development fund was a major fund, in accordance with the revenue and expenditure criteria specified in GASB 34, and aggregated it within the Other Governmental Funds category in the AFR at June 30, 2019.
Cause:	The Town did not adhere to the major fund determination criteria outlined in GASB 34.
Recommendation:	We recommend that the Town adhere to the guidelines of GASB 34 in determining major funds.
<b>2019-002</b>	<b>Unallowable Interfund Transfer</b>
Criteria:	Per GASB Statement 34, paragraph 112 (b)(2) “Interfund reimbursements – repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursements should not be displayed in the financial statements.”
Condition:	In its June 30, 2019 AFR, the Town reported reimbursement from the Capital Improvements fund to the General fund as a transfer between the funds, which is not in compliance with GASB 34. This was corrected in the accompanying financial statements.
Effect:	In the General fund, transfers in and capital expenditures were overstated by \$29,000. In the Capital Improvement fund, transfers out were overstated and capital expenditures were understated by \$29,000.
Context:	The Town identified that capital expenditures made from the General fund should have been paid from the Capital Improvements fund. The Town reimbursed the General fund by recording a transfer between the two funds, which was displayed in the financial statements.
Cause:	The Town was not aware of the GASB 34 requirement.
Recommendation:	We recommend the Town use corrections of expenditures rather than transfers for repayments when needed between funds.

TOWN OF STEVENSVILLE

SCHEDULE OF FINDINGS AND RESPONSES (continued)  
For the year ended June 30, 2019

---

<b>2019-003</b>	<b>Fire Department Relief Association Liability</b>
Criteria:	Governmental Accounting Standards Board Statement 73 (GASB-73) requires a pension trust fund to report an actuarially determined pension liability.
Condition:	The Town did not report an accrued liability for the Fire Department Relief Association (FDRA) pension trust fund in its Annual Financial Report (AFR) as of June 30, 2019.
Effect:	The Town was not in compliance with GASB-73 in its AFR as of June 30, 2019.
Context:	The Town reported no liability associated with future FDRA benefit payments while its records indicate active or retired FDRA members.
Cause:	The Town believed it has complied with Montana Code Annotated (MCA) 19-18-503 <i>Fund to be Soundly Funded</i> and believed it was in compliance with the requirements of GASB-73. Also, the Town believed the cost of hiring an actuary was not feasible.
Recommendation:	We recommend that the Town comply with the requirements of GASB-73.
<b>2019-004</b>	<b>Support for Building Code Permit Fee</b>
Criteria:	Administrative Rules of Montana (ARM) 24.301.138 requires building code permit fees to be computed based on a fee schedule applied to the “total value of all construction work for which the permit is issued”.
Condition:	The Town issued building code permits without documenting the value of the associated projects.
Effect:	The Town was not in compliance with ARM 24.301.138. Further, without proper documentation for project value, incorrect building code permit fees could be assessed and/or the Town would not be able to support the assessed fee in the event a dispute arose.
Context:	Of the 17 building code permit fees we tested, two did not include documentation for the value of the associated project.
Cause:	The Town was not consistent in ensuring the value of the project is documented as part of the building code permit application process.
Recommendation:	We recommend the Town double-check on all building code permit applications to ensure sufficient information is provided to support the building code permit fee assessed.
<b>2019-005</b>	<b>Annual Financial Report and Accounting Records</b>
Criteria:	MCA 2-7-503 requires the Town to submit a financial report annually and Administrative Rules of Montana (ARM) 2.4.411 requires the Town’s financial reporting to adhere to generally accepted accounting principles that require financial reports to be based on underlying accounting records.
Condition:	The Town’s Annual Financial Report (AFR) for fiscal year 2019 reported amounts that differed from the underlying accounting records.
Effect:	The Town’s AFR for fiscal year 2019 was not in compliance with MCA 2-7-503 and ARM 2.4.411.
Context:	The Town’s AFR as of June 30, 2019 erroneously included \$10,298 in Due From Other Governments (DFOG) and Tax Revenue. The Town corrected this error for financial reporting.

TOWN OF STEVENSVILLE

SCHEDULE OF FINDINGS AND RESPONSES (continued)  
For the year ended June 30, 2019

Cause: The Town experienced turnover in the Finance Director and Town Clerk positions at the end of fiscal year 2019 and engaged a new external consultant to assist in the preparation of the AFR. The Finance Director, Town Clerk, and consultant’s inexperience with the Town’s reporting policies led to the erroneous reporting in the AFR.

Recommendation: We recommend the Town review accounting principles and management estimates prior to preparing the AFR to ensure the report agrees with the Town’s reporting policies.

**2019-006 Timely Filing of Annual Financial Report**

Criteria: MCA 2-7-503 requires local government entities to submit their AFR “within 6 months of the end of the reporting period.”

Condition: The Town did not file their AFR within the prescribed time frame.

Effect: The Town was not in compliance with MCA 2-7-503.

Context: The Town did not file their AFR within the prescribed time frame.

Cause: The Town experienced turnover in the Finance Director and Town Clerk positions at the end of fiscal year 2019 which resulted in time lags in closing the accounting records and preparing the AFR.

Recommendation: We recommend the Town prepare the AFR by the filing deadline each year.

**2019-007 Budgetary Compliance**

Criteria: MCA 7-6-4005 specifies that “local government officials may not make a disbursement or an expenditure or incur an obligation in excess of the total appropriations for a fund” and MCA 7-6-4006 specifies that “money may not be disbursed, expended, or obligated except pursuant to an appropriation for which working capital is or will be available.”

MCA 17-2-302 specifies that “a local charge for services fund may not maintain a cash balance in the fund greater than twice the annual appropriation for that year”. In the event the cash balance exceeds the limit, MCA 17-2-303 specifies they “reduce one or more charges for services specified by the local government entity until the cash balance in the local fund complies with the limitation in MCA 17-2-302.”

Condition: The Town exceeded their budgetary authority in some of their funds and cash reserves in the Building Code Enforcement fund exceeded allowable limits.

Effect: The Town was not in compliance with MCA 7-6-4005/4006 and MCA 17-2-302/303.

Context: At June 30, 2019, the Town exceeded their budgetary authority as follows:

	Budget	Expenditures	Excess
Dayton Lighting #1 District 55	\$ 3,275	\$ 3,583	\$ 308
Geo Smith Lighting #3 District 76	3,620	3,954	334
Creekside Lighting #4 District 77	2,923	3,194	271
Twin Creeks Lighting #5 District	5,300	5,844	544

At June 30, 2019, cash reserves in the Building Code Enforcement fund exceeded the allowable limit by \$16,848.

Cause: The Town Council did not approve budget amendments to increase allowable appropriations for funds that exceeded the original budgetary authority and the Town did not monitor the cash reserves for the Building Code Enforcement fund.

Recommendation: We recommend the Town monitor expenditures for each fund to ensure they stay within their budgetary authority and monitor cash reserves to ensure they comply with established limits.

TOWN OF STEVENSVILLE

CORRECTIVE ACTION PLAN  
For the year ended June 30, 2019

Hon. Brandon E. Dewey  
Mayor of Stevensville

Robert Underwood  
Finance Officer/HR



Stevensville Town Hall  
206 Buck Street  
Stevensville, MT 59870  
Phone: 406-777-5271  
Fax: 406-777-4284

October 1, 2020

Strom & Associates  
3203 3<sup>rd</sup> Ave. N., Suite 208  
Billings, MT 59101

Subject: Town of Stevensville's response to FY 18-19 Audit finding

Below are the responses to the finds of our FY 18-19 Town Audit and Corrective Action Plan to fix these issues.

**2019-001 Major Fund Reporting**

Criteria:	Per Governmental Accounting Standards Board (GASB) statement 34 paragraph 76(a) "Other individual governmental and enterprise funds should be reported in separate columns as major funds based on these criteria: the total of ... revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding elements total for all funds of that category and the same element that met the 10 percent criterion is at least 5 percent of the corresponding element total for all governmental and enterprise funds combined."
Condition:	In its June 30, 2019 Annual Financial Report (AFR), the Town did not report the Economic Development fund as a major fund while it met the major fund criteria, which is not in compliance with GASB 34. This was corrected in the accompanying financial statements.
Effect:	The Economic Development fund was not treated as a major fund for reporting purposes.
Context:	The Town did not determine that the Economic Development fund was a major fund, in accordance with the revenue and expenditure criteria specified in GASB 34, and aggregated it within the Other Governmental Funds category in the AFR at June 30, 2019.
Cause:	The Town did not adhere to the major fund determination criteria outlined in GASB 34. Recommendation: We recommend that the Town adhere to the guidelines of GASB 34 in determining major funds.
ToS Response:	While the financial statement originally forwarded to the auditor did not include the Economic Development fund as a major fund, the final copy of the financial statements in the Annual Financial Report submitted to Local Government Service did display Fund 2940 Economic Development as a major fund. The contract preparer held the major fund worksheet until the adjusting entries were known then

TOWN OF STEVENSVILLE

CORRECTIVE ACTION PLAN (continued)  
For the year ended June 30, 2019

---

Subject: Town of Stevensville's response to FY 18-19 Audit finding  
Date: October 1, 2020

forgot to check the major fund worksheet after all the adjusting entries were made. We will make sure we double check the major fund worksheet after the adjusting entries are made to determine the mayor funds.

**2019-002 Unallowable Interfund Transfer**

---

**Criteria:** Per GASB Statement 34, paragraph 112 (b)(2) "Interfund reimbursements – repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursements should not be displayed in the financial statements."

**Condition:** In its June 30, 2019 AFR, the Town reported reimbursement from the Capital Improvements fund to the General fund as a transfer between the funds, which is not in compliance with GASB 34. This was corrected in the accompanying financial statements.

**Effect:** In the General fund, transfers in and capital expenditures were overstated by \$29,000. In the Capital Improvement fund, transfers out were overstated and capital expenditures were understated by \$29,000.

**Context:** The Town identified that capital expenditures made from the General fund should have been paid from the Capital Improvements fund. The Town reimbursed the General fund by recording a transfer between the two funds, which was displayed in the financial statements.

**Cause:** The Town was not aware of the GASB 34 requirement.

**Recommendation:** We recommend the Town use corrections of expenditures rather than transfers for repayments when needed between funds.

**ToS Response:** The transfers from the capital fund back to the general fund for purposes of paying for capital purchases was inappropriate and was part of inappropriate coding that the 3<sup>rd</sup> party CPA mentioned to the Town council in a report relating to record keeping activities for May and June of 2019. This was during the time the town had lost the Finance Officer and Town Clerk. However, the \$29,000 transferred from 4000 Capital Projects fund to the general fund was from transfers to Fund 4000 in prior years so there was not duplication within fiscal 2019. The \$29,000 transfer from capital projects to the general fund could have been netted with the \$5,000 transfer from the general fund to the capital projects fund, but the 3<sup>rd</sup> party CPA chose a discreet presentation in the financial statements and AFR.

After looking at the records for May and June 2019 I believe the transfer was not a "reimbursement" but a misunderstanding of how to write checks when the cash was in two different funds. The town will make sure capital improvements are coded correctly and reported correctly.

TOWN OF STEVENSVILLE

CORRECTIVE ACTION PLAN (continued)  
For the year ended June 30, 2019

---

Subject: Town of Stevensville's response to FY 18-19 Audit finding  
Date: October 1, 2020

**2019-003 Fire Department Relief Association Liability**

---

**Criteria:** Governmental Accounting Standards Board Statement 73 (GASB-73) requires a pension trust fund to report an actuarially determined pension liability.

**Condition:** The Town did not report an accrued liability for the Fire Department Relief Association (FDRA) pension trust fund in its Annual Financial Report (AFR) as of June 30, 2019.

**Effect:** The Town was not in compliance with GASB-73 in its AFR as of June 30, 2019.

**Context:** The Town reported no liability associated with future FDRA benefit payments while its records indicate active or retired FDRA members.

**Cause:** The Town believed it has complied with Montana Code Annotated (MCA) 19-18-503 *Fund to be Soundly Funded* and believed it was in compliance with the requirements of GASB-73. Also, the Town believed the cost of hiring an actuary was not feasible.

**Recommendation:** We recommend that the Town comply with the requirements of GASB-73.

**ToS Response:** Management has determined that it is not cost effective to actuarially determine the pension liability for the Fire Department Relief Association.

**2019-004 Support for Building Code Permit Fee**

---

**Criteria:** Administrative Rules of Montana (ARM) 24.301.138 requires building code permit fees to be computed based on a fee schedule applied to the "total value of all construction work for which the permit is issued".

**Condition:** The Town issued building code permits without documenting the value of the associated projects.

**Effect:** The Town was not in compliance with ARM 24.301.138. Further, without proper documentation for project value, incorrect building code permit fees could be assessed and/or the Town would not be able to support the assessed fee in the event a dispute arose.

**Context:** Of the 17 building code permit fees we tested, two did not include documentation for the value of the associated project.

**Cause:** The Town was not consistent in ensuring the value of the project is documented as part of the building code permit application process.

**Recommendation:** We recommend the Town double-check on all building code permit applications to ensure sufficient information is provided to support the building code permit fee assessed.



TOWN OF STEVENSVILLE

CORRECTIVE ACTION PLAN (continued)  
For the year ended June 30, 2019

---

Subject: Town of Stevensville's response to FY 18-19 Audit finding  
Date: October 1, 2020

**ToS Response:** Town Building Code Inspector reviews all permit to ensure the value of the project is equal or greater than the current ICC tables. If the project is not the inspector determines the value based in the ICC table and then calculates the fee before issuing the permit. The town is developing a new form to show the inspector checked the ICC tables to ensure the value of the project is correct.

**2019-005 Annual Financial Report and Accounting Records**

---

**Criteria:** MCA 2-7-503 requires the Town to submit a financial report annually and Administrative Rules of Montana (ARM) 2.4.411 requires the Town's financial reporting to adhere to generally accepted accounting principles that require financial reports to be based on underlying accounting records.

**Condition:** The Town's Annual Financial Report (AFR) for fiscal year 2019 reported amounts that differed from the underlying accounting records.

**Effect:** The Town's AFR for fiscal year 2019 was not in compliance with MCA 2-7-503 and ARM 2.4.411.

**Context:** The Town's AFR as of June 30, 2019 erroneously included \$10,298 in Due From Other Governments (DFOG) and Tax Revenue. The Town corrected this error for financial reporting.

**Cause:** The Town experienced turnover in the Finance Director and Town Clerk positions at the end of fiscal year 2019 and engaged a new external consultant to assist in the preparation of the AFR. The Finance Director, Town Clerk, and consultant's inexperience with the Town's reporting policies led to the erroneous reporting in the AFR.

**Recommendation:** We recommend the Town review accounting principles and management estimates prior to preparing the AFR to ensure the report agrees with the Town's reporting policies.

**ToS Response:** Changing tax revenue recognition from "upon receipt" to "within 30 days" is because the 3<sup>rd</sup> party CPA considered "upon receipt" to be when taxes are received by the county, whether or not they have been forwarded to the Town. NOT when the county forwards the money to the Town. She believe the method of recognizing taxes when the county sends the money to the Town is incorrect under the "upon receipt" definitions because the money has been paid by the taxpayer and has been received by entity that is the collector on behalf of the Town. At the time of receipt by the county there is no dispute that the cash belongs to the Town it is just a matter of conveyance, in fact the fund used by the county is an agency (soon to be "custodial") fund which simply means that the county is holding the money on behalf of the Town.

The technical accounting guidance for situations where a change in accounting estimate or principle is applied is to make a prior period adjustment. However, the same effect occurs when the county simply has not processed all the tax receipts so there is a lag in reporting. So, generally no prior period adjustment were made.

TOWN OF STEVENSVILLE

CORRECTIVE ACTION PLAN (continued)  
For the year ended June 30, 2019

Subject: Town of Stevensville’s response to FY 18-19 Audit finding  
Date: October 1, 2020

**2019-006** Timely Filing of Annual Financial Report

**Criteria:** MCA 2-7-503 requires local government entities to submit their AFR “within 6 months of the end of the reporting period.”

**Condition:** The Town did not file their AFR within he prescribed time frame. Effect: The Town was not in compliance with MCA 2-7-503.

**Context:** The Town did not file their AFR within the prescribed time frame.

**Cause:** The Town experienced turnover in the Finance Director and Town Clerk positions at the end of fiscal year 2019 which resulted in time lags in closing the accounting records and preparing the AFR.

**Recommendation:** We recommend the Town prepare the AFR by the filing deadline each year.

**ToS Response:** Yes, the AFR was late. The town had their former Finance Officer and Town Clerk depart their jobs with no notice in May 2019. It took the Town months to replace these individuals and get the Town back on track in the fall of 2019 which needs to be taken into consideration. The town then decided to contract out to have the ARF complete by a 3<sup>rd</sup> party CPA shortly before the due date. The “third-party” preparer then had family issue at the end of the year which extended into the next year which was complicated by the COVID-19 outbreak. The town is working to contact out the AFR again this year and will do it much sooner then before.

**2019-007** Budgetary Compliance

**Criteria:** MCA 7-6-4005 specifies that “local government officials may not make a disbursement or an expenditure or incur an obligation in excess of the total appropriations for a fund” and MCA 7-6-4006 specifies that “money may not be disbursed, expended, or obligated except pursuant to an appropriation for which working capital is or will be available.”MCA 17-2-302 specifies that “a local charge for services fund may not maintain a cash balance in the fund greater than twice the annual appropriation for that year”. In the event the cash balance exceeds the limit, MCA 17-2-303 specifies they “reduce one or more charges for services specified by the local government entity until the cash balance in the local fund complies with the limitation in MCA 17-2-302.”

**Condition:** The Town exceeded their budgetary authority in the some funds and cash reserves in another fund exceeded allowable limits.

**Effect:** The Town was not in compliance with MCA 7-6-4005/4006 and MCA 17-2-302/303.

**Context:** At June 30, 2019, the Town exceeded their budgetary authority as follows:

	Budget	Expenditures	Excess
Dayton Lighting #1 District 55	\$ 3,275	\$ 3583	\$ 308
Geo Smith Lighting #3 District 76	3620	3954	334

TOWN OF STEVENSVILLE

CORRECTIVE ACTION PLAN (continued)  
For the year ended June 30, 2019

---

Subject: Town of Stevensville's response to FY 18-19 Audit finding  
Date: October 1, 2020

Creekside Lighting #4 District 77	2923	3194	271
Twin Creeks Lighting #5 District	5300	5844	544

At June 30, 2019, cash reserves in the Building Code Enforcement fund exceeded the allowable limit by \$16,848.

**Cause:** The Town Council did not approve budget amendments to increase allowable appropriations for funds that exceeded the original budgetary authority, and the Town did not monitor the cash reserves for the Building Code Enforcement fund.

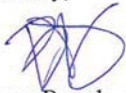
**Recommendation:** We recommend the Town monitor expenditures for each fund to ensure they stay within their budgetary authority and monitor cash reserves to ensure they comply with established limits.

**ToS Response:** It is accurate that the four lighting districts actual expenditures were greater than the original budget, and no budget amendment was approved for these districts. However, the expenditures were solely for electricity for streetlights and each fund had sufficient cash reserves to support the expenditures.

In the future the Town of Stevensville will consider a flexible budget for these fee-based funds. The Town Administration recommended a budget amendment to the council for the lighting districts, but it did not pass fully knowing it would be a finding on the audit. One member of the council was unhappy he had to pay for streetlight in his lighting district and this was his way to express it. For FY 20-21 increase collection to the fund so we would have a 25% reserve with a 3% increase in spending.

Cash reserves in the Building Code Fund did exceed allowable reserves under both MCA 7-2-301 and under the provisions of the Building Codes specific MCA 50-60-102(2)(g) and ARM 24.301.203. Exponential growth in the number of building permits created an excess of cash above expenditures within a short period of time. The Town was not aware of the ability to reduce building permit fees until recently and will work to resolve the cash in excess of 12 months needs but anticipate a couple of fiscal years to achieve compliance.

Sincerely,



Mayor Brandon Dewey



Robert Underwood, Finance Officer

Cc:

Montana League of Cities and Towns  
Montana Association of Counties (MACo)  
Local Government Services