

**TOWN OF
WEST YELLOWSTONE, MONTANA**

ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2020



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 June 30, 2020

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PART I

INTRODUCTORY SECTION

TOWN OF WEST YELLOWSTONE
ORGANIZATION OF ENTITY
June 30, 2020

TOWN COUNCIL

Jerry Johnson, Mayor

Brad Schmier, Deputy Mayor

Greg Forsythe

Travis Watt

Jeff Matthews

TOWN OFFICIALS

Daniel Sabolsky, Town Manager

Elizabeth Roos, Clerk

Lanie Gospodarek, Finance Director

Richard Gibson, Judge

PART 2
FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Town Council
Town of West Yellowstone, Montana

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 for the Town of West Yellowstone, Montana (the Town), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Town'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, business-type activities, each major fund, and the aggregate remaining fund information of the Town of West Yellowstone, Montana as of June 30, 2020, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedules of Budgetary Comparison Information – General Fund and Resort Tax Fund, Schedule of Changes in Total OPEB Liability, Related Ratios, and Notes, and Schedules of Proportionate Share of Net Pension Liability and Schedules of Contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of West Yellowstone, Montana's basic financial statements. The introductory section is presented for purposes of additional analysis and is not required part of the basic financial statements.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 6, 2021, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

Anderson Zurmuehlen & Co., P.C.

Bozeman, Montana
April 6, 2021

A. Management's Discussion and Analysis

TOWN OF WEST YELLOWSTONE
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2020

As the management team for the Town of West Yellowstone (the Town), we offer readers of this financial statement this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2020. Readers are encouraged to consider the information presented here in conjunction with additional information that has been furnished in the attached financial statements of the Annual Financial Report for the Town of West Yellowstone.

The Annual Report

This annual report consists of a series of financial statements. The statement of net position and the statement of activities (pages 18 through 20) provide information about the activities of the Town as a whole and present a longer-term view of the Town's finances. Fund financial statements start on page 21. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Town's operations in more detail than the government-wide statements by providing information about the Town's most significant funds. The remaining statements provide financial information about activities for which the Town acts solely as a trustee or agent for the benefit of those outside of the government.

Reporting the Town as a Whole

The Statement of Net Position and the Statement of Activities

The statement of net position and the statement of activities report information about the Town as a whole and its activities in a way that allows us to compare our activity or net position to previous fiscal years. This analysis speaks to the fiscal health of the Town. While increases in net assets establish that the financial situation of the Town is improving and decreases establish a deterioration of our financial situation, consideration of other non-financial factors such as the condition of the Town's capital assets, the political impacts to other governmental agencies that our town is affected by and partners with, must be made. These statements include all assets, liabilities, revenues, and expenses using the full accrual basis of accounting. The measurement focus of governmental funds affects which transactions are recognized in the operating fund. If transactions are not a current resource or use, they are not reported in the operating fund of the fund financial statement (for example, capital assets or long-term liabilities). Under GASB 34, these noncurrent activities are reported on the government-wide statements only.

TOWN OF WEST YELLOWSTONE
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2020

REPORTING THE TOWN AS A WHOLE (CONTINUED)

In the statement of net position and the statement of activities, we divide the Town into two kinds of activities:

- Governmental activities—Most of the Town's basic services are reported here, including police, public works, parks, and general administration. Property taxes, state shared revenues, court fines, and recreation fees finance most of these activities.
- Business-type activities—The Town charges a fee to customers to help it cover all or most of the cost of the specific services it provides. The Town's water and sewer systems are reported here.

REPORTING THE TOWN'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds, not the Town as a whole. Some funds are required to be established by State law and by bond covenants. However, the Town Council establishes many other funds to help it control and manage money for particular purposes, (like the Parkway Improvement Capital Funds or the Marketing and Promotions Fund) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (like grants received from the State Community Block Development Program). The Town has two kinds of funds, governmental and proprietary (business-type), and each uses different accounting approaches.

Governmental funds--Most of the Town's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Town's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the town's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation at the bottom of the fund financial statements.

Proprietary funds--When the Town charges customers for the services it provides, whether to outside customers or to other units of the Town, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the Town's enterprise funds (which make up the proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

TOWN OF WEST YELLOWSTONE
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2020

THE TOWN AS TRUSTEE

Reporting the Town's Fiduciary Responsibilities

The Town is the trustee, or fiduciary, for other funds, including the Municipal Court Fund, the Tourism Business Improvement District (TBID), and Community Help Fund. The guidelines for the administration of these funds are contained in applicable financial agreements and/or Town ordinances. These documents contain the rules governing the receipt, expenditure, and management of the Town's fiduciary funds. All of the Town's fiduciary activities are reported in separate statements of fiduciary net position on page 30. As the statements reflect, the financial activity during the year for these funds is nominal. We exclude these activities from the Town's other financial statements because the town cannot use these assets to finance its operations. The Town is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

THE TOWN AS A WHOLE

The following analysis focuses on the net position (Table 1) and changes in net position (Table 2) of the Town's governmental and business-type activities.

Net assets of the Town's governmental activities are \$10,682,676. *Unrestricted* net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements total \$1,854,043 at the end of this year. The net assets of our business-type activities totaled \$5,242,979 and unrestricted net assets totaled \$2,052,140.

Combined net assets for the Town increased this year by \$786,650 as compared to an increase of \$1,117,472 the previous year. The primary reason for this is reduced resort tax revenue in the governmental activities due to the COVID-19 pandemic; however this still increases operating cash and cash equivalents overall.

Net position of the Town's governmental activities increased by \$352,369. Unrestricted net assets of governmental activities, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements, increased. The net assets of the Town's business-type activities increased by \$434,281. These net assets cannot be used to make up for deficits reported by governmental activities in the event such deficits were reported. The Town can only use the net assets of business-type activities to finance the continuing operations of the water and sewer operations.

TOWN OF WEST YELLOWSTONE
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2020

THE TOWN AS A WHOLE (CONTINUED)

Table 1

| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
|--------------------------------------|-------------------------|---------------|--------------------------|---------------|--------------------------|---------------|
| | June 30, 2020 | June 30, 2019 | June 30, 2020 | June 30, 2019 | June 30, 2020 | June 30, 2019 |
| Current and other assets | \$ 5,199,852 | \$ 5,057,744 | \$ 2,233,626 | \$ 2,324,244 | \$ 7,433,478 | \$ 7,381,988 |
| Capital assets | 10,752,524 | 10,829,131 | 3,190,839 | 2,878,734 | 13,943,363 | 13,707,865 |
| Total assets | 15,952,376 | 15,886,875 | 5,424,465 | 5,202,978 | 21,376,841 | 21,089,853 |
| Total deferred outflows of resources | 375,462 | 433,059 | 16,470 | 22,021 | 391,932 | 455,080 |
| Long-term debt outstanding | 4,725,451 | 5,280,555 | 130,340 | 114,137 | 4,855,791 | 5,394,692 |
| Other liabilities | 563,582 | 486,880 | 39,756 | 288,025 | 603,338 | 774,905 |
| Total liabilities | 5,289,033 | 5,767,435 | 170,096 | 402,162 | 5,459,129 | 6,169,597 |
| Total deferred inflows of resources | 356,129 | 222,192 | 27,860 | 14,139 | 383,989 | 236,331 |
| Net position: | | | | | | |
| Net investment in capital assets | 7,961,639 | 7,460,558 | 3,190,839 | 2,878,734 | 11,152,478 | 10,339,292 |
| Restricted | 866,994 | 775,976 | - | - | 866,994 | 775,976 |
| Unrestricted | 1,854,043 | 2,093,773 | 2,052,140 | 1,929,964 | 3,906,183 | 4,023,737 |
| Total net position | \$ 10,682,676 | \$ 10,330,307 | \$ 5,242,979 | \$ 4,808,698 | \$ 15,925,655 | \$ 15,139,005 |

An analysis of the Town's revenues (excluding special items) for FY19 and FY20 is shown on the following page. The Town was able to cover this year's costs in both governmental activities and business-type activities.

TOWN OF WEST YELLOWSTONE
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2020

THE TOWN AS A WHOLE (CONTINUED)

Table 2

| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
|--|-------------------------|----------------------|--------------------------|---------------------|--------------------------|----------------------|
| | June 30, 2020 | June 30, 2019 | June 30, 2020 | June 30, 2019 | June 30, 2020 | June 30, 2019 |
| Revenues | | | | | | |
| General revenues | | | | | | |
| Property taxes | \$ 531,145 | \$ 615,516 | \$ - | \$ - | \$ 531,145 | \$ 615,516 |
| Local option taxes | 71,166 | 98,015 | - | - | 71,166 | 98,015 |
| Resort taxes | 4,147,995 | 4,321,060 | - | - | 4,147,995 | 4,321,060 |
| Intergovernmental grants and contributions | 299,849 | 291,404 | - | - | 299,849 | 291,404 |
| Unrestricted investment earnings | 84,946 | 105,910 | 30,745 | 46,256 | 115,691 | 152,166 |
| Transfer in (out) | <u>(10,000)</u> | <u>(8,665)</u> | <u>10,000</u> | <u>8,665</u> | <u>-</u> | <u>-</u> |
| Total general revenues | 5,125,101 | 5,423,240 | 40,745 | 54,921 | 5,165,846 | 5,478,161 |
| Program revenues | | | | | | |
| Charges for services | 228,589 | 250,468 | 1,077,437 | 981,110 | 1,306,026 | 1,231,578 |
| Operating grants and contributions | 509,980 | 366,193 | 2,045 | 1,324 | 512,025 | 367,517 |
| Capital grants and contributions | <u>68,694</u> | <u>43,904</u> | <u>-</u> | <u>-</u> | <u>68,694</u> | <u>43,904</u> |
| Total program revenues | <u>807,263</u> | <u>660,565</u> | <u>1,079,482</u> | <u>982,434</u> | <u>1,886,745</u> | <u>1,642,999</u> |
| Total revenues | <u>5,932,364</u> | <u>6,083,805</u> | <u>1,120,227</u> | <u>1,037,355</u> | <u>7,052,591</u> | <u>7,121,160</u> |
| Expenses | | | | | | |
| Governmental activities: | | | | | | |
| General government | 1,412,204 | 1,243,764 | - | - | 1,412,204 | 1,243,764 |
| Public safety | 2,077,712 | 2,143,541 | - | - | 2,077,712 | 2,143,541 |
| Public works | 751,713 | 807,202 | - | - | 751,713 | 807,202 |
| Public health | 3,812 | 3,656 | - | - | 3,812 | 3,656 |
| Social and economic services | 121,767 | 127,927 | - | - | 121,767 | 127,927 |
| Culture and recreation | 800,870 | 772,999 | - | - | 800,870 | 772,999 |
| Other | 323,136 | 182,843 | - | - | 323,136 | 182,843 |
| Interest and fiscal fees | 88,781 | 93,006 | - | - | 88,781 | 93,006 |
| Business-type activities: | | | | | | |
| Water | - | - | 301,714 | 227,481 | 301,714 | 227,481 |
| Sewer | <u>-</u> | <u>-</u> | <u>384,232</u> | <u>401,269</u> | <u>384,232</u> | <u>401,269</u> |
| Total expenses | <u>5,579,995</u> | <u>5,374,938</u> | <u>685,946</u> | <u>628,750</u> | <u>6,265,941</u> | <u>6,003,688</u> |
| Change in net position | <u>352,369</u> | <u>708,867</u> | <u>434,281</u> | <u>408,605</u> | <u>786,650</u> | <u>1,117,472</u> |
| Net position, beginning restated | <u>10,330,307</u> | <u>9,621,440</u> | <u>4,808,698</u> | <u>4,400,093</u> | <u>15,139,005</u> | <u>14,021,533</u> |
| Net position, ending | <u>\$ 10,682,676</u> | <u>\$ 10,330,307</u> | <u>\$ 5,242,979</u> | <u>\$ 4,808,698</u> | <u>\$ 15,925,655</u> | <u>\$ 15,139,005</u> |

TOWN OF WEST YELLOWSTONE
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2020

THE TOWN AS A WHOLE (CONTINUED)

The following analysis below separately considers the operations of governmental and business-type activities.

Governmental Activities

FY20 revenues for governmental activities were: General revenues \$5,125,101 and program revenues \$807,263 while total expenses were \$5,579,995. The change in net position before prior period adjustments was \$352,369. Total government revenues decreased by \$151,441 or 2.5% in FY20 under FY19. Total cost to provide services increased by \$205,057 or 3.8%.

Governmental general revenues were affected by a 4.0% decrease in resort tax over the previous year resulting in a decrease of \$173,065. In January 2020, the Town implemented the collection of an additional 1% in resort tax. The citizens of West Yellowstone voted for the collections of the 1% in the November 2019 election. This new, restricted revenue is to be used for infrastructure and despite this addition and inclusion in overall resort tax revenues, the COVID-19 pandemic that occurred shortly after this new provision started, resort tax revenues were reduced from previous year collections. Recreation fee revenue decreased due to decreased enrollment and offerings in recreation programs. Building permit fees increased despite a moratorium put in place for any type of project that would require an impact to the sewer system. This revenue increase was not enough to offset the decreases in other areas.

Operating grants and contributions increased. The passing of the CARES Act has allowed local governments to apply for reimbursement funds to cover increased expenditures associated with the COVID-19 pandemic. While the Town of West Yellowstone did not receive enough to require a single audit, the increase in operating grants and contributions is primarily due to this reimbursement. We are anticipating elevated levels of these reimbursement grants in FY21 as well.

Capital grants and contributions increased in FY20. The Town received a capital grant of \$31,045 from the State of Montana to purchase equipment for the dispatch center. The Town also received additional COVID-19 related capital grants to support the senior center and the food bank.

The costs to provide services for governmental services increased by \$173,491 or 3.2% in FY20. Governmental expenses were increased in Miscellaneous (Other) expenses for eligible expenses under the CARES Act for COVID-19 supplies, equipment etc. and these expenditures were offset by the CARES Act grant funding provided through the State from the Federal government. While some position vacancies of the previous fiscal year were filled, accounting for some of the increase in governmental expenditures; in some cases, this was at an entry level wage rather than the higher wage being paid to a more veteran employee that was being replaced. The Town made an effort to continue purchasing equipment and complete projects according to the capital improvement plan but halted purchasing when a decrease in revenues became imminent.

TOWN OF WEST YELLOWSTONE
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2020

THE TOWN AS A WHOLE (CONTINUED)

Governmental Activities (Continued)

| | <u>FY20</u> | <u>FY19</u> | <u>Change</u> |
|-----------------------------------|---------------------|---------------------|------------------|
| Total cost of government services | \$ 5,579,995 | \$ 5,406,504 | \$ 173,491 |
| Charges for services | 228,589 | 250,468 | (21,879) |
| Operating grants | 509,980 | 366,193 | 143,787 |
| Capital grants | 68,694 | 43,904 | 24,790 |
| Intergovernmental grants | 299,849 | 291,404 | 8,445 |
| Unrestricted investment earnings | <u>84,946</u> | <u>105,910</u> | <u>(20,964)</u> |
| Taxpayer financed | <u>\$ 4,387,937</u> | <u>\$ 4,348,625</u> | <u>\$ 39,312</u> |

The cost of all *governmental activities* this year was \$5,579,995. The amount that our taxpayers ultimately financed for these activities through local property taxes and a locally imposed resort tax, was \$4,387,937.

Intergovernmental Revenues increased by the incremental amount of increase of the HB124 Entitlement over the previous year. Program coding for gambling machine permits and live card game table permit were changed to be reflected in this revenue line which accounts for a portion of this increase.

Unrestricted Interest on Investments - Interest rates remained low and depending on the instrument increased or decreased incrementally over the course of the fiscal year. Average daily Short Term Investment Pool (STIP) yield was 1.52% over the course of the fiscal year. Money Market rates decreased from about .25% to .10% over the course of FY20. The Repurchase account had an annual percentage yield of .15%. There are four General Fund Certificate of Deposits, three are for a laddered 24 months at a rate of 2.75%, 2.00% and 1.00% respectively by maturity date and one for 36 months at a rate of 3%.

TOWN OF WEST YELLOWSTONE
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
 June 30, 2020

THE TOWN AS A WHOLE (CONTINUED)

Business-Type Activities

| | <u>Business-Type Activities</u> | | |
|----------------------------------|---------------------------------|-------------------|------------------|
| | <u>FY20</u> | <u>FY19</u> | <u>Change</u> |
| Charges for services | | | |
| Water | \$ 385,112 | \$ 335,509 | \$ 49,603 |
| Sewer | <u>692,325</u> | <u>645,601</u> | <u>46,724</u> |
| Total charges for services | <u>1,077,437</u> | <u>981,110</u> | <u>96,327</u> |
| Operating grants | | | |
| Water | 1,153 | 305 | 848 |
| Sewer | <u>892</u> | <u>1,019</u> | <u>(127)</u> |
| Total operating grants | <u>2,045</u> | <u>1,324</u> | <u>721</u> |
| Total revenues | <u>1,079,482</u> | <u>982,434</u> | <u>97,048</u> |
| Total expenses | | | |
| Water | 301,714 | 227,481 | 74,233 |
| Sewer | <u>384,232</u> | <u>401,269</u> | <u>(17,037)</u> |
| Total expenses | <u>685,946</u> | <u>628,750</u> | <u>57,196</u> |
| Unrestricted investment earnings | 30,745 | 46,256 | (15,511) |
| Transfers in | <u>10,000</u> | <u>8,665</u> | <u>1,335</u> |
| Net change in position | <u>\$ 434,281</u> | <u>\$ 408,605</u> | <u>\$ 25,676</u> |

Revenues of the Town's business-type activities for FY20 were \$1,079,482. Expenses were \$685,946 and the Change in Net Position for FY20 was \$434,281 and an increase of 0.1% under the previous fiscal year. In Business-type Activities, charges for services in both the water and sewer funds increased from the previous fiscal year as an increase in rates is reflected here. Like the previous year there was only one hotel building project connecting to the system however, there were 5 more residential units over the previous year as well as two multifamily housing units connecting to the system in FY20.

Business-type activities saw an increase in expenses for water and sewer as there is now a separate department for water and sewer which now employs two full-time positions. And while additional transfers for replacement and depreciation continue to be set aside, the Town is saving for some upcoming larger projects.

TOWN OF WEST YELLOWSTONE
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2020

THE TOWN'S FUNDS

Significant changes in fund balances that should be noted are highlighted below.

- General Fund 1000 – The Town saw an increase of approximately \$80,000 in overall expenditures in the General Fund. Due to scheduled increases of the West Yellowstone Police Bargaining Unit, salaries of new personnel and the level of benefits paid on their behalf there was an increase in the cost of personnel overall. The Town continues to pay for fire coverage and ambulance service from the Hebgen Basin Fire District and has agreed to pay for administration services of \$88,000 for an additional EMT, as it has for the last two fiscal years, through 2035. An annual 1.5% increase to this amount will start in FY21. The Town continues to substantially fund the Library's operations and increased its funding in FY20 by \$41,345 over the previous year's outlay. The Town consistently funds a reserve in the amount of two times the average monthly general fund expenditure of the previous year.
- Resort Tax Fund 2100 – The Town receives significant revenues into its General Fund from the Resort Tax Fund (2100) and for the first time in a few years, budgeted to transfer less into the General Fund than the previous fiscal year. The COVID-19 pandemic started impacting the Town as early as March 2020. At this point and in anticipation of reduced revenues, expenditures were minimized intentionally. Management accurately anticipated significant reductions in visitation to West Yellowstone in April, May and June of 2020 and therefore the shortfall that occurred. Overall, the 3% Resort Tax revenues saw a decrease of 8.26% from the previous year's collections and transfers to the General Fund the MAP Fund, the Gas Tax Fund, the Capital Projects Fund were reduced from budgeted amounts. Full annual payments were made against the revenue bonds for the Town Hall construction project and the 80-acre purchase from the US Forest Service out of the Resort Tax Fund. The 10% required reserve for the Town Hall construction project plus the semi-annual set aside required to make the semi-annual payments restricts some of the Resort Tax fund balance and was able to be maintained. A significant change to Resort Tax is the collection of an additional 1% as is now allowed under new State legislation passed in the spring of 2019 and then voted for by the citizens of West Yellowstone and implemented as of January 1, 2020. These funds which totaled \$184,149 for FY20, are transferred to their own fund for the restricted purpose of purchasing or building infrastructure in the Town of West Yellowstone.

TOWN OF WEST YELLOWSTONE
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2020

THE TOWN'S FUNDS (CONTINUED)

- Capital Projects Fund 4000 – This year the Capital fund has major fund status and the Capital Improvement Plan, which is updated each year to reflect major projects desired to be done by the Town, is the source document for prioritizing projects that will be funded each year. Capital purchases and projects actively pursue completion each year though a short building season sometimes affects this. The full budgeted amount of \$604,198 was not transferred from the Resort Tax fund due to shortfalls in Resort Tax revenue collections. This was reduced by \$64,198 and affected some projects slated for completion in FY20.
- Street Construction and Maintenance Fund 4075 – This fund has met the 5% and 10% requirements to be considered a major fund. Transfers in from the Resort Tax Fund are usually made annually so that a major road re-pavement project can either be financed or paid for from the funds transferred into this fund. Because there were projects that had a higher level of priority in the Capital Projects Fund, this transfer was not budgeted in FY20.
- Water Fund 5210 – This is the enterprise fund for the Town's gravity-fed water system. Revenue has increased which is the result of a rate hike approved by the Town Council with Resolution #676. Water revenue should continue to increase through 2021 as a result. The Town experienced a lack of water flow from the natural spring that supplies the town in recent years however, flow levels have been restored and this has allowed for more connections to the system where previously there had been moratorium on such connections. The Town pursued other water sources after experiencing a threat to the existing water system and is wrapping up final agreements with regard to water rights and Department of Environmental Quality Standards.
- Sewer Fund 5310 – This is the enterprise fund for the Town's sewer system which employs a lagoon/holding pond system. Revenue should continue to increase like in the water fund, also the result of a rate hike approved by the Town Council with Resolution #677. The Town has renegotiated its lease with the state aeronautics division, which has increased costs to the Town substantially by doubling in cost of the land lease in FY16 and which now increases by \$5,000 per year. After making short-term improvements to the lagoon system, the Town then began pursuing new solutions for wastewater treatment and has engaged Forsgren Associates to design a new wastewater treatment plant for the Town. Management set up a Line of Credit as interim financing for these design fees and anticipates utilizing the Additional 1% Resort Tax infrastructure fund to ultimately finance the whole wastewater treatment plant project.

TOWN OF WEST YELLOWSTONE
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2020

THE TOWN'S FUNDS (CONTINUED)

General Fund Budgetary Highlights

In 2010 the Town adopted a fund balance policy for the General Fund based on the recommendation of the Government Finance Officers Association (GFOA) that governments, regardless of size maintain an unassigned fund balance in the general fund of no less than two months of regular operating expenditures. The Town has been able to maintain this required fund balance and in light of revenue volatility, recognizes the importance of this remaining in place and available for emergencies until we are on the other side of the COVID-19 pandemic outcomes and/or potential losses. The Town's general fund balance has increased only slightly from FY19 to FY20. The Town's financial policy precludes relying on reserves for on-going operations. However, the use of reserves for one-time extraordinary costs is certainly permissible.

The Town utilizes conservative budgetary practices. Conservative, yet realistic, revenue estimates, combined with departments operating within their original budgets, naturally has a favorable effect on the bottom line. The Town typically enjoys flexibility in cash flow as a result of the Resort Tax revenues though the pandemic has put this flexibility in check. Projects that need to occur when the weather is permitting, a short window for West Yellowstone, requires this kind of flexibility and consequently impacted the completion of capital purchases and projects. Despite the challenges that come with an unexpected reduction in revenues, the Town was able to maintain the current staff and provide services that are customarily expected by town residents and visitors.

The Town continues to have a history of stable General Fund balances.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of FY20 the Town had \$10,752,524 invested in capital assets in the governmental funds, and \$3,190,839 in the water and sewer funds for a total of \$13,943,363. This was an increase of \$235,498 from FY19. These are invested in a broad range of capital assets, and FY20's additions include equipment such as a truck for public services, a plow attachment, heating/air conditioning units for the museum, the police department and dispatch generator room; a dishwasher for the Union Pacific Dining Lodge (UPDL) and lights for the town park. Major capital improvement projects included a new parking lot shared by the UPDL and healthcare center; the UPDL window project, sidewalks for the healthcare clinic and the emergency services building, the remodeling of the library and a town-wide lighting project.

TOWN OF WEST YELLOWSTONE
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2020

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

Long-Term Debt

At year-end, the Town had \$2,790,885 in bonds and notes outstanding, which includes \$568,218 in General Obligation debt for the library purchase, Povah Center Construction and Union Pacific Dining Lodge upgrade project. It also includes \$57,531 outstanding for a grader purchase; a remaining balance of \$532,455 on the Learning Center loan, a balance of \$700,932 for the Town Hall Construction project and \$931,749 is still outstanding for the 80-acre loan.

ECONOMIC FACTORS AND FY 21 BUDGET CONSIDERATIONS

The Town's annual budget continues to depend on revenue generated by the resort tax levy, which accounted for 71% of the FY20 general fund revenue. Visitation to Yellowstone National Park dipped substantially at the end of FY20, which is reflected in a -8.41% decrease in resort taxes collected in FY20 under the previous fiscal year. However, March collections of resort tax reported a year-to-date increase of 4.24% therefore, the swing to -8.41% occurred in just the final quarter of FY20. Revenues from resort tax because of the pandemic did not reach levels of the previous summer's collections however, they were not as little as expected and even surpassed collection over the previous year for the month of November. In the context of the pandemic, those who could afford to take a vacation seemed to choose Yellowstone as a COVID-safe option and schools with remote options for students allowed for vacations that extended into the fall which also benefitted the Town. As of the submission of this report resort tax collections are well above expected for FY21.

Property tax receipts, once again, should remain relatively flat. Expenditures from the general fund are expected to increase as the West Yellowstone Employee bargaining unit and the West Yellowstone Police bargaining unit contract negotiations will likely open in March of 2021. Expenditures will also likely increase to address service levels reduced because of staffing issues and/or pandemic limitations.

During FY21 the Town will prioritize the Capital Improvement Plan as the plan has not yet been adopted for FY21. Transfers from the capital fund have been budgeted to cover operating costs of the general fund in anticipation of not having enough resort tax revenues coming in to meet transfers into the general fund to cover operating expenditures. The Town Council has plans to spend time reviewing the budget at mid-year to see if revisions can be made to accommodate additional expenditures for services or capital that were previously eliminated because of the uncertainty of revenues. The Town enjoys some flexibility in loan re-payment and has taken advantage of this by paying the minimum payment on the 80-acre loan instead of the doubled payments the Town had been making. Town staff have been actively applying for CARES Act funding for eligible expenses and has been able to offset additional expenses incurred from pandemic-related purchases. The Town is hopeful that the rollout of the new COVID-19 vaccines will restore confidence in the visiting public that makes our community thrive.

TOWN OF WEST YELLOWSTONE
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2020

ECONOMIC FACTORS AND FY 21 BUDGET CONSIDERATIONS (CONTINUED)

The additional 1% in resort tax collections has allowed the Town to continue planning for and funding the design work of a new wastewater treatment plant. This revenue stream allows the Town to continue moving forward on this project without negative impacts to other programs and services provided by the Town.

CONTACTING THE TOWN'S ADMINISTRATION

This financial report is designed for Town residents, visitors and others interested in the operations of the Town. The report provides a general overview of Town finances and demonstrates the Town's accountability for the funds and assets it manages. If you have questions about the report or require additional information, please contact the Finance Director, 440 Yellowstone Ave., Box 1570, West Yellowstone MT 59758 (406-646-7795).

B. Basic Financial Statements

Government-Wide Financial Statements

TOWN OF WEST YELLOWSTONE
STATEMENT OF NET POSITION
June 30, 2020

| | Governmental Activities | Business-Type Activities | Total |
|---|----------------------------|-----------------------------|--------------------------|
| ASSETS | | | |
| Cash and investments | \$ 4,823,284 | \$ 1,918,016 | \$ 6,741,300 |
| Restricted cash and investments | 232,798 | 227,216 | 460,014 |
| Receivables, net | 143,770 | 88,394 | 232,164 |
| Capital assets | | | |
| Nondepreciable land | 2,041,335 | 1,175 | 2,042,510 |
| Construction in progress | 30,091 | 183,107 | 213,198 |
| Other capital assets, net of depreciation | <u>8,681,098</u> | <u>3,006,557</u> | <u>11,687,655</u> |
| Total capital assets | <u>10,752,524</u> | <u>3,190,839</u> | <u>13,943,363</u> |
| Total assets | <u>15,952,376</u> | <u>5,424,465</u> | <u>21,376,841</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred outflows related to pensions | <u>375,462</u> | <u>16,470</u> | <u>391,932</u> |
| Total deferred outflows of resources | <u>375,462</u> | <u>16,470</u> | <u>391,932</u> |
| Total assets and deferred outflows of resources | <u>\$ 16,327,838</u> | <u>\$ 5,440,935</u> | <u>\$ 21,768,773</u> |

The Notes to Financial Statements are an integral part of this statement.

TOWN OF WEST YELLOWSTONE
STATEMENT OF NET POSITION (CONTINUED)
June 30, 2020

| | Governmental Activities | Business-Type Activities | Total |
|--|----------------------------|-----------------------------|----------------------|
| LIABILITIES | | | |
| Accounts payable and accrued expenses | \$ 58,612 | \$ 37,747 | \$ 96,359 |
| Compensated absences payable, current | 68,121 | 2,009 | 70,130 |
| Bonds payable, current | 350,107 | - | 350,107 |
| Intercap loans and notes payable, current | 86,742 | - | 86,742 |
| Long-term liabilities | | | |
| Compensated absences | 204,363 | 6,027 | 210,390 |
| Bonds payable | 1,850,792 | - | 1,850,792 |
| Intercap loans and notes payable | 503,244 | - | 503,244 |
| Other post-employment health benefits | 345,923 | 31,722 | 377,645 |
| Net pension liability | <u>1,821,129</u> | <u>92,591</u> | <u>1,913,720</u> |
| Total liabilities | <u>5,289,033</u> | <u>170,096</u> | <u>5,459,129</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Deferred inflows related to pensions | 170,558 | 10,843 | 181,401 |
| Deferred inflows related to other post-employment benefits | <u>185,571</u> | <u>17,017</u> | <u>202,588</u> |
| Total deferred inflows of resources | <u>356,129</u> | <u>27,860</u> | <u>383,989</u> |
| NET POSITION | | | |
| Net investment in capital assets | 7,961,639 | 3,190,839 | 11,152,478 |
| Restricted for | | | |
| Public safety | 143,578 | - | 143,578 |
| Debt service | 723,416 | - | 723,416 |
| Unrestricted | <u>1,854,043</u> | <u>2,052,140</u> | <u>3,906,183</u> |
| Total net position | <u>\$ 10,682,676</u> | <u>\$ 5,242,979</u> | <u>\$ 15,925,655</u> |

The Notes to Financial Statements are an integral part of this statement.

TOWN OF WEST YELLOWSTONE
STATEMENT OF ACTIVITIES
Year Ended June 30, 2020

| FUNCTIONS/PROGRAMS | Program Revenues | | | | Net (Expense) Revenue and Changes in Net Position | | |
|--|---------------------|----------------------|------------------------------------|----------------------------------|---|--------------------------|----------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government | | |
| | | | | | Governmental Activities | Business-type Activities | Total |
| Primary Government: | | | | | | | |
| Governmental activities: | | | | | | | |
| General government | \$ 1,412,204 | \$ 153,878 | \$ 53,377 | \$ - | \$ (1,204,949) | \$ - | \$ (1,204,949) |
| Public safety | 2,077,712 | 24,694 | 172,789 | 31,045 | (1,849,184) | - | (1,849,184) |
| Public works | 751,713 | 14,266 | 50,234 | - | (687,213) | - | (687,213) |
| Public health | 3,812 | - | - | - | (3,812) | - | (3,812) |
| Social and economic services | 121,767 | - | 8,692 | - | (113,075) | - | (113,075) |
| Culture and recreation | 800,870 | 35,751 | 79,151 | 37,649 | (648,319) | - | (648,319) |
| Other | 323,136 | - | 145,737 | - | (177,399) | - | (177,399) |
| Interest and fiscal fees | 88,781 | - | - | - | (88,781) | - | (88,781) |
| Total governmental activities | <u>5,579,995</u> | <u>228,589</u> | <u>509,980</u> | <u>68,694</u> | <u>(4,772,732)</u> | <u>-</u> | <u>(4,772,732)</u> |
| Business-type activities: | | | | | | | |
| Water | 301,714 | 385,112 | 1,153 | - | - | 84,551 | 84,551 |
| Sewer | <u>384,232</u> | <u>692,325</u> | <u>892</u> | <u>-</u> | <u>-</u> | <u>308,985</u> | <u>308,985</u> |
| Total business-type activities | <u>685,946</u> | <u>1,077,437</u> | <u>2,045</u> | <u>-</u> | <u>-</u> | <u>393,536</u> | <u>393,536</u> |
| Total primary government | <u>\$ 6,265,941</u> | <u>\$ 1,306,026</u> | <u>\$ 512,025</u> | <u>\$ 68,694</u> | <u>(4,772,732)</u> | <u>393,536</u> | <u>(4,379,196)</u> |
| General Revenues: | | | | | | | |
| Property taxes, levied for general purposes | | | | | 531,145 | - | 531,145 |
| Local option taxes | | | | | 71,166 | - | 71,166 |
| Resort taxes | | | | | 4,147,995 | - | 4,147,995 |
| Intergovernmental grants and contributions not restricted to specific programs | | | | | 299,849 | - | 299,849 |
| Unrestricted investment earnings | | | | | 84,946 | 30,745 | 115,691 |
| Transfer in (out) | | | | | (10,000) | 10,000 | - |
| Total general revenues | | | | | <u>5,125,101</u> | <u>40,745</u> | <u>5,165,846</u> |
| Change in net position | | | | | 352,369 | 434,281 | 786,650 |
| Net position, beginning of year | | | | | 10,233,198 | 4,840,264 | 15,073,462 |
| Restatement, see note 18 | | | | | <u>97,109</u> | <u>(31,566)</u> | <u>65,543</u> |
| Net position, beginning of year restated | | | | | <u>10,330,307</u> | <u>4,808,698</u> | <u>15,139,005</u> |
| Net position, end of year | | | | | <u>\$ 10,682,676</u> | <u>\$ 5,242,979</u> | <u>\$ 15,925,655</u> |

The Notes to Financial Statements are an integral part of this statement.

Fund Financial Statements

Governmental Fund Financial Statements

TOWN OF WEST YELLOWSTONE
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2020

| | General Fund | Resort Tax | Capital Projects | Street Construction and Maintenance | Other Governmental Funds | Total Governmental Funds |
|---|---------------------|-------------------|---------------------|---|--------------------------------|--------------------------------|
| ASSETS | | | | | | |
| Cash and cash equivalents | \$ 599,903 | \$ - | \$ 58,111 | \$ 47,909 | \$ 528,711 | \$ 1,234,634 |
| Investments | 958,024 | - | 997,503 | 1,080,885 | 552,238 | 3,588,650 |
| Receivables: | | | | | | |
| Property taxes | 82,541 | - | - | - | 41,084 | 123,625 |
| Other receivables | 90 | - | - | - | - | 90 |
| Other governments | 3,456 | - | - | - | 16,600 | 20,056 |
| Restricted cash and investments | <u>-</u> | <u>232,798</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>232,798</u> |
| Total assets | <u>\$ 1,644,014</u> | <u>\$ 232,798</u> | <u>\$ 1,055,614</u> | <u>\$ 1,128,794</u> | <u>\$ 1,138,633</u> | <u>\$ 5,199,853</u> |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | | | | | | |
| LIABILITIES | | | | | | |
| Accounts payable | \$ 21,499 | \$ - | \$ 9,000 | \$ - | \$ 6,573 | \$ 37,072 |
| Deposits payable | 2,800 | 17,000 | - | - | 1,650 | 21,450 |
| Unearned ambulance revenues | <u>90</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>90</u> |
| Total liabilities | <u>24,389</u> | <u>17,000</u> | <u>9,000</u> | <u>-</u> | <u>8,223</u> | <u>58,612</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | | | |
| Deferred inflows of tax revenues | <u>3,918</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>2,564</u> | <u>6,482</u> |
| FUND BALANCES | | | | | | |
| Restricted | 29,285 | 215,798 | 77,672 | - | 544,239 | 866,994 |
| Committed | - | - | - | 1,128,794 | 575,684 | 1,704,478 |
| Assigned | - | - | 968,942 | - | 7,923 | 976,865 |
| Unassigned | <u>1,586,422</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,586,422</u> |
| Total fund balances | <u>1,615,707</u> | <u>215,798</u> | <u>1,046,614</u> | <u>1,128,794</u> | <u>1,127,846</u> | <u>5,134,759</u> |
| Total liabilities, deferred inflows of resources and fund balances | <u>\$ 1,644,014</u> | <u>\$ 232,798</u> | <u>\$ 1,055,614</u> | <u>\$ 1,128,794</u> | <u>\$ 1,138,633</u> | <u>\$ 5,199,853</u> |

The Notes to Financial Statements are an integral part of this statement.

TOWN OF WEST YELLOWSTONE
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
June 30, 2020

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

| | | |
|---|--------------------|----------------------|
| Total fund balances - governmental funds | | \$ 5,134,759 |
| Amounts reported for governmental activities in the statement of net position are different because: | | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | | |
| Governmental capital assets | \$ 15,422,849 | |
| Less: accumulated depreciation | <u>(4,670,325)</u> | 10,752,524 |
| Deferred inflows of resources (unavailable property taxes) are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds. | | |
| | | 6,482 |
| Deferred outflows related to pensions are expenditures not recognizable in the current period and therefore are not reported in the governmental funds. | | |
| | | 375,462 |
| Deferred inflows related to pensions and other post-employment benefits are revenues not recognizable in the current period and therefore are not reported in the governmental funds. | | |
| | | (356,129) |
| Long-term liabilities, including bonds payable are not due and payable in the current period and, therefore, are not reported in the governmental funds. | | |
| Bonds and notes payable | (2,790,885) | |
| Net pension liability | (1,821,129) | |
| Other post-employment health benefits | (345,923) | |
| Compensated absences | <u>(272,485)</u> | <u>(5,230,422)</u> |
| Net position of governmental activities | | <u>\$ 10,682,676</u> |

The Notes to Financial Statements are an integral part of this statement.

TOWN OF WEST YELLOWSTONE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2020

| | General Fund | Resort Tax | Capital Projects | Street Construction and Maintenance | Other Governmental Funds | Total Governmental Funds |
|---|---------------------|--------------------|---------------------|---|--------------------------------|--------------------------------|
| REVENUES | | | | | | |
| Taxes and assessments | \$ 363,691 | \$ 4,049,039 | \$ - | \$ - | \$ 346,782 | \$ 4,759,512 |
| Licenses and permits | 73,623 | - | - | - | - | 73,623 |
| Intergovernmental | 585,760 | - | - | - | 268,707 | 854,467 |
| Charges for services | 46,180 | - | - | - | 8,890 | 55,070 |
| Fines and forfeitures | 56,115 | - | - | - | - | 56,115 |
| Interest on investments | 38,920 | 3,930 | 14,563 | 17,562 | 9,971 | 84,946 |
| Other | 36,804 | - | - | - | 38,143 | 74,947 |
| Total revenues | <u>1,201,093</u> | <u>4,052,969</u> | <u>14,563</u> | <u>17,562</u> | <u>672,493</u> | <u>5,958,680</u> |
| EXPENDITURES | | | | | | |
| General government | 1,179,893 | 12,492 | - | - | 115,887 | 1,308,272 |
| Public safety | 1,760,445 | - | - | - | 29,375 | 1,789,820 |
| Public works | 569,562 | - | - | - | 22,861 | 592,423 |
| Public health | 2,007 | - | - | - | - | 2,007 |
| Social and economic services | 118,689 | - | - | - | - | 118,689 |
| Culture and recreation | 349,876 | - | 6,999 | - | 237,534 | 594,409 |
| Other | 323,136 | - | - | - | - | 323,136 |
| Capital outlay | 27,582 | - | 336,907 | - | 42,743 | 407,232 |
| Debt service | | | | | | |
| Principal payments | 84,255 | 249,124 | - | - | 243,985 | 577,364 |
| Interest and fiscal fees | 22,761 | 49,069 | - | - | 17,275 | 89,105 |
| Total expenditures | <u>4,438,206</u> | <u>310,685</u> | <u>343,906</u> | <u>-</u> | <u>709,660</u> | <u>5,802,457</u> |
| Revenues over (under) expenditures | <u>(3,237,113)</u> | <u>3,742,284</u> | <u>(329,343)</u> | <u>17,562</u> | <u>(37,167)</u> | <u>156,223</u> |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Transfers in | 3,329,549 | - | 540,000 | - | 348,049 | 4,217,598 |
| Transfers out | (132,000) | (4,095,598) | - | - | - | (4,227,598) |
| Total other financing sources (uses) | <u>3,197,549</u> | <u>(4,095,598)</u> | <u>540,000</u> | <u>-</u> | <u>348,049</u> | <u>(10,000)</u> |
| Net change in fund balances | (39,564) | (353,314) | 210,657 | 17,562 | 310,882 | 146,223 |
| FUND BALANCE, beginning of year | 1,609,830 | 569,112 | 835,957 | 1,111,232 | 815,741 | 4,941,872 |
| Restatement, see note 18 | 45,441 | - | - | - | 1,223 | 46,664 |
| FUND BALANCE, beginning of year, restated | <u>1,655,271</u> | <u>569,112</u> | <u>835,957</u> | <u>1,111,232</u> | <u>816,964</u> | <u>4,988,536</u> |
| FUND BALANCE, end of year | <u>\$ 1,615,707</u> | <u>\$ 215,798</u> | <u>\$ 1,046,614</u> | <u>\$ 1,128,794</u> | <u>\$ 1,127,846</u> | <u>\$ 5,134,759</u> |

The Notes to Financial Statements are an integral part of this statement.

TOWN OF WEST YELLOWSTONE
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2020

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

| | | |
|---|------------------|-------------------|
| Net change in fund balances - total governmental funds | | \$ 146,223 |
| Amounts reported for governmental activities in the statement of activities are different because: | | |
| Governmental funds report capital outlays as expenditures. In the statement of activities, however, the cost of those assets is depreciated over the asset's useful life. Proceeds from sales are shown as other financing sources on the governmental funds but are adjusted for asset basis on the entity-wide. | | |
| Capital outlay | \$ 407,232 | |
| Less: current year depreciation | <u>(502,719)</u> | (95,487) |
| Repayment of the principal of long-term debt is an expenditure in the governmental funds, but this repayment reduces long-term liabilities in the statement of net assets. | | |
| Principal payments | | 577,364 |
| Some revenues and expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as revenues and expenses in the governmental funds. | | |
| | | (8,972) |
| Governmental funds do not report a liability for compensated absences and the net increase did not require the use of current financial resources. The change in the liability is presented in the statement of activities. | | |
| | | (34,014) |
| The net pension liability and related pension deferred inflows and outflows of the Town are reported on the full accrual method and solely in the government-wide financial statements. | | |
| | | (93,063) |
| The other post-employment benefits (OPEB) liability and related OPEB deferred inflows and outflows of the Town are reported on the full accrual method and solely in the government-wide financial statements. | | |
| | | <u>(139,682)</u> |
| Change in net position of governmental activities | | <u>\$ 352,369</u> |

The Notes to Financial Statements are an integral part of this statement.

Proprietary Fund Financial Statements

TOWN OF WEST YELLOWSTONE
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2020

| | Business-type Activities | | |
|---|--------------------------|---------------|--------------|
| | Enterprise Funds | | |
| | Water Fund | Sewer Fund | Total |
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 138,267 | \$ 163,539 | \$ 301,806 |
| Investments | 119,303 | 1,496,907 | 1,616,210 |
| Customers receivables, net | 27,166 | 61,228 | 88,394 |
| Total current assets | 284,736 | 1,721,674 | 2,006,410 |
| Noncurrent assets: | | | |
| Restricted cash and investments | 23,562 | 203,654 | 227,216 |
| Capital assets | | | |
| Nondepreciable land | - | 1,175 | 1,175 |
| Construction in progress | - | 183,107 | 183,107 |
| Other capital assets, net of depreciation | 1,451,876 | 1,554,681 | 3,006,557 |
| Total capital assets | 1,451,876 | 1,738,963 | 3,190,839 |
| Total noncurrent assets | 1,475,438 | 1,942,617 | 3,418,055 |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred outflows related to pensions | 9,288 | 7,182 | 16,470 |
| Total deferred outflows of resources | 9,288 | 7,182 | 16,470 |
| Total assets and deferred outflows of resources | \$ 1,769,462 | \$ 3,671,473 | \$ 5,440,935 |

The Notes to Financial Statements are an integral part of this statement.

TOWN OF WEST YELLOWSTONE
STATEMENT OF NET POSITION (CONTINUED)
PROPRIETARY FUNDS
June 30, 2020

| | Business-type Activities | | |
|--|--------------------------|---------------------|---------------------|
| | Enterprise Funds | | |
| | Water Fund | Sewer Fund | Total |
| LIABILITIES | | | |
| Current liabilities: | | | |
| Accounts payable | \$ 11,871 | \$ 25,850 | \$ 37,721 |
| Compensated absences payable | 1,084 | 925 | 2,009 |
| Refunds payable | <u>26</u> | <u>-</u> | <u>26</u> |
| Total current liabilities | <u>12,981</u> | <u>26,775</u> | <u>39,756</u> |
| Noncurrent liabilities: | | | |
| Compensated absences payable | 3,251 | 2,776 | 6,027 |
| Other post-employment health benefits | 16,654 | 15,068 | 31,722 |
| Net pension liability | <u>52,213</u> | <u>40,378</u> | <u>92,591</u> |
| Total noncurrent liabilities | <u>72,118</u> | <u>58,222</u> | <u>130,340</u> |
| Total liabilities | <u>85,099</u> | <u>84,997</u> | <u>170,096</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Deferred inflows related to pensions | 6,114 | 4,729 | 10,843 |
| Deferred inflows related to other post-employment benefits | <u>8,934</u> | <u>8,083</u> | <u>17,017</u> |
| Total deferred inflows of resources | <u>15,048</u> | <u>12,812</u> | <u>27,860</u> |
| NET POSITION | | | |
| Net investment in capital assets | 1,451,876 | 1,738,963 | 3,190,839 |
| Unrestricted | <u>217,439</u> | <u>1,834,701</u> | <u>2,052,140</u> |
| Total net position | <u>1,669,315</u> | <u>3,573,664</u> | <u>5,242,979</u> |
| Total liabilities, deferred inflows of resources, and net position | <u>\$ 1,769,462</u> | <u>\$ 3,671,473</u> | <u>\$ 5,440,935</u> |

The Notes to Financial Statements are an integral part of this statement.

TOWN OF WEST YELLOWSTONE
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
Year Ended June 30, 2020

| | Business-type Activities Enterprise Funds | | |
|---|--|---------------------|---------------------|
| | Water Fund | Sewer Fund | Total |
| OPERATING REVENUES | | | |
| Charges for services | \$ 385,112 | \$ 692,325 | \$ 1,077,437 |
| OPERATING EXPENSES | | | |
| Personnel services | 87,899 | 43,778 | 131,677 |
| Supplies | 24,896 | 6,811 | 31,707 |
| Purchased services | 88,264 | 144,500 | 232,764 |
| Fixed charges | 6,662 | 66,649 | 73,311 |
| Depreciation | 93,993 | 122,494 | 216,487 |
| Total operating expenses | <u>301,714</u> | <u>384,232</u> | <u>685,946</u> |
| Operating income | <u>83,398</u> | <u>308,093</u> | <u>391,491</u> |
| NONOPERATING REVENUES | | | |
| Interest income | 4,802 | 25,943 | 30,745 |
| Intergovernmental revenue | <u>1,153</u> | <u>892</u> | <u>2,045</u> |
| Total nonoperating revenues | <u>5,955</u> | <u>26,835</u> | <u>32,790</u> |
| Income before transfers | 89,353 | 334,928 | 424,281 |
| Transfers in | <u>10,000</u> | <u>-</u> | <u>10,000</u> |
| Change in net position | <u>99,353</u> | <u>334,928</u> | <u>434,281</u> |
| NET POSITION, beginning of year | 1,601,528 | 3,238,736 | 4,840,264 |
| Restatement, see note 18 | <u>(31,566)</u> | <u>-</u> | <u>(31,566)</u> |
| NET POSITION, beginning of year, restated | <u>1,569,962</u> | <u>3,238,736</u> | <u>4,808,698</u> |
| NET POSITION, end of year | <u>\$ 1,669,315</u> | <u>\$ 3,573,664</u> | <u>\$ 5,242,979</u> |

The Notes to Financial Statements are an integral part of this statement.

TOWN OF WEST YELLOWSTONE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2020

| | Business-type Activities Enterprise Funds | | |
|---|--|---------------------|---------------------|
| | Water Fund | Sewer Fund | Total |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts from customers | \$ 385,432 | \$ 685,574 | \$ 1,071,006 |
| Payments to suppliers | (107,951) | (444,270) | (552,221) |
| Payments to employees | (78,041) | (51,991) | (130,032) |
| Net cash flows from operating activities | <u>199,440</u> | <u>189,313</u> | <u>388,753</u> |
| CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES | | | |
| Transfers in | 10,000 | - | 10,000 |
| Receipts from grants and intergovernmental sources | <u>1,153</u> | <u>892</u> | <u>2,045</u> |
| Net cash flows from non-capital and related financing activities | <u>11,153</u> | <u>892</u> | <u>12,045</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | |
| Additions to capital assets | <u>(335,479)</u> | <u>(193,114)</u> | <u>(528,593)</u> |
| Net cash flows from capital and related financing activities | <u>(335,479)</u> | <u>(193,114)</u> | <u>(528,593)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Interest on investments | <u>4,802</u> | <u>25,943</u> | <u>30,745</u> |
| Net cash flows from investing activities | <u>4,802</u> | <u>25,943</u> | <u>30,745</u> |
| Net change in cash and cash equivalents | (120,084) | 23,034 | (97,050) |
| Cash and cash equivalents, beginning of year | <u>401,216</u> | <u>1,841,066</u> | <u>2,242,282</u> |
| Cash and cash equivalents, end of year | <u>\$ 281,132</u> | <u>\$ 1,864,100</u> | <u>\$ 2,145,232</u> |
| Classified as: | | | |
| Cash and cash equivalents | \$ 138,267 | \$ 163,539 | \$ 301,806 |
| Investments | 119,303 | 1,496,907 | 1,616,210 |
| Restricted cash and investments | <u>23,562</u> | <u>203,654</u> | <u>227,216</u> |
| Totals | <u>\$ 281,132</u> | <u>\$ 1,864,100</u> | <u>\$ 2,145,232</u> |

The Notes to Financial Statements are an integral part of this statement.

TOWN OF WEST YELLOWSTONE
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUNDS
Year Ended June 30, 2020

| | Business-type Activities | | |
|--|--------------------------|---------------|------------|
| | Enterprise Funds | | |
| | Water Fund | Sewer Fund | Total |
| Operating income | \$ 83,398 | \$ 308,093 | \$ 391,491 |
| Adjustments to reconcile operating income to net cash from operating activities: | | | |
| Depreciation and amortization | 93,993 | 122,494 | 216,487 |
| Changes in assets, deferred outflows, liabilities, and deferred inflows: | | | |
| (Increase) decrease in: | | | |
| Accounts receivable | 320 | (6,751) | (6,431) |
| Increase (decrease) in: | | | |
| Accounts payable | 11,871 | (226,310) | (214,439) |
| Net pension liability | 4,965 | (3,904) | 1,061 |
| Accrued employee benefits payable | 4,893 | (4,309) | 584 |
| Total adjustments | 116,042 | (118,780) | (2,738) |
| Net cash from operating activities | \$ 199,440 | \$ 189,313 | \$ 388,753 |

The Notes to Financial Statements are an integral part of this statement.

Fiduciary Fund Financial Statements

TOWN OF WEST YELLOWSTONE
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2020

| | Private-Purpose Trust Funds | Agency Funds |
|-----------------------------------|--------------------------------|--------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 73,713 | \$ 19,579 |
| Investments | 21,275 | - |
| Total assets | \$ 94,988 | \$ 19,579 |
| LIABILITIES | | |
| Short term payables | | \$ 19,579 |
| NET POSITION | | |
| Held in trust for social services | \$ 94,988 | |

The Notes to Financial Statements are an integral part of this statement.

TOWN OF WEST YELLOWSTONE
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
Year Ended June 30, 2020

| | Private-Purpose Trust Funds |
|---------------------------------------|--------------------------------|
| ADDITIONS | |
| Contributions and donations | \$ 50,574 |
| Intergovernmental grants and revenues | 3,500 |
| Interest income | 547 |
| Total additions | 54,621 |
| DEDUCTIONS | |
| Administrative expenses | 24,023 |
| Total deductions | 24,023 |
| CHANGE IN NET POSITION | 30,598 |
| NET POSITION, beginning of year | 64,390 |
| NET POSITION, end of year | \$ 94,988 |

The Notes to Financial Statements are an integral part of this statement.

TOWN OF WEST YELLOWSTONE
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Town of West Yellowstone have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

New Accounting Pronouncements

The Town implemented the provisions of the following GASB pronouncements for the year ended June 30, 2020:

- Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in the light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to be effective for periods beginning after June 15, 2018 or later.

Reporting Entity

The Town of West Yellowstone, Montana (the Town), is an independent political entity established under Montana Law. An elected mayor and the Town Council govern the Town. The Town Council, by law, has the authority to adopt budgets, appropriate funds, levy taxes, employ personnel and pass ordinances. The Gallatin County Treasurer's office functions in a fiduciary capacity to the extent that it bills and collects taxes and receives certain intergovernmental revenue for the Town; however, Gallatin County does not function in an oversight capacity with regard to the Town.

The Town has considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Town are such that exclusion would cause the Town's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability in Statement 14 *The Financial Reporting Entity* and Statement 61, *The Financial Reporting Entity: Omnibus – an Amendment of GASB Statements No. 14 and No. 34*. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Town to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Town. The Tourism Business Improvement District (TBID) was considered a fiduciary component unit of the Town as the Town appoints the voting majority of the TBID's board of trustees and the Town imposes its will on the TBID through approval of the organization's budget. The TBID activity has been included as agency fund in the fiduciary fund financial statements.

TOWN OF WEST YELLOWSTONE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2020

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-Wide Financial Statements

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

Government-Wide Financial Statements - The statement of net position and statement of activities report information on all of the nonfiduciary activities of the primary government utilizing a full accrual basis of accounting. Generally, the effect of interfund activity has been removed from these statements with the exception of interfund services provided and used.

The statement of net position presents the financial condition of the governmental activities of the Town at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each function of the Town's governmental activities (and ultimately presents changes in net position). Direct expenses are those that are specifically associated with a service, program or department and are, therefore, clearly identifiable to a particular function. Program revenues include 1) charges paid by the recipient of the goods or services provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Property taxes and other items not properly included among program revenues are reported, instead, as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the fiduciary funds are excluded from the government-wide financial statements. Fund financial statements are designed to present financial information of the Town at a more detailed level (and to demonstrate legal compliance). The focus of governmental fund financial statements is on major funds. Nonmajor funds are aggregated and presented in a single column. The fiduciary funds are reported by type.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met.

TOWN OF WEST YELLOWSTONE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2020

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due.

Property taxes, licenses, and investment income associated with the current fiscal period are all considered to be susceptible to accrual and have, therefore, been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. Taxes and assessments receivable remaining uncollected at year end are offset by deferred tax/assessment revenue, a deferred inflow of resources, since they are not available to pay liabilities of the current period.

Funds

The Town reports the following major governmental funds:

General Fund: The General Fund is the primary operating unit of the Town. It accounts for all financial resources of the Town, except those required to be accounted for in another fund.

Resort Tax Special Revenue Fund: Special revenue funds are to be used to account for proceeds from a specific revenue source, in this case a tax imposed on tourism-related items and services.

Capital Projects Fund: The purpose of the Capital Projects Fund is to consolidate major capital assets and projects into one fund and streamline transfers inform the resort tax fund.

Street Construction and Maintenance Capital Projects Fund: This fund is used to account for projects related to construction and maintenance of the Town's streets.

The Town reports the following major proprietary funds:

Water Fund: Accounts for the Town's water utility operations.

Sewer Fund: Accounts for the Town's sewer utility operations.

TOWN OF WEST YELLOWSTONE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2020

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Funds (Continued)

Additionally, the Town reports the following fund types:

Pension Trust Fund: Accounts for the activities of a local retirement plan which accumulates resources for pension benefit payments to qualified employees.

Agency Funds: Account for resources legally held in trust for use by another government, individual, or organization as identified by the donor. The use of these funds may be restricted to only the interest earned on the investment of the principal or the entire amount may be used in accordance with the terms of the donor.

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 enterprise funds are charges to customers for services provided. Operating expenses for enterprise funds include the cost of providing such services and the depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Because both of the Town's enterprise funds are each reported as a major fund in the fund financial statements, segment disclosures herein are not required.

Use of Restricted/Unrestricted Net Position

When both restricted and unrestricted net positions are available to expend, it is the Town's policy to use its restricted net position first, followed by unrestricted net position as they are needed.

Budgetary Information

An operating budget is adopted each fiscal year for all governmental and proprietary funds. Statute requires the adoption of a preliminary budget, public hearings on the preliminary budget, and the final adoption of the budget by the later of the first Thursday after the first Tuesday in September or within thirty calendar days of the receipt of the certified taxable valuations from the Department of Revenue (county assessor). The Town must also submit a copy of the final budget to the Department of Administration by the later of October 1 or sixty days after the receipt of taxable values from the Department of Revenue.

TOWN OF WEST YELLOWSTONE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2020

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgetary Information (Continued)

The budgets are prepared in accordance with the basis of accounting used by that fund and on a line item basis. Revenues are budgeted by source and expenditures are budgeted by department and class. This constitutes the legal level of control. State statute limits the making of expenditures or incurring of obligations to the amount of the final budget as adopted or as amended. Budget transfers and amendments are authorized by law, and in some instances, may require further public hearings. Any budget amendments providing for additional appropriations must identify the fund reserves, unanticipated revenue, or previously unbudgeted revenue that will fund the appropriations. Appropriations are created by fund, function, and activity and may be further detailed by department. Expenditure limitations imposed by law extend to the department level which is identified as the legal level of budgetary control.

Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2020, the Town had no funds where expenditures exceeded total appropriations.

Deficit Fund Equity

At June 30, 2020, the Town had no funds with a deficit fund equity to report.

Cash and Investments

Cash and investments consist primarily of demand deposits and investments in the State Short-Term Investment Pool. To facilitate cash management, the operating cash of certain funds is pooled into a cash management pool for the purpose of increasing income through combined investment activities. This cash and investment pool is available for use by all funds. For the purpose of the statement of cash flows, the Town considers all unrestricted investments included in its cash management pool to be cash equivalents as these balances are essentially used as demand deposit accounts by the individual funds. Interest income earned as a result of pooling of Town deposits is distributed to the appropriate funds utilizing a formula based on the average balance of cash and investments of each fund.

Montana State statutes authorize the Town to invest in interest-bearing savings accounts, certificates of deposits, and time deposits insured up to \$250,000 by the Federal Deposit Insurance Corporation or fully collateralized, U.S. government and U.S. agency obligations, and repurchase agreements where there is a master repurchase agreement and collateral held by a third party.

TOWN OF WEST YELLOWSTONE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2020

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Cash and Investments

Indenture agreement covenants established with the issuance and sale of the revenue bonds represent a liability to the enterprise funds. These restricted assets represent cash and investments restricted for use to repay current debt, establish a reserve for future debt and establish a replacement and depreciation reserve for the purpose of replacing the system in the future.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Fair Value of Investments

The Town categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets (these investments are valued using prices quoted in active markets); Level 2 inputs are significant other observable inputs (these investments are valued using matrix pricing); Level 3 inputs are significant unobservable inputs (these investments are valued using consensus pricing).

Eliminations and Reclassifications

In the process of aggregating data for the statement of net position and the statement of activities, some amounts reported as interfund activity and balances in the funds have been eliminated or reclassified.

Receivables

Trade receivables in the proprietary funds are primarily comprised of outstanding receivables for user charges. No reserve for estimated uncollected accounts receivable is maintained, as all balances are considered to be fully collectible with respect to materiality.

Property is assessed by the County division of the State Department of Revenue. Valuations are determined under State law and submitted to the County Treasurer for the preparation of tax notices. All property taxes are collected by the Treasurer of Gallatin County, Montana, and remitted to the Town of West Yellowstone on a monthly basis. However, the revenues are reduced at year end by the amount of the current delinquent receivables and are increased by the amount of the delinquent collections from prior fiscal years. Property taxes are assessed against the owner of record as of January 1st with the taxes generally being levied in August and billed as of November 1st. Property taxes receivable are recorded as of the date levied. Uncollected taxes receivable at year-end are deferred only in the fund financial statements.

TOWN OF WEST YELLOWSTONE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2020

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Receivables (Continued)

Property taxes are due in two payments, generally November 30th and May 31st. Unpaid taxes become delinquent on December 1st and June 1st. After three years of delinquency, the County may proceed to take title to the property. Delinquent taxes may be collected up to ten years. The County Treasurer may issue a writ of execution to the County Sheriff to seize the property and sell it to pay the taxes. Unpaid taxes at the end of ten years may be written off by the County Commissioners. No reserve for estimated uncollected taxes receivable is maintained, as all balances are considered to be fully collectible with respect to materiality.

Property taxes attach as an enforceable lien on property as of January 1 and are levied on the second Monday in August. They are due in two equal installments on November 30 and May 31 following the levy date.

The Town is permitted by State statutes to levy taxes up to certain fixed limits for various purposes. The taxes levied by the Town for the fiscal year ended June 30, 2020 were within legal limits. The tax levies were based upon a taxable valuation of \$7,402,120.

Resort Tax Revenues

The Town, pursuant to an election in 1985, established a resort tax on the retail value of all goods and services sold within the Town. Businesses subject to the tax shall collect a 3% tax on the retail value of all goods and services sold, as set forth by the statute. Effective January 1, 2020, pursuant to an election in 2019, the Town increased the resort tax rate from 3% to 4%. The monies derived from the 3% resort tax may be appropriated by the Town Council for any activity, undertaking, or administrative service in which the Town is authorized by law to perform. The monies derived from the additional 1% resort tax shall be used for infrastructure.

Annually, anticipated receipts from resort tax must be applied to reduce the municipal property tax levy for the fiscal year in an amount equal to 5% of the resort tax revenues derived during the preceding fiscal year.

Capital Assets

The Town's assets are capitalized at historical cost or estimated historical cost. Town policy has set the capitalization threshold for reporting capital assets at \$5,000. Gifts or contributions of capital assets are recorded at fair market value when received. Depreciable capital assets are reported on the statement of net position, net of applicable accumulated depreciation. Non-depreciable capital assets, such as land and construction in progress, are reported separately. Depreciation expense is reported in the statement of activities and is calculated using the straight-line method based on the asset's estimated useful life.

TOWN OF WEST YELLOWSTONE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2020

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets (Continued)

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

| | |
|-------------------------|---------------|
| Building and structures | 50 years |
| Improvements | 10-25 years |
| Infrastructure | 40 years |
| Machinery and equipment | 5 to 15 years |
| Water system | 5 to 50 years |
| Sewer system | 5 to 50 years |

In June 1999, GASB issued Statement 34 which requires the inclusion of infrastructure capital assets in local governments' basic financial statements. According to GASB 34, the Town must record infrastructure assets prospectively from the date of implementation. The Town defines infrastructure as the basic physical assets that allow the Town to function. The assets to be recorded will include the street system, water purification and distribution system, sewer collection treatment system; park and recreation lands and improvement system, storm water conveyance system, and buildings combined with the site amenities such as parking and landscaped areas; and streets, sidewalks, curbs, and street lights.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and governmental funds balance sheets will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent the consumption of net position (or fund balance) that applies to a future period(s); therefore, an outflow of resources (expenses/expenditures) will not be recognized until that point.

TOWN OF WEST YELLOWSTONE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2020

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the statement of net position and governmental funds balance sheets will sometimes report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position (or fund balance) that applies to a future period(s); therefore, an inflow of resources (revenue) will not be recognized until that time. In the government-wide statement of net position, the Town reported deferred outflows and deferred inflows of resources related to pensions and other postemployment health benefits (OPEB). Within the Town's governmental fund balance sheet, there was one item that qualified as a deferred inflow of resources. This item was entirely comprised of outstanding property taxes as of June 30, 2020. These amounts are (and were) reported as revenue in the government-wide financial statements in the period in which they were levied and, thus, no deferred inflows of resources were reported for this unavailable property tax activity. The proprietary statements of net position also reported deferred outflows and deferred inflows of resources for pension and OPEB-related activities.

Compensated Absences

Town employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Vacation leave may be accumulated to a total not to exceed two times the maximum number of days earned annually. Sick leave is earned at a rate of 12 days per year. Upon retirement or termination, all employees are paid for 100% of unused vacation leave and 25% of unused sick leave.

The current and long-term liabilities for accumulated vacation and sick leave are reported on the proprietary fund and government-wide financial statements. In governmental funds, sick leave and vacation leave are recorded as expenditures in the year paid, as it is the Town's policy to satisfy any unpaid amounts at year-end from future resources, not expendable available resources.

Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those short-term loans related to goods and services type transactions are classified as "due to and from other funds." Long-term interfund loans (noncurrent portion) are reported as "advances to and from other funds." Interfund receivables and payables between funds are eliminated in the statement of net position.

Net Pension Liability and On-Behalf Payments for Fringe Benefits

The Town must report its proportionate share of the collective net pension liability, pension expense, deferred inflows, and deferred outflows of resources associated with pension plans in which its employees are eligible to participate. On-behalf payments for fringe benefits are direct payments made by one entity to a third-party recipient for the employees of another legally separate entity. On-behalf payments for the Town include pension plan contributions. The State's pension contribution is recorded as intergovernmental revenue with an offsetting expenditure in the related funds.

TOWN OF WEST YELLOWSTONE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2020

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other Postemployment Benefits

The Town allows its retired employees to continue their health insurance coverage by remaining on the Town's health insurance plan. Another postemployment benefit arises from the difference in the retired employees' cost of health insurance under the Town's plan and the cost of coverage for a similar plan on the open market. This benefit is reflected in the financials as a long-term liability following the guidance of GASB Statement No. 75.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net position. In the fund financial statements, the face amount of the debts (when issued) are reported as other financing sources and the principal payments on debt (when paid) are reported as other financing uses. Premiums (if present) received on the debt issuances would be reported as other financing sources, while discounts (if present) on debt issuances would be reported as other financing uses. Both the government-wide and fund financial statements recognize bond issuance costs as current expenses in the year incurred.

Fund Balance

The Town previously implemented GASB Statement No. 54. The objective of Statement 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is found to observe constraints imposed upon the use of resources reported in governmental funds. The clarifications of the governmental fund type definitions reduce uncertainty about which resources can or should be reported in the respective fund types. As a result, the classifications of fund balance used for governmental funds are reported in two general classifications, nonspendable and spendable.

The nonspendable category represents the portion of fund balance that is not in spendable form such as inventories and prepaid items. Spendable fund balance is further categorized as restricted, committed, assigned, and unassigned.

The restricted fund balance category contains balances that can only be spent for the specific purposes stipulated by external parties or through enabling legislation. External parties include grantors, debt covenants, votes, and laws and regulations of other governments.

The committed fund balance category includes amounts that can be used only for the specific purpose determined by a formal action of the government's highest level of decision-making authority, the Town Council. This same formal board action is needed not only to establish the commitment, but also to modify or rescind it at a future date.

TOWN OF WEST YELLOWSTONE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2020

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance (Continued)

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. Assignments of fund balance are created by an official who the governing body has delegated the authority to assign amounts to be used for specific purposes. The Operations Manager and Finance Director have the authority to express assignments. In the governmental funds other than the general fund, assigned fund balance also represents the remaining amount that is not restricted or committed. Also included in the assigned fund balance for the general fund are assignments for the portion of the current general fund balance that is projected to be used to fund expenditures and other cash outflows in excess of the expected revenues and other cash inflows in the next fiscal year.

Unassigned fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification may only be used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

When both restricted and unrestricted resources are available in a fund, the assumed order of spending is restricted first, next committed, next assigned, and finally unassigned.

Minimum General Fund – Fund Balance

The Town does not maintain a stabilization fund. However, the Town adopted a General Fund – Fund Balance Policy to maintain an unassigned fund balance in the general fund that is no less than two months of regular operating expenditures or revenues, or 16% of the general fund expenditures.

Net Position

In funds other than governmental, net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

TOWN OF WEST YELLOWSTONE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2020

NOTE 2. CASH AND INVESTMENTS

At June 30, 2020, the carrying amount of the Town’s deposits in local banks and investments is \$7,315,881. Account balances are covered by the Federal Depository Insurance Corporation (FDIC) up to \$250,000 per bank, per depositor. At June 30, 2020, the balance in the repurchase agreement account was \$1,475,511 and was fully collateralized by securities held by the pledging bank's agent in the Town’s name. At June 30, 2020, the Town’s cash balances were fully insured and collateralized. The Town’s cash and investments are reported as follows:

| | Unrestricted | Restricted | Total |
|--------------------------|--------------|------------|--------------|
| Governmental activities | \$ 4,823,284 | \$ 232,798 | \$ 5,056,082 |
| Business-type activities | 1,918,016 | 227,216 | 2,145,232 |
| Fiduciary funds | 114,567 | - | 114,567 |
| | \$ 6,855,867 | \$ 460,014 | \$ 7,315,881 |

Custodial Credit Risk-Deposits. Custodial credit risk for deposits is the risk that in the event of a financial institution failure, the Town’s deposits may not be returned or the Town will not be able to recover the collateral securities in the possession of the outside party. Account balances are insured by the FDIC up to \$250,000 per bank, per depositor. The Town’s bank balance was fully secured by pledged securities held by the financial institutions or by their trust departments or agents, but not in the Town's name.

The Town minimizes custodial credit risk by restrictions set forth in Town policy and state law. The Town’s policy requires deposits to be 102% secured by collateral valued at market value. The Town Finance Director maintains a listing of financial institutions, which are approved for investment purposes. Types of securities that may be pledged as collateral are detailed in Section 17-6-103 of the Montana Code Annotated (MCA). Town policy requires that specific safeguards against risk of loss be evidenced when the Town does not physically hold the securities.

Montana statutes require that the Town obtain securities for the uninsured portion of the deposits as follows: 1) securities equal to 50% of such deposits if the institution in which the deposits are made has a net worth to total assets ratio of 6% or more, or 2) securities equal to 100% of the uninsured deposits if the institution in which the deposits are made has a net worth to total assets ratio of less than 6%. The state statutes do not specify in whose custody or name the collateral is to be held. The amount of collateral held for Town deposits at year end exceeds the amount required by state statutes.

Credit Risk. As noted above, statutes authorize the Town to invest in direct obligations of the United States Government and securities issued by agencies of the United States, repurchase agreements, and the State Short-Term Investment Pool (STIP). The Town has no investment policy that would further limit its investment choices.

TOWN OF WEST YELLOWSTONE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2020

NOTE 2. CASH AND INVESTMENTS (CONTINUED)

Credit Risk (Continued). The Town’s investments primarily consist almost entirely of certificates of deposit with effective interest rates of 1% to 3%. The investments are recorded at fair value. Time deposits and money market accounts held by investment brokers were insured through the FDIC or Securities Investor Protection Corporation (SIPC).

Fair Value Measurement and Application. The Town categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles.

The Town voluntarily participates in the STIP administered by the Montana Board of Investments (MBOI). A local government’s STIP ownership is represented by shares, the prices of which are fixed at \$1.00 per share, and participants may buy or sell shares with one-business days’ notice. STIP administrative expenses are charged daily against the STIP income, which is distributed on the first calendar day of each month. Shareholders have the option to automatically reinvest their distribution income in additional shares. STIP is not registered with the Securities and Exchange Commission. STIP is not FDIC insured or otherwise insured or guaranteed by the federal government, the State of Montana, the MBOI or any other entity against investment losses and there is no guaranteed rate of return on funds invested in STIP shares. The MBOI maintains a reserve fund to offset possible losses and limit fluctuations in STIP’s valuation. The STIP investment portfolio consists of securities with maximum maturity of 2 years. Information on investments held in the STIP can be found in the Annual Report on the MBOI website at <http://investmentmt.com/AnnualReportsAudits>.

The following table provides information about the credit risks, interest rate risks, and fair value hierarchy associated with the Town’s deposits and investments.

| | Maturities | Credit Risk Rating | Fair Value | Valuation Inputs |
|---|------------|-----------------------|---------------------|------------------|
| Cash in overnight repurchase agreements | N/A | N/A | \$ 1,452,704 | |
| Money market accounts | N/A | N/A | 174,377 | |
| Demand deposits | N/A | N/A | 2,500 | |
| Petty cash | N/A | N/A | <u>150</u> | |
| Total cash and cash equivalents | | | <u>1,629,731</u> | |
| Certificates of deposit | 2021 | N/A | 730,008 | Level 2 |
| State of Montana Short-Term Investment Pool | N/A | N/A | <u>4,956,142</u> | |
| Total investments | | | <u>5,686,150</u> | |
| Total cash and investments | | | <u>\$ 7,315,881</u> | |

TOWN OF WEST YELLOWSTONE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2020

NOTE 3. CAPITAL ASSETS

All capital assets of the Town are depreciable with the exceptions of land and construction in progress. Capital assets of the Town for the year ended June 30, 2020 consisted of the following for governmental activities:

| | Balance June 30, 2019 | Prior Period Adjustment | Balance, as restated June 30, 2019 | Increases | Decreases | Balance June 30, 2020 |
|-------------------------------|--------------------------|----------------------------|--|--------------------|--------------------|--------------------------|
| GOVERNMENTAL ACTIVITIES | | | | | | |
| Nondepreciable: | | | | | | |
| Land | \$ 2,041,335 | \$ - | \$ 2,041,335 | \$ - | \$ - | \$ 2,041,335 |
| Construction in progress | 8,263 | 18,880 | 27,143 | 39,017 | (36,069) | 30,091 |
| Depreciable: | | | | | | |
| Buildings | 6,609,616 | - | 6,609,616 | - | - | 6,609,616 |
| Improvements | 3,154,860 | - | 3,154,860 | 270,923 | - | 3,425,783 |
| Machinery and equipment | 3,182,663 | - | 3,182,663 | 133,361 | - | 3,316,024 |
| Total | 14,996,737 | 18,880 | 15,015,617 | 443,301 | (36,069) | 15,422,849 |
| Accumulated depreciation | (4,167,606) | - | (4,167,606) | (502,719) | - | (4,670,325) |
| Total governmental activities | <u>\$ 10,829,131</u> | <u>\$ 18,880</u> | <u>\$ 10,848,011</u> | <u>\$ (59,418)</u> | <u>\$ (36,069)</u> | <u>\$ 10,752,524</u> |

TOWN OF WEST YELLOWSTONE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2020

NOTE 3. CAPITAL ASSETS (CONTINUED)

Capital assets of the Town for the year ended June 30, 2020, consisted of the following for business-type activities:

| | <u>Balance</u> <u>June 30, 2019</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance</u> <u>June 30, 2020</u> |
|---------------------------------|--|---------------------|---------------------|--|
| BUSINESS-TYPE ACTIVITIES | | | | |
| Water | | | | |
| Nondepreciable: | | | | |
| Construction in progress | \$ 508,289 | \$ - | \$ (508,289) | \$ - |
| Depreciable: | | | | |
| Machinery and equipment | 146,901 | 14,162 | - | 161,063 |
| Source of supply | 657,690 | 829,606 | - | 1,487,296 |
| Transmission and distribution | <u>1,681,300</u> | <u>-</u> | <u>-</u> | <u>1,681,300</u> |
| Total | 2,994,180 | 843,768 | (508,289) | 3,329,659 |
| Accumulated depreciation | <u>(1,783,790)</u> | <u>(93,993)</u> | <u>-</u> | <u>(1,877,783)</u> |
| Total water activities | <u>1,210,390</u> | <u>749,775</u> | <u>(508,289)</u> | <u>1,451,876</u> |
| Sewer | | | | |
| Nondepreciable: | | | | |
| Land | 1,175 | - | - | 1,175 |
| Construction in progress | 386,530 | 179,127 | (382,550) | 183,107 |
| Depreciable: | | | | |
| Buildings | 217,055 | - | - | 217,055 |
| Improvements | 791,647 | 389,037 | - | 1,180,684 |
| Machinery and equipment | 402,723 | 7,500 | - | 410,223 |
| Pumping plant | 118,131 | - | - | 118,131 |
| General plant | 198,002 | - | - | 198,002 |
| Treatment plant | <u>1,117,337</u> | <u>-</u> | <u>-</u> | <u>1,117,337</u> |
| Total | 3,232,600 | 575,664 | (382,550) | 3,425,714 |
| Accumulated depreciation | <u>(1,564,257)</u> | <u>(122,494)</u> | <u>-</u> | <u>(1,686,751)</u> |
| Total sewer activities | <u>1,668,343</u> | <u>453,170</u> | <u>(382,550)</u> | <u>1,738,963</u> |
| Total business-type activities | <u>\$ 2,878,733</u> | <u>\$ 1,202,945</u> | <u>\$ (890,839)</u> | <u>\$ 3,190,839</u> |

TOWN OF WEST YELLOWSTONE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2020

NOTE 3. CAPITAL ASSETS (CONTINUED)

In accordance with GASB 34, the Town has reported all capital assets, with the exception of pre-July 1, 2003 infrastructure in the Government-Wide Statement of Net Position. The assets are reported whereby accumulated depreciation and depreciation expense have been recorded. For the year ended June 30, 2020, depreciation expense on capital assets was charged to the governmental functions/programs as follows:

| Governmental Activities: | |
|---|-------------------|
| General government | \$ 70,999 |
| Public safety | 107,889 |
| Public works | 142,944 |
| Public health | 1,805 |
| Culture and recreation | 159,730 |
| Housing and community development | 19,352 |
| Total depreciation expense - governmental activities | <u>\$ 502,719</u> |
| Business-Type Activities: | |
| Water | \$ 93,993 |
| Sewer | 122,494 |
| Total depreciation expense - business-type activities | <u>\$ 216,487</u> |

NOTE 4. COMPENSATED ABSENCES

The Town's policy relating to compensated absences is described in Note 1. The long-term portion of the debt is expected to be paid in future years from future resources. In prior years, compensated absences have been liquidated primarily by the general fund and the proprietary funds. The total amounts outstanding at year-end are as follows:

| | Balance June 30, 2019 | Incurred | Satisfied | Balance June 30, 2020 | Due Within One Year |
|----------------------------|--------------------------|-------------------|--------------------|--------------------------|------------------------|
| Compensated absences | | | | | |
| Governmental activities | \$ 238,470 | \$ 122,044 | \$ (88,030) | \$ 272,484 | \$ 68,121 |
| Business-type activities | 16,796 | - | (8,760) | 8,036 | 2,009 |
| Total compensated absences | <u>\$ 255,266</u> | <u>\$ 122,044</u> | <u>\$ (96,790)</u> | <u>\$ 280,520</u> | <u>\$ 70,130</u> |

TOWN OF WEST YELLOWSTONE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2020

NOTE 5. LONG-TERM DEBT

The following is a summary of the Town's governmental activities long-term debt transactions for the year ended June 30, 2020:

| | Balance June 30, 2019 | Additions | Reductions | Balance June 30, 2020 | Due Within One Year |
|--|--------------------------|------------------|---------------------|--------------------------|------------------------|
| Direct placements | | | | | |
| General obligation bonds | \$ 812,379 | \$ - | \$ (243,985) | \$ 568,394 | \$ 98,268 |
| Revenue bonds | 1,881,629 | - | (249,124) | 1,632,505 | 251,839 |
| Direct borrowings | | | | | |
| Intercap loans and notes payable | <u>674,241</u> | <u>-</u> | <u>(84,255)</u> | <u>589,986</u> | <u>86,742</u> |
| Total bonds, intercap loans, and notes | 3,368,249 | - | (577,364) | 2,790,885 | 436,849 |
| Other post employment benefits liability | 392,994 | - | (47,071) | 345,923 | - |
| Net pension liability | <u>1,767,231</u> | <u>53,898</u> | <u>-</u> | <u>1,821,129</u> | <u>-</u> |
| Totals | <u>\$ 5,528,474</u> | <u>\$ 53,898</u> | <u>\$ (624,435)</u> | <u>\$ 4,957,937</u> | <u>\$ 436,849</u> |

In the event of default, the lender may exercise any one or more of the following rights and remedies: accelerate indebtedness, collect the collateral, apply the proceeds from the collection of the collateral, or exercise any or all of the rights and remedies of a secured creditor under the provisions of the Uniform Commercial Code.

a. Direct Placements: General Obligation Bonds

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the Town. General obligation bonds currently outstanding are as follows:

| | Due in One Year | Long-Term Portion | Total |
|--|--------------------|----------------------|-------------------|
| General Obligation Bonds serial maturities through 2027; 2.19% per annum | <u>\$ 98,268</u> | <u>\$ 470,126</u> | <u>\$ 568,394</u> |

TOWN OF WEST YELLOWSTONE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2020

NOTE 5. LONG-TERM DEBT (CONTINUED)

a. Direct Placements: General Obligation Bonds (Continued)

Annual debt service requirements to maturity for the general obligation bonds are as follows:

| Year Ending June 30, | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------|-------------------|------------------|-------------------|
| 2021 | \$ 98,268 | \$ 12,991 | \$ 111,259 |
| 2022 | 101,516 | 9,743 | 111,259 |
| 2023 | 103,751 | 7,508 | 111,259 |
| 2024 | 106,036 | 5,223 | 111,259 |
| 2025 | 108,371 | 2,888 | 111,259 |
| 2026-2030 | <u>50,452</u> | <u>553</u> | <u>51,005</u> |
| | <u>\$ 568,394</u> | <u>\$ 38,906</u> | <u>\$ 607,300</u> |

b. Direct Placements: Revenue Bonds

The Town issued Montana Board of Investments Revenue Bonds Series 2012 in the face amount of \$1,480,866 in 2012. These revenue bonds were issued to cover a portion of the cost of the Town Hall construction. The revenue bonds are secured by a pledge of resort tax revenues. Interest is stated at 1.25% through February 16, 2013, with variable interest rates after that. Variable semi-annual payments including principal and interest are required through December 2025.

The Town issued Resort Tax Revenue Bonds Series 2016 in the face amount of \$1,425,000 in 2016 in the form of a promissory note payable to First Security Bank. These revenue bonds were issued to cover the purchase of 80 acres of land in 2016. The revenue bonds are secured by a pledge of resort tax revenues. Interest was originally stated at 2.19%, then indexed based on the prime rate after that. Variable semi-annual payments including principal and interest are required through February 2026.

| | <u>Due in One Year</u> | <u>Long-Term Portion</u> | <u>Total</u> |
|---|----------------------------|------------------------------|---------------------|
| Resort Tax Revenue Bond, Series 2012, variable interest rate equal to the prevailing rate | \$ 116,890 | \$ 583,866 | \$ 700,756 |
| Resort Tax Revenue Bond, Series 2016, 2.19% per annum through August 2026, prime rate minus 1.31% (minimum of 2.19%) thereafter | <u>134,949</u> | <u>796,800</u> | <u>931,749</u> |
| Total revenue bonds | <u>\$ 251,839</u> | <u>\$ 1,380,666</u> | <u>\$ 1,632,505</u> |

TOWN OF WEST YELLOWSTONE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2020

NOTE 5. LONG-TERM DEBT (CONTINUED)

b. Direct Placements: Revenue Bonds (Continued)

Annual debt service requirements to maturity for the revenue bonds are as follows:

| Year Ending June 30, | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------|---------------------|-------------------|---------------------|
| 2021 | \$ 251,839 | \$ 36,668 | \$ 288,507 |
| 2022 | 254,827 | 30,742 | 285,569 |
| 2023 | 257,881 | 24,751 | 282,632 |
| 2024 | 261,003 | 18,693 | 279,696 |
| 2025 | 264,194 | 9,619 | 273,813 |
| 2026-2030 | <u>342,761</u> | <u>5,019</u> | <u>347,780</u> |
| | <u>\$ 1,632,505</u> | <u>\$ 125,492</u> | <u>\$ 1,757,997</u> |

c. Direct Borrowings: InterCap Loans and Notes Payable

The Town has a note payable for funds borrowed to purchase a JD 772 loader in 2016. The original note was for \$140,350 with interest of 1.55%. The note is fully collateralized by the related loader. Semi-annual payments of \$14,642 are required until February 2022.

The Town has a note payable to First Security Bank for funds borrowed for the Learning Center construction in 2018. The original note was for \$650,000, with interest initially stated at 3.75%, then indexed based on the prime rate after that. Variable semi-annual payments including principal and interest are required through February 2028.

| | <u>Due in One Year</u> | <u>Long-Term Portion</u> | <u>Total</u> |
|--|----------------------------|------------------------------|-------------------|
| Promissory Note with First Security Bank for JD 722 Loader, interest rate at 1.55% per annum | \$ 28,502 | \$ 29,029 | \$ 57,531 |
| Promissory Note with First Security Bank for Learning Center, variable prime rate of interest, with a minimum rate of of 3.75% | <u>58,240</u> | <u>474,215</u> | <u>532,455</u> |
| Total intercap loans and notes payable | <u>\$ 86,742</u> | <u>\$ 503,244</u> | <u>\$ 589,986</u> |

TOWN OF WEST YELLOWSTONE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2020

NOTE 5. LONG-TERM DEBT (CONTINUED)

c. Direct Borrowings: InterCap Loans and Notes Payable (Continued)

Annual debt service requirements to maturity for the intercap notes payable are as follows:

| Year Ending June 30, | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------|-------------------|-------------------|-------------------|
| 2021 | \$ 86,742 | \$ 20,214 | \$ 106,956 |
| 2022 | 89,400 | 17,556 | 106,956 |
| 2023 | 62,742 | 14,929 | 77,671 |
| 2024 | 65,121 | 12,551 | 77,672 |
| 2025 | 67,576 | 24,625 | 92,201 |
| 2026-2030 | <u>218,405</u> | <u>24,625</u> | <u>243,030</u> |
| | <u>\$ 589,986</u> | <u>\$ 114,500</u> | <u>\$ 704,486</u> |

NOTE 6. DEFERRED COMPENSATION PLAN

Until December 31, 2009, the Town offered its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan permitted them to defer a portion of their salary until future years. The duties of the trustee and administration of the plan were carried out by a third party. Participation in the plan was optional and participants elected how their salary deferrals are invested. Investment options included stock funds, bond funds, and money market accounts, including various risk alternatives. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts and all income attributable to those amounts are solely the property and rights of the participants and their beneficiaries.

TOWN OF WEST YELLOWSTONE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2020

NOTE 7. TAX SHELTERED ANNUITY

The Town has a tax sheltered annuity program established under Section 403(b) of the Internal Revenue Code covering all eligible employees. Section 403(b) was established by Congress to allow organizations that qualify for tax-exempt status under 501(c)(3) to establish retirement plans for employees. Section 501(c)(3) encompasses nonprofit and nonpolitical, religious, charitable and other public interest oriented organizations. The Town is not an eligible employer under 403(b). The Town has entered into an agreement with the Internal Revenue Service which will allow the Town to maintain the assets in the program without penalty. The Town will not be allowed to make future contributions to the program.

NOTE 8. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

In addition to providing a deferred compensation plan, the Town provides other post-employment benefits (OPEB) allowing its retired employees to continue their medical and dental care coverage through the Town's group health plan until death (Retiree Health Plan). As required by GASB Statement No. 75, *Accounting and Financial Reporting For Postemployment Benefits Other than Pensions*, the Town has calculated and included a postemployment benefit liability for the fiscal year ended June 30, 2020.

Plan Description and Benefits Provided

The Town maintains a multiple-employer defined benefit medical plan. The plan currently provides defined healthcare insurance benefits for eligible employees, retirees, spouses and dependents, and includes medical and dental benefits. The plan allows retirees to participate, as a group, at a rate that does not cover all of the related costs. This results in the reporting of an implied rate subsidy in the financial statements and footnotes. The Town's contract with Allegiance Benefits details the plan eligibility. Montana Municipal Interlocal Authority (MMIA) is the administrator of the benefit plan, which covers both active and retired members. In accordance with MCA 2-18-704, the Town's retirees may continue coverage for themselves and their covered eligible dependents if they are eligible for public employees' retirement by virtue of their employment with the Town. The Town's current labor contracts do not include any obligations for payments to retirees. The Town also allows terminated employees to continue their health care coverage for 18 months past the date of termination as required by the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA).

OPEB is recorded on an accrual basis for all enterprise funds. OPEB is recorded on a modified accrual basis for the governmental funds. Plan contributions are recognized in the period in which the contributions are made. Benefits and funds are recognized when due and payable in accordance with the terms of the plan.

TOWN OF WEST YELLOWSTONE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2020

NOTE 8. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Plan Description and Benefits Provided (Continued)

MMIA issues an annual financial report that can be obtained at:

Montana Municipal Interlocal Authority
P.O. Box 6669
Helena, MT 59604-6669

Funding Policy

The plan is funded by the Town and plan members receiving benefits. The Town contributes 75% of the monthly premium for employees working full-time, or 40 hours each week. Employees working a minimum of 20 hours or more each week, receive a prorated monthly premium contribution from the Town. Plan members contribute the remaining balance. Retirees are allowed to stay on the plan but must pay the entire cost of the health insurance premium.

Employees Covered by Benefit Terms

At June 30, 2020, the Town had no retired members receiving benefits and no retirees contributing towards the cost of the Town's annual premiums. There were 28 active employees covered by the benefit terms.

Total OPEB Liability (TOL)

The Town's annual total OPEB liability was \$377,645 for the fiscal year ended June 30, 2020 and was determined by using the alternative measurement method as of June 30, 2020. Changes in the TOL for the year ended June 30, 2020, are as follows:

| | | |
|--|----|--------------------------|
| Service cost | \$ | 146,048 |
| Interest | | 14,637 |
| Differences between expected and actual experience | | (188,706) |
| Changes of assumptions or other inputs | | (13,882) |
| Benefit payments | | <u>(12,932)</u> |
| Net change in OPEB liability | | (54,835) |
| Total OPEB liability, beginning | | <u>432,480</u> |
| Total OPEB liability, ending | | <u><u>\$ 377,645</u></u> |

TOWN OF WEST YELLOWSTONE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2020

NOTE 8. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Total OPEB Liability (TOL) (Continued)

There is sensitivity of the total OPEB liability to changes in the discount rate. 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 one percentage point lower (1.53%) or one percentage point higher (3.53%) follows:

| | 1% Decrease 1.53% | Discount Rate 2.53% | 1% Increase 3.53% |
|----------------------|----------------------|------------------------|----------------------|
| Total OPEB liability | \$ 410,205 | \$ 377,645 | \$ 345,493 |

There is also sensitivity of the TOL to changes in the healthcare cost trend rates. The total OPEB liability of the Town as well as what the Town's total OPEB liability would be if it we recalculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current healthcare cost trend rate follows:

| | 1% Decrease* | Healthcare Cost Trend Rates* | 1% Increase* |
|----------------------|--------------|---------------------------------|--------------|
| Total OPEB liability | \$ 324,442 | \$ 377,645 | \$ 443,750 |

* See the actuarial methods and assumptions disclosure below to determine the healthcare cost trend rates used to calculate the total OPEB liability.

For the year ended June 30, 2020, the Town recognized OPEB expense of \$149,027. At June 30, 2020, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------------|----------------------------------|
| Differences between expected and actual experience | \$ - | \$ 188,706 |
| Changes in assumptions or other inputs | - | 13,882 |
| Total | \$ - | \$ 202,588 |

TOWN OF WEST YELLOWSTONE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2020

NOTE 8. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Total OPEB Liability (TOL) (Continued)

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

| Year Ended June 30, | | |
|---------------------|----|---------------------|
| 2021 | \$ | (202,588) |
| 2022 | | - |
| 2023 | | - |
| 2024 | | - |
| 2025 | | - |
| Thereafter | | - |
| | | <u>\$ (202,588)</u> |

Actuarial Methods and Assumptions

Projection of benefits for financial reporting purposes are based on the substantive plan and include the type of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual fund limitations on the pattern of cost sharing between employer and plan members in the future. The methods used are designed to reduce the effects of short-term volatility in accrued liabilities and the value of assets, consistent with the long-term prospective of the calculations.

TOWN OF WEST YELLOWSTONE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2020

NOTE 8. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Actuarial Methods and Assumptions (Continued)

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

| | |
|--|-------|
| Average age of retirement based on historical data | 57.80 |
| Turnover rate | 0.00% |
| Discount rate | 2.53% |
| Average salary increase | 4.00% |

Healthcare cost trend rates:

| <u>From Year</u> | <u>To Year</u> | <u>Annual % Increase</u> | <u>From Year</u> | <u>To Year</u> | <u>Annual % Increase</u> |
|------------------|----------------|------------------------------|------------------|----------------|------------------------------|
| 2020 | 2021 | -6.95% | 2051 | 2055 | 4.80% |
| 2021 | 2022 | 6.50% | 2055 | 2060 | 4.70% |
| 2022 | 2023 | 6.00% | 2060 | 2067 | 4.60% |
| 2023 | 2024 | 5.90% | 2067 | 2068 | 4.50% |
| 2024 | 2025 | 5.70% | 2068 | 2069 | 4.40% |
| 2025 | 2026 | 5.60% | 2069 | 2070 | 4.30% |
| 2026 | 2027 | 5.50% | 2070 | 2072 | 4.20% |
| 2027 | 2028 | 5.30% | 2072 | 2073 | 4.10% |
| 2028 | 2045 | 5.20% | 2073 | 2075 | 4.00% |
| 2045 | 2046 | 5.10% | 2075 | 2076 | 3.90% |
| 2046 | 2048 | 5.00% | 2076 | + | 3.80% |
| 2048 | 2051 | 4.90% | | | |

TOWN OF WEST YELLOWSTONE
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2020

NOTE 9. CLASSIFICATION OF NET POSITION

In the Government-Wide Financial Statements, net position is classified in the following categories:

Net Investment in Capital Assets – This category groups all capital assets, including infrastructure in future years, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce this category.

Restricted – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provision or enabling legislation. Additionally, this category presents restrictions placed on the categories of Capital Projects, Debt Service, and specific projects and programs established by the Town Council.

Unrestricted – This category represents the net position of the Town which is not restricted for any project or other purpose.

In the Fund Financial Statements, commitments and assignments segregate portions of fund balance that are either not available or have been earmarked for specific purposes. The various commitments and assignments are established by actions of the Town Council and Management and can be increased, reduced or eliminated by similar actions.

NOTE 10. OPERATING LEASES

The Town leases facilities and equipment under noncancelable operating lease agreements. Total amounts paid under these lease agreements for the fiscal year ended June 30, 2020, were \$40,000. The future minimum lease payments for subsequent fiscal years under these leases are as follows:

| | | |
|------|----|----------------|
| 2021 | \$ | 40,600 |
| 2022 | | 41,209 |
| 2023 | | 41,827 |
| 2024 | | 42,454 |
| 2025 | | 43,090 |
| | | <u>209,180</u> |

TOWN OF WEST YELLOWSTONE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2020

NOTE 11. RISK MANAGEMENT

The Town faces a considerable number of risks of loss, including: a) damage to and loss of property and contents, b) employee torts, c) professional liability, i.e., errors and omissions, d) environmental damage, e) workers' compensation, i.e., employee injuries, and f) medical insurance costs of employees.

A variety of methods is used to provide insurance for these risks. Commercial policies, transferring all risks of loss, except for relatively small deductible amounts, are purchased for property and content damage, employee medical costs, and professional liabilities. The Town participates in two state-wide public risk pools operated by the Montana Municipal Interlocal Authority (MMIA), for workers' compensation and for tort liability coverage. And, given the lack of coverage available, the Town has no coverage for potential losses from environmental damages.

Coverage limits and the deductibles on the commercial policies have stayed relatively constant for the last several years. The premiums for property and content damage and professional liability are allocated between the Town's enterprise funds and the general fund based on total appropriations. The premiums for the non-contributory employee medical plan are similarly allocated between the enterprise funds and the group health insurance fund, a special revenue fund supported by a special purpose tax levy. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

In 1986, the Town joined together with other Montana cities to form the MMIA, which established a workers' compensation plan and a tort liability plan, both public entity risk pools currently operating as common risk management and insurance programs for the member governments. The liability limits are \$750,000 per person and \$1.5 million per accident, except if any one occurrence is not subject to government liability limitations in which case the limits are \$12.5 million per occurrence for any claim that is not subject to the limitations on government liability, as described in Montana Code Annotated Section 2-9-108 (the Statute) or any successor statute, either as matter of law, by operation of the Statute, or by a judicial determination that the Statute is inapplicable or is otherwise invalid, with a \$1,500 deductible per occurrence.

State tort law limits the Town's liability to \$1.5 million. The Town has no excess policy coverage. The Town pays an annual premium for its employee injury insurance coverage, which is allocated to the employer funds based on total budgeted salaries and wages and an annual premium for tort liability. This amount is allocated between the Town's enterprise funds and the liability insurance fund based on total appropriations. The agreements for formation of the pools provide that they will be self-sustaining through member premiums.

The Town also owns a policy with MMIA for loss or damage to property. This is an all risk policy, essentially all property owned by the Town being insured for 100% of replacement cost, subject to a \$1,000 deductible per occurrence. MMIA reinsures their property insurance with a national municipal pool, Public Entities' Property Insurance.

TOWN OF WEST YELLOWSTONE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2020

NOTE 12. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

A summary of interfund transfers reported in the fund financial statements for the year ended June 30, 2020 is as follows:

| | | Transfers From | | |
|--------------|-----------------------|--------------------|---------------------|---------------------|
| | | Governmental Funds | | |
| Transfers To | | General Fund | Resort Tax | Total |
| | | Governmental Funds | | |
| | General fund | \$ - | \$ 3,329,549 | \$ 3,329,549 |
| | Capital projects | - | 540,000 | 540,000 |
| | Nonmajor governmental | 132,000 | 216,049 | 348,049 |
| | Proprietary Funds | | | |
| | Water fund | - | 10,000 | 10,000 |
| | Total | <u>\$ 132,000</u> | <u>\$ 4,095,598</u> | <u>\$ 4,227,598</u> |

Transfers are used to (1) move revenues from the fund that statute or budgets require to collect them to the fund that statute or budgets require to expend them, (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in the other funds in accordance with budgetary authorizations, and (3) to transfer non-restricted interest income from a permanent fund to the general fund.

NOTE 13. INTERLOCAL AGREEMENTS

The Town entered into a revised 20-year Interlocal agreement with the Hebgen Basin Fire District (the District) for fire protection, fire suppression, fire prevention and emergency medical services within the boundary of the District on November 3, 2015. Under the agreement, the Town paid \$530,000 for the first year of the agreement (payable in twelve equal monthly payments). Beginning in fiscal year 2017 and continuing for the next nine years, the payment shall increase annually by an amount equal to 1-1/2% of the previous year’s payment. Built into the payment schedule shall be up and/or down “triggers” if the Town’s resort tax collections increase or decrease compared to the previous five years’ average.

The Town has also entered into multiple other Interlocal agreements for sewer use, 911 emergency dispatch services, airport use, library services, and other general memorandums of understanding and agreements.

TOWN OF WEST YELLOWSTONE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2020

NOTE 14. MAJOR PURPOSE PRESENTATION

The table presented below displays the Town's fund balances by major purpose as displayed on the governmental funds balance sheet. GASB Statement 54 requires the disclosure of the purpose for each major fund.

| | General Fund | Resort Tax | Capital Projects | Street Construction and Maintenance | Nonmajor Governmental Funds | Total Governmental Funds |
|------------------------|---------------------|-------------------|---------------------|---|-----------------------------------|--------------------------------|
| RESTRICTED | | | | | | |
| Public safety | \$ - | \$ - | \$ - | \$ - | \$ 143,577 | \$ 143,577 |
| Capital projects | - | - | - | - | 184,345 | 184,345 |
| Debt service | <u>29,285</u> | <u>215,798</u> | <u>77,672</u> | - | <u>216,317</u> | <u>539,072</u> |
| Total restricted | <u>29,285</u> | <u>215,798</u> | <u>77,672</u> | - | <u>544,239</u> | <u>866,994</u> |
| COMMITTED | | | | | | |
| General government | - | - | - | - | 407,881 | 407,881 |
| Public works | - | - | - | - | 116,686 | 116,686 |
| Culture and recreation | - | - | - | - | 51,117 | 51,117 |
| Capital projects | - | - | - | <u>1,128,794</u> | - | <u>1,128,794</u> |
| Total committed | - | - | - | <u>1,128,794</u> | <u>575,684</u> | <u>1,704,478</u> |
| ASSIGNED | | | | | | |
| Capital projects | - | - | <u>968,942</u> | - | <u>7,923</u> | <u>976,865</u> |
| Total assigned | - | - | <u>968,942</u> | - | <u>7,923</u> | <u>976,865</u> |
| UNASSIGNED | | | | | | |
| | <u>1,586,422</u> | - | - | - | - | <u>1,586,422</u> |
| Total fund balances | <u>\$ 1,615,707</u> | <u>\$ 215,798</u> | <u>\$ 1,046,614</u> | <u>\$ 1,128,794</u> | <u>\$ 1,127,846</u> | <u>\$ 5,134,759</u> |

TOWN OF WEST YELLOWSTONE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2020

NOTE 15. PENSION PLANS

Plan Description and Provisions

All Town of West Yellowstone full-time employees participate in one of two statewide, cost-sharing, multiple-employer, defined benefit retirement benefit plans administered by the Montana Public Employee Retirement Administration (MPERA). Contributions to the two plans are as required by State statute. The plans provide retirement, disability, and death benefits to plan members and beneficiaries. The authority to establish, amend, and provide cost of living adjustments for the plan is assigned to the state legislatures. The next two subsections will individually discuss in more detail the accounting of the Public Employees' Retirement System (PERS) and Municipal Police Officers' Retirement System (MPORS) retirement plans. Their reporting is affected by GASB Statements 68 and 71 and use a measurement date of June 30, 2019, and a reporting date of June 30, 2020. The following table presents the Town's (Employer) proportion of PERS and MPORS pension amounts.

| | <u>The Town's proportionate share associated with PERS</u> | <u>The Town's proportionate share associated with MPORS</u> | <u>The Town's total pension amounts</u> |
|--------------------------------|--|---|---|
| Net pension liability | \$ 1,528,165 | \$ 385,555 | \$ 1,913,720 |
| Deferred outflows of resources | 271,833 | 120,099 | 391,932 |
| Deferred inflows of resources | 178,952 | 2,449 | 181,401 |
| Pension expense | 174,535 | 84,283 | 258,818 |

Public Employees' Retirement System

Plan Description

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

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

TOWN OF WEST YELLOWSTONE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2020

NOTE 15. PENSION PLANS (CONTINUED)

Public Employees' Retirement System (Continued)

Summary of Benefits

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

Eligibility for Benefit

Service Retirement:

Hired prior to July 1, 2011

Age 60, 5 years of membership service;
Age 65, regardless of membership service; or
Any age, 30 years of membership service.

Hired on or after July 1, 2011

Age 65, 5 years of membership service;
Age 70, regardless of membership service.

Early Retirement, 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):

- 1) 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. A refund of member's contributions plus return interest (currently 2.02% effective July 1, 2018).
 - b. No service credit for second employment;
 - c. Start the same benefit amount the month following termination; and
 - d. Guaranteed Annual Benefit Adjustment (GABA) starts again in the January immediately following the second retirement.
- 2) Retire before January 1, 2016 and accumulate at least 2 years of additional service credit:
 - a. A recalculated retirement benefit based on provisions in effect after the initial retirement; and
 - b. GABA starts on the recalculated benefit in the January after receiving the new benefit for 12 months.

TOWN OF WEST YELLOWSTONE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2020

NOTE 15. PENSION PLANS (CONTINUED)

Public Employees' Retirement System (Continued)

Eligibility for Benefit (Continued)

Second retirement (continued):

- 3) Retire on or after January 1, 2016 and accumulate 5 or more years of service credit:
 - a. The same retirement as prior to the return to service;
 - b. A second retirement benefit as prior to the second period of service based on laws in effect upon the rehire date; and
 - c. GABA starts on both benefits in the January after receiving the original and the new benefit for 12 months.

Member's Highest Average Compensation (HAC)

Hired prior to July 1, 2011 - highest average compensation during any consecutive 36 months;

Hired on or after July 1, 2011 – highest average compensation during any consecutive 60 months.

Compensation Cap

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

Monthly Benefit Formula

Members hired prior to July 1, 2011:

- Less than 25 years of membership service: 1.785% of HAC per year of service credit;
- 25 years of membership service or more: 2% of HAC per year of service credit.

Members hired on or after July 1, 2011:

- Less than 10 years of membership service: 1.5% of HAC per year of service credit;
- 10 years or more, but less than 30 years of membership service: 1.785% of HAC per year of service credit;
- 30 years or more of membership service: 2% of HAC per year of service credit.

TOWN OF WEST YELLOWSTONE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2020

NOTE 15. PENSION PLANS (CONTINUED)

Public Employees' Retirement System (Continued)

Guaranteed Annual Benefit Adjustment (GABA)

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

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 Montana Legislature has the authority to establish and amend contribution rates.

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

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

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

TOWN OF WEST YELLOWSTONE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2020

NOTE 15. PENSION PLANS (CONTINUED)

Public Employees' Retirement System (Continued)

Overview of Contributions (Continued)

| Fiscal Year | Member | | State & Universities | Local Government | | School Districts | |
|-------------|---------------------|---------------------|-------------------------|------------------|----------|------------------|--------|
| | Employer | | Employer | State | Employer | State | |
| | Hired < 07/01/11 | Hired > 07/01/11 | | | | | |
| 2020 | 7.90% | 7.90% | 8.770% | 8.670% | 0.100% | 8.400% | 0.370% |
| 2019 | 7.90% | 7.90% | 8.670% | 8.570% | 0.100% | 8.300% | 0.370% |
| 2018 | 7.90% | 7.90% | 8.570% | 8.470% | 0.100% | 8.200% | 0.370% |
| 2017 | 7.90% | 7.90% | 8.470% | 8.370% | 0.100% | 8.100% | 0.370% |
| 2016 | 7.90% | 7.90% | 8.370% | 8.270% | 0.100% | 8.000% | 0.370% |
| 2015 | 7.90% | 7.90% | 8.270% | 8.170% | 0.100% | 7.900% | 0.370% |
| 2014 | 7.90% | 7.90% | 8.170% | 8.070% | 0.100% | 7.800% | 0.370% |
| 2012-2013 | 6.90% | 7.90% | 7.170% | 7.070% | 0.100% | 6.800% | 0.370% |
| 2010-2011 | 6.90% | | 7.170% | 7.070% | 0.100% | 6.800% | 0.370% |
| 2008-2009 | 6.90% | | 7.035% | 6.935% | 0.100% | 6.800% | 0.235% |
| 2000-2007 | 6.90% | | 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 0.27% added in 2007 and 2009, will terminate on January 1 following an actuary valuation that shows the amortization period of the PERS-DBRP has dropped below 25 years and remains below the 25 years following the reduction of both the additional employer and member contribution rates.

TOWN OF WEST YELLOWSTONE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2020

NOTE 15. PENSION PLANS (CONTINUED)

Public Employees' Retirement System (Continued)

Overview of Contributions (Continued)

- b. Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.
- c. The portion of employer contributions allocated to the Plan Choice Rate (PCR) are included in the employers reporting. The PCR was paid off effective March 2016 and the contributions previously directed to the PCR are now directed to member accounts.

3. Non-Employer Contributions

a. Special Funding

- i. The State contributes 0.1% of members' compensation on behalf of local government entities.
- ii. The State contributes 0.37% of members' compensation on behalf of school district entities.
- iii. The State contributes a Statutory Appropriation from the General Fund of \$33,615,000.

Stand-Alone Statements

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

Actuarial Assumptions

The total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions:

- | | |
|--|------------|
| • Investment Return (net of admin expense): | 7.65% |
| • Admin Expense as a % of Payroll: | 0.26% |
| • General Wage Growth (includes inflation at 2.75%): | 3.50% |
| • Merit Increases: | 0% to 6.3% |

TOWN OF WEST YELLOWSTONE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2020

NOTE 15. PENSION PLANS (CONTINUED)

Public Employees' Retirement System (Continued)

Actuarial Assumptions (Continued)

- Postretirement Benefit Increases:
 - i. **Guaranteed Annual Benefit Adjustment (GABA)**

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

 - 3.0% for members hired prior to July 1, 2007
 - 1.5% for members hired between July 1, 2007 and June 30, 2013
 - Members hired on or after July 1, 2013
 - 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, terminated vested members, 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 Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections.

Discount Rate

The discount rate used to measure the Total Pension Liability (TPL) was 7.65%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities would be made based on the Board's funding policy, which established the contractually required rates under the Montana Code Annotated. The state contributed 0.10% of the salaries paid by local governments and 0.37% paid by school districts. In addition, the state contributed 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 2122. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL. A municipal bond rate was not incorporated in the discount rate.

TOWN OF WEST YELLOWSTONE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2020

NOTE 15. PENSION PLANS (CONTINUED)

Public Employees' Retirement System (Continued)

Target Allocations

The most recent experience study, performed for the period covering fiscal years 2011 through 2016, is outlined in a report dated May 5, 2017 and can be located on the MPERA website. The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the Plan. Several factors are considered in evaluating the long-term rate of return assumption including historical rates of return, rate of return assumptions adopted by similar public-sector systems, and by using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2020, are summarized in the table below.

| Asset Class | Target Asset Allocation | Long-Term Expected Real Rate of Return Arithmetic Basis |
|--------------------|--------------------------------|--|
| Cash Equivalents | 3.0% | 4.1% |
| Domestic Equity | 36.0% | 6.1% |
| Foreign Equity | 18.0% | 7.0% |
| Fixed Income | 23.0% | 2.2% |
| Private Equity | 12.0% | 10.5% |
| Real Estate | 8.0% | 5.7% |
| Total | 100.0% | |

Sensitivity Analysis

The sensitivity of the Net Pension Liability (NPL) to the discount rate is shown in the table below. A small change in the discount rate can create a significant change in the liability. The NPL was calculated using the discount rate of 7.65%, as well as what the NPL would be if it were calculated using a discount rate 1.00% lower or 1.00% higher than the current rate.

TOWN OF WEST YELLOWSTONE
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2020

NOTE 15. PENSION PLANS (CONTINUED)

Public Employees' Retirement System (Continued)

Sensitivity Analysis (Continued)

| | 1.0% Decrease (6.65%) | Current Discount Rate | 1.0% Increase (8.65%) |
|-----------------------|--------------------------|--------------------------|--------------------------|
| Net Pension Liability | <u>\$ 2,195,538</u> | <u>\$ 1,528,165</u> | <u>\$ 967,323</u> |

Summary of Significant Accounting Policies

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

PERS Disclosure for the Defined Contribution Plan

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

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

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

TOWN OF WEST YELLOWSTONE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2020

NOTE 15. PENSION PLANS (CONTINUED)

Public Employees' Retirement System (Continued)

PERS Disclosure for the Defined Contribution Plan (Continued)

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

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

Pension Amount Totals

Employers are provided guidance in GASB Statement 68, paragraph 74, that pension amounts must be combined as a total or aggregate for reporting. This is true when employees are provided benefits through more than one pension, whether cost-sharing, single-employer, or agent plans.

Net Pension Liability

The TPL minus the Fiduciary Net Position equals the NPL. As GASB Statement 68 allows, a measurement date of up to 12 months before the employer's fiscal year-end can be utilized to determine the Plan's TPL. The basis for the TPL as of June 30, 2020, was determined by taking the results of the June 30, 2018, actuarial valuation and applying standard roll forward procedures. The roll forward procedure uses a calculation that adds the annual normal cost (also called the service cost), subtracts the actual benefit payments and refunds for the plan year, and then applies the expected investment rate of return for the year. The update procedures are in conformity with Actuarial Standards of Practice issued by the Actuarial Standards Board.

The proportionate shares of the employer's and the state of Montana's NPL for June 30, 2020 and 2019 are displayed below. The employer's proportionate share equals the ratio of the employer's contributions to the sum of all employer and non-employer contributions during the measurement period. The state's proportionate share for a particular employer equals the ratio of the contributions for a particular employer to the total state contributions paid. The employer recorded a liability of \$1,528,165 and the employer's proportionate share was 0.0731 percent.

TOWN OF WEST YELLOWSTONE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2020

NOTE 15. PENSION PLANS (CONTINUED)

Public Employees' Retirement System (Continued)

Net Pension Liability (Continued)

| | Net Pension Liability as of 6/30/2020 | Net Pension Liability as of 6/30/2019 | Percent of Collective NPL as of 6/30/2020 | Percent of Collective NPL as of 6/30/2019 | Change in Percent of Collective NPL |
|--|---|---|--|--|--|
| Town's proportionate share | \$ 1,528,165 | \$ 1,503,086 | 0.0731% | 0.0720% | 0.0011% |
| State of Montana proportionate share associated with employer | 497,132 | 502,783 | 0.0238% | 0.0241% | -0.0003% |
| Total | <u>\$ 2,025,297</u> | <u>\$ 2,005,869</u> | <u>0.0969%</u> | <u>0.0961%</u> | <u>0.0008%</u> |

Changes in actuarial assumptions and methods:

- There were no changes in assumptions or other inputs that affected the measurement of the TPL.

Changes in benefit terms:

- There were no changes in benefit terms since the previous measurement date.

Changes in proportionate share:

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

Pension Expense

At June 30, 2020, the employer recognized \$174,535 for its proportionate share of the Plan's pension expense and recognized grant revenue of \$1,236 for the state of Montana proportionate share of the pension expense associated with the employer. Additionally, the employer recognized grant revenue of \$32,514 from the State Statutory Appropriation from the General Fund.

TOWN OF WEST YELLOWSTONE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2020

NOTE 15. PENSION PLANS (CONTINUED)

Public Employees' Retirement System (Continued)

Pension Expense (Continued)

| | Pension Expense as of 6/30/2020 |
|--|---------------------------------------|
| Town's proportionate share | \$ 174,535 |
| State of Montana proportionate share associated with employer | 1,236 |
| State of Montana State Appropriation associated with employer | <u>32,514</u> |
| Total | <u><u>\$ 208,285</u></u> |

Recognition of Deferred Inflows and Outflows

At June 30, 2020, 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 |
|---|--------------------------------------|----------------------------------|
| Expected vs. actual experience | \$ 72,462 | \$ 71,906 |
| Projected vs. actual investment earnings | 18,529 | - |
| Changes in assumptions | 64,874 | - |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | - | 107,046 |
| Employer contributions subsequent to the measurement date | <u>115,968</u> | <u>-</u> |
| Total | <u><u>\$ 271,833</u></u> | <u><u>\$ 178,952</u></u> |

TOWN OF WEST YELLOWSTONE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2020

NOTE 15. PENSION PLANS (CONTINUED)

Public Employees' Retirement System (Continued)

Recognition of Deferred Inflows and Outflows (Continued)

\$115,968 reported as deferred outflows of resources related to pensions resulting from the Town's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in employer's pension expense as follows:

| For the Measurement Year Ended June 30: | Recognition of Deferred Outflows and Deferred Inflows in future years as an increase or (decrease) to Pension Expense |
|--|--|
| 2021 | \$ 50,240 |
| 2022 | (96,849) |
| 2023 | 6,893 |
| 2024 | 16,629 |
| Thereafter | - |
| | <u>\$ (23,087)</u> |

Municipal Police Officers' Retirement System

Plan Description

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

TOWN OF WEST YELLOWSTONE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2020

NOTE 15. PENSION PLANS (CONTINUED)

Municipal Police Officers' Retirement System (Continued)

Plan Description (Continued)

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

Summary of Benefits

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

Eligibility for Benefit and Benefit Formulas

Service Retirement and Monthly Benefit Formula:

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

Second Retirement:

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

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

TOWN OF WEST YELLOWSTONE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2020

NOTE 15. PENSION PLANS (CONTINUED)

Municipal Police Officers' Retirement System (Continued)

Eligibility for Benefit and Benefit Formulas (Continued)

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

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

Member's Final Average Compensation (FAC)

Hired prior to July 1, 1977 - average monthly compensation of final year of service;

Hired on or after July 1, 1977 - final average compensation (FAC) for last consecutive 36 months.

TOWN OF WEST YELLOWSTONE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2020

NOTE 15. PENSION PLANS (CONTINUED)

Municipal Police Officers' Retirement System (Continued)

Eligibility for Benefit and Benefit Formulas (Continued)

Compensation Cap

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

Guaranteed Annual Benefit Adjustment (GABA)

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

Minimum Benefit Adjustment (non-GABA)

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

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 Montana Legislature has the authority to establish and amend contribution rates. Member and employer contribution rates are shown in the table below.

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

TOWN OF WEST YELLOWSTONE
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2020

NOTE 15. PENSION PLANS (CONTINUED)

Municipal Police Officers' Retirement System (Continued)

Overview of Contributions (Continued)

| Fiscal Year | Member | | | | Employer | State |
|-------------|------------|------------|------------|--------------------|----------|---------|
| | Hired | Hired | Hired | Hired | | |
| | < 07/01/75 | > 06/30/75 | > 06/30/79 | > 06/30/79 GABA | | |
| 2000-2020 | 5.80% | 7.00% | 8.50% | 9.00% | 14.410% | 29.370% |
| 1998-1999 | 7.80% | 9.00% | 10.50% | 11.00% | 14.410% | 29.370% |
| 1997 | 7.80% | 9.00% | 10.50% | | 14.360% | 29.370% |

Stand-Alone Statements

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

Actuarial Assumptions

The total pension liability in the June 30, 2019 actuarial valuation was determined used the following actuarial assumptions:

- Investment Return (net of admin expense): 7.65%
- Admin Expense as a % of Payroll: 0.23%
- General Wage Growth (includes inflation at 2.75%): 3.50%
- Merit Increases: 0% to 6.60%
- Postretirement Benefit Increases:

i. **Guaranteed Annual Benefit Adjustment (GABA)**

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

ii. **Minimum benefit adjustment (non-GABA)**

If hired before July 1, 1997 and member did not elect GABA, the minimum benefit adjustment provided is equal to 50% of the current base compensation of a newly confirmed police officer of the employer that last employed the member as a police officer.

TOWN OF WEST YELLOWSTONE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2020

NOTE 15. PENSION PLANS (CONTINUED)

Municipal Police Officers' Retirement System (Continued)

Actuarial Assumptions (Continued)

- Mortality assumptions among contributing members, terminated vested members, 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 Retirees are based on RP 2000 Combined Mortality Tables.

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 the Montana Code Annotated. The state contributed 29.37% of the salaries paid by employers. Based on those assumptions, the Plan's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2133. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL. A municipal bond rate was not incorporated in the discount rate.

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 experience study, performed for the period of July 1, 2010 through June 30, 2016, was outlined in a report dated May 2017 and can be located on the MPERA website. The long-term expected 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 allocation as of June 30, 2020, are summarized below.

TOWN OF WEST YELLOWSTONE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2020

NOTE 15. PENSION PLANS (CONTINUED)

Municipal Police Officers' Retirement System (Continued)

Target Allocations (Continued)

| <u>Asset Class</u> | <u>Target Asset Allocation</u> | <u>Long-Term Expected Real Rate of Return Arithmetic Basis</u> |
|--------------------|--------------------------------|--|
| Cash Equivalents | 3.00% | 4.09% |
| Domestic Equity | 36.00% | 6.05% |
| Foreign Equity | 18.00% | 7.01% |
| Fixed Income | 23.00% | 2.17% |
| Private Equity | 12.00% | 10.53% |
| Real Estate | 8.00% | 5.65% |
| Total | <u>100.00%</u> | |

Sensitivity Analysis

The sensitivity of the NPL to the discount rate is shown in the table below. A small change in the discount rate can create a significant change the liability. The NPL was calculated using the discount rate of 7.65%, as well as what the NPL would be if it were calculated using a discount rate 1.00% lower or 1.00% higher than the current rate.

| | <u>1.0% Decrease (6.65%)</u> | <u>Current Discount Rate</u> | <u>1.0% Increase (8.65%)</u> |
|-----------------------|----------------------------------|----------------------------------|----------------------------------|
| Net Pension Liability | <u>\$ 566,831</u> | <u>\$ 385,555</u> | <u>\$ 240,446</u> |

TOWN OF WEST YELLOWSTONE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2020

NOTE 15. PENSION PLANS (CONTINUED)

Municipal Police Officers' Retirement System (Continued)

Summary of Significant Accounting Policies

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

Net Pension Liability

The TPL minus the Fiduciary Net Position equals the NPL. As GASB Statement 68 allows, a measurement date of up to 12 months before the employer's fiscal year-end can be utilized to determine the Plan's TPL. The basis for the TPL as of June 30, 2020, was determined by taking the results of the June 30, 2018, actuarial valuation and applying standard roll forward procedures. The roll forward procedure uses a calculation that adds the annual normal cost (also called the service cost), subtracts the actual benefit payments and refunds for the plan year, and then applies the expected investment rate of return for the year. The update procedures are in conformity with Actuarial Standards of Practice issued by the Actuarial Standards Board.

The proportionate shares of the employer's and the state of Montana's NPL for June 30, 2020 and 2019 are displayed below. The employer's proportionate share equals the ratio of the employer's contributions to the sum of all employer and non-employer contributions during the measurement period. Due to the existence of the special funding situation, the state is required to report a proportionate share of a local government's collective NPL that is associated with the non-state employer. The state's proportionate share for a particular employer equals the ratio of the contributions for a particular employer to the total state contributions paid. The employer recorded a liability of \$385,555 and the employer's proportionate share was 0.1937 percent.

TOWN OF WEST YELLOWSTONE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2020

NOTE 15. PENSION PLANS (CONTINUED)

Municipal Police Officers' Retirement System (Continued)

Net Pension Liability (Continued)

| | Net Pension Liability as of 6/30/2020 | Net Pension Liability as of 6/30/2019 | Percent of Collective NPL as of 6/30/2020 | Percent of Collective NPL as of 6/30/2019 | Change in Percent of Collective NPL |
|--|---|---|--|--|--|
| Town's proportionate share | \$ 385,555 | \$ 323,454 | 0.1937% | 0.1889% | 0.0048% |
| State of Montana proportionate share associated with employer | 785,124 | 661,207 | 0.3944% | 0.3861% | 0.0083% |
| Total | <u>\$ 1,170,679</u> | <u>\$ 984,661</u> | <u>0.5881%</u> | <u>0.5750%</u> | <u>0.0131%</u> |

Changes in actuarial assumptions and methods:

There were no changes in assumptions or other inputs that affected the measurement of the TPL.

Changes in benefit terms:

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

Changes in proportionate share:

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

Pension Expense

At June 30, 2020, the employer recognized its proportionate share of the Plan's pension expense of \$84,283. The employer also recognized grant revenue of \$94,051 for the support provided by the state of Montana for the proportionate share of the pension expense that is associated with the employer.

TOWN OF WEST YELLOWSTONE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2020

NOTE 15. PENSION PLANS (CONTINUED)

Municipal Police Officers' Retirement System (Continued)

Pension Expense (Continued)

| | Pension Expense as of 6/30/2020 |
|--|---------------------------------------|
| Town's proportionate share | \$ 84,283 |
| State of Montana proportionate share associated with employer | 94,051 |
| Total | \$ 178,334 |

Recognition of Deferred Inflows and Outflows

At June 30, 2020, the employer reported its proportionate share of the Plan's deferred outflows of resources and deferred inflows of resources from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------------|-------------------------------------|
| Expected vs. actual experience | \$ 34,219 | \$ 2,449 |
| Projected vs. actual investment earnings | 7,167 | - |
| Changes in assumptions | 7,754 | - |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 22,787 | - |
| Employer contributions subsequent to the Measurement date | 48,172 | - |
| Total | \$ 120,099 | \$ 2,449 |

TOWN OF WEST YELLOWSTONE
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2020

NOTE 15. PENSION PLANS (CONTINUED)

Municipal Police Officers' Retirement System (Continued)

Recognition of Deferred Inflows and Outflows (Continued)

\$48,172 reported as deferred outflows of resources related to pensions resulting from the Town's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| For the Measurement Year Ended June 30: | Recognition of Deferred Outflows and Deferred Inflows in future years as an increase or (decrease) to Pension Expense |
|--|---|
| 2021 | \$ 35,632 |
| 2022 | 14,878 |
| 2023 | 15,355 |
| 2024 | 3,613 |
| Thereafter | - |
| | <u>\$ 69,478</u> |

NOTE 16. COMMITMENTS

In fiscal year 2020, the Town entered into agreements with a vendor for engineering services for the wastewater treatment plant. Anticipated expenditures to be incurred in fiscal year 2021 and 2022 amount to approximately \$2,126,572.

TOWN OF WEST YELLOWSTONE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2020

NOTE 17. CONTINGENT LIABILITIES

The Town is occasionally named as the defendant in litigated claims against the Town which arise out of the normal course of operations by the Town. Management of the Town intends to vigorously defend each claim and believes no material losses will be incurred on such claims. Although the outcome of these lawsuits is not presently determinable, in the opinion of the Town’s management and counsel the resolution of these matters will not have a material adverse effect on the financial condition of the Town.

NOTE 18. PRIOR PERIOD RESTATEMENT

For the year ended June 30, 2020, the Town determined that payroll allocations used in the recording of the GASB 68 adjustments were incorrect. Accordingly, the beginning net positions for the governmental activities and business-type activities have been restated to reflect the correction of the payroll allocation used in the pension-related adjustments. The following is the effect of the prior period restatement on the statement of net position and statement of revenues, expenses, and changes in net position – proprietary funds:

| | Governmental Activities | Business-Type Activities | Total |
|--|----------------------------|-----------------------------|----------------------|
| Beginning net position, as originally reported | \$ 10,233,198 | \$ 4,840,264 | \$ 15,073,462 |
| Restatement of beginning net position for correction of FY19 GASB 68 payroll allocations | 31,566 | (31,566) | - |
| Restatement of beginning net position for correction in recognition of 2019 property tax revenues | 65,543 | - | 65,543 |
| Beginning net position, as restated | <u>\$ 10,330,307</u> | <u>\$ 4,808,698</u> | <u>\$ 15,139,005</u> |

TOWN OF WEST YELLOWSTONE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2020

NOTE 18. PRIOR PERIOD RESTATEMENT (CONTINUED)

In addition to the restatements above, the Town reported an additional restatement to 2019 capital outlay in the governmental fund financial statements. The Town did not properly record capital outlay purchases and the related accounts payable that were incurred during fiscal year 2019. Accordingly, the beginning fund balance has been restated to remove the amount of capital outlay related to 2019 transactions. This restatement had no effect on the Statement of Net Position, as the restatement adjusted capital assets and accounts payable. The following is the effect of the prior period restatement on the balance sheet – governmental funds:

| | General Fund | Other Governmental Funds | Total |
|--|-----------------|--------------------------------|--------------|
| Beginning fund balance, as originally reported | \$ 1,609,830 | \$ 815,741 | \$ 2,425,571 |
| Restatement of fund balance for capital outlay payable in FY19 | 45,441 | 1,223 | 46,664 |
| Beginning fund balance, as restated | \$ 1,655,271 | \$ 816,964 | \$ 2,472,235 |

NOTE 19. SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 6, 2021, the date on which the financial statements are available to be issued.

On July 30, 2020, the Town obtained a line of credit amounting to \$2,500,000 for the construction of the water treatment and sewer plant. The line of credit has a fixed rate at 2.55% per annum with a maturity date of September 1, 2023. Through April 6, 2021, there has been \$511,275 drawn on the line of credit.

Subsequent to year-end, the Town reached an agreement on following a confidential matter with a former employee of the Town. The Town is to issue a settlement payment to the Plaintiff. This amount will be covered in its entirety by MMIA.

**C. Required Supplementary Information
Other than Management's Discussion and Analysis**

TOWN OF WEST YELLOWSTONE
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY, RELATED RATIOS, AND NOTES
For the Year Ended June 30, 2020

GASB Statement No. 75 was implemented beginning in fiscal year 2018. This Statement requires supplementary information for 10-year schedules containing service cost, changes in benefit terms, if any, differences between expected and actual experience, changes of actuarial assumptions or other inputs, and benefit payments, as applicable to the Local Government's OPEB plan and method of calculating the OPEB liability.

Assets are not accumulated in a trust that meets the criteria in GASB Statement No. 75, paragraph 4 to pay related benefits. The total OPEB liability and ratio of OPEB liability as a percentage of covered-employee payroll as of June 30, 2020 is determined as follows:

| | 2020 | 2019 | 2018 |
|--|------------------|------------------|------------------|
| Total OPEB liability | | | |
| Service cost | \$ 146,048 | \$ 76,571 | \$ 77,132 |
| Interest* | 14,637 | 15,176 | 13,741 |
| Differences between expected and actual experience | (188,706) | - | 9,219 |
| Changes of assumptions or other inputs | (13,882) | (133) | (7,813) |
| Benefit payments | (12,932) | (16,173) | (13,175) |
| Net change in total OPEB Liability | (54,835) | 75,441 | 79,104 |
| Total OPEB Liability--beginning | 432,480 | 357,039 | 277,935 |
| Total OPEB Liability--ending | \$ 377,645 | \$ 432,480 | \$ 357,039 |
| Covered-employee payroll | \$ 1,555,553 | \$ 1,415,906 | \$ 1,361,448 |
| Total OPEB liability as a percentage of covered-employee payroll | 24.28% | 30.54% | 26.22% |

Notes to Schedule:

* Interest includes beginning of year total OPEB liability and service cost.

Changes of benefit terms: There were no changes in benefit terms for the fiscal year ended June 30, 2020.

Changes of assumptions: Revised discount rate per Bond Buyer's 20-year municipal bond rate as of June 30, 2020.

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

TOWN OF WEST YELLOWSTONE
PERS - SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
AND SCHEDULE OF CONTRIBUTIONS
For the Year Ended June 30, 2020

Schedule of Proportionate Share of the Net Pension Liability

| As of measurement date | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Employer's proportion of the net pension liability | 0.0731% | 0.0720% | 0.0902% | 0.0824% | 0.0906% | 0.0950% |
| Employer's net pension liability | \$ 1,528,165 | \$ 1,503,086 | \$ 1,757,348 | \$ 1,403,348 | \$ 1,265,875 | \$ 1,183,464 |
| State's net pension liability | <u>497,132</u> | <u>502,783</u> | <u>22,975</u> | <u>17,147</u> | <u>15,549</u> | <u>14,452</u> |
| Total | <u>\$ 2,025,297</u> | <u>\$ 2,005,869</u> | <u>\$ 1,780,323</u> | <u>\$ 1,420,495</u> | <u>\$ 1,281,424</u> | <u>\$ 1,197,916</u> |
| Employer's covered payroll | <u>\$ 1,206,259</u> | <u>\$ 1,184,351</u> | <u>\$ 1,119,323</u> | <u>\$ 986,860</u> | <u>\$ 1,056,822</u> | <u>\$ 1,078,174</u> |
| Employer's proportionate share of the net pension liability as a percentage of its covered payroll | 126.69% | 126.91% | 157.00% | 142.20% | 119.78% | 111.22% |
| Plan fiduciary net position as a percentage of the total pension liability | 73.85% | 73.47% | 73.75% | 74.71% | 78.40% | 79.87% |

Schedule of Contributions

| As of reporting date | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---------------------|---------------------|---------------------|---------------------|-------------------|---------------------|
| Contractually required contributions | \$ 115,968 | \$ 103,746 | \$ 100,315 | \$ 93,688 | \$ 84,487 | \$ 87,086 |
| Plan choice rate required contributions | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>2,305</u> | <u>3,266</u> |
| Contributions in relation to the contractually required contributions | <u>\$ 115,968</u> | <u>\$ 103,746</u> | <u>\$ 100,315</u> | <u>\$ 93,688</u> | <u>\$ 86,792</u> | <u>\$ 90,352</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Employer's covered payroll | <u>\$ 1,337,575</u> | <u>\$ 1,206,259</u> | <u>\$ 1,184,351</u> | <u>\$ 1,119,323</u> | <u>\$ 986,860</u> | <u>\$ 1,056,822</u> |
| Contributions of covered payroll | 8.670% | 8.600% | 8.470% | 8.370% | 8.597% | 8.550% |

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

TOWN OF WEST YELLOWSTONE
MPORS - SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
AND SCHEDULE OF CONTRIBUTIONS
For the Year Ended June 30, 2020

Schedule of Proportionate Share of the Net Pension Liability

| As of measurement date | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|--|---------------------|-------------------|-------------------|-------------------|-------------------|---------------------|
| Employer's proportion of the net pension liability | 0.1937% | 0.1889% | 0.1789% | 0.1600% | 0.1387% | 0.2163% |
| Employer's net pension liability | \$ 385,555 | \$ 323,454 | \$ 318,253 | \$ 288,008 | \$ 229,450 | \$ 339,813 |
| State's net pension liability | <u>785,124</u> | <u>661,207</u> | <u>648,656</u> | <u>571,708</u> | <u>464,888</u> | <u>686,463</u> |
| Total | <u>\$ 1,170,679</u> | <u>\$ 984,661</u> | <u>\$ 966,909</u> | <u>\$ 859,716</u> | <u>\$ 694,338</u> | <u>\$ 1,026,276</u> |
| Employer's covered payroll | <u>\$ 319,245</u> | <u>\$ 298,119</u> | <u>\$ 265,610</u> | <u>\$ 225,856</u> | <u>\$ 191,973</u> | <u>\$ 290,156</u> |
| Employer's proportionate share of the net pension liability as a percentage of its covered payroll | 120.77% | 108.50% | 119.82% | 127.52% | 119.52% | 117.11% |
| Plan fiduciary net position as a percentage of the total pension liability | 68.84% | 70.95% | 68.34% | 65.62% | 66.90% | 67.01% |

Schedule of Contributions

| As of reporting date | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Contractually required contributions | <u>\$ 48,172</u> | <u>\$ 46,003</u> | <u>\$ 44,589</u> | <u>\$ 38,547</u> | <u>\$ 33,085</u> | <u>\$ 27,828</u> |
| Contributions in relation to the contractually required contributions | <u>\$ 48,172</u> | <u>\$ 46,003</u> | <u>\$ 44,589</u> | <u>\$ 38,547</u> | <u>\$ 33,085</u> | <u>\$ 27,828</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Employer's covered payroll | <u>\$ 334,291</u> | <u>\$ 319,245</u> | <u>\$ 298,119</u> | <u>\$ 265,610</u> | <u>\$ 225,856</u> | <u>\$ 191,973</u> |
| Contributions of covered payroll | 14.400% | 14.470% | 14.960% | 14.510% | 14.650% | 14.500% |

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

TOWN OF WEST YELLOWSTONE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2020

PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS)

Changes of Benefit Terms

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

2017 Changes:

Working Retiree Limitations

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.

TOWN OF WEST YELLOWSTONE
 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
 For the Year Ended June 30, 2020

PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS) (CONTINUED)

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 increases | 0% to 8.47% |
| Asset valuation method | 4-year smoothed market |
| Actuarial cost method | Entry age normal |
| Amortization method | Level percentage of payroll, open |
| Remaining amortization period | 30 years |
| Mortality (healthy members) | For Males and Females: RP 2000 Combined Employee and Annuitant Mortality Table projected to 2020 using Scale BB, males set back 1 year |
| Mortality (disabled members) | For Males and Females: RP 2000 Combined Mortality Table, with no projections |

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.

TOWN OF WEST YELLOWSTONE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
For the Year Ended June 30, 2020

MUNICIPAL POLICE OFFICERS' RETIREMENT SYSTEM (MPORS)

Changes of Benefit Terms

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

2017 Changes:

Working Retiree Limitations

Applies to retirement system members who return on or after July 1, 2017 to covered employment in the system from which they retired.

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

Second Retirement Benefit

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

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

TOWN OF WEST YELLOWSTONE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
For the Year Ended June 30, 2020

MUNICIPAL POLICE OFFICERS' RETIREMENT SYSTEM (MPORS) (CONTINUED)

Second Retirement Benefit (Continued)

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

Refunds

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

Interest Credited to Member Accounts

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

Lump-Sum Payouts

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

TOWN OF WEST YELLOWSTONE
 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
 For the Year Ended June 30, 2020

MUNICIPAL POLICE OFFICERS' RETIREMENT SYSTEM (MPORS) (CONTINUED)

Changes in Actuarial Assumptions and Methods

Method and assumptions used in calculations of actuarially determined contributions

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

| | |
|---------------------------------|--|
| General wage growth* | 3.50% |
| Investment rate of return* | 7.65% |
| *Includes inflation at | 2.75% |
| Merit salary increases | 0% to 6.60% |
| Asset valuation method | 4-year smoothed market |
| Actuarial cost method | Entry age normal |
| Amortization method | Level percentage of payroll, open |
| Mortality (healthy members) | For Males and Females: RP 2000 Combined Employee and Annuitant Mortality Table projected to 2020 using Scale BB, males set back 1 year |
| Mortality (disabled members) | For Males and Females: RP 2000 Combined Mortality Table |
| Admin expense as a % of payroll | 0.23% |

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.

Budget to Actual Comparisons – Major Funds

TOWN OF WEST YELLOWSTONE
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
Year Ended June 30, 2020

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|---------------------------------------|-----------------------|-----------------------|--------------------|--|
| | Original | Final | | |
| Revenues | | | | |
| Taxes and assessments | \$ 60,800 | \$ 373,586 | \$ 363,691 | \$ (9,895) |
| Licenses and permits | 38,325 | 38,325 | 73,623 | 35,298 |
| Intergovernmental | 306,999 | 306,999 | 585,760 | 278,761 |
| Charges for services | 46,163 | 46,163 | 46,180 | 17 |
| Fines and forfeitures | 59,800 | 59,800 | 56,115 | (3,685) |
| Interest on investments | 37,100 | 37,100 | 38,920 | 1,820 |
| Other | <u>27,801</u> | <u>27,801</u> | <u>36,804</u> | <u>9,003</u> |
| Total revenues | <u>576,988</u> | <u>889,774</u> | <u>1,201,093</u> | <u>311,319</u> |
| Expenditures | | | | |
| General government | 1,426,292 | 1,426,292 | 1,179,893 | 246,399 |
| Public safety | 1,967,821 | 1,967,821 | 1,760,445 | 207,376 |
| Public works | 664,212 | 664,212 | 569,562 | 94,650 |
| Public health | 4,000 | 4,000 | 2,007 | 1,993 |
| Social and economic services | 152,195 | 152,195 | 118,689 | 33,506 |
| Culture and recreation | 449,652 | 449,652 | 349,876 | 99,776 |
| Other | 1,037,628 | 981,689 | 323,136 | 658,553 |
| Capital outlay | - | 32,820 | 27,582 | 5,238 |
| Debt service | <u>107,000</u> | <u>107,000</u> | <u>107,016</u> | <u>(16)</u> |
| Total expenditures | <u>5,808,800</u> | <u>5,785,681</u> | <u>4,438,206</u> | <u>1,347,475</u> |
| Other financing sources (uses) | | | | |
| Transfers in | 3,365,847 | 3,365,847 | 3,329,549 | (36,298) |
| Transfers out | <u>(109,251)</u> | <u>(132,370)</u> | <u>(132,000)</u> | <u>(370)</u> |
| Total other financing sources (uses) | <u>3,256,596</u> | <u>3,233,477</u> | <u>3,197,549</u> | <u>(36,668)</u> |
| Net change in fund balance | <u>\$ (1,975,216)</u> | <u>\$ (1,662,430)</u> | <u>\$ (39,564)</u> | <u>\$ (1,072,824)</u> |

TOWN OF WEST YELLOWSTONE
 BUDGETARY COMPARISON SCHEDULE – RESORT TAX FUND
 Year Ended June 30, 2020

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|----------------------------|---------------------|-----------------------|---------------------|--|
| | Original | Final | | |
| Revenues | | | | |
| Taxes and assessments | \$ 4,535,600 | \$ 4,535,600 | \$ 4,049,039 | \$ (486,561) |
| Interest on investments | <u>2,650</u> | <u>2,650</u> | <u>3,930</u> | <u>1,280</u> |
| Total revenues | <u>4,538,250</u> | <u>4,538,250</u> | <u>4,052,969</u> | <u>(485,281)</u> |
| Expenditures | | | | |
| General government | 15,910 | 15,910 | 12,492 | 3,418 |
| Debt service | <u>441,693</u> | <u>441,693</u> | <u>298,193</u> | <u>143,500</u> |
| Total expenditures | <u>457,603</u> | <u>457,603</u> | <u>310,685</u> | <u>146,918</u> |
| Other financing uses | | | | |
| Transfers out | <u>(4,649,759)</u> | <u>(5,649,759)</u> | <u>(4,095,598)</u> | <u>(1,554,161)</u> |
| Total other financing uses | <u>(4,649,759)</u> | <u>(5,649,759)</u> | <u>(4,095,598)</u> | <u>(1,554,161)</u> |
| Net change in fund balance | <u>\$ (569,112)</u> | <u>\$ (1,569,112)</u> | <u>\$ (353,314)</u> | <u>\$ (2,186,360)</u> |

PART 3

**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS – GOVERNMENT
AUDITING STANDARDS**

INDEPENDENT AUDITORS' 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*

To the Honorable Mayor and Town Council
Town of West Yellowstone, Montana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government 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 the Town of West Yellowstone, Montana (the Town) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise Town of West Yellowstone, Montana's basic financial statements, and have issued our report thereon dated April 6, 2021.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses as item #2020-001, that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of West Yellowstone, Montana's financial statements are free from 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 one instance 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 item #2020-002.

Town's Response to Findings

The Town of West Yellowstone, Montana's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Town'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

This report is intended 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 the 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.

Anderson Zurmuehlen & Co, P.C.

Bozeman, Montana

April 6, 2021

TOWN OF WEST YELLOWSTONE
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2020

Current Year Financial Statement Findings:

#2020-001 Internal Control Over Financial Reporting (Repeat Finding)

Criteria:

Controls should be in place and operating effectively to ensure the financial statements are complete and accurate.

Condition:

As a result of our audit procedures, we documented and proposed material adjustments to the Town's records related to the adjustment to record compensated absences, the recording of grant revenue for the library fund and state appropriation grant revenue recorded at the fund level, reclassifications for the presentation of property taxes receivable, and a correction in the net pension liability calculation, for the year ended June 30, 2020. Additionally, the TBID fund is now being recorded as an agency fund; however, the fund was reporting revenues, expenses, and a fund balance. An adjustment was made to remove this activity, thus leaving only an asset and liability balance in the fund. In addition, we proposed prior period adjustments related to errors in the Town's previously issued financial statements related to the allocation of pension expense across governmental activities and business-type activities, accounts payable related to capital outlay, and property tax revenues that met the availability criterion.

Cause:

Town employees were unaware of the treatment of several transactions and how they should be recorded in the trial balance. Furthermore, Town employees are not properly reconciling accounts with the subsidiary ledgers or verifying the accuracy in their calculations for year-end adjustments.

Effect:

Exclusion of these adjustments would result in a material misstatement to the financial statements that may affect the users of the financial information of the Town.

Recommendation:

We recommend management implement a process as part of the year-end closing procedures to ensure that accounts are completely and accurately reported. We recommend that management adjust the TBID fund at year-end to ensure appropriate reporting in the agency fund.

TOWN OF WEST YELLOWSTONE
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
June 30, 2020

Current Year Financial Statement Findings (Continued):

2020-1 Internal Control Over Financial Reporting (Repeat Finding) (Continued)

Management Response:

The Town acknowledges the conditions of the finding presented above. The Town's finance staff will implement better review processes by having the Montana Local Government Services Bureau staff or an outside consultant assist in the review of certain year-end closing adjustments for completeness and accuracy. The Town's accounting system presented revenues and expenditures in the TBID fund for budgeting purposes; therefore, the Town will make the year-end adjustments necessary for financial reporting presentation in accordance with GASB.

#2020-002 Annual Vacation Leave (Repeat Finding)

Criteria:

Per MCA 2-18-617, annual vacation leave may be accumulated to an amount not to exceed two times the maximum number of days earned annually as of the end of the first pay period of the last day of the 2018 calendar year. The Town has a collective bargaining agreement (CBA) allowing non-supervisory employees to take excess vacation leave within 120 calendar days from the last day of the calendar year in which the excess was accrued. All employees not covered under the CBA, would follow the Montana Code Annotated which specifies that excess vacation time is not forfeited if it is taken within 90 calendar days from the last day of the calendar year in which the excess was accrued. Alternatively, the employee may contribute accumulated vacation leave to a nonrefundable sick leave fund, in accordance with MCA 2-18-618.

Condition:

We noted three employees that had excess vacation hours which were not used within 120 days (90 days for supervisory employees) of the last day of the 2019 calendar year. We noted the excess hours were not used, nor were the hours forfeited. The accumulated excess vacation leave not forfeited amounts to an approximate overstatement of the compensated absences liability of \$16,000.

Cause:

Town staff were not formally instructed to remove the excess hours from the employee's bank.

Effect:

Employees were allowed to accrue more vacation than is allowed by the Town's policies and Montana Code Annotated.

TOWN OF WEST YELLOWSTONE
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
June 30, 2020

Current Year Financial Statement Findings (Continued):

#2020-002 Annual Vacation Leave (Repeat Finding) (Continued)

Recommendation:

Town management should notify each employee of excess vacation hours at the end of the calendar year and retain documentation of this communication. Unless the employee uses the excess vacation hours or makes a reasonable request to use the leave 120 days (or 90 days if a supervisory employee) after the last day of the calendar year, then the excess vacation hours must be forfeited. Alternatively, the employee can request that the excess vacation leave be transferred to a nonrefundable sick leave fund within 120 days (or 90 days if a supervisory employee) after the last day of the calendar year, assuming the Town has implemented such a policy. If all procedures were followed and the employee did not use the excess vacation by the end of the following calendar year, then the excess vacation hours must be forfeited.

Management Response:

The Town's department staff is clear in their understanding of MCA codes related to excess annual vacation leave. The Town's payroll and finance staff have been working towards a resolution of this issue over the past few years; however, have been unsuccessful in their efforts. The Town Council has since taken steps to resolve this issue and is allowing payroll and finance staff to take the appropriate steps to bring the Town to compliance with the MCA.

Prior Year Financial Statement Findings:

#2019-001 Internal Control Over Financial Reporting

Condition:

We documented and proposed material adjustments to the Town's records related to the accrual of accounts payable and the recording of state grant revenue at the fund level for the year ended June 30, 2019. Additionally, it was determined that the TBID was a fiduciary fund in the previous year; however, TBID activity was recorded as a special revenue fund in the current year. An adjustment was made to move the activity from the governmental funds to the fiduciary funds.

Current Year Status:

Not implemented. See current year finding #2020-001.

TOWN OF WEST YELLOWSTONE
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
June 30, 2020

Prior Year Financial Statement Findings (Continued):

#2019-002 Annual Vacation Leave

Criteria:

Per MCA 2-18-617, annual vacation leave may be accumulated to an amount not to exceed two times the maximum number of days earned annually as of the end of the first pay period of the last day of the 2018 calendar year. The Town has a collective bargaining agreement (CBA) allowing nonsupervisory employees to take excess vacation leave within 120 calendar days from the last day of the calendar year in which the excess was accrued. All employees not covered under the CBA, would follow the Montana Code Annotated which specifies that excess vacation time is not forfeited if it is taken within 90 calendar days from the last day of the calendar year in which the excess was accrued. Alternatively, the employee may contribute accumulated vacation leave to a nonrefundable sick leave fund, in accordance with MCA 2-18-618.

Current Year Status:

Not implemented. See current year finding #2020-002.