

TOWN OF SHERIDAN, MONTANA

ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2021



AMATICS
CPA GROUP

**TOWN OF SHERIDAN, MONTANA
ANNUAL FINANCIAL REPORT
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PART I

INTRODUCTORY SECTION

**TOWN OF SHERIDAN, MONTANA
ORGANIZATION OF ENTITY
June 30, 2021**

TOWN COUNCIL

Mike Walter
Rahn Abbott
Corey Theis
Emilie Sayler

TOWN OFFICIALS

Robert Stump, Mayor

Stephanie Kruer, Attorney

Ginger Galiger, Clerk/Treasurer

PART II

FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Town Council
Town of Sheridan, Montana

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Sheridan, Montana (the Town), as of and for the year ended June 30, 2021, 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.

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

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

Opinions

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



Change in Accounting Principle

As described in Note 1 to the financial statements, in fiscal year 2021, the City adopted new accounting guidance, GASBS No. 84, Fiduciary Activities. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis, schedules of changes in total other-post employment benefits liability and related ratios, schedules of proportionate share of the Town’s net pension liability and schedules of the Town’s contributions for the PERS pension plan, and budgetary comparison information for the general fund and major special revenue funds, as listed in the table of contents, 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 Sheridan, Montana’s basic financial statements. The introductory section, listed in the table of contents as supplemental information, is presented for purposes of additional analysis and is not a 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 February 14, 2022, on our consideration of the Town of Sheridan, Montana's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town’s 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.

Amatics CPA Group

Bozeman, Montana
February 14, 2022

A. Management Discussion and Analysis

TOWN OF SHERIDAN, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2021

OVERVIEW

As management of the Town of Sheridan, we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2021. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

Financial Highlights

- The assets and deferred outflows of resources of the Town of Sheridan exceeded its liabilities and deferred inflows of resources at the close of the fiscal year 2021 by \$9,461,002 (*net position*).
- The government's total net position increased by \$396,975 (a decrease of \$2,369 in governmental activities and an increase of \$399,344 in business-type activities).
- As of the close of the current fiscal year 2021, the Town of Sheridan's governmental funds reported combined ending fund balances of \$513,445, an increase of \$61,212 in comparison with the prior year. \$219,439 or 43 percent of this total amount is unassigned and available for spending at the government's discretion. 2 percent of the total amount or \$10,000 is non-spendable. \$187,394 or 36 percent is restricted for special projects. \$96,612 or 19 percent is assigned and available for spending at the government's discretion for capital improvement projects.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$219,439, or 120 percent of total general fund expenditures for the fiscal year.
- The Town's total net capital assets increased by \$407,263 because of the water project. There were additions of \$51,799 in infrastructure and \$2,855,142 of construction in progress placed in service during the year in the business-type activities. There were no additions or deletions within the governmental activities.
- The Town's total debt increased by \$439,136 during the current fiscal year, primarily because of newly acquired debt for the water project. Other adjustments were made for non-cash type adjustments involving liabilities associated with net pension, compensated absences and other post-employment benefits.

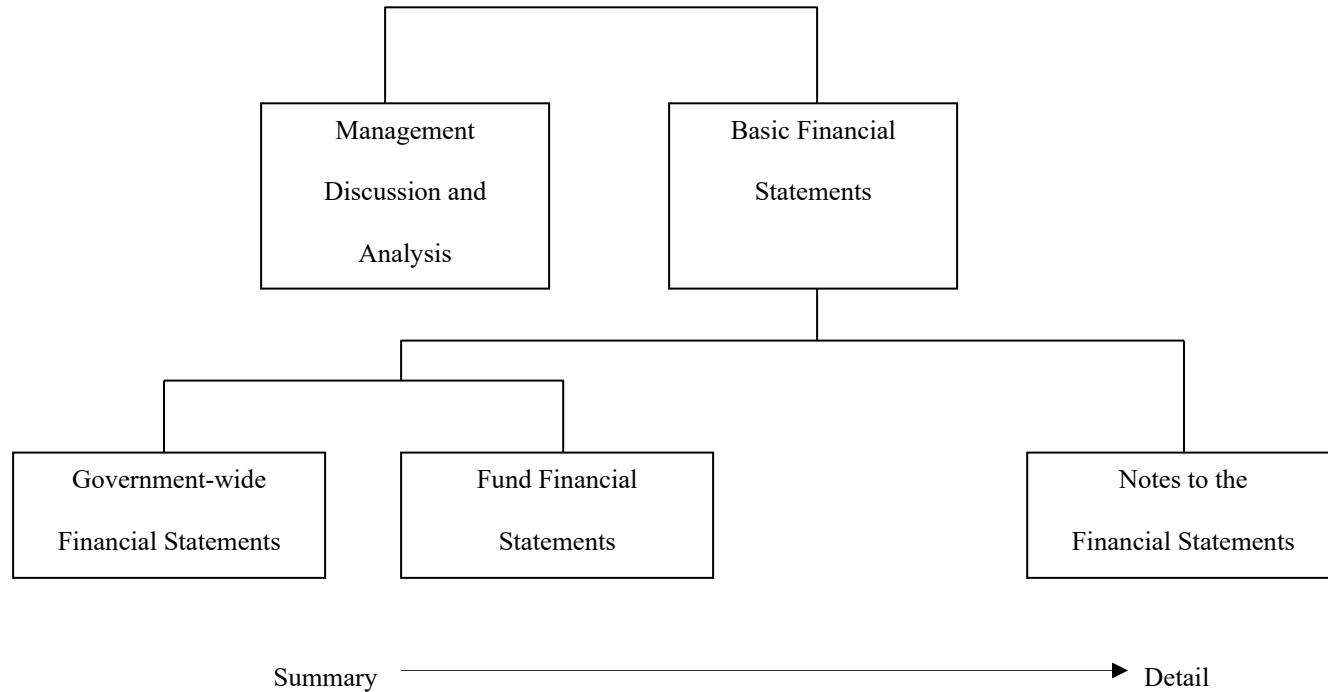
Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Town of Sheridan's basic financial statements. The Town's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The basic financial statements present two different views of the Town through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the Town of Sheridan.

**TOWN OF SHERIDAN, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2021**

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements of the report in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the Town's financial status.

The next statements are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Town's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the proprietary fund statements and 3) fiduciary fund statements.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the Town's individual funds. Budgetary information required by the General Statutes also can be found in this part of the statements.

TOWN OF SHERIDAN, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2021

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the Town's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the Town's financial status as a whole.

The two government-wide statements report the Town's net position and how they have changed. Net position is the difference between the Town's total assets and total liabilities. Measuring net position is one way to gauge the Town's financial condition.

The government-wide statements are divided into two categories: 1) governmental activities; and 2) business-type activities. The governmental activities include most of the Town's basic services such as general administration, public safety, public works, and culture and recreation. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the Town charges customers to provide. These include the water and sewer services offered by the Town of Sheridan.

Fund Financial Statements

The fund financial statements provide a more detailed look at the Town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Sheridan like all other governmental entities in Montana uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the Town's budget ordinance. All of the funds of the Town of Sheridan can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the Town's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called modified accrual accounting that provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Town's programs. The relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The Town of Sheridan adopts an annual budget for its governmental funds, and a budget for its proprietary fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town, and the decisions of the Council about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the council; 2) the final budget as amended by the council; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities may be shown at the end of the budgetary statement.

Proprietary Funds – The Town of Sheridan has one kind of proprietary fund. Enterprise Funds are used to report its water and sewer services. These funds are the same as those functions shown in the business-type activities in the Statement of Net Position and the Statement of Activities.

TOWN OF SHERIDAN, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2021

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements follow the Fund Financial Statements of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town of Sheridan's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page II-56 of this report.

The Town of Sheridan's Net Position
Governmental Activities

Comparative **Governmental** statement of position were as follows for years ending June 30,

	<u>2021</u>	<u>2020</u>	<u>Change</u>
Current and other assets	\$ 617,082	\$ 462,848	\$ 154,234
Capital assets	403,884	429,752	(25,868)
Deferred outflows of resources	37,792	29,657	8,135
Total assets and deferred outflows of resources	<u>1,058,758</u>	<u>922,257</u>	<u>136,501</u>
Current liabilities	103,131	7,416	95,715
Long term liabilities	158,146	116,328	41,818
Deferred inflows of resources	11,345	10,008	1,337
Total liabilities and deferred inflows of resources	<u>272,622</u>	<u>133,752</u>	<u>138,870</u>
Net Position:			
Net investment in capital assets	403,884	401,435	2,449
Restricted	197,394	214,711	(17,317)
Unrestricted	184,858	172,359	12,499
Total net position June 30	<u>\$ 786,136</u>	<u>\$ 788,505</u>	<u>\$ (2,369)</u>

TOWN OF SHERIDAN, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2021

The Town of Sheridan's Net Position
Business-Type Activities

Comparative **Business-type** statement of position were as follows for years ending June 30,

	<u>2021</u>	<u>2020</u>	<u>Change</u>
Current and other assets	\$ 1,569,827	\$ 1,587,300	\$ (17,473)
Capital assets	11,473,486	11,040,351	433,135
Deferred outflows of resources	31,550	30,361	1,189
Total assets and deferred outflows of resources	<u>13,043,313</u>	<u>12,658,012</u>	<u>415,662</u>
Current liabilities	506,825	381,956	124,869
Long term liabilities	3,884,049	3,991,504	(107,455)
Deferred inflows of resources	9,123	9,030	93
Total liabilities and deferred inflows of resources	<u>4,399,997</u>	<u>4,382,490</u>	<u>17,507</u>
Net Position:			
Net investment in capital assets	7,220,396	7,171,454	48,942
Restricted	349,016	312,545	36,471
Unrestricted	1,105,454	791,523	313,931
Total net position June 30	<u>\$ 8,674,866</u>	<u>\$ 8,275,522</u>	<u>\$ 399,344</u>

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of the Town of Sheridan exceeded liabilities by \$9,461,002 as of June 30, 2021. The Town's net position increased by \$396,975 for the fiscal year ended June 30, 2021. However, the largest portion reflects the Town's investment in capital assets (e.g., land, buildings, machinery and equipment and utility infrastructure); less any related debt still outstanding that was issued to acquire those items. The Town of Sheridan uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Sheridan's investment in capital assets is reported net of the related outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town of Sheridan's net assets, \$546,410, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$1,290,312 is unrestricted.

**TOWN OF SHERIDAN, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2021**

**The Town of Sheridan's Changes in Net Position
Governmental Activities**

Changes in Net Position for **Governmental Activities** were as follows for years ending June 30,

	<u>2021</u>	<u>2020</u>	<u>Change</u>
Revenues:			
<u>Program Revenues:</u>			
Operating grants and contributions	\$ 126,256	\$ 108,421	\$ 17,835
<u>General Revenues:</u>			
Property taxes	157,622	157,318	304
Unrestricted Federal/State shared revenue	65,299	66,871	(1,572)
Unrestricted investment earnings	438	528	(90)
Miscellaneous	13,767	15,363	(1,596)
Total revenues	<u>363,382</u>	<u>348,501</u>	<u>14,881</u>
Expenses			
General government	115,009	69,200	45,809
Public safety	24,155	26,367	(2,212)
Public works	80,735	57,316	23,419
Culture and recreation	145,852	130,749	15,103
Total expenses	<u>365,751</u>	<u>283,632</u>	<u>82,119</u>
Change in net position	(2,369)	64,869	(67,238)
Net position July 1	788,505	723,636	64,869
Net position June 30	<u>\$ 786,136</u>	<u>\$ 788,505</u>	<u>\$ (2,369)</u>

Governmental activities: Governmental activities decreased the Town's net position by \$2,369. Revenues increased by \$14,881, expenditures increased by \$82,119 for a negative change in net position of \$2,369.

**TOWN OF SHERIDAN, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2021**

**The Town of Sheridan's Changes in Net Position
Business-Type Activities**

Changes in Net Position for **Business-type Activities** were as follows for years ending June 30,

	<u>2021</u>	<u>2020</u>	<u>Change</u>
Revenues:			
<u>Program Revenues:</u>			
Charges for services	\$ 661,847	\$ 614,425	\$ 47,422
Operating grants and contributions	-	-	-
Capital grants and contributions	304,592	1,245,162	(940,570)
<u>General Revenues:</u>			
Unrestricted grants and contributions	6,379	2,342	4,037
Unrestricted investment earnings	175	1,252	(1,077)
Total revenues	972,993	1,863,181	(890,188)
Expenses			
Water	241,073	266,323	(25,250)
Sewer	332,576	306,911	25,665
Total expenses	573,649	573,234	415
Change in net position	399,344	1,289,947	(890,603)
Net position July 1	8,275,522	6,985,575	1,289,947
Net position June 30	\$ 8,674,866	\$ 8,275,522	\$ 399,344

Business-type activities: Business-type activities overall increased the Town's net position by \$399,344. Revenues decreased from the prior year, due to the water project becoming more complete, and any capital contributions were less than before. However, expenses remained comparative from the prior year, and because of the water project amount capitalized, there was still a positive increase in net position, of a net \$399,344.

TOWN OF SHERIDAN, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2021

Financial Analysis of the Town's Funds

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

Governmental Funds. The focus of the Town of Sheridan's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Town of Sheridan's financing requirements. Specifically, unassigned fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the Town of Sheridan. At the end of the current fiscal year 2021, unassigned fund balance of the General Fund was \$219,439, while total fund balance for all governmental funds reached \$513,445, an increase of \$61,212 from the prior year. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 120 percent of total General Fund expenditures.

General Fund Budgetary Highlights: During the fiscal year, total final budgeted expenditures for the General Fund were \$222,333. Actual expenditures totaled \$182,281; with unused appropriations of \$40,052. Total original budgeted revenues for the General Fund were \$280,989. Total General Fund actual revenues of \$244,726, were more than the budgeted revenue amount by \$36,263.

Proprietary Funds. The Town's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Water and Sewer funds at the end of the fiscal year 2021 amounted to \$1,105,454. The total net increase in net position for all proprietary funds was \$399,344. Other factors concerning the finances of these funds have already been addressed in the discussion of the Town's business-type activities.

Capital Asset and Debt Administration

Capital assets. The Town of Sheridan's investment in capital assets for its governmental and business-type activities as of June 30, 2021, total \$11,877,370 (net of accumulated depreciation). These assets include buildings, improvements other than buildings, roads, land, machinery and equipment, park facilities, vehicles, and utility system infrastructure.

- The Town's total net capital assets increased by \$407,263. There were additions of \$51,799 in infrastructure, \$615,167 of water project construction, and \$2,855,142 of construction work related to water line improvements was placed in service during the year in the business-type activities.
- Depreciation expense of \$25,872 and \$233,831 were recorded in the governmental and business-type activities, respectively.

TOWN OF SHERIDAN, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2021

The Town of Sheridan's Changes in Capital Assets
Governmental Activities

Governmental Activities for capital assets were as follows for years ending June 30,

	<u>2021</u>	<u>2020</u>	<u>Change</u>
Land	\$ 46,681	\$ 46,681	\$ -
Buildings and systems	466,159	466,159	-
Improvements other than bldgs	207,229	207,229	-
Machinery & equipment	224,821	224,821	-
Infrastructure	28,409	28,409	-
Total other capital assets at cost	<u>973,299</u>	<u>973,299</u>	-
Less accumulated depreciation	(569,415)	(543,543)	(25,872)
Total capital assets	<u>\$ 403,884</u>	<u>\$ 429,756</u>	<u>\$ (25,872)</u>

The Town of Sheridan's Changes in Capital Assets
Business-Type Activities

Business-type Activities for capital assets were as follows for years ending June 30,

	<u>2021</u>	<u>2020</u>	<u>Change</u>
Land	\$ 81,376	\$ 81,376	\$ -
Construction in progress	-	2,239,975	(2,239,975)
Buildings and systems	216,807	216,807	-
Machinery & equipment	79,740	79,740	-
Infrastructure	13,832,353	10,925,412	2,906,941
Total other capital assets at cost	<u>14,210,276</u>	<u>13,543,310</u>	666,966
Less accumulated depreciation	(2,736,790)	(2,502,959)	(233,831)
Total capital assets	<u>\$ 11,473,486</u>	<u>\$ 11,040,351</u>	<u>\$ 433,135</u>

Additional information on the Town's capital assets can be found in the Notes to the Basic Financial Statements of this report.

Long-term Debt. As of June 30, 2021, the Town of Sheridan had total bonded debt outstanding of \$4,253,090, as shown in the table below. Total revenue bond debt has a net increase of \$384,193 because of the water line project, which was the most notable change. Other adjustments were made to the Town's debt that were not cash adjustments, and these were within the liabilities associated with the net pension, compensated absences, and other post-employment benefits.

The bonded debt of the Town debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

**TOWN OF SHERIDAN, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2021**

**The Town of Sheridan's Outstanding Debt
Governmental Activities**

Governmental Activities for long-term debt were as follows for years ending June 30,

	<u>2021</u>	<u>2020</u>	<u>Change</u>
Compensated absences	\$ 16,103	\$ 12,564	\$ 3,539
Other post-employment benefits	1,179	6,014	(4,835)
Net pension liability	148,916	104,032	44,884
Total	\$ 166,198	\$ 122,610	\$ 43,588

**The Town of Sheridan's Outstanding Debt
Business-Type Activities**

Business-type Activities for long-term debt were as follows for years ending June 30,

	<u>2021</u>	<u>2020</u>	<u>Change</u>
Revenue bonds	\$ 4,253,090	\$ 3,868,897	\$ 384,193
Compensated absences	4,982	7,642	(2,660)
Other post-employment benefits	8,485	12,284	(3,799)
Net pension liability	124,317	106,503	17,814
Total	\$ 4,390,874	\$ 3,995,326	\$ 395,548

Additional information regarding the Town of Sheridan's long-term debt can be found in the Notes to the Financial Statements of this report.

Requests for Information

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

Town Clerk/Treasurer
Town of Sheridan
PO Box 78
Sheridan, Montana 59749
Phone number (406) 842-5431

B. Basic Financial Statements

Government-Wide Financial Statements

TOWN OF SHERIDAN, MONTANA
STATEMENT OF NET POSITION
June 30, 2021

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Friends of the Library
ASSETS				
Cash and investments	\$ 586,044	\$ 1,199,142	\$ 1,785,186	\$ -
Restricted cash and investments	10,780	312,730	323,510	85,014
Receivables, net	20,258	57,955	78,213	-
Capital assets				
Nondepreciable land	46,681	81,376	128,057	-
Construction in progress	-	-	-	-
Other capital assets, net of depreciation	357,203	11,392,110	11,749,313	-
Total capital assets	<u>403,884</u>	<u>11,473,486</u>	<u>11,877,370</u>	<u>-</u>
Total assets	<u>1,020,966</u>	<u>13,043,313</u>	<u>14,064,279</u>	<u>85,014</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows of resources - OPEB	21	17	38	-
Deferred outflows of resources - pensions	37,771	31,533	69,304	-
Total deferred outflows of resources	<u>37,792</u>	<u>31,550</u>	<u>69,342</u>	<u>-</u>
LIABILITIES				
Accounts payable and accrued expenses	311	-	311	-
Advances	94,768	-	94,768	-
Compensated absences payable	8,052	2,490	10,542	-
Current portion long-term notes	-	504,335	504,335	-
Long-term liabilities, due in more than one year				
Compensated absences	8,051	2,492	10,543	-
Other post employment benefits	1,179	8,485	9,664	-
Net pension liability	148,916	124,317	273,233	-
Notes and bonds payable	-	3,748,755	3,748,755	-
Total liabilities	<u>261,277</u>	<u>4,390,874</u>	<u>4,652,151</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows of resources - OPEB	7,087	5,569	12,656	-
Deferred inflows of resources - pensions	4,258	3,554	7,812	-
Total deferred inflows of resources	<u>11,345</u>	<u>9,123</u>	<u>20,468</u>	<u>-</u>
NET POSITION				
Net investment in capital assets	403,884	7,220,396	7,624,280	-
Restricted - nonexpendable	10,000	-	10,000	-
Restricted for:				
Public safety	22,235	-	22,235	-
Public works	38,898	-	38,898	-
Culture and recreation	126,261	-	126,261	85,014
Debt service	-	168,681	168,681	-
Construction and replacement	-	180,335	180,335	-
Unrestricted	184,858	1,105,454	1,290,312	-
Total net position	<u>\$ 786,136</u>	<u>\$ 8,674,866</u>	<u>\$ 9,461,002</u>	<u>\$ 85,014</u>

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

TOWN OF SHERIDAN, MONTANA
STATEMENT OF ACTIVITIES
Year Ended June 30, 2021

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Unit Friends of the Library
					Governmental Activities	Business-type Activities	Total	
Primary Government:								
Governmental activities:								
General government	\$ 115,009	\$ -	\$ 1,834	\$ -	\$ (113,175)	\$ -	\$ (113,175)	\$ -
Public safety	24,155	-	1,559	-	(22,596)	-	(22,596)	-
Public works	80,735	-	35,794	-	(44,941)	-	(44,941)	-
Culture and recreation	145,852	-	87,069	-	(58,783)	-	(58,783)	-
Total governmental activities	<u>365,751</u>	<u>-</u>	<u>126,256</u>	<u>-</u>	<u>(239,495)</u>	<u>-</u>	<u>(239,495)</u>	<u>-</u>
Business-type activities:								
Water	241,073	347,843	-	304,592	-	411,362	411,362	-
Sewer	332,576	314,004	-	-	-	(18,572)	(18,572)	-
Total business-type activities	<u>573,649</u>	<u>661,847</u>	<u>-</u>	<u>304,592</u>	<u>-</u>	<u>392,790</u>	<u>392,790</u>	<u>-</u>
Total primary government	<u>\$ 939,400</u>	<u>\$ 661,847</u>	<u>\$ 126,256</u>	<u>\$ 304,592</u>	<u>(239,495)</u>	<u>392,790</u>	<u>153,295</u>	<u>-</u>
Component Unit:								
Friends of the Library	<u>\$ 16,300</u>	<u>\$ -</u>	<u>\$ 2,666</u>	<u>\$ 5,118</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(8,516)</u>
General revenues:								
Property taxes, levied for general purposes					157,622	-	157,622	-
Grants and contributions not restricted to specific program:					65,299	6,379	71,678	-
Unrestricted investment earnings					438	175	613	62
Miscellaneous					13,767	-	13,767	-
Total general revenues					<u>237,126</u>	<u>6,554</u>	<u>243,680</u>	<u>62</u>
Change in net position					<u>(2,369)</u>	<u>399,344</u>	<u>396,975</u>	<u>(8,454)</u>
Net position-beginning					<u>788,505</u>	<u>8,275,522</u>	<u>9,064,027</u>	<u>93,468</u>
Net position-ending					<u>\$ 786,136</u>	<u>\$ 8,674,866</u>	<u>\$ 9,461,002</u>	<u>\$ 85,014</u>

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

Fund Financial Statements

Governmental Fund Financial Statements

**TOWN OF SHERIDAN, MONTANA
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2021**

	<u>General</u>	<u>Library</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 207,739	\$ 124,076	\$ 254,229	\$ 586,044
Receivables:				
Property taxes	8,558	-	-	8,558
Other governments	11,700	-	-	11,700
Restricted cash and cash equivalents	<u>-</u>	<u>-</u>	<u>10,780</u>	<u>10,780</u>
Total assets	<u><u>\$ 227,997</u></u>	<u><u>\$ 124,076</u></u>	<u><u>\$ 265,009</u></u>	<u><u>\$ 617,082</u></u>

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

**TOWN OF SHERIDAN, MONTANA
BALANCE SHEET (CONTINUED)
GOVERNMENTAL FUNDS
June 30, 2021**

	General	Library	Other Governmental Funds	Total Governmental Funds
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ 311	\$ 311
Revenues collected in advance	-	-	94,768	94,768
Total liabilities	-	-	95,079	95,079
Deferred inflows of resources:				
Deferred inflows of tax revenues	8,558	-	-	8,558
Fund balances:				
Nonspendable	-	-	10,000	10,000
Restricted	-	124,076	63,318	187,394
Assigned	-	-	96,612	96,612
Unassigned	219,439	-	-	219,439
Total fund balances	219,439	124,076	169,930	513,445
Total liabilities, deferred inflows of resources and fund balances	\$ 227,997	\$ 124,076	\$ 265,009	\$ 617,082

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

TOWN OF SHERIDAN, MONTANA
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION - GOVERNMENTAL FUNDS
June 30, 2021

Fund balances - total governmental funds		\$ 513,445
<p>Amounts reported for <i>governmental activities</i> in the statement of net position are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.</p>		
Governmental capital assets	\$ 973,299	
Less: Accumulated depreciation	<u>(569,415)</u>	403,884
<p>Deferred inflows of resources in the governmental funds are reported on the full accrual method in the entity-wide statements.</p>		
		8,558
<p>Deferred outflows related to pensions are expenditures not recognizable in the current period and therefore are not reported in the governmental funds.</p>		
		37,792
<p>Deferred inflows related to pensions are revenues not recognizable in the current period and therefore are not reported in the governmental funds.</p>		
		(11,345)
<p>Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the governmental funds.</p>		
Other post employment benefits	(1,179)	
Net pension liability	(148,916)	
Compensated absences	<u>(16,103)</u>	<u>(166,198)</u>
Net position of governmental activities		<u>\$ 786,136</u>

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

TOWN OF SHERIDAN, MONTANA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2021

	<u>General</u>	<u>Library</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Taxes and assessments	\$ 158,545	\$ -	\$ -	\$ 158,545
Intergovernmental	72,939	82,447	36,169	191,555
Interest on investments	395	-	43	438
Other	<u>12,847</u>	<u>858</u>	<u>62</u>	<u>13,767</u>
Total revenues	<u>244,726</u>	<u>83,305</u>	<u>36,274</u>	<u>364,305</u>
EXPENDITURES				
Current				
General government	104,517	-	1,559	106,076
Public safety	-	-	21,787	21,787
Public works	35,489	-	31,832	67,321
Culture and recreation	<u>42,275</u>	<u>65,634</u>	<u>-</u>	<u>107,909</u>
Total expenditures	<u>182,281</u>	<u>65,634</u>	<u>55,178</u>	<u>303,093</u>
Excess (deficiency) of revenues over expenditures	<u>62,445</u>	<u>17,671</u>	<u>(18,904)</u>	<u>61,212</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	18,000	26,455	44,455
Transfers out	<u>(44,455)</u>	<u>-</u>	<u>-</u>	<u>(44,455)</u>
Total other financing sources (uses)	<u>(44,455)</u>	<u>18,000</u>	<u>26,455</u>	<u>-</u>
Net change in fund balances	17,990	35,671	7,551	61,212
FUND BALANCE - beginning of year	<u>201,449</u>	<u>88,405</u>	<u>162,379</u>	<u>452,233</u>
FUND BALANCE - end of year	<u>\$ 219,439</u>	<u>\$ 124,076</u>	<u>\$ 169,930</u>	<u>\$ 513,445</u>

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

TOWN OF SHERIDAN, MONTANA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES - GOVERNMENTAL FUNDS
Year Ended June 30, 2021

Net change in fund balances - total governmental funds	\$	61,212
Amounts reported for <i>governmental activities</i> in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. In the statement of activities, however, the cost of these assets is depreciated over the asset's useful life.		
Expenditures for capital assets	\$	-
Less: current year depreciation		<u>(25,872)</u>
		(25,872)
Some revenues reported in the statement of activities do not require the use of current financial resources and therefore are not reported as revenues in governmental funds.		
Property taxes		(923)
Some expenditures reported in governmental funds are to be collected on a long-term basis and therefore are not reported as expenses in the statement of activities.		
Compensated absences		(3,539)
Net pension liability and related deferred inflows and outflows		(36,133)
OPEB liability and related deferred inflows and outflows		<u>2,886</u>
		<u>(36,786)</u>
Change in net position of governmental activities	\$	<u><u>(2,369)</u></u>

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

Proprietary Fund Financial Statements

TOWN OF SHERIDAN, MONTANA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2021

	Business-type Activities		
	Enterprise Funds		
	Water Fund	Sewer Fund	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 492,664	\$ 706,478	\$ 1,199,142
Customers receivables, net	31,759	26,196	57,955
Total current assets	524,423	732,674	1,257,097
Other assets			
Restricted cash and investments	181,996	130,734	312,730
Property, plant and equipment			
Nondepreciable:			
Land	5,340	76,036	81,376
Construction work in process	-	-	-
Depreciable:			
Buildings	170,000	46,807	216,807
Machinery and equipment	44,000	35,740	79,740
Transmission and distribution	7,001,826	6,830,527	13,832,353
Accumulated depreciation	(1,444,485)	(1,292,305)	(2,736,790)
Net property, plant and equipment	5,776,681	5,696,805	11,473,486
Total assets	6,483,100	6,560,213	13,043,313
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources - OPEB	8	9	17
Deferred outflows of resources - pensions	17,540	13,993	31,533
Total deferred outflows of resources	17,548	14,002	31,550

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

TOWN OF SHERIDAN, MONTANA
STATEMENT OF NET POSITION (CONTINUED)
PROPRIETARY FUNDS
June 30, 2021

	Business-type Activities		
	Enterprise Funds		
	Water Fund	Sewer Fund	Total
LIABILITIES			
Current liabilities			
Compensated absences payable	\$ 1,245	\$ 1,245	\$ 2,490
Bonds payable	437,712	66,623	504,335
Total current liabilities	<u>438,957</u>	<u>67,868</u>	<u>506,825</u>
Noncurrent liabilities			
Compensated absences payable	1,246	1,246	2,492
Bonds payable	966,607	2,782,148	3,748,755
OPEB liability	9,350	(865)	8,485
Net pension liability	69,149	55,168	124,317
Total noncurrent liabilities	<u>1,046,352</u>	<u>2,837,697</u>	<u>3,884,049</u>
Total liabilities	<u>1,485,309</u>	<u>2,905,565</u>	<u>4,390,874</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources - OPEB	2,658	2,911	5,569
Deferred inflows of resources - pensions	1,977	1,577	3,554
Total deferred inflows of resources	<u>4,635</u>	<u>4,488</u>	<u>9,123</u>
NET POSITION			
Net investment in capital assets	4,372,362	2,848,034	7,220,396
Restricted for debt service	66,346	102,335	168,681
Restricted for construction and replacement	108,100	72,235	180,335
Unrestricted	463,896	641,558	1,105,454
Total net position	<u>\$ 5,010,704</u>	<u>\$ 3,664,162</u>	<u>\$ 8,674,866</u>

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

TOWN OF SHERIDAN, MONTANA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
Year Ended June 30, 2021

	Business-type Activities		
	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
OPERATING REVENUES			
Charges for services	\$ 347,843	\$ 314,004	\$ 661,847
OPERATING EXPENSES			
Personal services	55,152	54,250	109,402
Supplies	14,241	9,994	24,235
Purchased services	53,367	69,305	122,672
Depreciation	90,522	143,309	233,831
Total operating expenses	213,282	276,858	490,140
Operating income (loss)	134,561	37,146	171,707
NONOPERATING REVENUES (EXPENSES)			
Interest expense	(27,791)	(55,718)	(83,509)
Interest income	175	-	175
Intergovernmental revenue	3,548	2,831	6,379
Capital grant income	304,592	-	304,592
Total nonoperating revenues (expenses)	280,524	(52,887)	227,637
Change in Net Position	415,085	(15,741)	399,344
NET POSITION,			
beginning of year	4,595,619	3,679,903	8,275,522
NET POSITION,			
end of year	\$ 5,010,704	\$ 3,664,162	\$ 8,674,866

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

TOWN OF SHERIDAN, MONTANA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2021

	Business-type Activities		
	Enterprise Funds		
	Water Fund	Sewer Fund	Total
Cash Flows from Operations:			
Receipts from customers	\$ 345,000	\$ 313,960	\$ 658,960
Payments to suppliers	(67,606)	(79,298)	(146,904)
Payments to employees	(50,580)	(42,186)	(92,766)
Net Cash Provided by Operating Activities	226,814	192,476	419,290
Cash Flows from Capital and Related Financing Activities:			
Additions to property, plant and equipment	(501,656)	(45,397)	(547,053)
Principal paid on bonds, interfund loans, loans and leases	(48,506)	(65,350)	(113,856)
Interest paid on bonds, interfund loans, loans and leases	(27,791)	(55,718)	(83,509)
Capital grants	507,707	-	507,707
Net Cash Flows Used by Capital and Related Financing Activities	(70,246)	(166,465)	(236,711)
Cash Flows Provided by Investing Activities:			
Interest on investments	175	-	175
Net Change in Cash and Cash Equivalents	156,743	26,011	182,754
Cash and Cash Equivalents at Beginning of Year	517,917	811,201	1,329,118
Cash and Cash Equivalents at End of Year	\$ 674,660	\$ 837,212	\$ 1,511,872
Classified As:			
Current Assets	\$ 492,664	\$ 706,478	\$ 1,199,142
Restricted Assets	181,996	130,734	312,730
Totals	\$ 674,660	\$ 837,212	\$ 1,511,872
Noncash Transactions: Capital Assets Purchased Through Debt Issuance	\$ 498,048	\$ -	\$ 498,048

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

TOWN OF SHERIDAN, MONTANA
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUNDS
Year Ended June 30, 2021

	Business-type Activities		
	Enterprise Funds		
	Water Fund	Sewer Fund	Total
Operating Income	\$ 134,561	\$ 37,146	\$ 171,707
Adjustments to reconcile operating income			
to net cash provided by operating activities			
Depreciation	90,522	143,309	233,831
Change in Assets and Liabilities:			
(Increase) Decrease in:			
Accounts receivable	(2,843)	(44)	(2,887)
Increase (Decrease) in:			
Net pension liability and related accounts	7,604	13,963	21,567
OPEB liability and related accounts	(1,081)	(1,185)	(2,266)
Accrued employee benefits payable	(1,949)	(713)	(2,662)
Total adjustments	92,253	155,330	247,583
Net cash provided by			
operating activities	\$ 226,814	\$ 192,476	\$ 419,290

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

Fiduciary Fund Financial Statements

TOWN OF SHERIDAN, MONTANA
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2021

	Custodial Funds
ASSETS	
Cash and cash equivalents	\$ -
Total assets	\$ -
LIABILITIES	
Warrants payable	\$ -
Due to other governments	-
Total liabilities	\$ -

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

TOWN OF SHERIDAN, MONTANA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2021

	Custodial Funds
ADDITIONS	
Contributions	\$ 1,559
DEDUCTIONS	
Remittances	(1,559)
Change in net position	-
NET POSITION,	
Beginning of year	-
NET POSITION,	
End of year	\$ -

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

Notes to Financial Statements

TOWN OF SHERIDAN, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Sheridan, Montana (the Town), is an independent political entity established under Montana Law. The Town is governed by an elected Mayor and Town Council. The Town Council, by law, has the authority to adopt budgets, appropriate funds, levy taxes, employ personnel and pass ordinances. The Madison 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, Madison County does not function in an oversight capacity with regard to the Town.

The accompanying financial statements of the Town have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB), the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The accompanying financial statements present the financial position of the Town and the various funds and fund types, the results of operations of the Town and the various funds and fund types, and the cash flows of the proprietary funds. The financial statements are presented as of June 30, 2021, and for the year then ended.

Reporting Entity

As required by generally accepted accounting principles, these financial statements present the Town (the primary government). In accordance with GASB 39 *Determining Whether Certain Organizations are Component Units* and GASB 61 *The Financial Reporting Entity: Omnibus*, the Town has presented one legally separate entity as a discretely presented component unit.

Friends of the Sheridan Public Library – Discretely Presented Component Unit

The Friends of the Sheridan Public Library (Friends) is a legally separate, tax-exempt component unit of the town. It provides the Sheridan Public Library with a supplemental source of funding. Although the Town does not control the timing or amount of receipts from the Friends, the majority of the resources, or incomes thereon, which the Friends holds and invests, are restricted by the donors to the activities of the Library. Because these restricted resources held by the Friends can only be used by, or for the benefit of, the Town, the Friends is considered a component unit of the Town. During the year ended June 30, 2021, the Friends did not distribute funds to the Town.

Basis of Accounting/Measurement Focus

The accounts of the Town are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Government-Wide Financial Statements

The Government-wide Financial Statements (the Statement of Net Position and the Statement of Activities) report information of all the nonfiduciary activities of the primary government and its component units. These statements present summaries of Governmental and Business-Type Activities for the Town accompanied by a total column.

TOWN OF SHERIDAN, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

These statements are presented on an “*economic resources*” measurement focus and the accrual basis of accounting. Accordingly, all of the Town’s assets and liabilities, including capital assets and long-term liabilities, are included in the accompanying Statement of Net Position. The Town will not be retroactively including infrastructure in its assets.

The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The types of transactions reported as program revenues for the Town are reported in three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions.

Certain eliminations have been made as prescribed by GASB 34 in regard to interfund activities, payables and receivables. All internal balances in the Statement of Net Position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. There are no internal service fund transactions to be eliminated.

Governmental Fund Financial Statements

Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balances for all major governmental funds and nonmajor funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in fund balances and changes in fund balances as presented in these statements to the net position and changes in net position presented in the Government-Wide Financial Statements. The Town has presented all major funds that met those qualifications.

All governmental funds are accounted for on a spending or “*current financial resources*” measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. When an asset is recorded in governmental fund financial statements but the revenue is not available, the Town reports a deferred inflow of resources until such time as the revenue becomes available. The primary revenue sources which have been treated as susceptible to accrual by the Town are property tax, intergovernmental revenues, and other taxes. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Proprietary Fund Financial Statements

Proprietary Fund Financial Statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position, and a Statement of Cash Flows for each major proprietary fund. The Town has no nonmajor proprietary funds. There is no column representing internal service funds presented in the statements.

TOWN OF SHERIDAN, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary funds are accounted for using the “*economic resources*” measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Fund Net Position present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

Fiduciary Fund Financial Statements

Fiduciary Fund Financial Statements include a Statement of Net Position. The Town’s Fiduciary Funds represent Agency Funds, which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Agency Funds do not have a measurement focus.

Major Funds

The Town presents the following major funds:

1. Governmental Funds
 - a. General Fund: The General Fund is the Town’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
 - b. Library Fund: A special revenue fund that was established for the operations of the library.
2. Proprietary Funds
 - a. Water Enterprise Fund: This fund is used to account for the operating and nonoperating revenues of the public water utility system.
 - b. Sewer Enterprise Fund: This fund is used to account for the operating and nonoperating revenues of the public sewer utility system.

Budgets and Budgetary Accounting

An operating budget is adopted each fiscal year for all governmental and proprietary funds. The budgets are prepared in accordance with the basis of accounting used by those funds 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. Expenditures may not exceed appropriations. The Town Council may amend the budget by adopting a budget amendment resolution. The budget for the enterprise funds is adopted under a basis consistent with generally accepted accounting principles, except that depreciation, certain capital expenditures, and nonoperating income and expense items are not considered.

Enterprise Accounts Receivable

No reserve for estimated uncollected accounts receivable is maintained as management considers all balances to be fully collectible with respect to materiality.

TOWN OF SHERIDAN, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 accumulated depreciation. Capital assets which are not depreciable, such as land and construction in progress are reported separately. Depreciation expense is reported in Statement of Activities and is calculated using the straight-line method based on the assets' estimated useful life.

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

Buildings	40 to 75 years
Improvements other than buildings	5 to 20 years
Machinery and equipment	5 to 30 years
Infrastructure	20 to 50 years

In June 1999, the Governmental Accounting Standards Board (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. The Town capitalizes interest costs for business-type activities only, net of related interest earned, from the date of the borrowing until the projects acquired with those funds are ready for their intended use.

Inventories

Inventories of materials and supplies are expensed at the time of purchase. Inventories of materials and supplies on hand are not maintained. Inventories were not, however, considered material.

Cash and Cash Equivalents

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 purposes 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 used essentially as demand deposit accounts by the individual funds. In accordance with GASB Statement 72, investments are reported at fair value.

TOWN OF SHERIDAN, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences Payable

Earned but unpaid vacation and sick pay is included as a liability in the proprietary fund types and Government-Wide Financial Statements. The portion relating to the governmental fund types not expected to be paid with expendable and available resources is not reported in the governmental fund statements.

Interfund Transactions

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.

Fund Balance/Net Position

Fund Balance

In accordance with Governmental Accounting Standards Board Statement 54, the classifications for fund balance used for governmental funds are reported in two general classifications, nonspendable and spendable.

Nonspendable represents the portion of fund balance that is not in spendable form such as inventories, and, in the general fund, long term notes and loans receivable. Spendable fund balance is further categorized as restricted, committed, assigned, and unassigned.

The restricted fund balance category contains balances that can be spent only 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 purposes determined by a formal action of the government’s highest level of decision-making authority, the Town Council.

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 Town Council, the Mayor, and the Clerk individually have the authority to express assignments. In 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 should be used only to report a deficit 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.

TOWN OF SHERIDAN, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Minimum General Fund – Fund Balance

The Town does not maintain a stabilization fund.

Net Position

In funds other than governmental, net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. 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.

Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position

Concepts Statement No. 4, Elements of Financial Statements, introduced and defined deferred outflows of resources as a consumption of net assets by the government that is applicable to a future reporting period, and defined deferred inflows of resources as an acquisition of net assets by the government that is applicable to a future reporting period. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Concepts Statement 4 also identifies net position as the residual of all other elements presented in the statement of financial position.

Deferred inflows of resources in the governmental fund financial statements represent outstanding property taxes. These amounts are reported as revenue in the government-wide financial statements in the period in which they are levied/assessed. Deferred inflows and outflows of resources in the government-wide financial statements relate to pension plan and OPEB calculations.

Pensions

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

TOWN OF SHERIDAN, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Standards

During the year ended June 30, 2021, the Town adopted the following new standards:

GASB Statement No. 84, Fiduciary Activities

This statement establishes criteria for identifying fiduciary activities. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefits arrangements that are fiduciary activities. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employment benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

GASB Implementation Guide 2019-1, Implementation Guidance Update – 2019 and GASB Implementation Guide 2019-2, Fiduciary Activities

The objective of Implementation Guide 2019-1 is to provide guidance that clarifies, explains, or elaborates on GASB Statements. The objective of Implementation Guide 2019-2 is to provide guidance that clarifies, explains, or elaborates on the requirements of Statement No. 84, *Fiduciary Activities*.

GASB 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 light of the COVID-19 pandemic. That objective was accomplished by postponing the effective dates of certain provisions in GASB Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018 or later. The effective dates of certain provisions contained in the following pronouncements were postponed by one year: GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*; Statement No. 91, *Conduit Debt Obligations*; Statement No. 92, *Omnibus 2020*; Statement No. 93, *Replacement of Interbank Offered Rates*. The effective date of the following pronouncement was postponed by 18 months: GASB Statement No. 87, *Leases*.

2. CASH AND INVESTMENTS

Cash and investments may include cash, demand, time, savings, and fiscal agent deposits; investments in the State Short-Term Investment Pool (STIP); direct obligations of the United States governments and securities issued by the agencies of the United States; repurchase agreements; and registered warrants.

The composition of cash and investments at year end is as follows:

	Unrestricted	Restricted	Total
Governmental activities	\$ 586,044	\$ 10,780	\$ 596,824
Business-type activities	1,199,142	312,730	1,511,872
Fiduciary funds	-	-	-
	\$ 1,785,186	\$ 323,510	\$ 2,108,696

TOWN OF SHERIDAN, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

2. CASH AND INVESTMENTS (Continued)

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. The Town does not have a deposit policy for custodial credit risk. Of the bank balances, the balances are insured up to \$250,000 at each institution covered by the Federal Deposit Insurance Corporation (FDIC). Any uninsured amounts are secured by pledged securities held by financial institutions or by the trust departments or agents but not in the Town's name (class 3 collateral).

The Town minimizes custodial risk by meeting requirements set forth in state law. The law requires deposits to be fully secured by collateral valued at market value. Types of securities that may be pledged as collateral are detailed in Section 17-6-103 of the Montana Code Annotated (MCA).

Montana statutes require that the Town obtain securities for the uninsured portion of the deposits as follows: (1) Securities equal to 50 percent of such deposits if the institution in which the deposits are made has a net worth to total assets ratio of 6 percent or more, or (2) Securities equal to 100 percent 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 percent. The state statutes do not specify in whose custody or name the collateral is to be held. The amount of collateral held for the Town's deposits at year end equaled or exceeded 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. The Town's investments consist of savings and money market accounts, as well as a certificate of deposit with a maturity of 12 months and effective interest rates of 0.4%. These investments are recorded at cost, which is not materially different from fair value.

Fair Value Measurement and Application. 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; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Town voluntarily participates in the STIP (Short Term Investment Pool) 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 Montana Board of Investments or any other entity against investment losses and there is no guaranteed rate of return on funds invested in STIP shares. The Montana Board of Investments 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 Montana Board of Investments website at <http://investment.com/AnnualReportsAudits>.

TOWN OF SHERIDAN, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

2. CASH AND INVESTMENTS (Continued)

Certificates of deposit are valued using quoted prices in markets that are not active. These investments are recorded using recurring fair value measurements.

The following table provides information about the Town's deposits and investments.

	Cash/Cash Equivalents	Investments	Total Fair Value	Maturities	Credit Risk Rating	Fair Value Hierarchy
Petty cash	\$ 170	\$ -	\$ 170	N/A	N/A	N/A
Demand deposits	1,990,959	-	1,990,959	N/A	FDIC	N/A
Savings deposits	-	28,144	28,144	N/A	FDIC	N/A
Time deposits	-	10,780	10,780	N/A	FDIC	Level 2
STIP	-	78,643	78,643	N/A	N/A	N/A
	<u>\$ 1,991,129</u>	<u>\$ 117,567</u>	<u>\$ 2,108,696</u>			

3. TAXES AND ASSESSMENTS RECEIVABLE

All property taxes are collected by the Treasurer of Madison County, Montana, and remitted to the Town of Sheridan 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 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 30th and May 31st 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 year ended June 30, 2021, were within legal limits. The tax levies were based upon a taxable valuation of \$1,039,013.

TOWN OF SHERIDAN, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

4. 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 consisted of the following:

	<u>June 30, 2020</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers/ Reclassifications</u>	<u>June 30, 2021</u>
Governmental Activities:					
Non-depreciable					
Land	\$ 46,681	\$ -	\$ -	\$ -	\$ 46,681
Depreciable					
Buildings	466,159	-	-	-	466,159
Improvements other than buildings	207,229	-	-	-	207,229
Infrastructure	28,409	-	-	-	28,409
Machinery and equipment	224,821	-	-	-	224,821
Total	973,299	-	-	-	973,299
Accumulated depreciation	(543,543)	(25,872)	-	-	(569,415)
Total governmental activities	<u>\$ 429,756</u>	<u>\$ (25,872)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 403,884</u>
	<u>June 30, 2020</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers/ Reclassifications</u>	<u>June 30, 2021</u>
Business-type Activities:					
Non-depreciable					
Land	\$ 81,376	\$ -	\$ -	\$ -	\$ 81,376
Construction in progress	2,239,975	615,167	-	(2,855,142)	-
Depreciable					
Buildings	216,807	-	-	-	216,807
Machinery and equipment	79,740	-	-	-	79,740
Transmission and distribution	10,925,412	51,799	-	2,855,142	13,832,353
Total	13,543,310	666,966	-	-	14,210,276
Accumulated depreciation	(2,502,959)	(233,831)	-	-	(2,736,790)
Total business-type activities	<u>\$ 11,040,351</u>	<u>\$ 433,135</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,473,486</u>
Total capital assets	<u>\$ 11,470,107</u>	<u>\$ 407,263</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,877,370</u>

TOWN OF SHERIDAN, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

4. CAPITAL ASSETS (Continued)

Changes in accumulated depreciation are as follows:

	<u>June 30, 2020</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers/ Reclassifications</u>	<u>June 30, 2021</u>
Governmental Activities:					
Buildings	\$ (193,161)	\$ (11,271)	\$ -	\$ -	\$ (204,432)
Improvements other than buildings	(144,881)	(8,650)	-	-	(153,531)
Infrastructure	(8,523)	(568)	-	-	(9,091)
Machinery and equipment	<u>(196,978)</u>	<u>(5,383)</u>	<u>-</u>	<u>-</u>	<u>(202,361)</u>
Total governmental activities	<u>\$ (543,543)</u>	<u>\$ (25,872)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (569,415)</u>
Business-type Activities:					
Buildings	\$ (171,080)	\$ (11,644)	\$ -	\$ -	\$ (182,724)
Machinery and equipment	(56,691)	(5,240)	-	-	(61,931)
Transmission and distribution	<u>(2,275,188)</u>	<u>(216,947)</u>	<u>-</u>	<u>-</u>	<u>(2,492,135)</u>
Total business-type activities	<u>\$ (2,502,959)</u>	<u>\$ (233,831)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2,736,790)</u>
Total accumulated depreciation	<u>\$ (3,046,502)</u>	<u>\$ (259,703)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3,306,205)</u>

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.

Depreciation expense on capital assets for the year was charged as follows:

Governmental Activities:	
General Government	\$ 197
Public Safety	2,368
Public Works	7,869
Culture and Recreation	15,438
Total depreciation expense - governmental activities	<u>\$ 25,872</u>
Business-type Activities:	
Water	\$ 90,522
Sewer	143,309
Total depreciation expense - business-type activities	<u>\$ 233,831</u>

TOWN OF SHERIDAN, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

5. COMPENSATED ABSENCES

The Town's policy relating to compensated absences is described in Footnote 1. As shown in the table below, the long-term portion of the debt, amounting to \$8,051 for governmental activities and \$2,490 for business-type activities at year end 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.

	<u>Balance June 30, 2020</u>	<u>Incurred</u>	<u>Satisfied</u>	<u>Balance June 30, 2021</u>
Compensated absences				
Governmental Activities	\$ 12,564	\$ 11,539	\$ (8,000)	\$ 16,103
Business-type Activities	7,642	1,240	(3,900)	4,982
Total compensated absences	<u>\$ 20,206</u>	<u>\$ 12,779</u>	<u>\$ (11,900)</u>	<u>\$ 21,085</u>

	<u>Due within one year</u>	<u>Due after one year</u>	<u>Total</u>
Compensated absences			
Governmental Activities	\$ 8,052	\$ 8,051	\$ 16,103
Business-type Activities	2,490	2,492	4,982
Total compensated absences	<u>\$ 10,542</u>	<u>\$ 10,543</u>	<u>\$ 21,085</u>

6. LONG-TERM DEBT

Business-Type Activities Long-Term Debt

The following is a summary of long-term debt transactions of the Town's business-type activities:

	<u>Balance June 30, 2020</u>	<u>Issuances</u>	<u>Repayments</u>	<u>Balance June 30, 2021</u>	<u>Current Portion</u>	<u>Long-Term Portion</u>
Revenue bonds	<u>\$ 3,868,897</u>	<u>\$ 498,048</u>	<u>\$ (113,855)</u>	<u>\$ 4,253,090</u>	<u>\$ 504,335</u>	<u>\$ 3,748,755</u>

TOWN OF SHERIDAN, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

6. LONG-TERM DEBT (Continued)

Revenue Bonds – The Town issues revenue bonds, where the Town pledges income derived from the acquired or constructed assets to pay the debt service requirements.

Water

Water revenue bonds outstanding are as follows. The WRF 20451A loan will be forgiven upon completion of the program requirements. WRF 20451A and 20452B are still in the drawdown phase.

<u>Purpose</u>	<u>Origination Date</u>	<u>Interest Rate</u>	<u>Term</u>	<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Annual Payment</u>	<u>Balance June 30, 2021</u>
2007 Drinking Water	9/28/2007	2.25%	20 yrs	7/1/2027	\$ 359,213	Varies	\$ 96,000
2011 Water System	7/20/2012	2.50%	40 yrs	7/20/2051	229,000	\$ 9,216	193,813
WRF 20451A forgivable	10/23/2019	N/A	N/A	N/A	500,000	N/A	386,948
WRF 20452B	10/23/2019	2.500%	20 yrs	7/1/2039	601,000	Varies	338,949
2019 Water RD	10/23/2019	2.375%	40 yrs	10/23/2059	400,000	\$ 1,292	388,609
					<u>\$ 2,089,213</u>		<u>\$ 1,404,319</u>

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30,			
2022	\$ 437,712	\$ 29,702	\$ 467,414
2023	53,027	28466	81,493
2024	53,262	27208	80,470
2025	53,576	25897	79,473
2026	55,859	24591	80,450
2027-2031	225,891	105792	331,683
2032-2036	132,229	62920	195,149
2037-2041	79,321	42279	121,600
2042-2046	89,569	33031	122,600
2047-2051	101,112	23488	124,600
2052-2056	68,614	12835	81,449
2057-2061	54,147	3121	57,268
	<u>\$ 1,404,319</u>	<u>\$ 419,330</u>	<u>\$ 1,823,649</u>

TOWN OF SHERIDAN, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

6. LONG-TERM DEBT (Continued)

Sewer

Sewer revenue bonds outstanding are as follows:

<u>Purpose</u>	<u>Origination Date</u>	<u>Interest Rate</u>	<u>Term</u>	<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Annual Payment</u>	<u>Balance June 30, 2021</u>
2011 Sewer System	12/12/2011	2.25%	40 yrs	12/28/2051	\$ 516,000	\$ 19,632	\$ 431,025
2013 Sewer System	3/27/2013	1.875%	40 yrs	4/27/2053	2,846,000	101,436	2,417,746
					<u>\$ 3,362,000</u>	<u>\$ 121,068</u>	<u>\$ 2,848,771</u>

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30,			
2022	\$ 66,623	\$ 54,445	\$ 121,068
2023	67,923	53,146	121,069
2024	69,103	51,965	121,068
2025	70,592	50,476	121,068
2026	71,968	49,100	121,068
2027-2031	381,309	229,189	610,498
2032-2036	412,114	174,226	586,340
2037-2041	453,918	136,422	590,340
2042-2046	499,988	93,352	593,340
2047-2051	550,761	48,580	599,341
2052-2056	204,472	17,871	222,343
	<u>\$ 2,848,771</u>	<u>\$ 958,772</u>	<u>\$ 3,807,543</u>

The significant compliance provisions of the water system revenue bonds require 1) a debt service account will be established and credited monthly with one-sixth of the interest and principal due within the next six months with respect to all outstanding bonds payable from that accounts, 2) establish a reserve account equal to the maximum principal and interest due in any fiscal year; this account will be established from net revenues 3) establish an asset replacement reserve funded with required monthly transfers and 4) produce net revenues not less than 125% of maximum principal and interest due in any subsequent fiscal year. The significant compliance provisions of the sewer system revenue bonds require 1) establish a debt service reserve account equal to the maximum principal and interest due in any fiscal year; this account will be established from monthly payments from net revenues 3) establish an asset replacement reserve funded with required monthly transfers and 4) produce net revenues not less than 110% of maximum principal and interest due in any subsequent fiscal year. The Town is in substantial compliance with the provisions of the water and sewer system revenue bonds.

TOWN OF SHERIDAN, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

7. PENSION PLANS – PUBLIC EMPLOYEES’ RETIREMENT SYSTEM (PERS)

In accordance with GASB Statement 68, Accounting and Financial Reporting for Pensions, employers and the non-employer contributing entity are required to recognize and report certain amounts associated with participation in the Public Employees' Retirement System Defined Benefit Retirement Plan (the Plan). This includes the proportionate share of the collective Net Pension Liability; Pension Expense; and Deferred Outflows and Deferred Inflows associated with pensions. The following information for financial reporting as of June 30, 2021, is based on a June 30, 2020 measurement date.

Plan Description

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

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

Benefits Provided

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). Members rights are vested after five years of service.

Service retirement:

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

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. Retired 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.

TOWN OF SHERIDAN, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

7. PENSION PLANS – PUBLIC EMPLOYEES’ RETIREMENT SYSTEM (PERS) (Continued)

Benefits Provided (Continued)

2. Retired 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.
3. Retired 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.

*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.

TOWN OF SHERIDAN, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

7. PENSION PLANS – PUBLIC EMPLOYEES’ RETIREMENT SYSTEM (PERS) (Continued)

Contributions

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

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

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

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

Fiscal Year	Member		State & University	Local Governments		School Districts	
	Hired < 7/1/11	Hired > 7/1/11	Employer	Employer	State	Employer	State
2020	7.900%	7.900%	8.770%	8.670%	0.100%	8.400%	0.370%
2019	7.900%	7.900%	8.670%	8.570%	0.100%	8.300%	0.370%
2018	7.900%	7.900%	8.570%	8.470%	0.100%	8.200%	0.370%
2017	7.900%	7.900%	8.470%	8.370%	0.100%	8.100%	0.370%
2016	7.900%	7.900%	8.370%	8.270%	0.100%	8.000%	0.370%
2015	7.900%	7.900%	8.270%	8.170%	0.100%	7.900%	0.370%
2014	7.900%	7.900%	8.170%	8.070%	0.100%	7.800%	0.370%
2012-2013	6.900%	7.900%	7.170%	7.070%	0.100%	6.800%	0.370%
2010-2011	6.900%		7.170%	7.070%	0.100%	6.800%	0.370%
2008-2009	6.900%		7.035%	6.935%	0.100%	6.800%	0.235%
2000-2007	6.900%		6.900%	6.800%	0.100%	6.800%	0.100%

1. Member contributions to the system of 7.9% are temporary and will be decreased to 6.9% on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and additional member contribution rates.
2. Employer contributions to the system:
 - a. Effective July 1, 2014, following the 2013 Legislative Session, PERS-employer contributions increase an additional 0.1% a year and will continue over 10 years through 2024. The additional employer contributions including 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.
 - b. Effective July 1, 2013, employers are required to make contributions on working retirees’ compensation. Member contributions for working retirees are not required.
 - c. The portion of employer contributions allocated to the PCR are included in the employers reporting. The PCR was paid off effective March 2016 and the contributions previously directed to the PCR are now directed to member accounts.

TOWN OF SHERIDAN, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

7. PENSION PLANS – PUBLIC EMPLOYEES’ RETIREMENT SYSTEM (PERS) (Continued)

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 contributed a Statutory Appropriation from the General Fund of \$33,951,150.

In accordance with GASB Statement No. 24, on-behalf payments of fringe benefits and salaries for the Town are recognized as revenues and expenditures in the fund financial statements. The covered payroll and contributions to the plan for the current year and two previous years are presented in the following table. The amounts contributed for those years were equal to the required contributions for each year. In general, pension contributions are made from the funds in which the related payroll expenses were incurred.

Year Ended June 30	Covered Payroll	Employee Contributions	Employer Contributions	State Contributions
2021	\$ 130,961	\$ 10,346	\$ 11,485	\$ 131
2020	\$ 173,769	\$ 13,728	\$ 15,066	\$ 174
2019	\$ 166,185	\$ 13,129	\$ 14,242	\$ 166

Pension Liabilities, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

GASB Statement 68 allows a measurement date of up to 12 months before the employer’s fiscal year-end can be utilized to determine the Plan’s TPL. The basis for the TPL as of June 30, 2020, was determined by taking the results of the June 30, 2019, actuarial valuation and applying standard roll forward procedures. The roll forward procedure uses a calculation that adds the annual normal cost (also called the service cost), subtracts the actual benefit payments and refunds for the plan year, and then applies the expected investment rate of return for the year. The roll forward procedure will include the effects of any assumption changes and legislative changes. The update procedures are in conformity with Actuarial Standards of Practice issued by the Actuarial Standards Board. The Total Pension Liability (TPL) minus the Fiduciary Net Position equals the Net Pension Liability (NPL). The proportionate shares of the employer’s and the state of Montana’s NPL for June 30, 2020, and 2019, are displayed below. The employer’s proportionate share equals the ratio of the employer’s contributions to the sum of all employer and non-employer contributions during the measurement period. The state’s proportionate share for a particular employer equals the ratio of the contributions for the particular employer to the total state contributions paid. The employer recorded a liability of \$273,233 and the employer’s proportionate share was 0.010357 percent.

	Net Pension Liability as of 6/30/2021	Net Pension Liability as of 6/30/2020	Percent of Collective NPL as of 6/30/2021	Percent of Collective NPL as of 6/30/2020	Change in Percent of Collective NPL
Employer Proportionate Share	\$ 273,233	\$ 210,535	0.010357%	0.010072%	0.000285%
State of Montana Proportionate Share associated with Employer	85,720	68,252	0.003249%	0.003265%	-0.000016%
Total	\$ 358,953	\$ 278,787	0.013606%	0.013337%	0.000269%

TOWN OF SHERIDAN, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

7. PENSION PLANS – PUBLIC EMPLOYEES’ RETIREMENT SYSTEM (PERS) (Continued)

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

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

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

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

Pension Expense

At June 30, 2021, the employer recognized a Pension Expense of \$62,962 for its proportionate share of the Plan’s pension expense. The employer also recognized grant revenue of \$14,019 for the support provided by the State of Montana for its proportionate share of the pension expense associated with the employer.

	Pension Expense as of 6/30/2021
Employer Proportionate Share	\$ 62,962
Employer Grant Revenue - State of Montana State Appropriation for employer	14,019
Total	\$ 76,981

Recognition of Deferred Inflows and Outflows

At June 30, 2021, 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
Actual vs. Expected Experience	\$ 4,411	\$ 7,812
Projected vs. Actual Investment Earnings	23,659	-
Changes in Assumptions	18,920	-
Changes in Proportionate Share and Differences between Employer Contributions and Proportionate Share of Contributions	10,829	
Employer Contributions Subsequent to the Measurement Date	11,485	-
Total	\$ 69,304	\$ 7,812

TOWN OF SHERIDAN, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

7. PENSION PLANS – PUBLIC EMPLOYEES’ RETIREMENT SYSTEM (PERS) (Continued)

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

Year Ended	Amount Recognized in Pension
June 30:	Expense as an Increase (Decrease)
	to Pension Expense
2022	\$ (44,046)
2023	16,864
2024	82,697
2025	5,977
2026	-
Thereafter	-
	\$ 61,492

Actuarial Assumptions

The total pension liability in the June 30, 2020 actuarial valuation as determined using the following actuarial assumptions.

- Investment Return (net of admin expense): 7.34%
- Admin Expense as a % of Payroll: 0.30%
- General Wage Growth (includes inflation at 2.75%): 3.50%
- Merit Increases: 0% to 4.80%
- Postretirement Benefit Increases:
 Guaranteed Annual Benefit Adjustment (GABA)
 After the member has completed 12 full months of retirement, the member’s benefit increases by the applicable percentage each January, **inclusive** of other adjustments to the member’s benefit.
 - 3.0% 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, service retired members, and beneficiaries based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2020 with scale BB, males set back 1 year.
- Mortality assumptions among disabled members are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections.

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.

TOWN OF SHERIDAN, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

7. PENSION PLANS – PUBLIC EMPLOYEES’ RETIREMENT SYSTEM (PERS) (Continued)

Several factors are considered in evaluating the long-term rate of return assumption including historical rates of return, rate of return assumptions adopted by similar public-sector systems, and by using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation (78c & 78f) as of June 30, 2020, are summarized in the following table.

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return Arithmetic Basis</u>
Cash	2.00%	0.11%
Domestic Equity	30.00%	6.19%
International Equity	16.00%	6.92%
Private Investments	14.00%	10.37%
Natural Resources	4.00%	3.43%
Real Estate	9.00%	5.74%
Core Fixed Income	20.00%	1.57%
Non-Core Fixed Income	5.00%	3.97%

Discount Rate

The discount rate used to measure the TPL was 7.34%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities would be made based on the Board’s funding policy, which established the contractually required rates under the Montana Code Annotated. The state contributed 0.1% of the salaries paid by local governments and 0.37% paid by school districts. In addition, the state contributed a statutory appropriation from the general fund. Based on those assumptions, the Plan’s fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2123. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL. A municipal bond rate was not incorporated in the discount rate.

Sensitivity of the proportionate share of the net pension liability to changes in the discount rate

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

	<u>1.0% Decrease</u>	<u>Current Discount Rate</u>	<u>1.0% Increase</u>
Employer's Proportionate Share of NPL	\$ 376,089	\$ 273,233	\$ 186,835

TOWN OF SHERIDAN, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

7. PENSION PLANS – PUBLIC EMPLOYEES’ RETIREMENT SYSTEM (PERS) (Continued)

Defined Contribution Plan

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

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

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

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

At the plan level for the measurement period ended June 30, 2020, the PERS-DCRP employer did not recognize any net pension liability or pension expense for the defined contribution plan. Plan level non-vested forfeitures for the 320 employers that have participants in the PERS-DCRP totaled \$775,195.

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>.

TOWN OF SHERIDAN, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

8. INTERFUND TRANSFERS

A summary of interfund transfers reported in the fund financial statements for the year follows:

Transfers To	Transfers From		
	General Fund	Nonmajor Governmental	Total
Library Fund	\$ 18,000	\$ -	\$ 18,000
Nonmajor Governmental	26,455	-	26,455
	\$ 44,455	\$ -	\$ 44,455

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 required to expend them, (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, and (3) to transfer non-restricted interest income from the permanent fund to the general fund.

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.

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.

TOWN OF SHERIDAN, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

10. 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, 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.

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 Montana Municipal Interlocal Authority (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 tort liability plan and workers' compensation program issued \$4.41 million and \$6.155 million, respectively, of bonds to immediately finance the necessary insurance reserves. All members signed a contingent note for a pro rata share of this liability in case operating revenues were insufficient to cover the debt service; this debt was retired during 2011.

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 (vehicle) or \$1,000 (real and personal property) deductible per occurrence. MMIA reinsures their property insurance with a national municipal pool, Public Entities' Property Insurance.

TOWN OF SHERIDAN, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

11. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description

As required by State law (MCA 2-18-704), the Town allows its retiring employees with at least five years of service and who are at least 50 years of age, along with their eligible spouses and dependents, the option to continue participation in the Town's group health insurance plan until the retiree becomes eligible for Medicare coverage. This option creates a defined benefit other post-employment benefits plan (OPEB), since retirees are typically older than the average age of active plan participants and therefore receive a benefit of lower insurance rates. The OPEB plan is a single-employer defined benefit plan administered by the Town. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75. The Town covers OPEB costs when they come due, on a pay-as-you-go basis.

Benefits Provided

The OPEB plan provides healthcare insurance benefits for retirees, eligible spouses and dependents, as defined in MCA 2-18-704. Eligible retirees are required to pay the full amount of their health insurance premiums.

Employees Covered by Benefit Terms

As of the June 30, 2021 alternative measurement date, the following employees were covered by the benefit terms:

Active members	3
Total	3

Total OPEB Liability

The Town's total OPEB liability was determined by using the alternative measurement method as of June 30, 2021.

There are no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75, so the net fiduciary position is \$0 and the net OPEB liability would be equal to the total OPEB liability.

TOWN OF SHERIDAN, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

11. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

Actuarial Assumptions and Other Inputs

The total OPEB liability as of June 30, 2021 was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Average age of retirement based on historical data	60
Turnover rate	0.00%
Discount rate	2.27%
Average salary increase	4.00%

Healthcare cost trend rate	Annual %			Annual %		
	<u>From Year</u>	<u>To Year</u>	<u>Increase</u>	<u>From Year</u>	<u>To Year</u>	<u>Increase</u>
	2021	2022	0.00%	2052	2056	4.80%
	2022	2023	6.50%	2056	2061	4.70%
	2023	2024	6.00%	2061	2068	4.60%
	2024	2025	5.90%	2068	2069	4.50%
	2025	2026	5.70%	2069	2070	4.40%
	2026	2027	5.60%	2070	2071	4.30%
	2027	2028	5.50%	2071	2073	4.20%
	2028	2029	5.30%	2073	2074	4.10%
	2029	2046	5.20%	2074	2076	4.00%
	2046	2047	5.10%	2076	2077	3.90%
	2047	2049	5.00%	2077	+	3.80%
	2049	2052	4.90%			

TOWN OF SHERIDAN, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

11. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

Changes in the Total OPEB Liability

Total OPEB liability - beginning of year		\$ 18,298
Service cost		4,448
Interest		516
Changes in benefit terms		-
Difference between expected and actual experience		(12,655)
Changes of assumptions		38
Benefit payments		<u>(981)</u>
Net change in OPEB liability		(8,634)
Total OPEB liability - end of year		<u>\$ 9,664</u>

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the total OPEB liability, calculated using the current healthcare cost trend rate, as well as the total OPEB liability calculated using a healthcare cost trend rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	<u>1.0% Decrease</u>	<u>Current Healthcare Cost Trend Rate</u>	<u>1.0% Increase</u>
Total OPEB Liability	\$ 9,179	\$ 9,664	\$ 10,182

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability, calculated using the current discount rate, as well as the total OPEB liability calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	<u>1.0% Decrease</u>	<u>Current Discount Rate</u>	<u>1.0% Increase</u>
Total OPEB Liability	\$ 9,848	\$ 9,664	\$ 9,466

TOWN OF SHERIDAN, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

11. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

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

For the year ended June 30, 2021, the Town recognized OPEB expense of \$7,658. The Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Difference between expected and actual experience	\$ 12,656	\$ -
Changes in assumptions or other inputs	-	38
	\$ 12,656	\$ 38

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as a reduction in OPEB expense as follows:

Year ending June 30	Amount
2022	\$ (12,618)

12. FIRE DEPARTMENT RELIEF ASSOCIATION DISABILITY AND PENSION FUND

Town volunteer fire fighters are covered by the Fire Department Relief Association Disability and Pension Fund, which is established by state law. The Association is managed by a Board of Trustees made up of members of the fire department and is accounted for as a pension trust fund of the Town. A member of a volunteer fire department who has served 20 years or more is entitled to benefits regardless of age. Volunteers serving less than 20 years but more than 10 years may receive reduced benefits. The amount of the pension benefits are set by the Association's Board of Trustees.

The Town is required to soundly fund the Volunteer Fire Department pension plan. The plan is considered to be funded soundly if: (a) assets in the fund are maintained at a level equal to at least 0.21% but no more than 0.52% of the total assessed value of taxable property, determined as provided in 15-8-111, within the limits of the Town or town; or (b) funding is maintained at a level determined by an actuarial valuation to be sufficient to keep the fund actuarially sound. Accordingly, the Town has funded the plan by maintaining assets in excess of the 0.21% of the total assessed value of taxable property. Consequently, the Town did not contribute to the fund during the year ended June 30, 2021.

TOWN OF SHERIDAN, MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

13. INTERLOCAL AGREEMENTS

Joint Ventures

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

The Towns of Ennis, Sheridan, Twin Bridges, and Virginia City have an interlocal agreement. The purpose of the agreement is to acquire, maintain, and operate machinery, equipment and services which may not be practical for one of the Towns to obtain by itself and which may be mutually advantageous for the Towns as a group. The required contribution each year is \$3,000 per Town.

Law Enforcement Services

The Town participated in a law enforcement service agreement with Madison County for the fiscal year ended June 30, 2021. The County provides these services at no additional cost to the Town.

14. MAJOR PURPOSE PRESENTATION

The table presented below displays the Town's fund balances by major purpose, as displayed on page II-16 of the governmental funds balance sheet. Statement 54 requires the disclosure of the purpose of each Major Special Revenue Fund.

	<u>General Fund</u>	<u>Library Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Nonspendable				
Library endowment	\$ -	\$ -	\$ 10,000	\$ 10,000
Restricted				
Public safety	-	-	22,235	22,235
Public works	-	-	38,898	38,898
Culture and recreation	-	124,076	2,185	126,261
Total restricted	<u>-</u>	<u>124,076</u>	<u>63,318</u>	<u>187,394</u>
Assigned				
Capital projects	-	-	96,612	96,612
Total assigned	<u>-</u>	<u>-</u>	<u>96,612</u>	<u>96,612</u>
Unassigned	<u>219,439</u>	<u>-</u>	<u>-</u>	<u>219,439</u>
Total fund balances	<u>\$ 219,439</u>	<u>\$ 124,076</u>	<u>\$ 169,930</u>	<u>\$ 513,445</u>

15. SUBSEQUENT EVENTS

Date of Management Evaluation

Management has evaluated subsequent events through February 14, 2022, the date on which the financial statements were available to be issued.

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

TOWN OF SHERIDAN, MONTANA
POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS
Year Ended June 30, 2021

SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS				
	2021	2020	2019	2018
Total OPEB Liability				
Service cost	\$ 4,448	\$ 5,152	\$ 4,286	\$ 4,200
Interest	516	708	921	735
Changes in benefit terms	-	-	-	-
Differences between expected and actual experience	(12,655)	(7,219)	-	787
Changes of assumptions or other inputs	38	(1,912)	(70)	(145)
Benefit payments	(981)	(1,273)	(1,816)	(843)
Net change in total OPEB liability	(8,634)	(4,544)	3,321	4,734
Total OPEB liability - beginning	18,298	22,842	19,521	14,787
Total OPEB liability - ending	\$ 9,664	\$ 18,298	\$ 22,842	\$ 19,521
Covered-employee payroll	\$ 79,917	\$ 123,333	\$ 126,054	\$ 121,206
Total OPEB liability as a percentage of covered-employee payroll	12.09%	14.84%	18.12%	16.11%

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

TOWN OF SHERIDAN, MONTANA
NOTE TO RSI
Notes to Required Supplementary Information - OPEB (Other Post-Employment Healthcare Benefits)
Year Ended June 30, 2021

Measurement Date	June 30, 2021
Reporting Date	June 30, 2021
Measurement Period	July 1, 2020 to June 30, 2021
	As of June 30, 2021, the Town's total OPEB liability was determined using the alternative measurement method as of June 30, 2021
Change in benefit terms	None
Changes in assumptions	Revised discount rate per Bond Buyer's 20-year municipal bond rate as of June 30, 2021
Average age of retirement based on	60.0
Turnover Rate	0.00%
Discount Rate	2.27% per year
Average Salary Increase	4.00% per year

Healthcare Cost Trend Rate	Annual %			Annual %		
	From Year	To Year	Increase	From Year	To Year	Increase
	2021	2022	0.00%	2052	2056	4.80%
	2022	2023	6.50%	2056	2061	4.70%
	2023	2024	6.00%	2061	2068	4.60%
	2024	2025	5.90%	2068	2069	4.50%
	2025	2026	5.70%	2069	2070	4.40%
	2026	2027	5.60%	2070	2071	4.30%
	2027	2028	5.50%	2071	2073	4.20%
	2028	2029	5.30%	2073	2074	4.10%
	2029	2046	5.20%	2074	2076	4.00%
	2046	2047	5.10%	2076	2077	3.90%
	2047	2049	5.00%	2077	+	3.80%
	2049	2052	4.90%			

TOWN OF SHERIDAN, MONTANA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS)
Year Ended June 30, 2021

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY								
	2021	2020	2019	2018	2017	2016	2015	2014
Employer's proportionate share of the net pension liability	\$ 273,233	\$ 210,535	\$ 205,301	\$ 164,760	\$ 102,834	\$ 69,949	\$ 79,196	\$ 101,912
Employer's proportionate share of the net pension liability associated with the employer	0.0104%	0.0101%	0.0098%	0.0085%	0.0060%	0.0050%	0.0064%	0.0064%
State of MT proportionate share of the net pension liability associated with the employer	\$ 85,720	\$ 68,252	\$ 68,452	\$ 2,057	\$ 1,257	\$ 859	\$ 967	\$ 1,245
Total	\$ 358,953	\$ 278,787	\$ 273,753	\$ 166,817	\$ 104,091	\$ 70,808	\$ 80,163	\$ 103,157
Employer's covered payroll	\$ 173,769	\$ 166,185	\$ 161,766	\$ 104,943	\$ 72,315	\$ 58,397	\$ 71,949	Not available
Employer's proportionate share of the net pension liability as of its covered payroll	157.24%	126.69%	126.91%	157.00%	142.20%	119.78%	110.07%	Not available
Plan fiduciary net position the total pension liability	68.90%	73.85%	73.47%	73.75%	74.71%	78.40%	79.90%	Not available

SCHEDULE OF CONTRIBUTIONS								
	2021	2020	2019	2018	2017	2016	2015	2014
Contractually required contributions	\$ 11,485	\$ 15,066	\$ 14,242	\$ 11,141	\$ 8,784	\$ 6,853	\$ 6,091	\$ 7,294
Contributions in relation to the contractually required contributions	\$ 11,485	\$ 15,066	\$ 14,242	\$ 11,141	\$ 8,784	\$ 6,853	\$ 6,091	\$ 7,294
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Employer's covered payroll	\$ 130,961	\$ 173,769	\$ 166,185	\$ 161,766	\$ 104,943	\$ 72,315	\$ 58,397	\$ 71,949
Contributions of covered payroll	8.77%	8.67%	8.57%	6.89%	8.37%	9.48%	10.43%	10.14%

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

TOWN OF SHERIDAN, MONTANA
NOTE TO RSI
Notes to Required Supplementary Information - Public Employees' Retirement System (PERS)
Year Ended June 30, 2021

Changes of Benefit Terms

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

2017 Legislative Changes:

Working Retiree Limitations - for PERS

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

Refunds

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

Interest credited to member accounts

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

Lump-sum payouts

Effective July 1, 2017, lump-sum payouts in all systems are limited to the member's accumulated contribution 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 after of 65. PERS DC members hired after July 1, 2011 who became disabled were previously only eligible for a disability benefit until age 65. Effective July 1, 2017, these individuals will be eligible for a disability benefit until they reach 70, thus ensuring the same 5-year time period available to PERS DC disabled members hired prior to July 1, 2011 who have a normal retirement age of 60 and are eligible for a disability benefit until age 65.

Changes in Actuarial Assumptions and Methods

Method and assumptions used in calculations of actuarially determined contribution:

The following Actuarial Assumptions were adopted from June 2019 Experience Study:

General Wage Growth*	3.50%
Investment Rate of Return*	7.65%
*Includes inflation at	2.75%
Merit salary increased	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
Mortality (Disabled members)	For Males and Females: RP 2000 Combined Mortality Table, with no projections
Admin Expense as % of Payroll	0.26%

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

**Budget to Actual Comparison – General and
Special Revenue Major Funds**

TOWN OF SHERIDAN, MONTANA
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
Year Ended June 30, 2021

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
Budgetary fund balance, July 1	\$ 201,449	\$ 201,449	\$ 201,449	\$ -
Resources (inflows):				
Taxes	156,129	156,129	158,545	2,416
Intergovernmental	111,747	111,747	72,939	(38,808)
Sale of assets	-	-	-	-
Interest on investments	463	463	395	(68)
Transfers from other funds	-	-	-	-
Other	12,650	12,650	12,847	197
Amounts available for appropriation	<u>482,438</u>	<u>482,438</u>	<u>446,175</u>	<u>(36,263)</u>
Charges to appropriations (outflows):				
Current				
General government	115,998	115,998	104,517	11,481
Public safety	2,380	2,380	-	2,380
Public works	49,806	49,806	35,489	14,317
Culture and recreation	54,149	54,149	42,275	11,874
Capital outlay	-	-	-	-
Debt service	-	-	-	-
Transfers to other funds	40,550	40,550	44,455	(3,905)
Total charges to appropriations	<u>262,883</u>	<u>262,883</u>	<u>226,736</u>	<u>36,147</u>
Budgetary fund balance, June 30	<u>\$ 219,555</u>	<u>\$ 219,555</u>	<u>\$ 219,439</u>	<u>\$ (116)</u>

See the Independent Auditors' Report.

TOWN OF SHERIDAN, MONTANA
BUDGETARY COMPARISON SCHEDULE - LIBRARY FUND
Year Ended June 30, 2021

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
Budgetary fund balance, July 1	\$ 88,405	\$ 88,405	\$ 88,405	\$ -
Resources (inflows):				
Taxes	-	-	-	-
Intergovernmental	76,084	76,087	82,447	6,360
Sale of assets	-	-	-	-
Interest on investments	-	-	-	-
Transfers from other funds	18,000	18,000	18,000	-
Other	11,000	11,000	858	(10,142)
Amounts available for appropriation	<u>193,489</u>	<u>193,492</u>	<u>189,710</u>	<u>(3,782)</u>
Charges to appropriations (outflows):				
Current				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Culture and recreation	94,358	94,358	65,634	28,724
Capital outlay	-	-	-	-
Debt service	-	-	-	-
Transfers to other funds	-	-	-	-
Total charges to appropriations	<u>94,358</u>	<u>94,358</u>	<u>65,634</u>	<u>28,724</u>
Budgetary fund balance, June 30	<u>\$ 99,131</u>	<u>\$ 99,134</u>	<u>\$ 124,076</u>	<u>\$ 24,942</u>

See the Independent Auditors' Report.

**TOWN OF SHERIDAN, MONTANA
BUDGETARY COMPARISON SCHEDULE
NOTE TO RSI**

**Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures
Year Ended June 30, 2021**

	General Fund	Library Fund
Sources/inflows of resources		
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 446,175	\$ 189,710
Differences - budget to GAAP:		
The fund balance at the beginning of the year is a budgetary resource but is not a current-year revenue for financial reporting purposes.	(201,449)	(88,405)
Transfers from other funds are inflows of budgetary resources but are not <i>revenues</i> for financial reporting purposes.	-	(18,000)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	\$ 244,726	\$ 83,305
 Uses/outflows of resources		
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 226,736	\$ 65,634
Differences - budget to GAAP:		
Transfers to other funds are outflows of budgetary resources but are not <i>expenditures</i> for financial reporting purposes.	(44,455)	-
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	\$ 182,281	\$ 65,634

See the Independent Auditors' Report.

PART III

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS



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*

Honorable Mayor and Town Council
Town of Sheridan, 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Sheridan, Montana, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Town of Sheridan, Montana's basic financial statements and have issued our report thereon dated February 14, 2022.

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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies (2021-I1, 2021-I2).



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town'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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards (2021-C1)*.

Town's Response to Findings

The Town of Sheridan, Montana's response to the findings identified in our audit is 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

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of 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.

Amatics CPA Group
Bozeman, Montana
February 14, 2022

TOWN OF SHERIDAN, MONTANA
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2021

The results of our tests disclosed two significant deficiencies and one instance of noncompliance with certain provisions of laws, regulations, contracts and grant agreements and other matters required to be reported under *Government Auditing Standards* as of June 30, 2021.

2021-I1 Criteria: There needs to be adequate segregation of duties with regard to the utility cash receipts.

Condition: The Town Clerk is responsible for collecting, recording, and billing of accounts receivable and is responsible for preparing the deposit and making the deposit.

Effect: A misstatement, including one due to theft or error, could go undetected.

Cause: Due to limited staffing, it makes it difficult to achieve adequate segregation of duties.

Recommendation: We recommend that the Town continue to evaluate the segregation of duties with the Town Clerk to ensure compensating controls are in place to detect and deter fraud until the ability exists for the Town to have a separate individual prepare and make the deposit.

Response: The Town will continue to evaluate the segregation of duties for the Clerk to ensure compensating controls.

2021-I2 Criteria: There needs to be a system in place to appropriately identify and capitalize capital assets.

Condition: During the audit, we identified adjustments to water project construction in process assets for costs placed in service during the year (that were not reclassified from construction in progress, nor depreciated).

Effect: A misstatement could go undetected.

Cause: The Town's water distribution project was completed in May 2021 and related costs should have been placed in service at that point (reclassified from construction in progress to infrastructure and started depreciation). These costs remained in construction in progress at year end prior to proposed audit adjustments.

Recommendation: We recommend that management put a system in place to ensure capital assts are appropriately recorded and depreciated in the correct periods.

Response: The Town will continue to work on a system to appropriately identify, capitalize, and depreciate capital assets placed in service during the year.

TOWN OF SHERIDAN, MONTANA
SCHEDULE OF FINDINGS AND RESPONSES (Continued)
JUNE 30, 2021

2021-C1 Criteria: According to MCA 17-2-302, a local government may not maintain a cash balance in a charge for service fund greater than twice the fund's appropriation. Per MCA 17-2-303, if a local government maintains for more than 60 days a cash balance greater than the limitation in 17-2-302, a local government must reduce the charge for service within 120 days.

Condition: The Town's sewer fund maintains a cash balance greater than twice the fund's appropriation.

Effect: The Town is out of compliance with MCA requirements related to charges for services funds.

Cause: The fees charged by the Town have allowed the fund to accumulate a cash balance in excess of the allowed limits under MCA.

Recommendation: The Town's governing body should review the MCA requirements and applicability to the sewer fund.

Response: The Town is accumulating funds in its sewer fund in preparation for upcoming capital projects included as high priorities in the Town's construction and growth policies. As such, the Town anticipates it will spend the balances in excess of MCA requirements in fiscal year 2022.

TOWN OF SHERIDAN, MONTANA
STATUS OF PRIOR YEAR FINDINGS
JUNE 30, 2021

The results of our tests disclosed no instances of noncompliance with certain provisions of laws, regulations, contracts and grant agreements and other matters and two significant deficiencies, which were required to be reported under *Government Auditing Standards* as of June 30, 2020.

2020-I1 Criteria: There needs to be adequate segregation of duties with regard to the utility cash receipts.

Condition: The Town Clerk is responsible for collecting, recording, and billing of accounts receivable and is responsible for preparing the deposit and making the deposit.

Effect: A misstatement, including one due to theft or error, could go undetected.

Cause: Due to limited staffing, it makes it difficult to achieve adequate segregation of duties.

Recommendation: We recommend that the Town continue to evaluate the segregation of duties with the Town Clerk to ensure compensating controls are in place to detect and deter fraud until the ability exists for the Town to have a separate individual prepare and make the deposit.

Status: Repeat finding – 2021-I1.

2020-I2 Criteria: There needs to be a system in place to appropriately identify and capitalize capital assets.

Condition: During the audit, we identified adjustments to water project construction in process assets for costs incurred prior to year-end and paid after year-end.

Effect: A misstatement could go undetected.

Cause: Material capital costs incurred in June and paid after year-end were not accrued at June 30, 2020 and not flagged for capitalization during year-end closing/preparation of the Annual Financial Report.

Recommendation: We recommend that management put a system in place to ensure capital assets are appropriately recorded in the correct period.

Status: Repeat finding – 2021-I2.