

CITY OF LIVINGSTON  
PARK COUNTY  
FINANCIAL STATEMENTS  
Year Ended June 30, 2001

OLNESS & ASSOCIATES, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

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CITY OF LIVINGSTON

ORGANIZATION

June 30, 2001

CITY COMMISSION

Caron Cooper	Chairperson
Vicki Blakeman	Commissioner
Mikle Doyle	Commissioner
AnnaMarie Barber	Commissioner
Timothy Stevens	Commissioner

CITY STAFF

Steve Golnar	City Manager
Shirley Ewan	Finance Officer
Neil Travis	City Judge
Bruce Becker	City Attorney
Darren Raney	Police Chief
Bob Brown	Acting Fire Chief
Ken Kastelitz	Supt. of Public Service
Clint Tinsley	Supt. of Public Utilities
Jim Woodhull	City Planner

OLNESS & ASSOCIATES, P. C.  
CERTIFIED PUBLIC ACCOUNTANTS

BRENT D. OLNESS, CPA

ERNEST J. OLNESS, CPA

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Commission  
and City Manager  
City of Livingston  
Livingston, Montana

We have audited the accompanying general-purpose financial statements of the City of Livingston, Montana (the government), as of and for the year ended June 30, 2001, as listed in the table of contents. These general-purpose financial statements are the responsibility of the government's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

Except as discussed in the following paragraph, 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 general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general-purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Because of inadequacies in the government's accounting records, we were unable to form an opinion regarding the amounts at which fixed assets were recorded in the general fixed assets account group as of June 30, 2001 (stated at \$8,426,088).

In our opinion, except for the effects of any adjustments, if any, as might have been necessary had we been able to obtain sufficient evidence to support the amounts at which fixed assets were recorded in the general fixed assets account group, as described in the preceding paragraph, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the government, as of June 30, 2001, and the results of its operations and the cash flows of its proprietary fund type and nonexpendable trust fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the general-purpose financial statements, the government implemented a new accounting and reporting standard for recognizing capital contributions to proprietary funds.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 21, 2001 on our consideration of the government's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*Olness & Associates, PC*

September 21, 2001

CITY OF LIVINGSTON  
 COMBINED BALANCE SHEET-ALL FUND TYPES AND ACCOUNT GROUPS  
 June 30, 2001

	Governmental Fund Types				Proprietary	Fiduciary	Account Groups		Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Fund Type Enterprise	Fund Types Trust and Agency	General Fixed Assets	General Long-term Debt	
<b>ASSETS AND OTHER DEBITS</b>									
Assets:									
Cash and cash equivalents	165,231	174,857	39,305	22,283	309,149	294,274	-	-	1,005,099
Investments (at cost)	690,797	739,084	159,110	34,099	-	136,832	-	-	1,759,922
Cash and cash equivalents- nonexpendable trust	-	-	-	-	-	190,346	-	-	190,346
Receivables:									
Taxes/assessments receivable	77,408	113,647	363,797	-	2,779	-	-	-	557,631
Ambulance (net of allowance of \$80,522)	-	-	-	-	91,060	-	-	-	91,060
Utility	-	-	-	-	427,418	-	-	-	427,418
Other	172,910	263,427	6,329	3,360	77,981	11,116	-	-	535,123
Governments	58,332	54,744	5,023	-	10,282	5,500	-	-	133,881
Due from other funds	30,691	7,131	-	-	4,000	-	-	-	41,822
Deposits	-	-	-	-	-	8,383	-	-	8,383
Restricted assets:									
Cash and cash equivalents	5,418	7,722	-	-	78,945	-	-	-	92,085
Investments (at cost)	-	-	-	56,103	1,571,019	112,956	-	-	1,740,078
Deferred charges:									
Bond issuance costs	-	-	-	-	1,320	-	-	-	1,320
Fixed assets (net, where applicable, of accumulated depreciation)	-	-	-	-	8,420,725	-	8,426,088	-	16,846,813
Other debits:									
Amount available in debt service fund	-	-	-	-	-	-	-	209,767	209,767
Amounts to be provided for retirement of general long-term debt	-	-	-	-	-	-	-	1,300,607	1,300,607
<b>Total assets and other debits</b>	<b>1,200,787</b>	<b>1,360,612</b>	<b>573,564</b>	<b>115,845</b>	<b>10,994,678</b>	<b>759,407</b>	<b>8,426,088</b>	<b>1,510,374</b>	<b>24,941,355</b>
<b>LIABILITIES, EQUITY AND OTHER CREDITS</b>									
Liabilities:									
Accounts payable	10,785	200	-	-	-	42,716	-	-	53,701
Warrants payable	-	-	-	-	-	380,198	-	-	380,198
Compensated absences payable	-	-	-	-	149,362	-	-	247,616	396,978
Due to other funds	-	41,822	-	-	-	-	-	-	41,822
Deferred revenue	213,309	342,519	363,797	-	-	-	-	-	919,625
Notes payable	-	-	-	-	258,252	-	-	125,090	383,342
SID bonds payable	-	-	-	-	-	-	-	397,000	397,000
General obligation bonds payable	-	-	-	-	-	-	-	670,000	670,000
Capital leases payable	-	-	-	-	-	-	-	70,668	70,668
<b>Total liabilities</b>	<b>224,094</b>	<b>384,541</b>	<b>363,797</b>	<b>-</b>	<b>407,614</b>	<b>422,914</b>	<b>-</b>	<b>1,510,374</b>	<b>3,313,334</b>
Equity and other credits:									
Investment in general fixed assets	-	-	-	-	-	-	8,426,088	-	8,426,088
Contributed capital	-	-	-	-	4,300,617	-	-	-	4,300,617
Retained earnings:									
Reserved	-	-	-	-	1,649,964	-	-	-	1,649,964
Unreserved	-	-	-	-	4,636,483	-	-	-	4,636,483
Fund balances:									
Reserved:									
Future debt service	-	-	209,767	-	-	-	-	-	209,767
Unreserved:									
Designated	5,418	7,722	-	56,103	-	112,956	-	-	182,199
Undesignated	971,275	968,349	-	59,742	-	223,537	-	-	2,222,903
<b>Total equity and other credits</b>	<b>976,693</b>	<b>976,071</b>	<b>209,767</b>	<b>115,845</b>	<b>10,587,064</b>	<b>336,493</b>	<b>8,426,088</b>	<b>-</b>	<b>21,628,021</b>
<b>Total liabilities, equity and other credits</b>	<b>1,200,787</b>	<b>1,360,612</b>	<b>573,564</b>	<b>115,845</b>	<b>10,994,678</b>	<b>759,407</b>	<b>8,426,088</b>	<b>1,510,374</b>	<b>24,941,355</b>

The notes to the financial statements are an integral part of this statement.

CITY OF LIVINGSTON  
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS  
 Year Ended June 30, 2001

	Governmental Fund Types				Fiduciary	Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Fund Type Expendable Trusts	
<b>Revenues:</b>						
Taxes/special assessments	853,714	827,531	128,971	-	-	1,810,216
Licenses and permits	222,447	28,480	4,686	-	-	255,613
Intergovernmental	510,833	618,481	9,797	-	24,427	1,163,538
Charges for services	70,532	19,993	-	-	-	90,525
Fines and forfeitures	109,952	5,180	-	-	250	115,382
Interest and dividends	70,976	167,692	9,649	12,915	8,446	269,678
Miscellaneous	14,222	54,139	-	-	5,597	73,958
<b>Total revenues</b>	<b>1,852,676</b>	<b>1,721,496</b>	<b>153,103</b>	<b>12,915</b>	<b>38,720</b>	<b>3,778,910</b>
<b>Expenditures:</b>						
<b>Current:</b>						
General government	327,639	246,939	-	-	26,968	601,546
Public safety	1,115,581	312,570	-	-	466	1,428,617
Public works	120,273	311,048	-	-	-	431,321
Public health	-	26,869	-	-	-	26,869
Culture and recreation	238,282	306,250	-	-	-	544,532
Housing and community development	-	28,040	-	-	-	28,040
Other current charges	6,294	-	-	-	-	6,294
Capital outlay	84,383	324,360	-	451,025	28,206	887,974
<b>Debt service:</b>						
Principal	12,883	20,124	59,000	-	-	92,007
Interest	11,356	3,571	63,069	-	-	77,996
<b>Total expenditures</b>	<b>1,916,691</b>	<b>1,579,771</b>	<b>122,069</b>	<b>451,025</b>	<b>55,640</b>	<b>4,125,196</b>
Excess (deficiency) of revenues over (under) expenditures	(64,015)	141,725	31,034	(438,110)	(16,920)	(346,286)
<b>Other financing sources (uses):</b>						
Operating transfers in	43,176	10,500	-	13,253	-	66,929
Operating transfers out	(23,753)	(6,338)	-	-	-	(30,091)
Inception of capital lease	-	90,792	-	-	-	90,792
Proceeds from insurance	5,096	-	-	-	-	5,096
Proceeds from sale of fixed assets	3,415	-	-	-	-	3,415
<b>Total other financing sources (uses)</b>	<b>27,934</b>	<b>94,954</b>	<b>-</b>	<b>13,253</b>	<b>-</b>	<b>136,141</b>
Excess (deficiency) of revenues and other sources over (under) expenditures and other financing uses	(36,081)	236,679	31,034	(424,857)	(16,920)	(210,145)
Fund balances, July 1	1,012,774	739,392	171,901	547,534	156,306	2,627,907
Residual equity transfer	-	-	6,832	(6,832)	-	-
<b>Fund balances, June 30</b>	<b>976,693</b>	<b>976,071</b>	<b>209,767</b>	<b>115,845</b>	<b>139,386</b>	<b>2,417,762</b>

The notes to the financial statements are an integral part of this statement.

CITY OF LIVINGSTON  
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-  
 BUDGET AND ACTUAL-GENERAL, SPECIAL REVENUE, DEBT SERVICE AND CAPITAL PROJECTS FUNDS  
 Year Ended June 30, 2001

	General		Special Revenue		Debt Service		Capital Projects	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
<b>Revenues:</b>								
Taxes/special assessments	812,278	853,714	911,201	827,531	134,406	128,971	-	-
Licenses and permits	188,214	222,447	-	28,480	-	4,686	-	-
Intergovernmental	579,541	510,833	1,107,779	618,481	3,796	9,797	59,471	-
Charges for services	122,611	70,532	12,775	19,993	-	-	-	-
Fines and forfeitures	146,700	109,952	5,500	5,180	-	-	-	-
Interest and dividends	50,000	70,976	168,726	167,692	6,300	9,649	5,224	12,915
Miscellaneous	6,635	14,222	69,425	54,139	-	-	1,000	-
<b>Total revenues</b>	<b>1,905,979</b>	<b>1,852,676</b>	<b>2,275,406</b>	<b>1,721,496</b>	<b>144,502</b>	<b>153,103</b>	<b>65,695</b>	<b>12,915</b>
<b>Expenditures:</b>								
<b>Current:</b>								
General government	389,800	327,639	295,768	246,939	-	-	-	-
Public safety	1,185,850	1,115,581	350,683	312,570	-	-	-	-
Public works	130,598	120,273	392,159	311,048	-	-	-	-
Public health	-	-	27,594	26,869	-	-	-	-
Culture and recreation	248,713	238,282	319,483	306,250	-	-	-	-
Housing and community development	-	-	461,825	28,040	-	-	-	-
Other current charges	9,938	6,294	-	-	-	-	-	-
Capital outlay	93,817	84,383	835,284	324,360	-	-	564,779	451,025
<b>Debt service:</b>								
Principal	12,900	12,883	20,124	20,124	82,320	59,000	-	-
Interest	11,357	11,356	5,034	3,571	73,845	63,069	-	-
<b>Total expenditures</b>	<b>2,082,973</b>	<b>1,916,691</b>	<b>2,707,954</b>	<b>1,579,771</b>	<b>156,165</b>	<b>122,069</b>	<b>564,779</b>	<b>451,025</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>(176,994)</b>	<b>(64,015)</b>	<b>(432,548)</b>	<b>141,725</b>	<b>(11,663)</b>	<b>31,034</b>	<b>(499,084)</b>	<b>(438,110)</b>
<b>Other financing sources (uses):</b>								
Operating transfers in	53,449	43,176	10,500	10,500	29,020	-	-	13,253
Operating transfers out	(23,754)	(23,753)	(40,955)	(6,338)	-	-	-	-
Inception of capital lease	-	-	90,792	90,792	-	-	-	-
Proceeds from insurance	-	5,096	-	-	-	-	-	-
Proceeds from sale of fixed assets	-	3,415	-	-	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>29,695</b>	<b>27,934</b>	<b>60,337</b>	<b>94,954</b>	<b>29,020</b>	<b>-</b>	<b>-</b>	<b>13,253</b>
<b>Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses</b>	<b>(147,299)</b>	<b>(36,081)</b>	<b>(372,211)</b>	<b>236,679</b>	<b>17,357</b>	<b>31,034</b>	<b>(499,084)</b>	<b>(424,857)</b>
Fund balances, July 1		1,012,774		739,392		171,901		547,534
Residual equity transfer		-		-		6,832		(6,832)
<b>Fund balances, June 30</b>		<b>976,693</b>		<b>976,071</b>		<b>209,767</b>		<b>115,845</b>

The notes to the financial statements are an integral part of this statement.

CITY OF LIVINGSTON  
 COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS/FUND BALANCES  
 PROPRIETARY FUND TYPE AND NONEXPENDABLE TRUST FUND  
 Year Ended June 30, 2001

	Proprietary Fund Type	Fiduciary Fund Type	Total
	Enterprise	Nonexpendable Trust	(Memorandum Only)
Operating revenues:			
Charges for services	2,734,364	2,850	2,737,214
Taxes/assessments	28,050	-	28,050
Licenses and permits	1,586	-	1,586
Intergovernmental	38,343	-	38,343
Miscellaneous	5,211	-	5,211
<b>Total operating revenues</b>	<b>2,807,554</b>	<b>2,850</b>	<b>2,810,404</b>
Operating expenses:			
Personal services	1,368,043	-	1,368,043
Supplies	104,720	-	104,720
Purchased services	552,869	9,700	562,569
Fixed charges	108,773	-	108,773
Depreciation	482,996	-	482,996
Amortization	660	-	660
Bad debt expense	72,968	-	72,968
Miscellaneous	2,285	-	2,285
<b>Total operating expenses</b>	<b>2,693,314</b>	<b>9,700</b>	<b>2,703,014</b>
<b>Operating income (loss)</b>	<b>114,240</b>	<b>(6,850)</b>	<b>107,390</b>
Nonoperating revenues (expenses):			
Rental income	24,000	-	24,000
Interest revenue	148,987	13,657	162,644
Interest expense	(20,429)	-	(20,429)
<b>Total nonoperating revenues (expenses)</b>	<b>152,558</b>	<b>13,657</b>	<b>166,215</b>
<b>Income before operating transfers</b>	<b>266,798</b>	<b>6,807</b>	<b>273,605</b>
<b>Operating transfers to general fund</b>	<b>(36,838)</b>	<b>-</b>	<b>(36,838)</b>
<b>Total operating transfers out</b>	<b>(36,838)</b>	<b>-</b>	<b>(36,838)</b>
<b>Net income</b>	<b>229,960</b>	<b>6,807</b>	<b>236,767</b>
<b>Depreciation on fixed assets acquired through contributions</b>	<b>119,850</b>	<b>-</b>	<b>119,850</b>
<b>Increase in retained earnings/fund balances</b>	<b>349,810</b>	<b>6,807</b>	<b>356,617</b>
<b>Retained earnings/fund balances, July 1</b>	<b>5,936,637</b>	<b>190,300</b>	<b>6,126,937</b>
<b>Retained earnings/fund balances, June 30</b>	<b>6,286,447</b>	<b>197,107</b>	<b>6,483,554</b>

The notes to the financial statements are an integral part of this statement.



CITY OF LIVINGSTON  
 COMBINED STATEMENT OF CASH FLOWS  
 PROPRIETARY FUND TYPE AND NONEXPENDABLE TRUST FUND  
 Year Ended June 30, 2001

	Proprietary Fund Type	Fiduciary Fund Type	Total
	Enterprise	Nonexpendable Trust	(Memorandum Only)
Cash flows from operating activities:			
Operating (loss) income	114,240	(6,850)	107,390
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	482,996	-	482,996
Amortization	660	-	660
Changes in assets and liabilities:			
Increase in accounts receivable	(99,849)	-	(99,849)
Increase in allowance for doubtful accounts	10,327	-	10,327
Increase in taxes/assessments receivable	(1,617)	-	(1,617)
Increase in other receivables	(4,487)	50	(4,437)
Decrease in due from governments	1,835	-	1,835
Decrease in accounts payable	(40,494)	(4,464)	(44,958)
Increase in compensated absences	12,062	-	12,062
Net cash provided (used) by operating activities	<u>475,673</u>	<u>(11,264)</u>	<u>464,409</u>
Cash flows from noncapital financing activities:			
Rental income	24,000	-	24,000
Operating transfers out	(36,838)	-	(36,838)
Net cash used by noncapital financing activities	<u>(12,838)</u>	<u>-</u>	<u>(12,838)</u>
Cash flows from capital and related financing activities:			
Purchase/construction of fixed assets	(626,519)	-	(626,519)
Principal payments-revenue bonds	(85,000)	-	(85,000)
Principal payments-capital leases	(9,839)	-	(9,839)
Principal payments-notes	(71,386)	-	(71,386)
Interest paid	(20,429)	-	(20,429)
Net cash used by capital and related financing activities	<u>(813,173)</u>	<u>-</u>	<u>(813,173)</u>
Cash flows from investing activities:			
Net change in investments	(77,011)	-	(77,011)
Interest received	143,398	12,435	155,833
Net cash provided by investing activities	<u>66,387</u>	<u>12,435</u>	<u>78,822</u>
Increase (decrease) in cash and cash equivalents	(283,951)	1,171	(282,780)
Cash and cash equivalents, July 1 (Enterprise cash balance includes restricted cash of \$239,850)	<u>672,045</u>	<u>189,175</u>	<u>861,220</u>
Cash and cash equivalents, June 30 (Enterprise cash balance includes restricted cash of \$78,945)	<u>388,094</u>	<u>190,346</u>	<u>578,440</u>

The notes to the financial statements are an integral part of this statement.

CITY OF LIVINGSTON  
NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the government have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to state and local governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Implementation of a new accounting and reporting standard for recognizing capital contributions to proprietary funds is included. The adoption of this standard did not have a material effect on the financial statements. The accounting and reporting framework and the more significant accounting principles and practices are discussed in subsequent sections of the notes to the financial statements.

Reporting Entity

The City is governed by an elected five-member Commission and a Commission-appointed City manager. The government's combined financial statements include the accounts of all government operations. The criteria for including organizations as component units within the government's reporting entity, as set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the government holds the corporate powers of the organization
- the government appoints a voting majority of the organizations's board
- the government is able to impose its will on the organization
- the organization has the potential to impose a financial burden/benefit on the government
- there is fiscal dependency by the organization on the government

Based on the aforementioned criteria, the government has no component units.

Measurement Focus, Basis of Accounting and Basis of Presentation

The accounts of the government are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements. Account groups are a reporting device used to account for certain assets and liabilities of the governmental funds not recorded directly in those funds.

The government has the following fund types and account groups:

Governmental Funds

Governmental funds are used to account for the government's general activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., both measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The government considers all revenues available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Property taxes, intergovernmental revenues and interest earnings are susceptible to accrual. Other revenues become measurable and available when cash is received by the government and are recognized as revenue at that time.

Entitlements are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

Governmental funds include the following fund types:

General Fund - the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Special Revenue Funds - to account for revenue sources that are legally restricted to expenditures for specific purposes.

CITY OF LIVINGSTON  
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Debt Service Fund - to account for the accumulation of resources for and the payment of principal, interest and related costs.

Capital Projects Funds - to account for the acquisition of capital facilities.

Proprietary Fund

These funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Proprietary funds apply all applicable GASB pronouncements as well as FASB pronouncements, APB opinions and Accounting Research Bulletins issued on or before November 30, 1989, unless these conflict with or contradict GASB pronouncements. Governments have an option of whether or not to apply FASB pronouncements issued after that date to their proprietary activities. In accordance with GASB 20, management has elected not to apply FASB pronouncements issued after November 30, 1989. The proprietary fund includes the following fund type:

Enterprise Funds - to account for those operations that are financed and operated in a manner similar to private business or where the board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

Fiduciary Funds

These funds account for assets held by the government in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the government under the terms of a formal trust agreement.

Expendable Trust Funds - accounted for in essentially the same manner as the governmental fund types, using the same measurement focus and basis of accounting. Expendable trust funds account for assets where both the principal and interest may be spent.

Nonexpendable Trust Fund - accounted for in essentially the same manner as the proprietary funds, using the same measurement focus and basis of accounting. Nonexpendable trust funds account for assets of which the principal may not be spent.

Agency Funds - custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. These funds are used to account for assets that the government holds for others in an agency capacity.

Account Groups

General Fixed Asset Account Group - to account for fixed assets of the government.

General Long-Term Debt Account Group - to account for general long-term debt and certain other liabilities to be liquidated with resources to be provided in future periods.

Assets, Liabilities and Equity

Cash and Investments

The City maintains a cash and investment portfolio for all funds. Investments are managed by the Finance Officer and overseen by the City Commission and City Manager. The Finance Officer is responsible for setting the investment policies for the portfolio, reviewing and monitoring investments to ensure the City's investment policies are met and ensuring investments are in compliance with State statute.

Allowable investments include direct obligations of the United States Government, repurchase agreements, savings or time deposits in a state or national bank, building and loan associations, savings and loan associations, or credit unions insured by the FDIC, FSLIC, or NCUA and the State Short Term Investment Pool (STIP). STIP is classified as a 2a7-like pool, and as such, uses amortized cost to report unit values.

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Investments are reported at fair value. Fair value is determined annually, based on year-end market values. Short-term investments are reported at cost, which approximates fair value. Cash on hand, demand, savings and time deposits, STIP and short-term investments with original maturities of three months or less from the date of acquisition are considered cash equivalents. Investment income is allocated to individual funds owning the investment. The net change in fair value is also allocated to individual funds owning the investment.

Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Ambulance receivables are shown net of an allowance for uncollectibles. Ambulance receivables in excess of 120 days comprise the allowance for uncollectibles. Other enterprise receivable bad debts are written-off using the direct write-off method. Use of this method does not result in a material difference from the allowance method required by generally accepted accounting principles.

Property taxes are recorded as deferred revenue and property tax revenue is recognized as collected. Most property taxes receivable at June 30 are delinquent property taxes from prior year levies and are offset by deferred revenue. No allowance is made for uncollectible taxes as they are not considered significant. Most property taxes are levied in September of each fiscal year, based on assessments as of the prior January 1. Real property taxes are billed as of November 1 and are payable in two payments, November 30 and May 31. Unpaid taxes become delinquent on December 1 and June 1. Most personal property taxes are due and payable on January 1 and become delinquent February 1. Property taxes are maintained and collected by the County Treasurer.

Inventories

Inventory items purchased through the governmental and proprietary funds are recorded as expenditures/expenses at the time of purchase. Inventory at year-end was not material and therefore not recorded.

Restricted Assets

Cash assets have been restricted/designated by management. See Note 3, Designated Fund Balance/Restricted Assets and Reserved Retained Earnings for further details.

Fixed Assets

Property, plant and equipment are recorded at cost or estimated historical cost. Governmental fund fixed assets are recorded in the general fixed assets account group and not depreciated. Donated fixed assets are recorded at their estimated fair value at the date of donation. Interest incurred during construction is not capitalized on general fixed assets. Public domain (infrastructure) general fixed assets (e.g., roads, bridges, sidewalks and other assets that are immovable and of value only to the government) are not capitalized.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not included in the general fixed assets account group or capitalized in the proprietary funds.

Property, plant and equipment in the proprietary funds of the government are recorded at cost. Property, plant and equipment donated to these proprietary fund type operations are recorded at their estimated fair value at the date of donation. Major outlays for capital assets and improvements are capitalized in proprietary funds as projects are constructed. Interest incurred during the construction phase of proprietary fund fixed assets is reflected in the capitalized value of the asset constructed. Property, plant and equipment are depreciated in the proprietary funds of the government using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	20-50
Mains, wells and sewer system	20-100
Machinery and equipment	5-20

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Warrants Payable

The government pays expenditures by means of warrants/checks. These warrants/checks are orders to the City's finance office to pay a specified sum to the person named or to the bearer. Warrants/checks not redeemed by the finance office as of June 30, 2001, are reported on the combined balance sheet as warrants payable.

Compensated Absences

Employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Accumulated vacation is restricted under State statute to a maximum accumulation of two times the amount earned annually. Sick leave is accumulated at 12 days per year with no limitations on the amount that may be accumulated. Upon retirement or resignation, an employee is eligible for 100 percent of the accumulated vacation leave and 25 percent of the accumulated sick leave.

Long-term Obligations

The government reports long-term debt of governmental funds at face value in the general long-term debt account group. Certain other governmental fund obligations not expected to be financed with current available financial resources are also reported in the general long-term debt account group. Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds. For proprietary fund types, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Issuance costs are reported as deferred charges.

Fund Equity

Reservations of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose. Reservations of retained earnings are limited to outside third-party restrictions or tentative management plans subject to change. Designations of fund balance represent tentative management plans that are subject to change. The proprietary fund's contributed capital represents equity acquired through capital grants and capital contributions from developers, customers or other funds prior to July 1, 2000.

Estimates

Management used estimates and assumptions in preparing its financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenues and expenditures/expenses. Actual results could differ from those estimates.

Memorandum Only-Total Columns

Total columns on the general purpose financial statements are captioned as "memorandum only" because they do not represent consolidated financial information and are presented only to facilitate financial analysis. The columns do not present information that reflects financial position, results of operations or cash flows in accordance with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of this data.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

A budget is adopted each year for all funds, except for agency funds. The final budget is legally enacted by the City Commission on the second Monday in August, after holding public hearings as required by state statute. Budgeted fund expenditures/expenses are limited by State law to budgeted amounts. Budgets may be amended for circumstances described by State law. The budgeted amounts as shown in the financial statements are as originally adopted or as revised by legal budget transfers and amendments, if applicable. All appropriations, except for construction-in-progress, lapse at year-end. The City does not utilize a formal encumbrance accounting system.

Deficit Fund Equity

The Recreation Director fund had a deficit fund balance of \$14,259 as of June 30, 2001. The deficit occurred because expenditures

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exceeded anticipated revenues in the current year and in prior years. Management is evaluating whether to discontinue the program. The CDBG fund had a deficit fund balance of \$18 as of June 30, 2001. The deficit occurred because expenditures exceeded anticipated revenues. The deficit is expected to be eliminated through collection of grant revenues. The Ambulance fund had a deficit retained earnings of \$28,239. The deficit is expected to be eliminated through an evaluation of operating revenues and expenses.

NOTE 3. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

Cash and Cash Equivalents and Investments

The composition of cash and cash equivalents and investments as of June 30, 2001, was as follows:

	<u>Cash/Cash Equivalents</u>	<u>Investments</u>	<u>Total</u>
Petty cash	1,675	-	1,675
Cash in banks:			
Demand deposits	1,285,855	-	1,285,855
Time deposits	-	3,500,000	3,500,000
	<u>1,287,530</u>	<u>3,500,000</u>	<u>4,787,530</u>
Total per Combined Balance Sheet			

At year end, the government's carrying amount of deposits was \$4,785,855 and the bank balance was \$4,809,732. Deposits include demand and time. Of the bank balance, \$510,785 was covered by federal depository insurance and \$4,298,947 was uninsured and uncollateralized. The uninsured and uncollateralized portion includes \$3,380,000 which was covered by collateral held by financial institutions or by their departments or agents, but not in the government's name.

Montana statutes require that the government obtain securities for the uninsured portion of deposits as follows: 1.) securities equal to 50% of such deposits if the institution in which the deposits are made has a net worth to total assets ratio of 6% or more, or 2.) 100% if the ratio of net worth to total assets is less than 6%. State statutes do not specify in whose custody or name the collateral is to be held. The amount of collateral held for the government's deposits as of June 30, 2001, exceeded the amount required by State statute.

Other Receivables

Other receivables as of year-end are as follows:

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Enterprise</u>	<u>Trust and Agency</u>
Court time pay	135,902	-	-	-	-	-
Cable franchise	11,961	-	-	-	-	-
Interest	22,792	29,251	6,329	3,360	69,656	11,116
CDBG repay	-	12,672	-	-	-	-
Economic develop.	-	216,501	-	-	-	-
Other	2,255	5,003	-	-	8,325	-
	<u>172,910</u>	<u>263,427</u>	<u>6,329</u>	<u>3,360</u>	<u>77,981</u>	<u>11,116</u>

Fixed Assets

Changes in the general fixed assets account group for the government for the year ended June 30, 2001, were as follows:

	<u>Balance July 1, 2000</u>	<u>Changes</u>	<u>Balance June 30, 2001</u>
Land/buildings	6,235,109	35,777	6,270,886
Improvements	42,473	303,341	345,814
Machinery and equipment	1,218,651	590,737	1,809,388
Total	<u>7,496,233</u>	<u>929,855</u>	<u>8,426,088</u>

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The following is a summary of proprietary fund type fixed assets for the government as of June 30, 2001:

Buildings	17,628
Source of Supply	915,895
Treatment plant	5,023,570
Transmission and distribution	6,008,097
General plant	985,091
Machinery and equipment	<u>1,239,586</u>
Total	14,189,867
Less: accumulated depreciation	<u>(5,769,142)</u>
Net	<u><u>8,420,725</u></u>

Interfund Receivables and Payables

The composition of interfund balances (due to/from other funds) as of June 30, 2001, is as follows:

	Due From	Due To
General	30,691	-
Special Revenue:		
Recreation Department	-	19,000
Health Insurance	-	7,131
Police Pension	7,131	-
Emergency Disaster	-	15,691
Enterprise:		
Solid Waste	<u>4,000</u>	<u>-</u>
	<u><u>41,822</u></u>	<u><u>41,822</u></u>

Capital Leases

Capital leases, as of June 30, 2001, are comprised of the following:

Purpose/issue date	Original Amount	Term	Interest Rate	Balance June 30, 2001
Dump truck-2001 (1)	47,039	5 yr	5.96%	36,512
Roller-2001 (1)	43,753	5 yr	6.75%	<u>34,156</u>
(1) Recorded in general long-term debt account group				<u><u>70,668</u></u>

The leases meet the criteria of a capital lease as defined by the Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one that transfers benefits and risks of ownership to the lessee.

The future minimum lease obligations and the present value of these minimum lease payments as June 30, 2001, were as follows:

Year ending June 30	Amount
2002	20,553
2003	20,553
2004	20,553
2005	<u>20,553</u>
Total minimum lease payments	82,212
Less: amount representing interest	<u>11,544</u>
Present value of minimum lease payments	<u><u>70,668</u></u>

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Long-Term Debt

The government issued general obligation bonds to provide funds for the acquisition of equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the government. General obligation bonds currently outstanding are as follows:

	Original Amount	Term	Interest Rate	Balance June 30, 2001
Fire Truck-1997	307,000	15 yr	4.3 to 5.4%	235,000
Fire Truck-2000	445,000	20yr	5.35 to 7.5%	435,000
Total				670,000

Annual debt service requirements to maturity for general obligation bonds, including interest of \$356,424, are as follows:

Year Ending June 30,	General Long-term Debt
2002	80,969
2003	78,569
2004	61,563
2005	59,920
2006	58,300
Thereafter	687,103
	1,026,424

The government issued special improvement (SID) bonds to provide funds for improvements. SID bonds, as of June 30, 2001, are comprised of the following:

Purpose/issue date	Original Amount	Term	Interest Rate	Balance June 30, 2001
SID No. 175 -1995	127,700	15 yr	6.75%	83,000
SID No. 176-1995	25,000	9 yr	6.75%	9,000
SID No. 177-1998	163,000	15 yr	4.19-5.59%	135,000
SID No. 178-2000	179,000	15 yr	4.20-5.60%	170,000
				397,000

Special improvement bond debt service requirements to maturity, including \$146,313 of interest, are as follows:

Year ending June 30	Amount
2002	41,171
2003	50,911
2004	50,228
2005	48,488
2006	44,796
Thereafter	307,719
	543,313

The government has notes outstanding with the Montana Board of Investments. Principal outstanding, as of June 30, 2001, was \$193,600, \$64,652 and \$125,090 for the Water and Sewer funds and the general long-term debt account group, respectively. The notes bear interest at a rate which is adjusted each February (5.60% as of June 30, 2001). Principal and interest are due in semi-annual payments through August 15, 2004 and 2003 for the Water and Sewer funds, respectively and February 15, 2009 for the



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general long-term debt account group. Notes payable debt service requirements to maturity, including \$44,891 of interest, are as follows:

<u>Year ending June 30</u>	<u>General Long-term Debt</u>	<u>Enterprise</u>
2002	18,686	83,304
2003	18,686	82,078
2004	18,686	63,083
2005	18,690	50,663
2006	18,686	-
Thereafter	<u>55,671</u>	<u>-</u>
	<u>149,105</u>	<u>279,128</u>

During the year ended June 30, 2001, the following changes occurred in liabilities reported in the general long-term debt account group:

	<u>Balance July 1, 2000</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2001</u>
Special improvement bonds	416,000	-	19,000	397,000
General obligation debt	710,000	-	40,000	670,000
Notes payable	137,973	-	12,883	125,090
Capital leases	-	90,792	20,124	70,668
Compensated absences	<u>255,449</u>	<u>-</u>	<u>7,833</u>	<u>247,616</u>
	<u>1,519,422</u>	<u>90,792</u>	<u>99,840</u>	<u>1,510,374</u>

Contributed Capital

The changes in the government's contributed capital accounts for its proprietary funds were as follows:

<u>Sources</u>	<u>Water</u>	<u>Sewer</u>	<u>Ambulance</u>	<u>Total</u>
Balance, July 1, 2000	1,440,485	2,752,755	227,227	4,420,467
Less: depreciation closed to to contributed capital	<u>(36,433)</u>	<u>(83,417)</u>	<u>-</u>	<u>(119,850)</u>
Balance, June 30, 2001	<u>1,404,052</u>	<u>2,669,338</u>	<u>227,227</u>	<u>4,300,617</u>

Designated Fund Balance/Restricted Assets and Reserved Retained Earnings

Management has restricted retained earnings in the Enterprise funds. Governmental and fiduciary fund type designations have also been determined by management. Following is a summary of reserved retained earnings, designated fund balance and restricted assets as of June 30, 2001:

Retained earnings-reserved:	
Reserved for 3 percent rate increase	193,008
Reserve for INTERCAP	82,600
Reserved for system development	427,052
Reserved for operations	355,582
Reserved for replacement and depreciation	<u>591,722</u>
Total	<u>1,649,964</u>

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Fund balance-designated:	
General:	
Equipment/annexation	5,418
Special revenue:	
Economic development	7,722
Capital projects:	
Eastside school repairs and maintenance	28,837
Land lease/building maintenance	27,266
Trust and agency:	
Land lease	775
Recreational purposes	100,000
Equipment	<u>12,181</u>
Total	<u><u>182,199</u></u>

Restricted assets for all fund types are equal to reserved retained earnings and designated fund balance.

NOTE 4. OTHER INFORMATION

Risk Management

The government is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; professional liability (i.e., errors and omissions); workers compensation (i.e., employee injuries); medical insurance costs; and environmental damages. A variety of methods is used to provide insurance for these risks. The City participates in a state-wide public risk pool, MMIA, for workers' compensation coverage. The City pays monthly premiums for its employee injury insurance coverage. Tax exempt bonds were issued to fund reserves. The agreement for formation of the pool provides that it will be self-sustaining through member premiums. There are deductible and maximum coverage limits. The City also participates in MMIA's liability plan which offers insurance for other risks of loss. Given lack of coverage available, the government has no coverage for potential losses from environmental damages. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

Residual Equity Transfer

During fiscal year 2001, the Capital Projects-Fire Truck GO Bond fund was closed to the Debt Service-Fire Truck GO Bond fund.

Contingencies

The City is a defendant in several lawsuits arising from normal operating activities. Management has reviewed pending litigation with legal counsel and believes that the lawsuits are without merit or that the ultimate liability, if any, resulting from them will not materially affect the City's financial position.

Amounts received from State and Federal agencies are subject to specified terms and conditions under which the funds can be expended. In the event of noncompliance, determined through future audits of the monies, the government may be required to reimburse the appropriate State and Federal agencies. Such determination is considered remote.

Interlocal Agreements

The City and Park County entered into an agreement to fund a library for City and County residents. The City maintains the library accounting records and includes the financial activities of the library in its financial statements. The County contributed \$174,956 during fiscal year 2001.

The City and Park County entered into an agreement for the City-County Law Enforcement Dispatch Center. The City provides dispatch services to the County. The County contributed \$28,478 during fiscal year 2001 for these services.

The City and Park County entered into an agreement for the disposal of the City's solid waste. The City is charged for actual tonnage delivered to the County's landfill.

The City-County Airport is owned and operated jointly by the City and Park County. The operation of the airport is accounted

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for by the County. The airport is administered by a five-member board, consisting of the two City-appointed members, two County-appointed members and one member-at-large appointed by the Airport Board. The budget is approved by the controlling members. The Airport Board exercises control over the airport's normal operations.

Segment Information - Enterprise Funds

The government maintains five enterprise funds to provide utility and ambulance services to the residents of the City. Selected segment information for the year ended June 30, 2001, is as follows:

	<u>Water</u>	<u>Sewer</u>	<u>Solid Waste</u>	<u>Ambulance</u>	<u>Wind Farm</u>
Operating revenues	829,218	810,342	774,438	393,112	444
Depreciation	167,137	267,098	32,041	16,720	-
Operating income (loss)	121,582	(17,801)	25,303	(15,066)	222
Operating transfers out	(10,782)	(10,782)	(10,782)	(4,492)	-
Net income (loss)	175,699	9,601	54,356	(10,158)	462
Fixed asset additions	276,343	253,012	94,809	2,355	-
Net working capital	875,756	758,090	589,764	195,367	4,294
Total assets	4,424,005	5,584,468	771,275	210,636	4,294
Compensated absences	39,159	60,819	37,736	11,648	-
Notes payable	193,600	64,652	-	-	-
Total equity	4,191,247	5,458,998	733,538	198,987	4,294

Interfund Transactions

Interfund transactions consisting of identified services performed for other funds or costs billed to other funds are treated as expenditures in the fund receiving the services and as revenue in the fund performing the services.

Transactions that constitute reimbursements of a fund for expenditures or expenses initially made from it that are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reduction of the expenditures in the fund that is reimbursed. All other interfund transactions are reported as operating transfers. Operating transfers between funds during 2001 consisted of the following:

	<u>Transfers In</u>	<u>Transfers Out</u>
General	43,176	23,753
Special Revenue:		
Library	-	4,729
Recreation	10,500	-
Economic Development	-	1,609
Capital Projects:		
Capital improvement	13,253	-
Enterprise:		
Water	-	10,782
Sewer	-	10,782
Solid waste	-	10,782
Ambulance	-	4,492
Total	<u>66,929</u>	<u>66,929</u>

Retirement Plans

The government participates in three statewide mandatory cost-sharing multiple employer defined benefit retirement plans which cover all employees. The Municipal Police Officers' Retirement System (MPORS) covers city police officers. The Firefighters' Unified Retirement System (FURS) covers city firefighters. The Public Employee Retirement System (PERS) covers all other city employees, except for the City Manager. The City contributes 6.7 percent of the City Manager's gross wage to a deferred compensation plan in lieu of the PERS retirement contribution. The plans are established by State law and are administered by the State of Montana. The plans provide retirement, disability, and death benefits to plan members and beneficiaries.

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The plans issue a publicly available financial report that includes financial statements and required supplementary information. The reports may be obtained from Public Employees Retirement System, P.O. Box 200131, 1712 Ninth Avenue, Helena, MT 59620-0131, (406) 444-3154.

Contribution rates for both plans are required and determined by State law. The PERS contribution rates for the employee and employer increased from 6.8% to 6.9% and from 6.7% to 6.8%, respectively, effective July 1, 1999. The MPORS #1 contribution rates for the employee decreased from 10.5% to 8.5%, effective January 1, 2000. The MPORS #2 contribution rates for the employee decreased from 11% to 9%, effective January 1, 2000. Contribution rates in effect as of June 30, 2001, were as follows:

	<u>Employee</u>	<u>Employer</u>	<u>Total</u>
MPORS #1	8.50%	14.41%	22.91%
MPORS #2	9.00%	14.41%	23.41%
FURS	10.70%	14.36%	25.06%
PERS	6.90%	6.80%	13.70%

The State of Montana contributes .1% per year to the PERS plan, 29.37% to the MPORS plan and 32.61% to the FURS plan on behalf of the employer. The on-behalf contributions have been recorded in the general purpose financial statements. On-behalf payments for fringe benefits and salaries for MPORS, FURS and PERS amounted to \$93,665, \$126,821 and \$1,551, respectively, for the year ended June 30, 2001.

The amounts contributed to MPORS, FURS and PERS during the years ended June 30, 2001, 2000 and 1999, were equal to the required contributions for each year. The amounts contributed by both the government and its employees (including additional voluntary contributions by employees as permitted by State law) were as follows:

	<u>2001</u>	<u>2000</u>	<u>1999</u>
MPORS #1 and #2	74,533	81,963	80,307
FURS	97,459	96,180	97,452
PERS	205,948	194,837	183,598
Total	<u>377,940</u>	<u>372,980</u>	<u>361,357</u>

GASBS No. 34

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments (Statement). The significant changes in the Statement include the following:

- For the first time the financial statements will include:
  - A Management Discussion and Analysis (MD&A) section providing an analysis of the government's overall financial position and results of operations.
  - Financial statements prepared using full accrual accounting for all of the government's activities, and if applicable, reporting infrastructure assets (roads, bridges, etc.).
  - A change in the fund financial statements to focus on the major funds.

The general provisions of GASBS No. 34 must be implemented by the government no later than the fiscal year ending June 30, 2004; infrastructure will be reported prospectively.

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

To the Honorable Commission  
and City Manager  
City of Livingston  
Livingston, Montana

We have audited the general-purpose financial statements of the City of Livingston, Montana (the government) as of and for the year ended June 30, 2001, and have issued our report thereon dated September 21, 2001. In our report on the general purpose financial statements, our opinion was qualified because we were unable to obtain sufficient evidence to support the amounts at which fixed assets were recorded in the general fixed assets account group. Except as discussed in the preceding sentence, 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.

### Compliance

As part of obtaining reasonable assurance about whether the government's general-purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of general-purpose financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the government's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general-purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the government's ability to record, process, summarize and report financial data consistent with the assertions of management in the general-purpose financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 01-01 and 01-02.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general-purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 01-01 to be a material weakness.

This report is intended solely for the information and use of the governing body, management and the Montana Department of Administration and is not intended to be and should not be used by anyone other than these specified parties.

*Olness & Associates, PC*

September 21, 2001

CITY OF LIVINGSTON  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2001

REPORTABLE CONDITIONS:

01-1. Fixed Assets

Fixed assets are recorded in the City's general ledger for the general fixed assets account group; however, complete subsidiary records are not maintained to substantiate the balances. Generally accepted accounting principles require detail subsidiary fixed asset records be maintained. We recommend the City continue its efforts in establishing fixed asset subsidiary records for the general fixed assets account group.

Response

*We are currently updating our fixed asset policy as well as looking for a new fixed asset program. With the new policy instated we will begin to do asset and inventory counts at the end of each fiscal year. We will also start using disposal sheets and transfer sheets that will be filled out as items are deleted or given to other departments. These will be given to the finance department (on a timely basis) to insure that assets are recorded and changed to reflect the correct Fund and make it possible to track the asset.*

01-2. Utility Computer File Backups

During fiscal year 2001, the utility department had a hardware failure and was not able to fully recover the utility accounting data from the system backups. As a result, the Finance Officer and the utility department had to recreate the lost data. The utility department now has an arrangement with the City's software vendor to test the backups on a semi-annual basis. We believe the utility department should have the software vendor test the backups on a monthly basis.

Response:

*We are currently working out a plan with our software vendor to test our backups on a monthly basis. We have installed a new server system with 3 hard drives installed to warrant never having to go through a loss of that magnitude again. A backup is done nightly and will be tested. Our problem with the loss was not one of backing up, it was a problem that the backups were no good.*

CITY OF LIVINGSTON  
PRIOR YEAR AUDIT FINDINGS  
Year Ended June 30, 2001

<u>Prior Year Audit Findings</u>	<u>Status</u>
00-1. Fixed assets	Partially Implemented
00-2. Outside and Miscellaneous Collections	Implemented