

CITY OF LIVINGSTON
PARK COUNTY
FINANCIAL STATEMENTS
Year Ended June 30, 2002

OLNESS & ASSOCIATES, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

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TABLE OF CONTENTS

Page No.

ORGANIZATION 1

INDEPENDENT AUDITORS' REPORT 2

GENERAL PURPOSE FINANCIAL STATEMENTS

 Combined Balance Sheet - All Fund Types and Account Groups 3

 Combined Statement of Revenues, Expenditures and Changes in Fund Balances -
 All Governmental Fund Types and Expendable Trust Funds 4

 Combined Statement of Revenues, Expenditures and Changes in Fund Balances -
 Budget and Actual - General, Special Revenue, Debt Service and Capital Projects Funds 5

 Combined Statement of Revenues, Expenses and Changes in Retained Earnings/
 Fund Balances - Proprietary Fund Type and Nonexpendable Trust Fund 6

 Combined Statement of Cash Flows - Proprietary Fund Type and Nonexpendable Trust Fund 7

 Notes to Financial Statements 8

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* 19

SCHEDULE OF FINDINGS AND QUESTIONED COSTS 20

PRIOR YEAR AUDIT FINDINGS 21

CITY OF LIVINGSTON

ORGANIZATION

June 30, 2002

CITY COMMISSION

Vicki Blakeman	Chairperson
Sheryl Dahl	Commissioner
Lenny Gregrey	Commissioner
Thomas Romans	Commissioner
Ed Davis, Sr.	Commissioner

CITY STAFF

Steve Golnar	City Manager
Shirley Ewan	Finance Officer
Neil Travis	City Judge
Bruce Becker	City Attorney
Darren Raney	Police Chief
Jim Mastin	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 AUDITORS' 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, 2002, 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 \$8,698,361).

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, 2002, 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 20, 2002 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 20, 2002

CITY OF LIVINGSTON
 COMBINED BALANCE SHEET-ALL FUND TYPES AND ACCOUNT GROUPS
 June 30, 2002

	Governmental Fund Types				Proprietary Fund Type Enterprise	Fiduciary Fund Types Trust and Agency	Account Groups		Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects			General Fixed Assets	General Long-term Debt	
ASSETS AND OTHER DEBITS									
Assets:									
Cash and cash equivalents	162,879	268,886	48,286	47,989	374,362	44,141	-	-	946,543
Investments	625,054	1,015,095	175,935	5,498	103,141	-	-	-	1,924,723
Nonexpendable trust:									
Cash and cash equivalents	-	-	-	-	-	31,730	-	-	31,730
Investments	-	-	-	-	-	164,270	-	-	164,270
Receivables:									
Taxes/assessments receivable	82,953	107,956	328,778	-	3,442	-	-	-	523,129
Ambulance (net of allowance of \$117,890)	-	-	-	-	72,191	-	-	-	72,191
Utility	-	-	-	-	307,072	-	-	-	307,072
Interest	15,523	19,458	3,719	2,065	36,616	5,732	-	-	83,113
Time payments (net of allowance of \$98,516)	35,034	-	-	-	-	-	-	-	35,034
Other	16,012	131,959	-	-	5,848	-	-	-	153,819
Governments	61,220	42,099	1,534	-	9,383	8,000	-	-	122,236
Due from other funds	79,000	-	-	-	4,000	-	-	-	83,000
Deposits	-	-	-	-	-	30,110	-	-	30,110
Restricted assets:									
Cash and cash equivalents	8,668	9,708	-	-	101,158	-	-	-	119,534
Investments (at cost)	-	-	-	169,352	1,629,474	112,181	-	-	1,911,007
Deferred charges:									
Bond issuance costs	-	-	-	-	660	-	-	-	660
Fixed assets (net, where applicable, of accumulated depreciation)	-	-	-	-	8,421,888	-	8,698,361	-	17,120,249
Other debits:									
Amount available in debt service fund	-	-	-	-	-	-	-	229,474	229,474
Amounts to be provided for retirement of general long-term debt	-	-	-	-	-	-	-	1,226,734	1,226,734
Total assets and other debits	1,086,343	1,595,161	558,252	224,904	11,069,235	396,164	8,698,361	1,456,208	25,084,628
LIABILITIES, EQUITY AND OTHER CREDITS									
Liabilities:									
Accounts payable	11,488	400	-	-	29,643	42,429	-	-	83,960
Compensated absences payable	-	-	-	-	150,352	-	-	257,146	407,498
Due to other funds	-	19,000	-	-	64,000	-	-	-	83,000
Deferred revenue	117,987	237,120	328,778	-	-	-	-	-	683,885
Notes payable	-	-	-	-	184,749	-	-	111,639	296,388
SID bonds payable	-	-	-	-	-	-	-	366,000	366,000
General obligation bonds payable	-	-	-	-	-	-	-	640,000	640,000
Capital leases payable	-	-	-	-	26,752	-	-	81,423	108,175
Total liabilities	129,475	256,520	328,778	-	455,496	42,429	-	1,456,208	2,668,906
Equity and other credits:									
Investment in general fixed assets	-	-	-	-	-	-	8,698,361	-	8,698,361
Contributed capital	-	-	-	-	4,180,767	-	-	-	4,180,767
Retained earnings:									
Reserved	-	-	-	-	1,730,632	-	-	-	1,730,632
Unreserved	-	-	-	-	4,702,340	-	-	-	4,702,340
Fund balances:									
Reserved for future debt service	-	-	229,474	-	-	-	-	-	229,474
Unreserved:									
Designated	8,668	9,708	-	169,352	-	112,181	-	-	299,909
Undesignated	948,200	1,328,933	-	55,552	-	241,554	-	-	2,574,239
Total equity and other credits	956,868	1,338,641	229,474	224,904	10,613,739	353,735	8,698,361	-	22,415,722
Total liabilities, equity and other credits	1,086,343	1,595,161	558,252	224,904	11,069,235	396,164	8,698,361	1,456,208	25,084,628

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, 2002

	Governmental Fund Types				Fiduciary	Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Fund Type Expendable Trusts	
Revenues:						
Taxes/special assessments	893,975	809,587	117,170	26,749	-	1,847,481
Licenses and permits	162,180	-	-	-	-	162,180
Intergovernmental	707,650	837,238	1,825	-	64,500	1,611,213
Charges for services	100,906	26,226	-	-	-	127,132
Fines and forfeitures	124,895	7,894	-	-	1,734	134,523
Interest and dividends	52,706	166,468	7,522	5,138	6,142	237,976
Miscellaneous	25,810	47,079	-	-	18,458	91,347
Total revenues	2,068,122	1,894,492	126,517	31,887	90,834	4,211,852
Expenditures:						
Current:						
General government	432,381	-	-	328	36,545	469,254
Public safety	1,146,195	330,851	-	-	3,990	1,481,036
Public works	118,034	307,002	-	-	-	425,036
Public health	-	25,000	-	-	-	25,000
Culture and recreation	237,631	326,058	-	-	-	563,689
Housing and community development	-	148,393	-	-	-	148,393
Other current charges	6,315	243,273	-	-	-	249,588
Capital outlay	82,731	160,577	-	-	35,642	278,950
Debt service:						
Principal	13,451	15,998	61,000	-	-	90,449
Interest	7,171	5,607	45,810	-	-	58,588
Total expenditures	2,043,909	1,562,759	106,810	328	76,177	3,789,983
Excess (deficiency) of revenues over (under) expenditures	24,213	331,733	19,707	31,559	14,657	421,869
Other financing sources (uses):						
Operating transfers in	44,962	17,958	-	77,500	292	140,712
Operating transfers out	(89,000)	(13,874)	-	-	-	(102,874)
Inception of capital lease	-	26,753	-	-	-	26,753
Total other financing sources (uses)	(44,038)	30,837	-	77,500	292	64,591
Excess (deficiency) of revenues and other sources over (under) expenditures and other financing uses	(19,825)	362,570	19,707	109,059	14,949	486,460
Fund balances, July 1	976,693	976,071	209,767	115,845	139,386	2,417,762
Fund balances, June 30	956,868	1,338,641	229,474	224,904	154,335	2,904,222

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, 2002

	General		Special Revenue		Debt Service		Capital Projects	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
Revenues:								
Taxes/special assessments	901,913	893,975	805,376	809,587	117,304	117,170	-	26,749
Licenses and permits	150,450	162,180	-	-	-	-	-	-
Intergovernmental	717,898	707,650	1,638,578	837,238	7,865	1,825	59,752	-
Charges for services	116,611	100,906	24,425	26,226	-	-	-	-
Fines and forfeitures	122,000	124,895	8,175	7,894	-	-	-	-
Interest and dividends	72,732	52,706	150,905	166,468	9,017	7,522	7,000	5,138
Miscellaneous	30,710	25,810	59,086	47,079	-	-	-	-
Total revenues	2,112,314	2,068,122	2,686,545	1,894,492	134,186	126,517	66,752	31,887
Expenditures:								
Current:								
General government	487,802	432,381	-	-	-	-	5,280	328
Public safety	1,172,490	1,146,195	397,175	330,851	-	-	-	-
Public works	132,162	118,034	431,563	307,002	-	-	-	-
Public health	-	-	25,000	25,000	-	-	-	-
Culture and recreation	248,749	237,631	347,408	326,058	-	-	-	-
Housing and community development	-	-	934,009	148,393	-	-	-	-
Other current charges	7,800	6,315	306,294	243,273	-	-	-	-
Capital outlay	140,584	82,731	806,874	160,577	-	-	141,210	-
Debt service:								
Principal	12,883	13,451	16,000	15,998	100,258	61,000	-	-
Interest	4,205	7,171	4,555	5,607	69,197	45,810	-	-
Total expenditures	2,206,675	2,043,909	3,268,878	1,562,759	169,455	106,810	146,490	328
Excess (deficiency) of revenues over (under) expenditures	(94,361)	24,213	(582,333)	331,733	(35,269)	19,707	(79,738)	31,559
Other financing sources (uses):								
Operating transfers in	44,567	44,962	68,158	17,958	-	-	-	77,500
Operating transfers out	(75,500)	(89,000)	(19,031)	(13,874)	-	-	-	-
Inception of capital lease	-	-	26,753	26,753	-	-	-	-
Total other financing sources (uses)	(30,933)	(44,038)	75,880	30,837	-	-	-	77,500
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(125,294)	(19,825)	(506,453)	362,570	(35,269)	19,707	(79,738)	109,059
Fund balances, July 1		976,693		976,071		209,767		115,845
Fund balances, June 30		956,868		1,338,641		229,474		224,904

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, 2002

	Proprietary Fund Type	Fiduciary Fund Type	Total
	Enterprise	Nonexpendable Trust	(Memorandum Only)
Operating revenues:			
Charges for services	2,685,207	4,250	2,689,457
Taxes/assessments	28,175	-	28,175
Intergovernmental	40,348	-	40,348
Miscellaneous	2,936	-	2,936
Total operating revenues	2,756,666	4,250	2,760,916
Operating expenses:			
Personal services	1,444,958	-	1,444,958
Supplies	97,161	-	97,161
Purchased services	545,777	9,986	555,763
Fixed charges	111,770	-	111,770
Depreciation	503,972	-	503,972
Amortization	660	-	660
Bad debt expense	109,095	-	109,095
Miscellaneous	4,004	-	4,004
Total operating expenses	2,817,397	9,986	2,827,383
Operating loss	(60,731)	(5,736)	(66,467)
Nonoperating revenues (expenses):			
Rental income	24,000	-	24,000
Interest revenue	112,072	8,029	120,101
Interest expense	(10,828)	-	(10,828)
Total nonoperating revenues (expenses)	125,244	8,029	133,273
Income before operating transfers	64,513	2,293	66,806
Operating transfers to general fund	(37,838)	-	(37,838)
Total operating transfers out	(37,838)	-	(37,838)
Net income	26,675	2,293	28,968
Depreciation on fixed assets acquired through contributions	119,850	-	119,850
Increase in retained earnings/fund balances	146,525	2,293	148,818
Retained earnings/fund balances, July 1	6,286,447	197,107	6,483,554
Retained earnings/fund balances, June 30	<u>6,432,972</u>	<u>199,400</u>	<u>6,632,372</u>

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, 2002

	Proprietary Fund Type	Fiduciary Fund Type	Total
	Enterprise	Nonexpendable Trust	(Memorandum Only)
Cash flows from operating activities:			
Operating loss	(60,731)	(5,736)	(66,467)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:			
Depreciation	503,972	-	503,972
Amortization	660	-	660
Allowance for doubtful accounts	37,368	-	37,368
Changes in assets and liabilities:			
Decrease in accounts receivable	101,847	-	101,847
Increase in taxes/assessments receivable	(663)	-	(663)
Decrease in other receivables	2,477	-	2,477
Decrease in due from governments	900	-	900
Increase in accounts payable	29,643	-	29,643
Increase in compensated absences	990	-	990
Net cash provided (used) by operating activities	<u>616,463</u>	<u>(5,736)</u>	<u>610,727</u>
Cash flows from noncapital financing activities:			
Decrease in due to other funds	64,000	-	64,000
Rental income	24,000	-	24,000
Operating transfers out	(37,838)	-	(37,838)
Net cash provided by noncapital financing activities	<u>50,162</u>	<u>-</u>	<u>50,162</u>
Cash flows from capital and related financing activities:			
Purchase/construction of fixed assets	(478,384)	-	(478,384)
Principal payments-notes	(73,503)	-	(73,503)
Interest paid	(10,828)	-	(10,828)
Net cash used by capital and related financing activities	<u>(562,715)</u>	<u>-</u>	<u>(562,715)</u>
Cash flows from investing activities:			
Net change in investments	(161,596)	(164,270)	(325,866)
Interest received	145,112	11,390	156,502
Net cash used by investing activities	<u>(16,484)</u>	<u>(152,880)</u>	<u>(169,364)</u>
Increase (decrease) in cash and cash equivalents	87,426	(158,616)	(71,190)
Cash and cash equivalents, July 1 (Enterprise cash balance includes restricted cash of \$78,945)	<u>388,094</u>	<u>190,346</u>	<u>578,440</u>
Cash and cash equivalents, June 30 (Enterprise cash balance includes restricted cash of \$101,158)	<u>475,520</u>	<u>31,730</u>	<u>507,250</u>

Noncash Capital, Noncapital and Investing Activities

Inception of capital lease to purchase equipment	26,752	-	26,752
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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. The government's significant accounting policies are described below.

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
NOTES TO FINANCIAL STATEMENTS

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.

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

CITY OF LIVINGSTON
NOTES TO FINANCIAL STATEMENTS

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

CITY OF LIVINGSTON
NOTES TO FINANCIAL STATEMENTS

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 effective interest method. Bonds payable are reported net of the applicable bond premium or discount. 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 that are 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 agency funds. The final budget is legally enacted by the City Commission by the later of the second Monday in August or within 45 days of receiving certified taxable values from the Department of Revenue, 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 \$18,126 as of June 30, 2002. The deficit occurred because expenditures exceeded anticipated revenues in the current year and in prior years. Management is evaluating its current recreation program. The Ambulance fund had a deficit retained earnings of \$71,305. The deficit is expected to be eliminated through an evaluation of operating revenues and expenses and increasing user charges.

CITY OF LIVINGSTON
NOTES TO FINANCIAL STATEMENTS

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, 2002, 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	1,096,132	-	1,096,132
Time deposits	<u>-</u>	<u>4,000,000</u>	<u>4,000,000</u>
 Total per Combined Balance Sheet	 <u>1,097,807</u>	 <u>4,000,000</u>	 <u>5,097,807</u>

At year end, the government's carrying amount of deposits was \$5,096,132 and the bank balance was \$5,657,714. Deposits include demand and time. Of the bank balance, \$406,293 was covered by federal depository insurance and \$5,251,421 was uninsured and uncollateralized. The uninsured and uncollateralized portion includes \$4,512,170 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, 2002, 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>Enterprise</u>	<u>Total</u>
System develop.	-	-	1,625	1,625
Cable franchise	12,412	-	-	12,412
CDBG repay	-	10,550	-	10,550
Economic develop.	-	118,614	-	118,614
Other	<u>3,600</u>	<u>2,795</u>	<u>4,223</u>	<u>10,618</u>
	<u>16,012</u>	<u>131,959</u>	<u>5,848</u>	<u>153,819</u>

Fixed Assets

Changes in the general fixed assets account group for the year ended June 30, 2002, were as follows:

	<u>Balance July 1, 2001</u>	<u>Changes</u>	<u>Balance June 30, 2002</u>
Land/buildings	6,270,886	10,890	6,281,776
Improvements	345,814	173,003	518,817
Machinery and equipment	<u>1,809,388</u>	<u>88,380</u>	<u>1,897,768</u>
	<u>8,426,088</u>	<u>272,273</u>	<u>8,698,361</u>

CITY OF LIVINGSTON
NOTES TO FINANCIAL STATEMENTS

The following is a summary of proprietary fund type fixed assets as of June 30, 2002:

Buildings	17,628
Source of Supply	926,718
Treatment plant	5,062,656
Transmission and distribution	6,308,947
General plant	974,179
Machinery and equipment	<u>1,384,250</u>
Total	14,674,378
Less: accumulated depreciation	<u>(6,252,490)</u>
	<u><u>8,421,888</u></u>

Interfund Receivables and Payables

The composition of interfund balances (due to/from other funds) as of June 30, 2002 is as follows:

	Due From	Due To
General	79,000	-
Special Revenue:		
Recreation Department	-	19,000
Enterprise:		
Ambulance	-	64,000
Solid Waste	<u>4,000</u>	<u>-</u>
	<u><u>83,000</u></u>	<u><u>83,000</u></u>

Capital Leases

Capital leases, as of June 30, 2002, are comprised of the following:

Purpose/issue date	Original Amount	Term	Interest Rate	Balance June 30, 2002
Asphalt zipper-2002 (1,2)	53,505	4 yr	4.95%	53,505
Dump truck-2001 (1)	47,039	5 yr	5.96%	28,160
Roller-2001 (1)	43,753	5 yr	6.75%	<u>26,510</u>
				<u><u>108,175</u></u>

(1) Recorded in general long-term debt account group
(2) Recorded in the Enterprise fund.

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, 2002 were as follows:

Year ending June 30	General Long-term Debt	Enterprise
2003	28,090	7,536
2004	28,090	7,536
2005	28,089	7,536
2006	<u>7,536</u>	<u>7,535</u>
Total minimum lease payments	91,805	30,143
Less: amount representing interest	<u>10,382</u>	<u>3,391</u>
Present value of minimum lease payments	<u><u>81,423</u></u>	<u><u>26,752</u></u>

CITY OF LIVINGSTON
NOTES TO FINANCIAL STATEMENTS

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, 2002
Fire Truck-1997	307,000	15 yr	4.3 to 5.4%	205,000
Fire Truck-2000	445,000	20yr	5.35 to 7.5%	435,000
				640,000

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

Year ending June 30	Principal	Interest	Total
2003	45,000	34,093	79,093
2004	30,000	32,050	62,050
2005	30,000	30,389	60,389
2006	30,000	28,750	58,750
2007	30,000	27,115	57,115
2008-2012	190,000	106,890	296,890
2013-2017	150,000	58,063	208,063
2018-2022	135,000	15,949	150,949
	640,000	333,299	973,299

The government issued special improvement (SID) bonds to provide funds for improvements. SID bonds, as of June 30, 2002, are comprised of the following:

Purpose/issue date	Original Amount	Term	Interest Rate	Balance June 30, 2002
SID No. 175 -1995	127,700	15 yr	6.75%	75,000
SID No. 176-1995	25,000	9 yr	6.75%	6,000
SID No. 177-1998	163,000	15 yr	4.19-5.59%	125,000
SID No. 178-2000	179,000	15 yr	4.20-5.60%	160,000
				366,000

Special improvement bond debt service requirements to maturity are as follows:

Year ending June 30	Principal	Interest	Total
2003	32,000	19,911	51,911
2004	32,000	18,227	50,227
2005	30,000	16,487	46,487
2006	31,000	14,798	45,798
2007	31,000	13,119	44,119
2008-2012	150,000	39,657	189,657
2013-2017	60,000	4,162	64,162
	366,000	126,361	492,361

CITY OF LIVINGSTON
NOTES TO FINANCIAL STATEMENTS

The government has notes outstanding with the Montana Board of Investments. Principal outstanding, as of June 30, 2002, was \$146,600, \$38,149 and \$111,639 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 (3.15% as of June 30, 2002). 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 general long-term debt account group. Notes payable debt service requirements to maturity are as follows:

Year ending June 30	Enterprise			General Long-Term Debt Account		
	Principal	Interest	Total	Principal	Interest	Total
2003	75,472	4,840	80,312	14,036	3,406	17,442
2004	59,677	2,495	62,172	14,646	2,959	17,605
2005	49,600	779	50,379	15,277	2,500	17,777
2006	-	-	-	15,947	2,006	17,953
2007	-	-	-	16,640	1,499	18,139
2008-2012	-	-	-	35,093	1,387	36,480
	<u>184,749</u>	<u>8,114</u>	<u>192,863</u>	<u>111,639</u>	<u>13,757</u>	<u>125,396</u>

During the year ended June 30, 2002, the following changes occurred in liabilities reported in the general long-term debt account group:

	Balance July 1, 2001	Additions	Retirements	Balance June 30, 2002
Special improvement bonds	397,000	-	31,000	366,000
General obligation debt	670,000	-	30,000	640,000
Notes payable	125,090	-	13,451	111,639
Capital leases	70,668	26,753	15,998	81,423
Compensated absences	247,616	9,530	-	257,146
	<u>1,510,374</u>	<u>36,283</u>	<u>90,449</u>	<u>1,456,208</u>

Contributed Capital

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

Sources	Water	Sewer	Ambulance	Total
Balance, July 1, 2001	1,404,052	2,669,338	227,227	4,300,617
Less: depreciation closed to to contributed capital	(36,433)	(83,417)	-	(119,850)
Balance, June 30, 2002	<u>1,367,619</u>	<u>2,585,921</u>	<u>227,227</u>	<u>4,180,767</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, 2002:

Retained earnings-reserved:	
Reserved for 3 percent rate increase	39,765
Reserve for INTERCAP	82,600
Reserved for system development	453,052
Reserved for operations	355,582
Reserved for replacement and depreciation	799,633
	<u>1,730,632</u>

CITY OF LIVINGSTON
NOTES TO FINANCIAL STATEMENTS

Fund balance-designated:

General:	
Equipment/impact fees	8,668
Special revenue:	
Economic development	9,708
Capital projects:	
Buildings/infrastructure	100,000
Eastside school repairs and maintenance	28,837
Land lease/building maintenance	40,515
Trust and agency:	
Recreational purposes	100,000
Equipment	<u>12,181</u>
	<u>299,909</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.

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, 2002 is as follows:

	<u>Water</u>	<u>Sewer</u>	<u>Solid Waste</u>	<u>Ambulance</u>	<u>Wind Farm</u>
Operating revenues	761,714	822,201	767,178	405,212	361
Depreciation	184,188	272,636	31,497	15,651	-
Operating income (loss)	(7,552)	12,147	(21,047)	(44,460)	181
Operating transfers out	(10,782)	(10,782)	(10,782)	(4,492)	(1,000)
Net income (loss)	35,536	38,032	(3,178)	(43,065)	(650)
Fixed asset additions	282,270	121,842	2,528	71,744	-
Net working capital	766,876	920,413	615,555	96,209	3,642
Total assets	4,442,466	5,593,106	798,606	231,415	3,642
Compensated absences	42,329	57,928	38,603	11,492	-
Notes payable	146,600	38,149	-	-	-
Capital leases	26,752	-	-	-	-
Total equity	4,226,785	5,497,029	730,360	155,923	3,642

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

CITY OF LIVINGSTON
NOTES TO FINANCIAL STATEMENTS

reimbursed. All other interfund transactions are reported as operating transfers. Operating transfers between funds during 2002 consisted of the following:

	Transfers In	Transfers Out
General	44,962	89,000
Special Revenue:		
Parks and Recreation	12,220	-
Library	5,172	4,729
Health Insurance	-	6,750
Gas Tax	566	-
Economic Development	-	2,010
CDBG	-	385
Capital Projects:		
Capital improvement	77,500	-
Enterprise:		
Water	-	10,782
Sewer	-	10,782
Solid waste	-	10,782
Ambulance	-	4,492
Wind Farm	-	1,000
Trust and Agency:	292	-
	140,712	140,712

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 \$176,068 during fiscal year 2002.

The City and Park County entered into agreements for the City-County Law Enforcement Dispatch Center and ambulance services. The City provides dispatch and ambulance services to the County. The County contributed \$30,900 and 35,000, respectively, during fiscal year 2002 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 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.

Commitments and Contingencies

As of June 30, 2002, the City had \$228,573 remaining on a street improvement project.

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.

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

CITY OF LIVINGSTON
NOTES TO FINANCIAL STATEMENTS

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.

The plans issue a publicly available financial report that includes financial statements and required supplementary information. The reports may be obtained from the following:

Firefighters Retirement System Public Employees Retirement Division P.O. Box 200131 1712 Ninth Avenue Helena, MT 59620-0131 (406) 444-3154	Public Employees Retirement System Public Employees Retirement Division P.O. Box 200131 1712 Ninth Avenue Helena, MT 59620-0131 (406) 444-3154	Municipal Police Officers Retirement System Public Employees Retirement Division P.O. Box 200131 1712 Ninth Avenue Helena, MT 59620-0131 (406) 444-3154
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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.

	<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 \$102,845, \$132,459 and \$1,579, respectively, for the year ended June 30, 2002.

The amounts contributed to MPORS, FURS and PERS during the years ended June 30, 2002, 2001 and 2000, 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>2002</u>	<u>2001</u>	<u>2000</u>
MPORS #1 and #2	81,900	74,533	81,963
FURS	101,792	97,459	96,180
PERS	<u>219,065</u>	<u>205,948</u>	<u>194,837</u>
	<u>402,757</u>	<u>377,940</u>	<u>372,980</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). Significant changes in the Statement include the following:

- 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.

OLNESS & ASSOCIATES, P. C.

BRENT D. OLNESS, CPA

CERTIFIED PUBLIC ACCOUNTANTS

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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, 2002, and have issued our report thereon dated September 20, 2002, which 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*. We noted an immaterial instance of noncompliance which is described in the accompanying schedule of findings and questioned costs as item 02-4.

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 02-1 through 02-3.

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, we consider the reportable conditions described above to be material weaknesses.

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 20, 2002

CITY OF LIVINGSTON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2002

REPORTABLE CONDITIONS:

02-1. Fixed Assets

During the year, the City developed a detail list of fixed assets for the general fixed assets account group; however, documentation to substantiate the balances was not available. We recommend the City conduct a physical inventory. Once completed, the inventory should be cross referenced with the current fixed asset list. Supporting documentation should include, but not limited to, the following: a list of City-owned property from the county assessor, copies of the deeds for real property, acquisition dates, methods used to value assets, vehicle and equipment registrations and/or titles and invoices.

Entity Response: The City of Livingston has hired (shared with the County) a GIS Employee. Part of her duties are to locate the City and County properties and the deeds as well as a description. This will help to locate the original value of the land. We would like to be compliant with the GASB No. 34 reporting by the end fiscal year 2003. We will also continue to do physical inventories and cross-reference the lists.

02-2. Limit Access to Network Hard Drives

The accounting software programs and related data reside on a server. The server hard drive is accessible from various terminals. We recommend the security of the server be reviewed. Only those employees with responsibility to track or use particular information should have viewing access to shared hard drives and/or folders.

Entity Response: We will try to get someone in here to help set up security for the server. This is going to be expensive so it may not get done until July of 2003, but we will budget for it at that time.

02-3. Computer Controls

During fiscal year 2002, the accounting software was updated to the windows version. This version has the capability of defining levels of access to the accounting, payroll and cash receipting functions within the permission control groups. Limiting employee access, based upon assigned duties, decreases the risk of intentional or unintentional alteration of data files. We recommend access levels to the accounting, payroll and cash receipting functions be limited based upon employee processing duties. This can be accomplished through a combination of individual passwords and defining the permission controls.

Entity Response: The City will be contacting Black Mountain Software to set up the security and permission levels for the software program. Due to the size of our office personnel, this may not be easy to do as most jobs are cross trained to do an employees job while they are out of the office on vacation or sick leave. There are a few security controls that should be installed such as the ability to go into a closed month and not be able to re-post information. These will be addressed.

OTHER MATTERS:

02-4. Bid Letting

A pickup truck was purchased for \$20,440. The purchase was not advertised for bid as required by Section 7-5-4302(1), MCA. Purchases of machinery and equipment in excess of \$20,000 should be advertised for bid.

Entity Response: This was strictly an error on the Supervisors part. Most vehicles that are purchased are under \$20,000 and are not required to be bid, although we usually do it anyway. This vehicle was bought on the shirrtail of the State's bidding process, but was not documented with their bidding procedure. If we use the State's bidding again, we will have it documented that they went out to bid and this was the best price for the City as well.

CITY OF LIVINGSTON
PRIOR YEAR AUDIT FINDINGS
Year Ended June 30, 2002

<u>Prior Year Audit Findings</u>	<u>Status</u>
01-1. Fixed Assets	Partially Implemented
01-2. Utility Computer File Backups	Implemented