

CITY OF MILES CITY
NOTES TO BASIC FINANCIAL STATEMENTS

Funding Policy. The required contribution is based on pay-as-you-go financing requirements.

Annual OPEB Cost and Net OPEB Obligation. The government's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC). The government has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers with plans that have fewer than 100 total members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the government's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the government's net OPEB obligation to the plan:

Annual required contribution	\$	87,319
Interest on net OPEB obligation		3,711
Adjustment to annual required contribution		(3,712)
Annual OPEB cost (expense)		87,318
Contributions made		(56,430)
Increase in net OPEB obligation		30,888
Net OPEB obligation - beginning of year		263,094
Prior period adjustment		(263,094)
Net OPEB obligation - end of year	\$	30,888

The government's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2015, 2014 and 2013 are as follows:

Year Ending June 30,	Annual OPEB Cost (AOC)	Percentage of Annual AOC Contributed	Net OPEB Obligation (NOO)
2015	\$ 87,318	0%	\$ 30,888
2014	70,888	0%	263,094
2013	70,604	0%	192,206

Funded Status and Funding Progress. As of July 1, 2014, the Plan was 0% funded. The actuarial accrued liability for benefits was \$610,613, and the actuarial value of assets is \$0 resulting in an unfunded actuarial accrued liability (UAAL) of \$610,613.

The projection of future benefits for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of future events far into the future. Amounts determined regarding the funded status of a plan and the employer's annual required contributions are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. A schedule of funding progress, which is required to be presented as required supplementary information following the notes to the financial statements, is included in the financial statements.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The following simplifying assumptions were made:

Assumptions About Employees and Members: Based on the historical average retirement age of the covered group, active plan members were assumed to retire at age 62 or the first year thereafter in which the member would qualify for benefits. Marital status as of the calculation date was assumed to continue throughout retirement. Life expectancy was based on the RP 2000 Healthy combined Mortality Table projected to 2015 Using Scale AA with no collar adjustment for males and females. The probability of remaining employed until the assumed retirement age and employees' expected future working lifetimes were developed using non-group-specific age-based turnover data from GASB Statement No. 45.

CITY OF MILES CITY
NOTES TO BASIC FINANCIAL STATEMENTS

Assumptions About Healthcare Costs: The 2015 health insurance premiums for retirees were used to calculate the present value of total benefits to be paid. The expected rate of increase in health insurance premiums initially used a select rate of 3.8 percent over the next ten years.

Other Assumptions and Methods: The inflation rate was assumed to be 4.25 percent. Based on the historical and expected returns of the government's investments, the investment rate of return was assumed to be 4.25 percent. The UAAL is amortized over a thirty year period using a 4.25 percent interest rate and a 2.5 percent payroll growth rate.

Future Implementation of GASB Pronouncements

The GASB has issued the following pronouncements:

GASB Statement No. 77, Tax Abatement Disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015.

GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. The provisions in Statement 76 are effective for reporting periods beginning after June 15, 2015. The objective of this Statement is to identify - in the context of the current governmental financial reporting environment - the hierarchy of generally accepted accounting principles (GAAP).

GASB Statement No. 75 - Statement 75 replaces the requirements of GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. Statement 75 requires governments to report a liability on the face of the financial statements for the OPEB that they provide. The provisions in Statement 75 are effective for fiscal years beginning after June 15, 2017.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MILES CITY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
General Fund
For the Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Budget to GAAP Differences	Actual Amounts, GAAP Basis
	Original	Final			
REVENUES					
Taxes/assessments	\$ 1,741,000	\$ 1,741,000	\$ 1,715,172	\$ -	\$ 1,715,172
Fines and forfeitures	212,500	212,500	209,438	-	209,438
Licenses and permits	121,738	121,738	109,004	-	109,004
Intergovernmental	1,575,921	2,015,350	1,315,240	307,033	1,622,273
Charges for services	187,585	187,585	186,517	-	186,517
Investment earnings	1,600	1,600	1,953	-	1,953
Miscellaneous	78,900	78,900	65,639	-	65,639
Total revenues	3,919,244	4,358,673	3,602,963	307,033	3,909,996
EXPENDITURES					
Current:					
General government	971,606	976,329	791,713	11,290	803,003
Public safety	2,591,563	3,039,534	2,577,088	272,312	2,849,400
Public works	7,300	7,300	8,488	11,144	19,632
Public health	72,671	72,671	68,937	1,177	70,114
Social and economic services	-	-	-	1,203	1,203
Culture and recreation	427,819	427,819	406,325	9,907	416,232
Housing and community development	13,646	13,646	13,646	-	13,646
Other current charges	28,657	28,657	-	-	-
Debt service:					
Principal	9,138	9,138	9,137	-	9,137
Interest and other charges	-	-	46	-	46
Capital outlay	14,900	14,900	10,766	-	10,766
Total expenditures	4,137,300	4,589,994	3,886,146	307,033	4,193,179
Excess (deficiency) of revenues over expenditures	(218,056)	(231,321)	(283,183)	-	(283,183)
OTHER FINANCING SOURCES (USES)					
Transfers in	548,759	548,759	550,115	-	550,115
Transfers out	(321,196)	(321,196)	(321,196)	-	(321,196)
Total other financing sources (uses)	227,563	227,563	228,919	-	228,919
Net change in fund balance	\$ 9,507	\$ (3,758)	(54,264)	-	(54,264)
Fund balance - beginning			1,005,346	-	1,005,346
Fund balance - ending			\$ 951,082	\$ -	\$ 951,082

See notes to required supplementary information-budgetary comparison information.

CITY OF MILES CITY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Street Maintenance District No. 204 Fund
For the Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts
	Original	Final	
REVENUES			
Taxes/assessments	\$ 946,359	\$ 946,359	\$ 962,160
Investment earnings	400	400	731
Total revenues	<u>946,759</u>	<u>946,759</u>	<u>962,891</u>
EXPENDITURES			
Current:			
General government	-	-	247
Public works	967,077	972,907	758,498
Other current charges	4,136	4,136	-
Capital outlay	-	-	56,859
Total expenditures	<u>971,213</u>	<u>977,043</u>	<u>815,604</u>
Excess (deficiency) of revenues over expenditures	<u>(24,454)</u>	<u>(30,284)</u>	<u>147,287</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	87,274	87,274	87,274
Transfers out	<u>(204,165)</u>	<u>(204,165)</u>	<u>(202,992)</u>
Total other financing sources (uses)	<u>(116,891)</u>	<u>(116,891)</u>	<u>(115,718)</u>
Net change in fund balance	<u>\$ (141,345)</u>	<u>\$ (147,175)</u>	31,569
Fund balance - beginning			<u>281,396</u>
Fund balance - ending			<u>\$ 312,965</u>

CITY OF MILES CITY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION-BUDGETARY COMPARISON INFORMATION
For the Year Ended June 30, 2015

Money may not be disbursed, expended or obligated except pursuant to an appropriation for which working capital is or will be available. The final budget is legally enacted by the governing body by the first Thursday after the first Tuesday in September or within 30 calendar 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 government does not utilize a formal encumbrance accounting system.

Budget to GAAP differences for the general fund consist of state support revenue and related pension expense recorded under GASB Statement No.'s 68 and 71.

CITY OF MILES CITY
SCHEDULE OF CONTRIBUTIONS
PUBLIC EMPLOYEES, MONTANA POLICE OFFICERS AND FIREFIGHTERS UNIFIED
RETIREMENT SYSTEMS OF MONTANA
For the Year Ended June 30, 2015

<u>Public Employees Retirement System:</u>	<u>2015</u>
Contractually required contributions	\$ 181,570
Contributions in relation to the contractually required contributions	<u>181,570</u>
Contribution deficiency (excess)	<u>\$ -</u>
Employer's covered-employee payroll	\$ 2,165,434
Contributions as a percentage of covered-employee payroll	8.38%
 <u>Montana Police Officers Retirement System:</u>	 <u>2015</u>
Contractually required contributions	\$ 102,830
Contributions in relation to the contractually required contributions	<u>102,830</u>
Contribution deficiency (excess)	<u>\$ -</u>
Employer's covered-employee payroll	\$ 713,602
Contributions as a percentage of covered-employee payroll	14.41%
 <u>Firefighters Unified Retirement System:</u>	 <u>2015</u>
Contractually required contributions	\$ 83,222
Contributions in relation to the contractually required contributions	<u>83,222</u>
Contribution deficiency (excess)	<u>\$ -</u>
Employer's covered-employee payroll	\$ 579,545
Contributions as a percentage of covered-employee payroll	14.36%

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

CITY OF MILES CITY
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
PUBLIC EMPLOYEES, MONTANA POLICE OFFICERS AND FIREFIGHTERS UNIFIED RETIREMENT
SYSTEMS OF MONTANA
For the Year Ended June 30, 2015

<u>Public Employees Retirement System:</u>	<u>2015</u>
Employer's proportion of the net pension liability	0.1881%
Employer's proportionate share of the net pension liability associated with the employer	\$ 2,343,806
State of Montana's proportionate share of the net pension liability associated with the employer	<u>28,621</u>
Total	<u>\$ 2,372,427</u>
Employer's covered-employee payroll	\$ 2,129,343
Employer's proportionate share of the net pension liability as a percentage of its covered-employee payroll	110.07%
Plan fiduciary net position as a percentage of the total pension liability	79.90%
<u>Montana Police Officers Retirement System:</u>	<u>2015</u>
Employer's proportion of the net pension liability	0.5338%
Employer's proportionate share of the net pension liability associated with the employer	\$ 838,807
State of Montana's proportionate share of the net pension liability associated with the employer	<u>1,694,490</u>
Total	<u>\$ 2,533,297</u>
Employer's covered-employee payroll	\$ 716,232
Employer's proportionate share of the net pension liability as a percentage of its covered-employee payroll	117.11%
Plan fiduciary net position as a percentage of the total pension liability	67.00%
<u>Firefighters Unified Retirement System:</u>	<u>2015</u>
Employer's proportion of the net pension liability	0.4649%
Employer's proportionate share of the net pension liability associated with the employer	\$ 453,804
State of Montana's proportionate share of the net pension liability associated with the employer	<u>1,023,761</u>
Total	<u>\$ 1,477,565</u>
Employer's covered-employee payroll	\$ 603,871
Employer's proportionate share of the net pension liability as a percentage of its covered-employee payroll	75.15%
Plan fiduciary net position as a percentage of the total pension liability	76.70%

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

CITY OF MILES CITY
 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION-PENSION
 PLAN INFORMATION
 For the Year Ended June 30, 2015

Changes of assumptions: There were no changes in assumptions for PERS, MPORS and FURS.

Method and assumptions used in calculations of actuarially determined contributions: The actuarially determined contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2014, determined as of June 30, 2014. The following actuarial methods and assumptions were used to determine actuarial contribution rates reported in that schedule:

	PERS/MPORS/FURS
Actuarial cost method	Entry age
Amortization method	Level percentage of pay, open
Remaining amortization period	30 years
Asset valuation method	4 year smoothed market
Inflation	3.25%
Salary increases	4%
Investment rate of return	7.75%, net of pension plan investment expense and including inflation

CITY OF MILES CITY
 SCHEDULE OF FUNDING PROGRESS-OTHER POST-EMPLOYMENT BENEFITS
 For the Year Ended June 30, 2014

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UALL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UALL as a Percentage of Covered Payroll [(b-a)/c]
6/30/2015	\$ -	\$ 610,613	\$ 610,613	-	\$ 4,133,609	0.1477191
6/30/2014	-	446,481	446,481	-	4,060,938	0.109945289
6/30/2013	-	435,932	435,932	-	3,853,615	0.113122873

OLNESS & ASSOCIATES, P. C.

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

To the Honorable Mayor and City Council
City of Miles City
Miles City, Montana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Miles City, Montana (the government) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the government's basic financial statements, and have issued our report thereon dated December 23, 2015. The report included explanatory paragraphs to describe changes in accounting principles.

Internal Control over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses. (Findings 2015-001 through 2015-004)

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompany schedule of findings and responses to be a significant deficiency. (Finding 2015-005)

Compliance and Other Matters

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

The Government's Response to Findings

The government's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The government's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS (CONTINUED)

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Olness & Associates, PC

Billings, Montana
December 23, 2015

CITY OF MILES CITY
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2015

2015-001. FINANCIAL STATEMENT PREPARATION

Criteria: We were engaged to assist in the preparation of the government's financial statements. The government ensures the quality of its financial statements by engaging a qualified audit firm with expertise in governmental audits and by reading a preliminary draft of the financial statements.

Condition: The government does not have specific controls in place to review the selection and application of accounting principles and resulting disclosures and presentations within the financial statements.

Cause: The government is a small organization with limited resources.

Effect: It is common within the governmental sector to rely on the audit firm to prepare the financial statements; however, an audit firm cannot be considered part of the government's internal control by professional standards currently in effect. Since some presentations and disclosures may be material to the financial statements, this weakness in internal control would be classified as material.

Recommendation: The government should continue to read its draft financial statements and ensure the quality of the document and the preparer.

Client Response: The City Clerk reviewed the draft financials in detail comparing accounts to City's year end reports and did not find any errors.

2015-002. SEGREGATION OF DUTIES

Criteria: Segregation of duties refers to assigning tasks among personnel so that no one person handles substantially all aspects of a transaction.

Condition: In many financial areas, including federal award programs, the government lacks segregation of duties.

Cause: The extent to which the government can segregate duties is limited based on the number of personnel, their skill set and work load, and organizational structure.

Effect: The risk of errors or irregularities occurring and not being detected in a timely manner increases when a lack of segregation of duties exists.

Recommendation: There are inherent inefficiencies with full segregation of duties and inherent risks with the lack of segregation of duties. The cost versus benefits for both should be considered. The government should continue to evaluate its segregation of duties and when possible assign tasks to strengthen controls.

Client Response: Segregation of duties is implemented as much as staffing and facility will allow.

2015-003. AMBULANCE FUND OPERATING DEFICIT

Criteria: The ambulance fund is operated as an enterprise fund. Enterprise funds generally are used to report activities where costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges.

Condition: Operating expenses and transfers have exceeded operating revenues in prior years.

Cause: Revenues and expenses were not monitored.

Effect: The ambulance fund has a deficit net position of \$164,712 and a negative cash balance of \$258,101 as of June 30, 2015.

Recommendation: The city needs to continue to monitor and address the deficit net position and cash balance in the ambulance fund.

Client Response: A continuous rate increase is scheduled for the next 3 years. The ambulance did show an improvement this year. The Fire Chief will continue to monitor revenue versus expenses.

CITY OF MILES CITY
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2015

2015-004. CITY COURT TIME PAY ACCOUNTING

Criteria: The Montana Supreme Court Administrator's Office Full Court Accounting Responsibility & Compliance Guidelines that have been adopted by the Courts of Limited Jurisdiction Automation Committee outlines court personnel accounting responsibilities. The guidelines require court personnel to develop and maintain a system of internal controls to safeguard court resources, check the accuracy of clerical entries, promote operational efficiency, and encourage adherence to prescribed accounting procedures. Effective internal control over time pay accounts requires a reconciliation of the monthly time pay activity to the beginning and ending time pay balances to be prepared to determine that all transactions have been recorded properly and to discover errors and irregularities. Further, a formal time pay reconciliation is a useful tool in evaluating and monitoring outstanding time pay balances.

Condition: The city court office does not perform a monthly time pay account reconciliation.

Cause: Unknown.

Effect: Not reconciling the time pay accounts on a monthly basis means that errors or other problems might not be recognized and resolved on a timely basis.

Recommendation: The city court office should prepare a formal reconciliation of time pay activity to the beginning and ending time pay balances on a monthly basis. Once completed, the reconciliation should be reviewed and approved by the city judge.

Client Response: Per letter from COLI Automation Advisory Committee, the Committee does not feel it would be fiscally responsible to spend \$10,440 in 2007 to include in the Time-Pay Ledger report in Full Court to include transactions such as community service, jail time served and/or suspension information.

2015-005. PURCHASING POLICY NOT FOLLOWED

Criteria: Depending on the dollar amount of the purchase, the city's purchasing policy requires department heads to follow certain steps and obtain certain information prior to purchases being made.

Condition: The city's purchasing policy was not always adhered to.

Cause: Unknown

Effect: Internal control is weakened.

Recommendation: We recommend department heads adhere to the city's current purchasing policy.

Client Response: City Clerk sent out a memo with the City's purchasing policy and reminded Department Heads to follow the policy. City Clerk also met with all Department Head and reviewed the process. The City Clerk updated the purchasing policy, which raised the amount of purchase and changed the documentation that is required to be filed with the claims.

CITY OF MILES CITY
SCHEDULE OF PRIOR YEAR FINANCIAL STATEMENT FINDINGS

<u>PRIOR YEAR FINANCIAL STATEMENT FINDINGS</u>	<u>STATUS</u>
2014-001. FINANCIAL STATEMENT PREPARATION	CONTINUED DISCLOSURE
2014-002. SEGREGATION OF DUTIES	CONTINUED DISCLOSURE
2014-003. AMBULANCE FUND OPERATING DEFICIT	PARTIALLY IMPLEMENTED
2014-004. CITY COURT TIME PAY ACCOUNTING	NOT IMPLEMENTED
2014-005. PURCHASING POLICY NOT FOLLOWED	NOT IMPLEMENTED
2014-006. DETERMINATION OF FUND REQUIREMENTS – PROPERTY TAX LEVY	IMPLEMENTED
2014-007. BUDGET DOCUMENT	IMPLEMENTED