

**CITY OF MILES CITY  
CUSTER COUNTY  
MILES CITY, MONTANA**

**FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2021**

**OLNESS & ASSOCIATES, P. C.**

**CERTIFIED PUBLIC ACCOUNTANTS**

2810 CENTRAL AVENUE, SUITE B  
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CITY OF MILES CITY

ORGANIZATION

June 30, 2021

MAYOR

John Hollowell

COUNCIL

Elizabeth Patten	Member
Ken Gardner	Member
Brant Kassner	Member
Kathy Wilcox	Member
Stacy Broell	Member
Rick Huber	Member
Dwayne Andrews	Member
Steven Palmeri	Member

CITY OFFICIALS

Daniel Rice	City Attorney
Mary Rowe	City Clerk
John Moorehead	City Treasurer
Kenneth Stein	City Judge
Doug Colombik	Police Chief
Branden Stevens	Fire Chief

OLNESS & ASSOCIATES, P. C.  
CERTIFIED PUBLIC ACCOUNTANTS

CURT D. WYSS, CPA

ERNEST J. OLNESS, CPA

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Miles City, Montana (the government) as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the government's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

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

Emphasis of Matter

As described in Note 1 to the financial statements, the government adopted the provisions GASB Statement No. 84. Our opinions are not modified with respect to this matter.

INDEPENDENT AUDITORS REPORT (Continued)

Other Matters

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, pension plan information and the schedule of changes in the total other post-employment benefits (OPEB) liability and related ratios identified in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the government's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 7, 2022, 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 grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the government's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the government's internal control over financial reporting and compliance.

*O'Leary & Associates, PC*

Billings, Montana  
April 7, 2022

CITY OF MILES CITY  
MANAGEMENT'S DISCUSSION & ANALYSIS

This discussion and analysis of the City of Miles City's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2021. The intent of this discussion and analysis is to portray the City's overall financial performance in an easily understood format. Readers are encouraged to consider this information in conjunction with the accompanying financial statements and the attached notes.

**FINANCIAL HIGHLIGHTS**

- At the end of fiscal year 2021, the City of Miles City's net position was \$62,697,830. Of this amount, \$53,946,675 is reported as net investment in capital assets. \$6,305,343 is unrestricted and available for carry-over to the next fiscal year.
- The general fund reported an increase in fund balance of \$336,835.

**USING THIS ANNUAL FINANCIAL REPORT**

This annual financial report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the finances. For governmental funds, fund statements tell how these services were financed in the short term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than government-wide statements by providing information about the most significant funds.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

**Government-wide Financial Statements**

One of the most important questions asked about the City's finances is "Is the City as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets, deferred outflows, liabilities and deferred inflows using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

These two statements report net position and changes in it. You can think of net position as one way to measure financial health, or financial position. Over time, increases or decreases in net position are an indicator of whether the City's financial health is improving or deteriorating. One must also consider other nonfinancial factors, however, such as changes in the property tax base and the condition of capital assets, to assess the overall health of the City.

In the Statement of Net Position and the Statement of Activities, the City is divided into two kinds of activities: Governmental-type and business-type activities. Governmental activities include basic services, including police, fire, parks and general government administration. Property taxes, along with state and federal grants, finance most of these activities. Business-type enterprise activities include those activities that charge fees to cover all or most of the cost of services provided. Water and sanitary sewer services, ambulance and airport are included in this group.

**Fund Financial Statements**

The fund financial statements provide detailed information about the most significant funds - not the government as a whole. Some funds are required to be established by State law and by bond covenants. Also, the City Council established many other funds to help it control and manage money for particular purposes or to meet legal responsibilities for using certain taxes, grants and other money. The City utilizes the following funds:

Governmental funds - Basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method known as modified accrual accounting, which measures cash and all other financial assets that can be readily converted into cash. The governmental fund statements provide a detailed short-term view of the City's general operations and its basic services. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance programs. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate a comparison between governmental activities, as reported in the Statement of Net Position and the Statement of Activities and governmental funds.

Proprietary funds - Fees charged to customers, either outside customers or to other units of government are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the enterprise funds, a component of proprietary funds, are the same as the business-type activities reported in the government-wide statements, but provide more detail and additional information, such as cash flow, for proprietary funds. Internal service funds, the other component of proprietary funds, report activities that provide supplies and services for other programs and activities.

CITY OF MILES CITY  
MANAGEMENT'S DISCUSSION & ANALYSIS

**THE GOVERNMENT AS A WHOLE**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In our case, net position was \$62,697,830 as of June 30, 2021. Following are schedules of net position and change in net position.

NET POSITION:

	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
Current and other assets	\$ 4,669,855	\$ 3,205,803	\$ 11,527,252	\$ 10,472,392	\$ 16,197,107	\$ 13,678,195
Capital assets	23,054,579	21,895,273	40,948,486	39,421,037	64,003,065	61,316,310
Total assets	27,724,434	25,101,076	52,475,738	49,893,429	80,200,172	74,994,505
Deferred outflows	1,112,720	701,427	487,826	259,347	1,600,546	960,774
Other liabilities	1,119,193	282,833	602,506	209,403	1,721,699	492,236
Long-term liabilities	5,154,445	4,878,449	11,976,294	12,135,127	17,130,739	17,013,576
Total liabilities	6,273,638	5,161,282	12,578,800	12,344,530	18,852,438	17,505,812
Deferred inflows	299,936	395,173	150,514	178,244	450,450	573,417
Net position (deficit)						
Net investment in capital assets	22,724,501	21,524,876	31,222,174	29,165,517	53,946,675	50,690,393
Restricted	2,040,712	1,726,854	405,100	602,917	2,445,812	2,329,771
Unrestricted	(2,301,633)	(3,005,682)	8,606,976	7,861,568	6,305,343	4,855,886
Total net position (deficit)	\$ 22,463,580	\$ 20,246,048	\$ 40,234,250	\$ 37,630,002	\$ 62,697,830	\$ 57,876,050

CHANGE IN NET POSITION:

	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
Revenues:						
Program revenues:						
Charges for services	\$ 2,814,245	\$ 2,787,642	\$ 5,730,855	\$ 5,309,849	\$ 8,545,100	\$ 8,097,491
Operating grants and contributions	2,077,640	1,654,855	362,724	315,345	2,440,364	1,970,200
Capital grants and contributions	100,586	419,360	1,864,708	546,407	1,965,294	965,767
General revenues:						
Taxes	2,610,419	2,391,243	23,718	23,485	2,634,137	2,414,728
Licenses and permits	14,853	16,786	-	-	14,853	16,786
Intergovernmental	1,427,419	1,381,909	-	-	1,427,419	1,381,909
Interest	4,711	39,422	17,066	147,694	21,777	187,116
Miscellaneous	84,008	89,608	46,089	50,002	130,097	139,610
Gain on disposal of capital assets	8,908	22,364	7,332	-	16,240	22,364
Transfers	203,279	176,376	(203,279)	(176,376)	-	-
Total revenues	9,346,068	8,979,565	7,849,213	6,216,406	17,195,281	15,195,971

CITY OF MILES CITY  
MANAGEMENT'S DISCUSSION & ANALYSIS

CHANGE IN NET POSITION: (continued)

	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
Expenses:						
General government	798,032	865,457	-	-	798,032	865,457
Public safety	3,800,564	3,857,312	-	-	3,800,564	3,857,312
Public works	1,770,855	1,991,445	-	-	1,770,855	1,991,445
Public health	88,973	98,564	-	-	88,973	98,564
Social and economic services	99,561	112,915	-	-	99,561	112,915
Culture and recreation	830,006	886,865	-	-	830,006	886,865
Housing/community development	15,330	15,492	-	-	15,330	15,492
Other current charges	301	101,963	-	-	301	101,963
Water	-	-	1,830,185	1,766,434	1,830,185	1,766,434
Sewer	-	-	1,546,388	1,446,956	1,546,388	1,446,956
Ambulance	-	-	975,679	761,583	975,679	761,583
Airport	-	-	892,713	852,587	892,713	852,587
Interest on long-term debt	9,136	12,554	-	-	9,136	12,554
<b>Total expenses</b>	<b>7,412,758</b>	<b>7,942,567</b>	<b>5,244,965</b>	<b>4,827,560</b>	<b>12,657,723</b>	<b>12,770,127</b>
Change in net position	1,933,310	1,036,998	2,604,248	1,388,846	4,537,558	2,425,844
Net position, beginning	20,246,048	19,209,050	37,630,002	36,241,156	57,876,050	55,450,206
Prior period adjustment	284,222	-	-	-	284,222	-
<b>Net position, ending</b>	<b>\$ 22,463,580</b>	<b>\$ 20,246,048</b>	<b>\$ 40,234,250</b>	<b>\$ 37,630,002</b>	<b>\$ 62,697,830</b>	<b>\$ 57,876,050</b>

Governmental activities net position increased \$1,933,310 mainly due to capital grants and Coronavirus Relief Fund reimbursement related to the COVID-19 pandemic.

For this fiscal year, the business-type activities revenues exceeded expenses by approximately \$2.604 million. The City was a recipient of capital grants in the amount of \$1,864,708 for airport runway improvements and the Darling addition. Additionally, the City has increased water, sewer and ambulance charges in an effort to improve its financial condition and to fund its investment in infrastructure.

The fund financial statements provide detailed information about the major, or most significant, funds. The general fund is always reported as a major fund. Other governmental or enterprise funds may be selected, even though they may not meet the following two criteria.

Total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues or expenditures of that individual governmental or enterprise fund are at least 10 percent of the corresponding element total for all funds of that type that is total governmental or total enterprise funds.

The same element that met the 10 percent criterion is at least 5 percent of the corresponding total for all governmental or enterprise funds combined.

The following are major funds: general, street maintenance district no. 204, federal recovery funds, water, sewer, airport and ambulance.

The year's operations left the general fund with an increase in fund balance of \$336,835 due to CARES Act and Coronavirus Relief Fund reimbursement. The general fund had fund balance of \$1,419,551 on June 30, 2021 that was available for spending in the next fiscal year. Fund balance for the street maintenance district no. 204 fund decreased \$293,206. Fund balance was used to fund current year operations.

The water fund had operating income of \$572,240, with an increase in total net position for the year of \$919,963. The water fund had debt service interest expense of \$112,421. User rates are established to cover operating expenses and to set dollars aside for replacement and depreciation.

The sewer fund had operating income of \$690,886. Net position increased by \$515,806. The sewer fund had debt service interest expense of \$157,877. Miscellaneous sewer upgrades were completed and equipment purchased.

The airport fund had an operating loss of \$162,210, mainly due to depreciation expense. The airport fund had debt service interest expense of \$1,407. Airport runway improvements will be completed by the end of fiscal year 2022. Net position increased \$1,026,519.

The ambulance fund had an operating loss of \$343,321, mainly due to increases in payroll costs and depreciation expense. Net position increased \$141,960 as a result of Coronavirus Relief Fund reimbursement.



CITY OF MILES CITY  
MANAGEMENT'S DISCUSSION & ANALYSIS

**CAPITAL ASSET AND DEBT ADMINISTRATION**

The City of Miles City's net investment in capital assets for this year includes an increase of \$1,187,625 in the governmental activities for an ending balance of \$22,712,501. For business-type activities, capital assets increased \$2,056,657 for an ending balance of \$31,222,174. Outstanding debt (bonds and notes) of the City is \$10,056,390 with final payment dates ranging from 2023 through 2038.

**THE CITY OF MILES CITY'S FUTURE**

It is important that the public understand just how hard the City government has worked to get the very best value from our resident's tax dollars. In the last few years, a progressive City Council, Mayor and department heads have taken steps to reverse a downward economic trend that has been experienced by many small, rural towns, since the 1960s. As a result of careful planning, the City has implemented strategies that leverage scarce capital along with state and federal programs and grants that bring new capital into the local economy in many different forms. This capital has been used to offset the cost of regulation, improve and maintain existing infrastructure, revitalize downtown, preserve our local history and character, and provide better municipal services. Their work has laid a foundation that will continue to provide long-term economic benefit to the community in the future.

The Miles City Downtown Urban Renewal Agency is working to bring a renaissance to Historic Downtown Miles City. As the Urban Renewal Plan is implemented and tax increment financing is invested in the district, our Main and 7<sup>th</sup> Street business corridors will once again become vibrant business centers. There are a number of public and private projects under development that will assist in attracting and retaining talented people and additionally, the companies that want to hire them. Understanding that economic health and "growth" need not equate with sprawl, investing in existing resources is an effective budget management strategy for the City. As the value of creating Tax Increment Finance Districts within the City becomes evident, the City may consider establishing similar districts to incentivize development on Valley Drive East and perhaps the industrial site west of town.

Public Works and Public Utilities have completed the third of five phases of the Darling Addition project at the end of October, 2020. This project addresses failing infrastructure. New water, sewer, and storm drain pipe will be installed along with new fire hydrants, curbing, ADA accessible ramps and complete resurfacing of the roadway. This project covers 24 blocks from S. Strevell St. to S. Lake St and from Stower St. to Main St. This project has been designed by KLJ Engineering and is broken down into phases, in order to make the project easier to budget for. The Parks Department continues to upgrade sprinklers and valves that need improved, along with maintaining over 80 acres of turf. Planning has been working on the Industrial Park Development, and updates to the subdivision regulations.

The City Water/Sewer department, in addition to the water/ sewer line replacements done in conjunction with the Darling Addition project, are working with Interstate Engineering to conduct Preliminary Engineering Reports on the City's water intake structure, distribution system, and the sewer collection system from the Industrial Park to the Montana Street Lift Station. Completion of these projects will allow the City to identify the areas of the system in most need of repair, prioritize and budget for repairs, and be better positioned to qualify for any funding assistance that may become available. Engineering has also started for the North 7<sup>th</sup> (MT 59 N) project to allow the city to replace the utilities in this street prior to the state's surface rehabilitation project.

The City of Miles City in collaboration with Custer County is working on a flood control structure to help protect the community from a potential flood. In 2015, this project was estimated to cost \$42 million. To date, the community has been approved for a Section 205 study with a high potential of approval of a 205-construction project. This will allow the community to receive up to \$10 million dollars in federal money.

The Historic Preservation office is working on the restoration of the 100-year-old Wibaux Fountain, another important effort which leverages a small City budget with grants and local donations to preserve an important part of our heritage.

The Miles City Airport is in the final stages of completing a 4 million-dollar FAA required runway project, which is fully funded by the FAA. The new surfaces will have LED edge lighting and new paint. The Airport has started the process to build a large heated hangar using Construction Manager at Risk process. Having more airplane storage will increase revenue year-round. \$275,000 has been secured thru a Coal Board grant and other avenues of funding are being explored. Total cost of the hangar is estimated between six and eight hundred thousand dollars.

The Miles City fire department building is going to need to be rebuilt at a substantial cost to the community. This, along with an aging fleet of fire apparatus and equipment, creates major challenges in the next few years. A number of grants have been applied for to purchase equipment and upgrade apparatus. The fire department will continue to address needs and apply for FEMA Fire Act grants to assist in these challenges.

Several factors of the Miles City community will continue to pose challenges to the financial health of the City. Continually increasing regulatory requirements by the State and Federal governments impact nearly every department and program. Minimal, but aging population growth, coupled with fewer available well-paying jobs, places downward pressure on the tax base, while forcing the decision makers to consider a new mix and level of services. The City is facing challenges with a fire hall that will need remodeled at a high cost, a new police department office complex is needed, and City Hall is over one hundred years old and the infrastructure is beginning to fail. Several major infrastructure projects will increase the City's debt, but will also improve the overall asset picture. In summary, the City will continue to provide services to the citizens, while making proactive responses to the enormous challenges of the new year.

CITY OF MILES CITY  
STATEMENT OF NET POSITION  
June 30, 2021

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and equivalents	\$ 4,619,415	\$ 5,329,390	\$ 9,948,805
Receivables:			
Taxes/assessments	161,021	565	161,586
Governments	435,569	505,965	941,534
Utility	-	484,477	484,477
Ambulance (net of allowance for uncollectibles of \$226,115)	-	187,964	187,964
Other	53,850	-	53,850
Internal balances	(400,000)	400,000	-
Prepays	-	5,917	5,917
Restricted cash and cash equivalents	-	4,612,974	4,612,974
Capital assets:			
Land and construction in progress	858,321	1,383,347	2,241,668
Capital assets, net of accumulated depreciation	22,196,258	39,565,139	61,761,397
Total assets	<u>27,924,434</u>	<u>52,475,738</u>	<u>80,400,172</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension plans	1,112,720	487,826	1,600,546
<b>LIABILITIES</b>			
Accounts payable-vendors	63,718	490,256	553,974
Due to other governmental agencies	-	5,750	5,750
Unearned revenues	1,055,475	-	1,055,475
Deposits payable	-	106,500	106,500
Long-term liabilities:			
Due within one year:			
Bonds and notes payable	41,306	557,453	598,759
Compensated absences	56,696	54,648	111,344
Due in more than one year:			
Bonds and notes payable	288,772	9,168,859	9,457,631
Total other post-employment benefits liability	578,045	272,021	850,066
Compensated absences	371,951	206,353	578,304
Net pension liability	3,817,675	1,716,960	5,534,635
Total liabilities	<u>6,273,638</u>	<u>12,578,800</u>	<u>18,852,438</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue-deferred assessments	29,444	-	29,444
Pension plans	270,492	150,514	421,006
Total deferred outflows of resources	<u>299,936</u>	<u>150,514</u>	<u>450,450</u>
<b>NET POSITION (DEFICIT)</b>			
Net investment in capital assets	22,724,501	31,222,174	53,946,675
Restricted for:			
General government	24,283	-	24,283
Public safety	638,429	-	638,429
Public works	732,581	-	732,581
Public health	6,101	-	6,101
Social and economic	22,756	-	22,756
Culture and recreation	184,240	-	184,240
Housing and community development	260,545	-	260,545
Capital projects	159,822	-	159,822
Debt service	11,955	405,100	417,055
Unrestricted	(2,301,633)	8,606,976	6,305,343
Total net position (deficit)	<u>\$ 22,463,580</u>	<u>\$ 40,234,250</u>	<u>\$ 62,697,830</u>

See notes to basic financial statements.

CITY OF MILES CITY  
STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2021

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Change in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 798,032	\$ 431,186	\$ 57,029	\$ -	\$ (309,817)	\$ -	\$ (309,817)
Public safety	3,800,564	57,448	893,392	74,786	(2,774,938)	-	(2,774,938)
Public works	1,770,855	2,262,290	968,192	-	1,459,627	-	1,459,627
Public health	88,973	6,665	3,295	-	(79,013)	-	(79,013)
Social and economic services	99,561	-	102,872	-	3,311	-	3,311
Culture and recreation	830,006	56,656	52,860	25,800	(694,690)	-	(694,690)
Housing and community development	15,330	-	-	-	(15,330)	-	(15,330)
Other current charges	301	-	-	-	(301)	-	(301)
Interest on long-term debt	9,136	-	-	-	(9,136)	-	(9,136)
<b>Total governmental activities</b>	<b>7,412,758</b>	<b>2,814,245</b>	<b>2,077,640</b>	<b>100,586</b>	<b>(2,420,287)</b>	<b>-</b>	<b>(2,420,287)</b>
Business-type activities:							
Water	1,830,185	2,290,004	41,148	476,731	-	977,698	977,698
Sewer	1,546,388	2,079,397	34,262	-	-	567,271	567,271
Ambulance	975,679	643,358	280,179	222,865	-	170,723	170,723
Airport	892,713	718,096	7,135	1,165,112	-	997,630	997,630
<b>Total business-type activities</b>	<b>5,244,965</b>	<b>5,730,855</b>	<b>362,724</b>	<b>1,864,708</b>	<b>-</b>	<b>2,713,322</b>	<b>2,713,322</b>
<b>Total</b>	<b>\$ 12,657,723</b>	<b>\$ 8,545,100</b>	<b>\$ 2,440,364</b>	<b>\$ 1,965,294</b>	<b>(2,420,287)</b>	<b>2,713,322</b>	<b>293,035</b>
General revenues:							
Property taxes					2,610,419	23,718	2,634,137
Licenses and permits					14,853	-	14,853
Intergovernmental					1,427,419	-	1,427,419
Unrestricted investment earnings					4,711	17,066	21,777
Miscellaneous					84,008	46,089	130,097
Gain on disposal of capital assets					8,908	7,332	16,240
Transfers					203,279	(203,279)	-
<b>Total general revenues and transfers</b>					<b>4,353,597</b>	<b>(109,074)</b>	<b>4,244,523</b>
<b>Change in net position</b>					<b>1,933,310</b>	<b>2,604,248</b>	<b>4,537,558</b>
Net position - beginning					20,246,048	37,630,002	57,876,050
Prior period adjustment					284,222	-	284,222
<b>Net position - ending</b>					<b>\$ 22,463,580</b>	<b>\$ 40,234,250</b>	<b>\$ 62,697,830</b>

CITY OF MILES CITY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2021

	General	Street Maintenance District No. 204	Federal Recovery Funds	Total Nonmajor Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 1,405,822	\$ 476,920	\$ 1,055,475	\$ 1,584,219	\$ 4,522,436
Receivables:					
Taxes/assessments	48,112	46,375	-	66,534	161,021
Governments	3,031	-	-	432,538	435,569
Other	43,050	-	-	10,800	53,850
Total assets	<u>\$ 1,500,015</u>	<u>\$ 523,295</u>	<u>\$ 1,055,475</u>	<u>\$ 2,094,091</u>	<u>\$ 5,172,876</u>
<b>LIABILITIES</b>					
Accounts payable-vendors	\$ 32,352	\$ 11,661	\$ -	\$ 19,705	\$ 63,718
Due to other funds	-	400,000	-	-	400,000
Unearned revenue	-	-	1,055,475	-	1,055,475
Total liabilities	<u>32,352</u>	<u>411,661</u>	<u>1,055,475</u>	<u>19,705</u>	<u>1,519,193</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable revenue-taxes/special assessments	48,112	46,375	-	66,534	161,021
<b>FUND BALANCES (DEFICIT)</b>					
Restricted for:					
General government	-	-	-	17,680	17,680
Public safety	-	-	-	638,429	638,429
Public works	-	65,259	-	595,010	660,269
Public health	-	-	-	6,101	6,101
Social and economic	-	-	-	22,756	22,756
Culture and recreation	-	-	-	184,240	184,240
Housing and community development	-	-	-	258,197	258,197
Capital projects	-	-	-	159,822	159,822
Debt service	-	-	-	11,582	11,582
Committed for:					
Culture and recreation	-	-	-	116,225	116,225
Unassigned (deficit)	1,419,551	-	-	(2,190)	1,417,361
Total fund balances (deficit)	<u>1,419,551</u>	<u>65,259</u>	<u>-</u>	<u>2,007,852</u>	<u>3,492,662</u>
Total liabilities, deferred inflows of resources and fund balances (deficit)	<u>\$ 1,500,015</u>	<u>\$ 523,295</u>	<u>\$ 1,055,475</u>	<u>\$ 2,094,091</u>	<u>\$ 5,172,876</u>

CITY OF MILES CITY  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION  
June 30, 2021

Total fund balances, governmental funds	\$ 3,492,662
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	23,054,579
Deferred inflows of resources related to taxes and assessments are not available to pay current period expenditures and, therefore, are reported as unavailable revenue in the funds.	131,577
Deferred outflows and inflows of resources related applicable to future periods and, therefore, are not reported in the funds:	
Deferred outflows of resources related to pensions	1,112,720
Deferred inflows of resources related to pensions	(270,492)
The assets and liabilities of the internal service funds are not included in the fund financial statements, but are included in the governmental activities of the statement of net position.	92,034
Some liabilities (such as notes payable, the total other post-employment benefits liability, the net pension liability and compensated absences) are not due and payable in the current period and, therefore, are not included in the fund financial statements, but are included in the governmental activities of the statement of net position.	<u>(5,149,500)</u>
Net position of governmental activities	<u><u>\$ 22,463,580</u></u>

CITY OF MILES CITY  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2021

	General	Street Maintenance District No. 204	Total Nonmajor Funds	Total Governmental Funds
<b>REVENUES</b>				
Taxes/assessments	\$ 2,091,938	\$ 1,809,095	\$ 949,267	\$ 4,850,300
Fines and forfeitures	148,298	-	2,252	150,550
Licenses and permits	109,306	-	101,909	211,215
Intergovernmental	2,717,256	8,424	836,100	3,561,780
Charges for services	160,820	-	55,023	215,843
Investment earnings	2,767	197	1,747	4,711
Miscellaneous	89,673	210	15,074	104,957
<b>Total revenues</b>	<b>5,320,058</b>	<b>1,817,926</b>	<b>1,961,372</b>	<b>9,099,356</b>
<b>EXPENDITURES</b>				
Current:				
General government	807,633	-	-	807,633
Public safety	3,474,676	-	262,272	3,736,948
Public works	35,532	681,970	409,966	1,127,468
Public health	77,988	-	13,976	91,964
Social and economic services	3,829	-	99,785	103,614
Culture and recreation	483,796	-	331,639	815,435
Housing and community development	15,330	-	-	15,330
Other current charges	-	-	301	301
Debt service:				
Principal	36,466	-	3,853	40,319
Interest and other charges	8,408	-	728	9,136
Capital outlay	308,399	1,442,242	268,374	2,019,015
<b>Total expenditures</b>	<b>5,252,057</b>	<b>2,124,212</b>	<b>1,390,894</b>	<b>8,767,163</b>
Excess (deficiency) of revenues over expenditures	68,001	(306,286)	570,478	332,193
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of capital assets	-	8,908	-	8,908
Transfers in	594,789	134,469	435,332	1,164,590
Transfers out	(325,955)	(130,297)	(553,059)	(1,009,311)
<b>Total other financing sources (uses)</b>	<b>268,834</b>	<b>13,080</b>	<b>(117,727)</b>	<b>164,187</b>
<b>Net change in fund balances</b>	<b>336,835</b>	<b>(293,206)</b>	<b>452,751</b>	<b>496,380</b>
Fund balances - beginning	1,082,716	358,465	1,270,879	2,712,060
Prior period adjustments	-	-	284,222	284,222
<b>Fund balances - ending</b>	<b>\$ 1,419,551</b>	<b>\$ 65,259</b>	<b>\$ 2,007,852</b>	<b>\$ 3,492,662</b>

CITY OF MILES CITY  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2021

Net change in fund balances - total governmental funds	\$ 496,380
 Amounts reported for governmental activities in the statement of activities are different because:	
 Governmental funds report capital outlay expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense.	
This is the amount by which capital outlay (\$2,019,015) exceed depreciation (\$870,930) in the current period.	1,148,085
The net effect of miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net position.	11,221
Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the statement of activities when earned.	8,725
Governmental funds report pension contributions as expenditures. However, in the statement of activities, the cost of pension benefits is reported as pension expense.	(86,307)
Governmental funds report debt proceeds as current financial resources. In contrast, the statement of activities treats such issuance of debt as a liability. Governmental funds report repayment of debt service principal as an expenditure. In contrast, the statement of activities treats such repayments as a reduction in long-term liabilities. This is the amount of debt principal repaid.	40,319
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds:	
Compensated absences	(2,130)
Other post-employment benefits	275,905
The internal service funds are used by management to charge the costs of certain activities to individual funds. The change in net position of the internal service funds is reported with governmental activities.	<u>41,112</u>
Change in net position of governmental activities	<u><u>\$ 1,933,310</u></u>

CITY OF MILES CITY  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
June 30, 2021

	Business-type Activities				Governmental Activities	
	Water	Sewer	Airport	Ambulance	Total Enterprise Funds	Internal Service Funds
<b>ASSETS</b>						
<b>Current assets:</b>						
Cash and cash equivalents	\$ 1,681,318	\$ 3,376,289	\$ 228,836	\$ 42,947	\$ 5,329,390	\$ 96,979
<b>Receivables:</b>						
Taxes	-	-	339	226	565	-
Utility	286,224	198,253	-	-	484,477	-
Ambulance (net of allowance for uncollectibles of \$226,115)	-	-	-	187,964	187,964	-
Governments	-	383	493,232	12,350	505,965	-
Due from other funds	400,000	-	-	-	400,000	-
Prepaid items	-	-	5,917	-	5,917	-
<b>Total current assets</b>	<b>2,367,542</b>	<b>3,574,925</b>	<b>728,324</b>	<b>243,487</b>	<b>6,914,278</b>	<b>96,979</b>
<b>Non-current assets:</b>						
Restricted cash and cash equivalents	3,405,199	1,113,710	94,065	-	4,612,974	-
<b>Capital assets:</b>						
Land and construction in progress	147,534	42,507	1,193,306	-	1,383,347	-
Utility system	23,692,268	16,501,379	-	-	40,193,647	-
Buildings and improvements	22,997	-	13,797,518	-	13,820,515	-
Equipment and furniture	752,520	985,994	1,283,231	1,052,480	4,074,225	-
Less accumulated depreciation	(8,531,558)	(4,552,084)	(5,013,763)	(425,843)	(18,523,248)	-
<b>Capital assets, net</b>	<b>16,083,761</b>	<b>12,977,796</b>	<b>11,260,292</b>	<b>626,637</b>	<b>40,948,486</b>	<b>-</b>
<b>Total non-current assets</b>	<b>19,488,960</b>	<b>14,091,506</b>	<b>11,354,357</b>	<b>626,637</b>	<b>45,561,460</b>	<b>-</b>
<b>Total assets</b>	<b>21,856,502</b>	<b>17,666,431</b>	<b>12,082,681</b>	<b>870,124</b>	<b>52,475,738</b>	<b>96,979</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>						
Pension plans	162,929	132,423	31,614	160,860	487,826	-
<b>LIABILITIES</b>						
<b>Current liabilities:</b>						
Accounts payable-vendors	68,454	4,804	416,998	-	490,256	-
Payable to other governments	-	-	-	5,750	5,750	-
Deposits payable	106,500	-	-	-	106,500	-
Compensated absences	24,202	19,053	10,015	1,378	54,648	495
Bonds and notes	192,000	347,000	18,453	-	557,453	-
<b>Total current liabilities</b>	<b>391,156</b>	<b>370,857</b>	<b>445,466</b>	<b>7,128</b>	<b>1,214,607</b>	<b>495</b>
<b>Non-current liabilities:</b>						
Compensated absences	78,866	59,927	3,767	63,793	206,353	4,450
Total other post-employment benefits liability	102,008	85,007	17,001	68,005	272,021	-
Net pension liability	715,179	581,270	138,772	281,739	1,716,960	-
Bonds and notes	3,592,000	5,514,000	62,859	-	9,168,859	-
<b>Total non-current liabilities</b>	<b>4,488,053</b>	<b>6,240,204</b>	<b>222,399</b>	<b>413,537</b>	<b>11,364,193</b>	<b>4,450</b>
<b>Total liabilities</b>	<b>4,879,209</b>	<b>6,611,061</b>	<b>667,865</b>	<b>420,665</b>	<b>12,578,800</b>	<b>4,945</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Pension plans	74,271	60,365	14,411	1,467	150,514	-
<b>NET POSITION</b>						
Net investment in capital assets	12,299,761	7,116,796	11,178,980	626,637	31,222,174	-
Restricted for debt service	299,907	105,193	-	-	405,100	-
Unrestricted	4,466,283	3,905,439	253,039	(17,785)	8,606,976	92,034
<b>Total net position</b>	<b>\$ 17,065,951</b>	<b>\$ 11,127,428</b>	<b>\$ 11,432,019</b>	<b>\$ 608,852</b>	<b>\$ 40,234,250</b>	<b>\$ 92,034</b>

See notes to basic financial statements.



CITY OF MILES CITY  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
PROPRIETARY FUNDS  
For the Year Ended June 30, 2021

	Business-type Activities				Governmental Activities	
	Water	Sewer	Airport	Ambulance	Total Enterprise Funds	Internal Service Funds
<b>REVENUES</b>						
Charges for services	\$ 2,290,004	\$ 2,079,397	\$ 729,096	\$ 632,358	\$ 5,730,855	\$ 115,507
Total operating revenues	<u>2,290,004</u>	<u>2,079,397</u>	<u>729,096</u>	<u>632,358</u>	<u>5,730,855</u>	<u>115,507</u>
<b>OPERATING EXPENSES</b>						
Personal services	785,397	652,399	140,155	751,834	2,329,785	94,885
Supplies	205,604	126,125	311,842	69,063	712,634	9,783
Building materials	293	20	-	1,017	1,330	-
Other purchased services	212,578	221,169	66,452	87,961	588,160	15,981
Fixed charges	43,081	36,972	12,068	9,692	101,813	1,746
Depreciation	470,811	351,826	360,789	56,112	1,239,538	-
Total operating expenses	<u>1,717,764</u>	<u>1,388,511</u>	<u>891,306</u>	<u>975,679</u>	<u>4,973,260</u>	<u>122,395</u>
Operating income (loss)	<u>572,240</u>	<u>690,886</u>	<u>(162,210)</u>	<u>(343,321)</u>	<u>757,595</u>	<u>(6,888)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>						
Property taxes	-	-	14,232	9,486	23,718	-
Interest earnings	9,672	6,650	656	88	17,066	-
Operating grants and contributions	41,148	34,262	7,135	280,179	362,724	-
Miscellaneous	3,362	2,951	17,955	21,821	46,089	-
Gain on disposal of capital assets	1,168	1,169	4,995	-	7,332	-
Interest expense	(112,421)	(157,877)	(1,407)	-	(271,705)	-
Total non-operating revenues (expenses)	<u>(57,071)</u>	<u>(112,845)</u>	<u>43,566</u>	<u>311,574</u>	<u>185,224</u>	<u>-</u>
Income (loss) before transfers and capital contributions	515,169	578,041	(118,644)	(31,747)	942,819	(6,888)
Capital contributions	476,731	-	1,165,112	222,865	1,864,708	-
Transfers in	-	-	-	-	-	48,000
Transfers out	(71,937)	(62,235)	(19,949)	(49,158)	(203,279)	-
Change in net position	919,963	515,806	1,026,519	141,960	2,604,248	41,112
Total net position - beginning	<u>16,145,988</u>	<u>10,611,622</u>	<u>10,405,500</u>	<u>466,892</u>	<u>37,630,002</u>	<u>50,922</u>
Total net position - ending	<u>\$ 17,065,951</u>	<u>\$ 11,127,428</u>	<u>\$ 11,432,019</u>	<u>\$ 608,852</u>	<u>\$ 40,234,250</u>	<u>\$ 92,034</u>

CITY OF MILES CITY  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
For the Year Ended June 30, 2021

	Business-type Activities				Governmental Activities	
	Water	Sewer	Airport	Ambulance	Total Enterprise Funds	Internal Service Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>						
Receipts from customers and users	\$ 2,235,898	\$ 2,080,509	\$ 729,096	\$ 608,249	\$ 5,653,752	\$ 115,507
Cash paid to suppliers for goods and services	(437,979)	(382,290)	(385,104)	(167,733)	(1,373,106)	(27,510)
Cash paid to employees	(709,154)	(576,220)	(139,330)	(592,109)	(2,016,813)	(95,155)
Net cash provided (used) by operating activities	1,088,765	1,121,999	204,662	(151,593)	2,263,833	(7,158)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>						
Intergovernmental revenues	4,374	3,991	30,000	280,976	319,341	-
Property taxes	-	-	14,223	9,480	23,703	-
Increase in deposits payable	8,350	-	-	-	8,350	-
Miscellaneous cash receipts	3,362	2,951	17,955	21,821	46,089	-
Net interfund loan activity	(304,612)	-	-	(95,388)	(400,000)	-
Net transfers (to)/from other funds	(71,937)	(62,235)	(19,949)	(49,158)	(203,279)	48,000
Net cash provided (used) by noncapital financing activities	(360,463)	(55,293)	42,229	167,731	(205,796)	48,000
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>						
Purchase of capital assets	(995,311)	(403,785)	(795,564)	(222,865)	(2,417,525)	-
Cash received for sale of capital assets	-	-	5,000	-	5,000	-
Capital contributions	764,994	-	728,997	222,865	1,716,856	-
Debt issued	-	-	15,000	-	15,000	-
Principal payments on bonds	(186,000)	(339,755)	(18,453)	-	(544,208)	-
Cash paid for bond issuance costs	-	-	-	-	-	-
Interest paid	(112,421)	(157,877)	(1,407)	-	(271,705)	-
Net cash used by capital and related financing activities	(528,738)	(901,417)	(66,427)	-	(1,496,582)	-
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>						
Interest received	9,672	6,650	656	88	17,066	-
Net cash provided by investing activities	9,672	6,650	656	88	17,066	-
Change in cash and cash equivalents	209,236	171,939	181,120	16,226	578,521	40,842
Cash and cash equivalents - beginning	4,877,281	4,318,060	141,781	26,721	9,363,843	56,137
Cash and cash equivalents - ending	<u>\$ 5,086,517</u>	<u>\$ 4,489,999</u>	<u>\$ 322,901</u>	<u>\$ 42,947</u>	<u>\$ 9,942,364</u>	<u>\$ 96,979</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>						
Operating income (loss)	\$ 572,240	\$ 690,886	\$ (162,210)	\$ (343,321)	\$ 757,595	\$ (6,888)
Adjustment to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	470,811	351,826	360,789	56,112	1,239,538	-
Other post-employment benefits	(42,322)	(23,240)	(7,054)	(4,160)	(76,776)	-
Pension expense	116,539	97,989	6,688	149,213	370,429	-
(Increase) decrease in accounts receivable	(54,106)	1,112	-	(24,109)	(77,103)	-
Increase in prepaid items	-	-	(1,042)	-	(1,042)	-
Increase in accounts payable	23,577	1,996	6,300	-	31,873	-
Increase (decrease) in compensated absences	2,026	1,430	1,191	14,672	19,319	(270)
Net cash provided (used) by operating activities	<u>\$ 1,088,765</u>	<u>\$ 1,121,999</u>	<u>\$ 204,662</u>	<u>\$ (151,593)</u>	<u>\$ 2,263,833</u>	<u>\$ (7,158)</u>

**SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:**

Purchase of capital assets on account	\$ 44,877	\$ 2,808	\$ 410,698	\$ -	\$ 458,383	\$ -
Operating grants and contributions	-	383	-	12,350	12,733	-
Capital contributions	-	-	493,232	-	493,232	-

CITY OF MILES CITY  
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the government have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations).

The government adopted the provisions of the following GASB statement:

For the year ended June 30, 2021, the government implemented the provisions of GASB Statement No. 84, Fiduciary Activities, which establishes criteria for identifying fiduciary activities for accounting and financial reporting purposes. The government has no fiduciary activities.

The government's significant accounting policies are described below.

Reporting Entity

For financial reporting purposes, the government has included all funds, organizations, agencies, boards, commissions and authorities. The government has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the government are such that exclusion would cause the government's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. Based on the criteria established by the Governmental Accounting Standards Board, the government has no component units.

Related Organizations - The City Council is responsible for appointing members of the boards of other organizations, but the government's accountability for these organizations does not extend beyond making the appointments.

Government-wide and Fund Financial Statements

The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements with exception of interfund services provided and used. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or identifiable activity. Program revenues include 1) charges for services which report fees and other charges provided by a given function or identifiable activity 2) operating grants and contributions and 3) capital grants and contributions. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund financial statements are provided for governmental and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported in separate columns in the fund financial statements. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. Expenditure-driven grants are recognized as revenue

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when the qualifying expenditures have been incurred and all other grant requirements have been met. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. All other revenue items are considered to be measurable and available only when cash is received by the government.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds and of the internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

The government reports the following major governmental funds:

The general fund is used to account for all financial resources, except those required by law or administrative action to be accounted for in another fund. The general fund is always reported as a major fund in the governmental fund statements.

Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted by law or administrative action to expenditure for specific purposes other than debt service or capital projects. The following special revenue fund is reported as major:

The street maintenance district no. 204 fund is used to account for the proceeds and costs associated with street improvements and repairs that are assessed to property owners.

The federal recovery funds fund is used to account for American Rescue Plan Act (ARPA) revenue and related expenditures.

The government reports the following major proprietary funds:

The water fund accounts for the activities of the government's water services.

The sewer fund accounts for the activities of the government's wastewater services.

The airport fund accounts for the activities of the government's airport services.

The ambulance fund accounts for the activities of the government's ambulance services.

Assets, Liabilities, Deferred Outflows/Inflows and Net Position/Fund Balance

Cash and Investments

The City maintains and controls a cash and investment portfolio for all funds. The investments portfolio is managed by the City Treasurer and overseen by the Mayor and City Council. The City Treasurer is responsible for setting the investment policies, 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 an investment program managed and administered under the direction of the Montana Board of Investments (MBOI) as authorized by the Unified Investment Program. The STIP portfolio is reported at fair value versus amortized cost. Investment income is allocated to individual funds owning the investment. At year-end, the net change in fair value is allocated to individual funds owning the investments.

Investments are measured at fair value on a recurring basis. Recurring fair value measurements are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the statement of net position at the end of each reporting period. The government had no nonrecurring fair value measurements. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. 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.

Receivables and Payables

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

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current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." In governmental fund financial statements, advances between funds are offset by an amount reported as nonspendable fund balance to indicate that they are not available for appropriation and are not expendable available financial resources.

Ambulance receivables are shown net of an allowance for uncollectibles. The ambulance accounts receivable allowance for uncollectibles is determined through past collection history. Bad debts for all other receivable accounts, including taxes, 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.

Receivables from and payables to external parties are reported separately and are not offset in the proprietary fund financial statements and business-type activities of the government-wide financial statements, unless a right of offset exists.

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. No allowance is made for uncollectible taxes as they are not considered significant.

Inventories and Prepaid Items

Inventory items purchased are recorded as expenditures/expenses at the time of purchase. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Restricted Assets

Certain proceeds of the enterprise fund revenue bonds, as well as resources set aside for their repayment, are classified as restricted assets because their use is limited by applicable bond covenants. Additionally, other assets have been restricted for future replacement of the enterprise systems and equipment, water deposits and system development fees.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. The government has elected not to report major infrastructure assets retroactively. Capital assets are defined by the government as assets with an initial, individual cost of more than \$10,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value, which is determined as of the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Interest incurred during the construction phase of capital assets of enterprise funds is included as part of the capitalized value of the assets constructed. There was no capitalized interest for the year ended June 30, 2021. Depreciation on capital assets is calculated on the straight-line method over the following estimated useful lives:

Assets	Years
Infrastructure	75-85
Buildings, improvements and systems	20-105
Machinery and equipment	7-40

Collections Not Capitalized

Certain collections of historic artifacts and works of art are not reported in the accompanying financial statements. These assets have not been capitalized because they meet all of the conditions that qualify them as collections that are not required to be capitalized. These conditions are the collections are held for public exhibition or education in the furtherance of public service, not held for financial gain; the collections are protected, kept unencumbered, cared for, and preserved; and any sale proceeds are expected to be used to acquire other items for the collections.

Compensated Absences

Liabilities associated with accumulated vacation and sick leave are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

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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

Long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond issuance costs are recognized as an expense in the period incurred. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Deferred Outflows/Inflows of Resources

In addition to assets, the government's statements of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an expense until then. The government has one item that meets this criterion: pension plans.

In addition to liabilities, the statements of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The government has two items that meet the criterion: pension plans and long-term special assessments.

In the governmental funds, the only deferred inflow of resources is for revenues that are not considered available. The government will not recognize the related revenues until they are available under the modified accrual basis of accounting. Accordingly, unavailable revenues from property taxes are reported in the governmental funds balance sheet.

Net Position

In the government-wide statements, equity is classified as net position and displayed in three components:

Net investment in capital assets - consists of capital assets (net of accumulated depreciation), plus capital-related deferred outflows of resources, less capital-related borrowings and deferred inflows of resources.

Restricted - consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted - any portion of net position that does not meet the definition of "net investment in capital assets" or "restricted."

Proprietary fund equity is classified the same as in the government-wide statements.

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the government's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

Fund Balance

In the fund statements, governmental fund equity is classified as fund balance. The following classifications describe the relative strength of the spending constraints:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed fund balance - amounts constrained to specific purposes by the government itself, using its highest level of decision-making authority (i.e.,

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governing body). The government establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. To be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.

Assigned fund balance - amounts the government intends to use for a specific purpose. Intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.

Unassigned fund balance - amounts that are available for any purpose. Positive amounts are reported only in the general fund.

The governing body has by resolution authorized the city clerk to assign fund balance. There was no assigned fund balance in the general fund at year-end.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the government considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the government considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the governing body has provided otherwise in its commitment or assignment actions.

Use of Estimates

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

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Deficit Fund Equity

The Judgement & Loss-Southgate fund had a deficit fund balance of \$2,190 as of June 30, 2021. The deficit occurred due to delinquent taxes. The deficit will be eliminated when the delinquent taxes are collected.

NOTE 3. DETAILED NOTES ON ALL FUNDS

Cash and Cash Equivalents and Investments

The government's cash, cash equivalents and investments are reported as follows:

Governmental activities	\$ 4,619,415
Business-type activities	<u>9,942,364</u>
	<u>\$ 14,561,779</u>

Total carrying value of cash, cash equivalents and investments as of June 30, 2021, consisted of the following:

Cash on hand	\$ 1,005
Cash in banks:	
Demand	(425,389)
Savings deposits	102
Repurchase agreements	<u>14,986,061</u>
	<u>\$ 14,561,779</u>

*Custodial Credit Risk - Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. As of June 30, 2021, the government was not exposed to custodial risk.

State 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. Collateral was not required as of June 30, 2021.

The government had no investments categorized as Level 1, 2 or 3 inputs.

*Credit Risk.* Allowable investments include direct obligations of the United States Government, repurchase agreements, savings or time

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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). The STIP portfolio is reported on at fair value versus amortized cost. The government has no investment policy that would further limit its investment choices. The Short-Term Investment Pool (STIP) maintained by the State of Montana has certain investments in derivatives. GASB requires the nature of the underlying securities and market, credit and legal risks be disclosed. Reference to the audit of the State of Montana would identify the level of risk associated with STIP.

Custodial Credit Risk. Investments made by the government are summarized below. The investments that are represented by specific identifiable investment securities are categorized in the following manner: Category 1-Insured or registered, with securities held by the government or its agent in the government's name; Category 2-Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the government's name; Category 3-Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the government's name. In accordance with GASB, the City's investment in repurchase agreements is categorized in Category 3. The carrying value approximates fair value.

Capital Assets

Capital asset activity for the year ended June 30, 2021, was as follows:

	Balance July 1, 2020	Additions	Deletions	Balance June 30, 2021
Governmental activities:				
Capital assets, not being depreciated				
Land	\$ 526,598	\$ 70,000	\$ -	\$ 596,598
Construction-in-progress	1,765,705	261,723	(1,765,705)	261,723
Total capital assets, not being depreciated	<u>2,292,303</u>	<u>331,723</u>	<u>(1,765,705)</u>	<u>858,321</u>
Capital assets, being depreciated				
Buildings/improvements	3,246,060	-	-	3,246,060
Machinery and equipment	4,854,999	344,324	(115,063)	5,084,260
Infrastructure	36,629,932	3,184,623	-	39,814,555
Total capital assets, being depreciated	<u>44,730,991</u>	<u>3,528,947</u>	<u>(115,063)</u>	<u>48,144,875</u>
Less accumulated depreciation for:				
Buildings/improvements	(1,314,951)	(82,136)	-	(1,397,087)
Machinery and equipment	(2,991,552)	(303,587)	50,334	(3,244,805)
Infrastructure	(20,821,518)	(485,207)	-	(21,306,725)
Total accumulated depreciation	<u>(25,128,021)</u>	<u>(870,930)</u>	<u>50,334</u>	<u>(25,948,617)</u>
Total capital assets, being depreciated, net	<u>19,602,970</u>	<u>2,658,017</u>	<u>(64,729)</u>	<u>22,196,258</u>
Governmental activities capital assets, net	<u>\$ 21,895,273</u>	<u>\$ 2,989,740</u>	<u>\$ (1,830,434)</u>	<u>\$ 23,054,579</u>

Depreciation expense was charged as follows:

Governmental activities:	
General government	\$ 7,044
Public safety	163,448
Public works	636,802
Public health	389
Culture and recreation	63,247
Total depreciation-governmental activities	<u>\$ 870,930</u>



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	Balance July 1, 2020	Additions	Deletions	Balance June 30, 2021
Business-type activities:				
Capital assets, not being depreciated				
Land	\$ 61,829	\$ -	\$ (5)	\$ 61,824
Construction-in-progress	1,964,271	1,022,363	(1,665,111)	1,321,523
Total capital assets, not being depreciated	<u>2,026,100</u>	<u>1,022,363</u>	<u>(1,665,116)</u>	<u>1,383,347</u>
Capital assets, being depreciated				
Buildings and systems	38,243,294	2,753,035	-	40,996,329
Improvements other than buildings	13,017,833	-	-	13,017,833
Machinery and equipment	3,455,769	704,518	(86,062)	4,074,225
Total capital assets, being depreciated	<u>54,716,896</u>	<u>3,457,553</u>	<u>(86,062)</u>	<u>58,088,387</u>
Less accumulated depreciation for:				
Buildings and systems	(11,805,233)	(723,139)	-	(12,528,372)
Improvements other than buildings	(3,697,303)	(295,636)	-	(3,992,939)
Machinery and equipment	(1,819,424)	(220,763)	38,250	(2,001,937)
Total accumulated depreciation	<u>(17,321,960)</u>	<u>(1,239,538)</u>	<u>38,250</u>	<u>(18,523,248)</u>
Total capital assets, being depreciated, net	<u>37,394,936</u>	<u>2,218,015</u>	<u>(47,812)</u>	<u>39,565,139</u>
Business-type activities capital assets, net	<u>\$ 39,421,036</u>	<u>\$ 3,240,378</u>	<u>\$ (1,712,928)</u>	<u>\$ 40,948,486</u>

Depreciation expense was charged as follows:

Business-type activities:	
Water	\$ 470,811
Sewer	351,826
Ambulance	56,112
Airport	360,789
	<u>360,789</u>
Total depreciation-business-type activities	<u>\$ 1,239,538</u>

Interfund Receivables, Payables and Transfers

The water fund loaned the street maintenance district no. 4 fund \$400,000 to cover Darling phase II expenditures. The loan is to be repaid over the next two years.

	Transfers In	Transfers Out	Total
Governmental activities:			
General	\$ 594,789	\$ (325,955)	\$ 268,834
Street Maintenance District No. 204	134,469	(130,297)	4,172
Internal service	48,000	-	48,000
Nonmajor governmental funds	435,332	(553,059)	(117,727)
	<u>\$ 1,212,590</u>	<u>\$ (1,009,311)</u>	<u>\$ 203,279</u>
Business-type activities:			
Water	\$ -	\$ (71,937)	\$ (71,937)
Sewer	-	(62,235)	(62,235)
Airport	-	(19,949)	(19,949)
Ambulance	-	(49,158)	(49,158)
	<u>\$ -</u>	<u>\$ (203,279)</u>	<u>\$ (203,279)</u>

Transfers are used to fund budgetary authorizations, library operations, health insurance and grant contributions.

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Long-Term Debt

Notes from direct borrowing are as follows:

Notes Payable	Original Loan	Maturity Date	Term	Interest Rate	Balance June 30, 2021
Governmental activities:					
2017-Flood risk study (1)	\$ 175,000	2/15/2023	7 yrs	1.65%	\$ 60,582
2016-SID No. 211 (1)	59,703	8/15/2030	15 yrs	1.65%	39,025
2019-Fire training center	245,100	4/15/2044	25 yrs	3.00%	230,471
					<u>\$ 330,078</u>
Business-type activities:					
2016-airport improvements	\$ 169,530	3/1/2025	10 yrs	1.63%	<u>\$ 81,312</u>

(1) Loan through Montana Board of Investments

Notes from direct borrowings (INTERCAP) include a provision that interest is adjusted each February 1<sup>st</sup>, up to a maximum of 15 percent. The loans are general obligation that requires backing by the full faith and credit of the government and obligates the government to levy a tax sufficient to repay the obligation. Airport notes from direct borrowings include a provision that require the government to budget sufficiently for repayment of the principal and interest on an annual basis. The fire training center note is secured by a lien on the equipment.

Annual debt service requirements to maturity for notes from direct borrowings are as follows:

Year ending June 30,	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2022	\$ 41,306	\$ 8,319	\$ 49,625	\$ 18,453	\$ 1,423	\$ 19,876
2023	41,624	7,535	49,159	18,453	1,111	19,564
2024	11,580	6,874	18,454	18,453	800	19,253
2025	11,860	6,578	18,438	18,453	489	18,942
2026	12,149	6,273	18,422	1,500	178	1,678
2027-2031	63,085	26,503	89,588	6,000	356	6,356
2032-2036	51,186	18,594	69,780	-	-	-
2037-2041	59,458	10,322	69,780	-	-	-
2042-2044	37,830	1,698	39,528	-	-	-
	<u>\$ 330,078</u>	<u>\$ 92,696</u>	<u>\$ 422,774</u>	<u>\$ 81,312</u>	<u>\$ 4,357</u>	<u>\$ 85,669</u>

The government issued water system revenue bonds through the Department of Natural Resources and Conservation (DNRC). The government pledges income derived from the acquired or constructed assets to pay debt service. During 2014, the City refinanced the 2008B and 2008D wastewater bonds through the Montana Department of Natural Resources and Conservation DNRC. Revenue bonds currently outstanding are as follows:

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	Original Amount	Term	Interest Rate	Balance June 30, 2021
2008A Revenue bonds	\$ 500,000	30 yr	2.75%	\$ 336,000
2014 Revenue bonds	1,924,000	24 yr	3.00%	1,463,000
2008C Revenue bonds	500,000	30 yr	2.75%	336,000
2014 Revenue bonds	1,977,000	24 yr	3.00%	1,504,000
2009B Revenue bonds	333,700	20 yr	0.75%	145,000
2017B Revenue bonds	6,296,000	20 yr	2.50%	4,921,000
2012B Revenue bonds	1,510,000	20 yr	3.00%	940,000
				<u>\$ 9,645,000</u>

The government is in substantial compliance with all of the water and sewer system revenue bonds covenants.

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

Year ending June 30,	Business-type Activities		
	Principal	Interest	Total
2022	\$ 539,000	\$ 256,244	\$ 795,244
2023	554,000	241,834	795,834
2024	568,000	227,011	795,011
2025	584,000	211,779	795,779
2026	599,000	196,151	795,151
2027-2031	3,205,000	731,151	3,936,151
2032-2036	3,186,000	295,010	3,481,010
2037-2039	410,000	12,168	422,168
	<u>\$ 9,645,000</u>	<u>\$ 2,171,348</u>	<u>\$ 11,816,348</u>

Long-term liability activity for the year ended June 30, 2021 was as follows:

	Balance July 1, 2020	Additions	Retirements	Balance June 30, 2021	Due Within One Year
Governmental activities:					
Notes payable	\$ 370,397	\$ -	\$ (40,319)	\$ 330,078	\$ 41,306
Compensated absences	426,787	1,860	-	428,647	56,696
Governmental activity long-term liabilities	<u>\$ 797,184</u>	<u>\$ 1,860</u>	<u>\$ (40,319)</u>	<u>\$ 758,725</u>	<u>\$ 98,002</u>
Business-type activities:					
Revenue bonds	\$ 10,170,755	\$ -	\$ (525,755)	\$ 9,645,000	\$ 539,000
Notes payable	84,765	15,000	(18,453)	81,312	18,453
Compensated absences	241,682	19,319	-	261,001	54,648
Business-type activity long-term liabilities	<u>\$ 10,497,202</u>	<u>\$ 34,319</u>	<u>\$ (544,208)</u>	<u>\$ 9,987,313</u>	<u>\$ 612,101</u>

The internal service funds predominantly serve the governmental funds. Accordingly, internal service fund long-term liabilities are included as part of the above totals for governmental activities. At year end, \$4,945 of internal service funds compensated absences is included in the above amounts. Compensated absences and notes payable are liquidated with general fund resources.

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Restricted Assets

The balances of the restricted asset accounts in the enterprise funds are as follows:

Customer deposits	\$ 108,550
Revenue bond-reserve	405,100
Revenue bond-replacement/depreciation	3,627,813
System development fees	<u>471,511</u>
	<u>\$ 4,612,974</u>

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 government participates in a state-wide public risk pool, MMIA, for workers' compensation coverage. The government 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 government 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.

Prior Period Adjustments

Prior period adjustments resulted from recording revenue related to a 911 grant.

Subsequent Events

Subsequent to year-end, the government obtained financing through the Board of Investments to assist in financing the remodel of a new police building. The \$480,000 loan is for 15 years, with a variable interest rate. The initial rate is 1.65%.

Commitments and Contingencies

In March 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus as a "pandemic". The outbreak, known now as COVID-19, has had a significant impact worldwide. In response, many countries have implemented measures to combat the outbreak which have impacted global business operations. As of the date of issuance of the financial statements, the government continues to monitor the situation and evaluate its potential impact. No impairments were recorded as of the statement of net position date as no triggering events or changes in circumstances had occurred as of year-end; however, due to significant uncertainty surrounding the situation, management's judgment regarding this could change in the future. In addition, while the government's financial condition could be negatively impacted, the extent of the impact cannot be reasonably estimable at this time.

At year-end, the government had commitments outstanding, in the form of contracts, of approximately \$2.715 million for reconstruction of the airport runway.

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any to be immaterial.

The government is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the government's counsel the resolution of these matters will not have a material adverse effect on the financial condition of the government.

Retirement Plans

Plan Descriptions

The Public Employees Retirement System (PERS) Defined Benefit Retirement Plan (DBRP), administered by the Montana Public Employee Retirement Administration (MPERA), is a multiple-employer, cost-sharing plan established July 1, 1945, and governed by Title 19, chapters 2 and 3, MCA) The PERS-DBRP provides retirement, disability, and death benefits to plan members and their beneficiaries. All new members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to remain in the

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PERS-DBRP or join the PERS-DCRP by filing an irrevocable election. Members may not be participants of both the defined benefit and defined contribution retirement plans. Benefits are established by state law and can only be amended by the Legislature. Benefits are based on eligibility, years of service, and highest average compensation. Member rights are vested after five years of service. Additional information pertaining to membership, benefit structure, and prior years' actuarial valuations, as well as links to applicable statutes and administrative rules, may be obtained by visiting the PERS web site at [mpera.mt.gov](http://mpera.mt.gov).

The Municipal Police Officers' Retirement System (MPORS), administered by the Montana Public Employee Retirement Administration (MPERA), is a multiple-employer, cost-sharing defined benefit plan established in 1974 and governed by Title 19, chapters 2 & 9, MCA. This plan provides retirement benefits to all municipal police officers employed by first- and second-class cities and other cities that adopt the plan. Benefits are established by state law and can only be amended by the Legislature. The MPORS provides retirement, disability, and death benefits to plan members and their beneficiaries. Additional information pertaining to membership, benefit structure, and prior years' actuarial valuations, as well as links to applicable statutes and administrative rules, may be obtained by visiting the PERS web site at [mpera.mt.gov](http://mpera.mt.gov).

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

The Firefighters' Unified Retirement System (FURS), administered by the Montana Public Employee Retirement Administration (MPERA), is a multiple-employer, cost-sharing defined benefit plan established in 1981, and governed by Title 19, chapters 2 & 13, MCA. This plan provides retirement benefits to firefighters employed by first and second-class cities, other cities and rural fire district departments that adopt the plan, and to firefighters hired by the Montana Air National Guard on or after October 1, 2001. Benefits are established by state law and can only be amended by the Legislature. The FURS provides retirement, disability, and death benefits to plan members and their beneficiaries. Additional information pertaining to membership, benefit structure, and prior years' actuarial valuations, as well as links to applicable statutes and administrative rules, may be obtained by visiting the PERS web site at [mpera.mt.gov](http://mpera.mt.gov).

#### Pension Benefits

##### Public Employees Retirement System

Plan members hired prior to July 1, 2011 are eligible to retire at age 60 with 5 years of membership service, age 65 regardless of years of membership service or any age with 30 years of membership service. Benefits are calculated as follows: 1) if less than 25 years of membership service, 1.785% of the member's highest average compensation (HAC) multiplied by years of service credit or 2) if 25 years of membership service or more, 2% of HAC multiplied by years of service credit.

Plan members hired on or after July 1, 2011 are eligible to retire at age 65 with 5 years of membership service or age 70 regardless of years of membership service. Benefits are calculated as follows: 1) if less than 10 years of membership service, 1.5% of the member's HAC multiplied by years of service credit, 2) if between 10 and 30 years of membership service, 1.785 of HAC multiplied by years of service credit, or 3) if 30 years of membership service or more, 2% of HAC multiplied by years of service credit.

Plan members hired prior to July 1, 2011 are eligible for early retirement at age 50 with 5 years of membership service or any age with 25 years of membership service. Plan members hired on or after July 1, 2011 are eligible for early retirement at age 55 with 5 years of membership service. Benefits are actuarially reduced.

Second retirement applies to plan members re-employed in a PERS position after retirement. Plan members who retire before January 1, 2016 and accumulate less than 2 years' additional service credit or retire on or after January 1, 2016 and accumulate less than 5 years' additional service credit receive a refund of the plan member's contributions from the second employment plus regular interest at 2.02%.

Plan members who retire before January 1, 2016 and accumulate at least 2 years of additional service credit receive a recalculated retirement benefit based on the laws in effect at second retirement. Plan members who retire on or after January 1, 2016 and accumulate 5 or more years of additional service credit receive the same retirement benefit as prior to their return to service and a second retirement benefit for the second period of service based on the laws in effect at second retirement.

For members who have been retired at least 12 months, a Guaranteed Annual Benefit Adjustment (GABA) will be made each year equal to 1). 3% for members hired prior to July 1, 2007, 2). 1.5% for members hired between July 1, 2007 and June 30, 2013 or, 3). Members hired on or after July 1, 2013: a). 1.5% for each year PERS is funded at or above 90%; b). 1.5% is reduced by .1% for each 2% PERS is funded below 90%; and c). 0% whenever the amortization period for PERS is 40 years or more.

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Municipal Police Officers' Retirement System

MPORS provides retirement, disability and death benefits. Members with 20 years of service credit or age 50 with 5 years of service credit are eligible to retire. Retirement benefits are determined as 2.5 percent of the final highest average (FAC) multiplied by years of service credit. For plan members hired prior to July 1, 1977, FAC is determined on the average monthly compensation of final year of service. Plan members hired on or after July 1, 1977, FAC is determined on the final average compensation (FAC) for last consecutive 36 months. For plan members hired on or after July 1, 2013, FAC is determined on 110% annual cap on compensation considered as a part of a member's final average compensation.

Second retirement is recalculated using specific criteria for members who return to covered MPORS employment prior to July 1, 2017: 1) less than 20 years of membership service, upon re-employment, repay benefits and subsequent retirement is based on total MPORS service or 2) more than 20 years of membership service, upon re-employment, receives initial benefit and a new retirement benefit based on additional service credit and FAC after re-employment. This applies to retirement system members re-employed in a MPORS position on or after July 1, 2017: 1) If the member works more than 480 hours in a calendar year and accumulates less than 5 years of service credit before terminating again, the member: a) is not awarded service credit for the period of reemployment; b) is refunded the accumulated contributions associated with the period of reemployment; c) starting the first month following termination of service, receives the same retirement benefit previously paid to the member; and d) does not accrue post-retirement benefit adjustments during the term of reemployment but receives a Guaranteed Annual Benefit Adjustment (GABA) in January immediately following second retirement. If the member works more than 480 hours in a calendar year and accumulates at least 5 years of service credit before terminating again, the member: 1) is awarded service credit for the period of reemployment; 2) starting the first month following termination of service, receives: a) the same retirement benefit previously paid to the member, and b) a second retirement benefit for the period of reemployment calculated based on the laws in effect as of the members rehire date; and 3) does not accrue post-retirement benefit adjustments during the term of reemployment but receives a GABA: a) on the initial retirement benefit in January immediately following second retirement, and b) on the second retirement benefit starting in January after receiving that benefit for at least 12 months. A member who returns to covered service is not eligible for a disability benefit.

The Guaranteed Annual Benefit Adjustment (GABA) applies to members hired on or after July 1, 1997, or those electing GABA, and has been retired for at least 12 months, a GABA will be made each year in January equal to 3%. The minimum benefit adjustment (non-GABA) may not be less than 50% of the compensation paid to a newly confirmed police officer of the employer that last employed the member as a police officer in the current fiscal year.

Firefighters' Unified Retirement System

FURS provides retirement, disability and death benefits. Members with 20 years of service credit are eligible to retire. Retirement benefits are determined as follows: 1) for a member hired on or after July 1, 1981, or a member who has elected to be covered by GABA: 2.5% of highest average compensation (HAC) multiplied by years of service credit or 2) for a member hired prior to July 1, 1981, and who had not elected to be covered by GABA, the greater of 1), or (a) if membership service is less than 20 years: 2% of highest monthly compensation (HMC) multiplied by years of service credit or (b) if membership service is greater or equal to 20 years: 50% of HMC plus 2% of HMC multiplied by years of service credit in excess of 20. Part-time firefighter received 15% of regular compensation of a newly confirmed full-time firefighter. For a member hired on or after July 1, 2013, compensation is determined on 110% annual cap on compensation considered as a part of a member's HAC. Members age 50 with 5 years of service credit are eligible for early retirement. Retirement benefits are determined using HAC and service credit at early retirement.

Second retirement applies to retirement system members re-employed in a FURS position on or after July 1, 2017: 1) If the member works more than 480 hours in a calendar year and accumulates less than 5 years of service credit before terminating again, the member: a) is not awarded service credit for the period of reemployment; b) is refunded the accumulated contributions associated with the period of reemployment; c) starting the first month following termination of service, receives the same retirement benefit previously paid to the member; and d) does not accrue post-retirement benefit adjustments during the term of reemployment but receives a Guaranteed Annual Benefit Adjustment (GABA) in January immediately following second retirement. If the member works more than 480 hours in a calendar year and accumulates at least 5 years of service credit before terminating again, the member is awarded service credit for the period of reemployment. Starting the first month following termination of service, receives: 1) the same retirement benefit previously paid to the member; and 2) a second retirement benefit for the period of reemployment calculated based on the laws in effect as of the members' rehire date and does not accrue post-retirement benefit adjustments during the term of reemployment but receives a GABA: 1) on the initial retirement benefit in January immediately following second retirement, and 2) on the second retirement benefit starting in January after receiving that benefit for at least 12 months. A member who returns to covered service is not eligible for a disability benefit.

The Guaranteed Annual Benefit Adjustment (GABA) applies to members hired on or after July 1, 1997, or those electing GABA, and has been retired for at least 12 months – the member's benefit increases by 3.0% each January. The minimum benefit adjustment (non-GABA) applies to a member with 10 or more years of membership service who has not elected to be covered under GABA. the minimum benefit provided may not be less than 50% of the monthly compensation paid to a newly confirmed active firefighter of the employer that last employed the member as a firefighter in the current fiscal year.

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Member and Employer Contributions

Public Employees Retirement System

All members contribute 7.9% of their compensation. Interest is credited to member accounts at the rates determined by the Board. All member contributions will be decreased to 6.9% on January 1 following the actuary valuation results that project the amortization period to drop below 25 years. Member contributions are made through an “employer pick-up” arrangement that results in deferral of taxes on the contributions.

Employers contributed 8.77% of each member’s compensation. This was temporarily increased from 7.07% on July 1, 2013. Beginning July 1, 2014, employer contributions will increase an additional 0.1% a year over 10 years, through 2024. The additional employer contributions terminate on January 1 following actuary valuation results that show the amortization period of the PERS-DBRP has dropped below 25 years and would remain below 25 years following the reductions of both the additional employer and member contributions rates. The State’s General Fund contributes an additional .1% of earned compensation. Beginning July 1, 2013, employers are required to make contributions on working retirees’ compensation. Member contributions for working retirees are not required.

Municipal Police Officers’ Retirement System

Members’ contributions depend upon date of hire and whether the member has elected to be covered by a Guaranteed Annual Benefit Adjustment (GABA). For members who have not elected GABA, the rates of contribution are as follows: 1) hired after June 30, 1975, but on or before June 30, 1979: 7.0%, 2) hired after June 30, 1979, but before July 1, 1997: 8.5% or 3) hired on or after July 1, 1997: 9%. For all members who have elected GABA, the rate is 9.0% of compensation. Interest is credited at rates determined by the Board. Member contributions are made through an “employer pick-up” arrangement that results in deferral of taxes on the contributions. Employers contribute 14.41% of each member’s compensation. The State contributes 29.37% of each member’s compensation.

Firefighters’ Unified Retirement System

For members not electing a Guaranteed Annual Benefit Adjustment (GABA), members contribute 9.5% of their compensation. For members electing GABA, members contribute 10.7% of their compensation. Interest is credited at rates determined by the Board. Member contributions are made through an “employer pick-up” arrangement that results in deferral of taxes on the contributions. The employer contributes 14.36% of each member’s compensation. The State contributes 32.61% of each member’s compensation.

Net Pension Liability, Pension Expense, and Deferred Outflows and Inflows of Resources Related to Pensions

At June 30, 2021, the government recorded a liability of \$3,740,474 (PERS), \$1,072,679 (MPORS) and \$721,482 (FURS) for its proportionate share of the net pension liability.

PERS, MPORS and FURS have a special funding situation in which the State of Montana is legally responsible for making contributions directly to PERS, MPORS and FURS on behalf of the government. Due to the existence of this special funding situation, the government is required to report the portion of the State of Montana’s proportionate share of the collective net pension liability. The government’s and State of Montana’s proportionate share of the net pension liability are presented below:

	Net Pension Liability June 30, 2021		
	PERS	MPORS	FURS
Employer proportionate share	\$ 3,740,474	\$ 1,072,679	\$ 721,482
State of Montana proportionate share associated with employer	1,176,036	2,163,486	1,626,465
Total	\$ 4,916,510	\$ 3,236,165	\$ 2,347,947

The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2019 for PERS, MPORS and FURS. The government’s proportion of the net pension liability was based on the government’s contributions received by PERS, MPORS and FURS during the measurement period July 1, 2019, through June 30, 2020, relative to the total employer contributions received from all PERS, MPORS and FURS participating employers. At June 30, 2021, the government’s proportion was .1418, .4386 and .4611 percent for PERS, MPORS and FURS, respectively.

For the year ended June 30, 2021, the government recognized \$396,623 (PERS), \$165,373 (MPORS) and \$135,968 (FURS) for its proportionate share of the pension expense. The government also recognized grant revenue of \$192,331 (PERS), \$342,773 (MPORS) and \$320,125 (FURS) for the support provided by the State of Montana for its proportionate share of the pension expense that is associated with the government. Total pension expense recognized was \$588,954, \$508,146 and \$456,093 for PERS, MPORS and FURS, respectively.

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At June 30, 2021, the government reported its proportionate share of PERS, MPORS and FURS deferred outflows and inflows of resources from the following sources:

	PERS		MPORS		FURS	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 60,379	\$ 106,946	\$ 51,416	\$ 3,386	\$ 49,105	\$ 3,756
Changes in assumptions	259,014	-	91,156	-	128,166	-
Net difference between projected and actual earnings on pension plan investments	323,891	-	83,419	-	92,624	-
Changes in the employer's proportion and differences between employer's contributions and the employer's proportionate contributions	-	281,503	-	25,415	21,342	-
Employer contributions subsequent to measurement date	208,857	-	110,481	-	120,696	-
	<u>\$ 852,141</u>	<u>\$ 388,449</u>	<u>\$ 336,472</u>	<u>\$ 28,801</u>	<u>\$ 411,933</u>	<u>\$ 3,756</u>

Amounts reported as deferred outflows of resources related to pensions resulting from the government's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ended June 30, 2022. Other amounts reported as deferred outflows and inflows of resources will be recognized in pension expense as follows:

Year Ended June 30:	PERS	MPORS	FURS
2022	\$ (92,841)	\$ 58,248	\$ 61,340
2023	153,586	65,962	74,202
2024	113,170	53,705	66,511
2025	80,920	19,275	40,668
Thereafter	-	-	44,760

Actuarial Assumptions

For each of the retirement plans, the total pension liability in the June 30, 2029 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	PERS	MPORS	FURS
Investment rate of return, net of investment and administrative expenses	7.34%	7.34%	7.34%
Salary increases	3.50%	3.50%	3.50%
Inflation	2.40%	2.40%	2.40%

Mortality rates for the PERS, MPORS and FURS retirement plans are based on the RP-2000 Combined Employee and Annuitant Mortality Tables projected to 2020 using Scale BB, set back one year for males.

The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the PERS, MPORS and FURS plans. The most recent PERS, MPORS and FURS analysis, performed for the period covering fiscal years 2011 through 2016, is outlined in a report dated May 5, 2017, which is located on the MPORA website. Several factors are considered in evaluating the long-term rate of return assumption. These factors include rates of return adopted by similar public sector systems, as well as the utilization of a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. Best estimates are presented as the arithmetic real rates of return for each major



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asset class included in the PERS, MPORS and FURS target asset allocation as of June 30, 2020, and are summarized in the following table:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash equivalents	2.0%	0.11%
Domestic equity	30.0%	6.19%
Foreign equity	16.0%	6.92%
Natural resources	4.0%	3.43%
Fixed income	20.0%	1.57%
Private equity	14.0%	10.37%
Real estate	9.0%	5.74%
High yield bonds	5.0%	3.97%
	<u>100.0%</u>	

Discount Rate

Public Employees Retirement System

The discount rate used to measure the total pension liability was 7.34%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and nonemployer contributing entities will be made based on the Board's funding policy, which establishes the contractually required rates under Montana Code Annotated. The State contributes 0.1% of salaries for local governments and 0.37% for school governments. In addition, the State contributes a statutory appropriation from the general fund. Based on those assumptions, the PERS' fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2124. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. No municipal bond rate was incorporated in the discount rate.

Municipal Police Officers' Retirement System

The discount rate used to measure the TPL was 7.34%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities will be made based on the Board's funding policy, which establishes the contractually required rates under the Montana Code Annotated. The State contributes 29.37% of salaries paid by employers. Based on those assumptions, the System's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2134. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL. A municipal bond rate was not incorporated in the discount rate.

Firefighters' Unified Retirement System

The discount rate used to measure the TPL was 7.34%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities will be made based on the Board's funding policy, which establishes the contractually required rates under the Montana Code Annotated. The State contributes 32.61% of salaries paid by employers. Based on those assumptions, the System's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2133. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL. A municipal bond rate was not incorporated in the discount rate.

Sensitivity Analysis

The following presents the employer's proportionate share of the PERS, MPORS and FURS net pension liability calculated using the discount rate of 7.34%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.34%) or 1.00% higher (8.34%) than the current rate.

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	1% Decrease (6.34%)	Current Discount Rate (7.34%)	1% Increase (8.34%)
Net pension liability-PERS	\$ 5,148,541	\$ 3,740,474	\$ 2,557,707
Net pension liability-MPORS	\$ 1,529,171	\$ 1,072,679	\$ 708,502
Net pension liability-FURS	1,166,878	721,482	363,602

Postemployment Benefits Other Than Pensions

General Information about the OPEB Plan

*Plan description:* The healthcare plan provides for and Section 2-18-704, MCA, requires local governments to allow employees with at least 5 years of service and who are at least age 50 along with surviving spouses and dependents to stay on the government's health care plan as long as they pay the same premium. This creates a defined benefit other post-employment benefits plan (OPEB), since retirees are usually older than the average age of the plan participants they receive a benefit of lower insurance rates. The OPEB plan is a single-employer defined benefit plan administered by the government. The government has not created a trust to accumulate assets to assist in covering the defined benefit plan costs, and covers these costs when they come due. The government has less than 100 plan members and thus qualifies to use the "alternative measurement method" for calculating the liability. The above described OPEB plan does not provide a stand-alone financial report.

*Benefits provided:* The government provides healthcare insurance benefits for retirees and their dependents upon reaching the age and service years defined in 2-18-704, MCA. The benefit terms require that eligible retirees cover 100 percent of the health insurance premiums.

*Employees Covered by Benefit Terms.* As of June 30, 2021, the following employees were covered by benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	-
Inactive employees or beneficiaries entitled to but not yet receiving benefit payments	-
Active plan members	<u>80</u>
	<u>80</u>

Total OPEB Liability

The total OPEB liability of \$850,066 was measured as of June 30, 2021, and was determined by using the alternative measurement method as of June 30, 2021.

*Actuarial assumptions and other inputs.* The total OPEB liability in the actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Valuation date	June 30, 2021
Actuarial cost method	Entry age normal funding
Salary increases	4%
Discount rate	2.27% (based on the 20 year municipal bond index)
Healthcare costs trend rates	6.5% in 2022. Thereafter, decreasing each year to an ultimate rate of 3.8% for 2077 and years later
Participation	45% of future retirees are assumed to elect medical coverage
Mortality	RP 2000 Healthy combined Mortality Table projected to 2015 using Scale AA

The actuarial assumptions used in the June 20, 2021 valuation were based on the health care premium rates and medical and prescription drug costs in effect as of June 30, 2021.

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Changes in the Total OPEB Liability

Changes in the total OPEB liability were as follows:

Service cost	\$	296,524
Interest on the total OPEB liability		34,033
Difference in experience		(673,262)
Changes in assumptions or other inputs		11,830
Benefits payments		<u>(21,806)</u>
Net change in total OPEB liability		(352,681)
Total OPEB liability - beginning of year		<u>1,202,747</u>
 Total OPEB liability - end of year	 \$	 <u><u>850,066</u></u>

Changes of benefit terms reflect revised health care trend rates and retiree contribution increases based on revised projects and future increases to retirees contributions to match health care cost trend rates.

Changes of assumptions and other inputs reflect a change in status, trend, discount and other inputs.

*Sensitivity of the total OPEB liability to changes in the discount rate.* The following presents the employer's total OPEB liability calculated using the discount rate of 2.27%, as well as what the total OPEB liability would be if it were calculated using a discount rate that is 1.00% lower (1.27%) or 1.00% higher (3.27%) than the current rate.

	<u>1% Decrease (1.27%)</u>	<u>Current Discount Rate (2.27%)</u>	<u>1% Increase (3.27%)</u>
Total OPEB liability	\$ 888,851	\$ 850,066	\$ 797,801

*Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates.* The following presents the total OPEB liability, as well as what the total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (6.0% decreasing to 2.8%) or 1-percentage-point higher (8.0% decreasing to 4.8%) than the current healthcare cost trend rates:

	<u>1% Decrease (5.5% decreasing to 2.8%)</u>	<u>Healthcare Cost Trend Rates (6.5% decreasing to 3.8%)</u>	<u>1% Increase (7.5% decreasing to 4.8%)</u>
Total OPEB liability	\$ 740,741	\$ 850,066	\$ 984,975

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

For the year ended June 30, 2021, the government recognized OPEB expense of (\$330,875). As of June 30, 2021, the government expensed deferred outflows of resources and deferred inflows of resources related to OPEB as required by the "alternative measurement method".

Future Implementation of GASB Pronouncements

GASB Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements addresses issues related to public-private and public-public partnerships, and provides guidance for accounting and financial reporting for availability payment arrangements. Statement 94 is effective for reporting periods beginning after June 15, 2022, and all reporting periods thereafter.

Statement No. 95 - Postponement of the Effective Dates of Certain Authoritative Guidance was issued in May 2020. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later. The following pronouncements are affected:

CITY OF MILES CITY  
NOTES TO BASIC FINANCIAL STATEMENTS

- Statement No. 87, Leases, effective for fiscal years beginning after June 15, 2021, and all reporting periods thereafter.
- Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period, effective for reporting periods beginning after December 15, 2020.
- Statement No. 90, Majority Equity Interests, effective for reporting periods beginning after December 15, 2019.
- Statement No. 91, Conduit Debt Obligations, effective for reporting periods beginning after December 15, 2021.
- Statement No. 92, Omnibus 2020, Paragraphs 6 and 7, effective for fiscal years beginning after June 15, 2021; paragraphs 8, 9 and 12 - effective for reporting periods beginning after June 15, 2021; Paragraph 10 - government acquisitions occurring in reporting periods beginning after June 15, 2021.
- Statement No. 93, Replacement of Interbank Offered Rates, Paragraphs 13 and 14 Except for Paragraph 11b and Paragraphs 13 and 14, effective for reporting periods beginning after June 15, 2020; Paragraph 11b (removal of LIBOR as appropriate benchmark interest rate) - reporting periods ending after December 31, 2021; Paragraphs 13 and 14 - effective for fiscal years beginning after June 15, 2021.

Statement No. 96, Subscription-Based Information Technology Arrangements provides accounting and financial reporting guidance for subscription-based information technology arrangements used by state and local governments. Statement 96 is effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.

Statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans. The requirements in paragraphs 6–9 of this Statement are effective for fiscal years beginning after June 15, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2021.

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, 2021

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Budget to GAAP Differences	Actual Amounts, GAAP Basis
	Original	Final			
<b>REVENUES</b>					
Taxes/assessments	\$ 2,106,767	\$ 2,106,767	\$ 2,091,938	\$ -	\$ 2,091,938
Fines and forfeitures	166,000	166,000	148,298	-	148,298
Licenses and permits	112,926	112,926	109,306	-	109,306
Intergovernmental	1,984,467	1,984,467	2,060,833	656,423	2,717,256
Charges for services	153,487	153,487	160,820	-	160,820
Investment earnings	10,000	10,000	2,767	-	2,767
Miscellaneous	68,751	68,751	89,673	-	89,673
Total revenues	4,602,398	4,602,398	4,663,635	656,423	5,320,058
<b>EXPENDITURES</b>					
Current:					
General government	817,347	817,347	780,998	26,635	807,633
Public safety	3,095,990	3,095,990	2,914,171	560,505	3,474,676
Public works	7,000	7,000	3,421	32,111	35,532
Public health	79,231	79,231	74,693	3,295	77,988
Social and economic services	-	-	-	3,829	3,829
Culture and recreation	467,505	467,505	453,748	30,048	483,796
Housing and community development	15,330	15,330	15,330	-	15,330
Debt service:					
Principal	36,461	36,461	36,466	-	36,466
Interest and other charges	8,415	8,415	8,408	-	8,408
Capital outlay	13,177	13,177	308,399	-	308,399
Total expenditures	4,540,456	4,540,456	4,595,634	656,423	5,252,057
Excess (deficiency) of revenues over expenditures	61,942	61,942	68,001	-	68,001
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	618,207	618,207	594,789	-	594,789
Transfers out	(325,955)	(325,955)	(325,955)	-	(325,955)
Total other financing sources (uses)	292,252	292,252	268,834	-	268,834
Net change in fund balance	\$ 354,194	\$ 354,194	336,835	-	336,835
Fund balance - beginning			1,082,716	-	1,082,716
Fund balance - ending			\$ 1,419,551	\$ -	\$ 1,419,551

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, 2021

	<u>Budgeted Amounts</u>		Actual Amounts
	<u>Original</u>	<u>Final</u>	
<b>REVENUES</b>			
Taxes/assessments	\$ 1,807,521	\$ 1,807,521	\$ 1,809,095
Intergovernmental	18,400	18,400	8,424
Investment earnings	10,000	10,000	197
Miscellaneous	-	-	210
Total revenues	<u>1,835,921</u>	<u>1,835,921</u>	<u>1,817,926</u>
<b>EXPENDITURES</b>			
Current:			
Public works	2,266,584	2,266,584	681,970
Capital outlay	-	-	1,442,242
Total expenditures	<u>2,266,584</u>	<u>2,266,584</u>	<u>2,124,212</u>
Excess (deficiency) of revenues over expenditures	<u>(430,663)</u>	<u>(430,663)</u>	<u>(306,286)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Sale of capital assets	-	-	8,908
Transfers in	684,208	684,208	134,469
Transfers out	<u>(235,297)</u>	<u>(235,297)</u>	<u>(130,297)</u>
Total other financing sources (uses)	<u>448,911</u>	<u>448,911</u>	<u>13,080</u>
Net change in fund balance	<u>\$ 18,248</u>	<u>\$ 18,248</u>	(293,206)
Fund balance - beginning			<u>358,465</u>
Fund balance - ending			<u>\$ 65,259</u>

CITY OF MILES CITY  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION-BUDGETARY COMPARISON INFORMATION  
For the Year Ended June 30, 2021

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 actual differences for the General fund are state support revenues and expenditures related to pensions.

Expenditures exceeded appropriations for the following funds: General (\$55,178), Lighting Maintenance District No. 171 (\$1,368), Lighting Maintenance District No. 195 (\$7,185) and 911 Emergency (\$23,328).



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

Public Employees Retirement System:	2021	2020	2019	2018	2017	2016	2015
Contractually required contributions	\$ 208,857	\$ 208,418	\$ 212,321	\$ 211,764	\$ 199,146	\$ 192,152	\$ 185,078
Contributions in relation to the contractually required contributions	208,857	208,418	212,321	211,764	199,146	192,152	185,078
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Employer's covered payroll	\$ 2,370,096	\$ 2,385,188	\$ 2,468,657	\$ 2,500,162	\$ 2,379,090	\$ 2,251,547	\$ 2,165,434
Contributions as a percentage of covered payroll	8.81%	8.74%	8.60%	8.47%	8.37%	8.53%	8.55%
Municipal Police Officers' Retirement System:	2021	2020	2019	2018	2017	2016	2015
Contractually required contributions	\$ 110,481	\$ 109,457	\$ 106,208	\$ 110,656	\$ 99,460	\$ 103,172	\$ 103,444
Contributions in relation to the contractually required contributions	110,481	109,457	106,208	110,656	99,460	103,172	103,444
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Employer's covered payroll	\$ 766,693	\$ 751,277	\$ 734,121	\$ 739,840	\$ 690,213	\$ 704,307	\$ 713,602
Contributions as a percentage of covered payroll	14.41%	14.57%	14.47%	14.96%	14.41%	14.65%	14.50%
Firefighters' Unified Retirement System:	2021	2020	2019	2018	2017	2016	2015
Contractually required contributions	\$ 120,696	\$ 118,473	\$ 104,660	\$ 105,112	\$ 90,041	\$ 87,329	\$ 84,842
Contributions in relation to the contractually required contributions	120,696	118,473	104,660	105,112	90,041	87,329	84,842
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Employer's covered payroll	\$ 840,506	\$ 804,892	\$ 759,441	\$ 714,156	\$ 627,026	\$ 610,810	\$ 579,545
Contributions as a percentage of covered payroll	14.36%	14.72%	13.78%	14.72%	14.36%	14.30%	14.64%

*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, MUNICIPAL POLICE OFFICERS' AND FIREFIGHTERS' UNIFIED RETIREMENT SYSTEMS OF MONTANA  
For the Years Ended June 30,

Public Employees Retirement System:	2021	2020	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability	0.1418%	0.1496%	0.1520%	0.1918%	0.1880%	0.1856%	0.1881%
Employer's proportionate share of the net pension liability associated with the employer	\$ 3,740,474	\$ 3,127,453	\$ 3,173,011	\$ 3,735,477	\$ 3,201,773	\$ 2,593,785	\$ 2,343,806
State of Montana's proportionate share of the net pension liability associated with the employer	1,176,036	1,015,820	1,060,474	47,913	39,122	31,860	28,621
<b>Total</b>	<b>\$ 4,916,510</b>	<b>\$ 4,143,273</b>	<b>\$ 4,233,485</b>	<b>\$ 3,783,390</b>	<b>\$ 3,240,895</b>	<b>\$ 2,625,645</b>	<b>\$ 2,372,427</b>
Employer's covered payroll	\$ 2,385,188	\$ 2,468,657	\$ 2,500,162	\$ 2,379,090	\$ 2,251,547	\$ 2,165,434	\$ 2,372,427
Employer's proportionate share of the net pension liability as a percentage of its covered payroll	156.82%	126.69%	126.91%	157.01%	142.20%	119.78%	98.79%
Plan fiduciary net position as a percentage of the total pension liability	68.90%	73.85%	73.47%	73.75%	74.71%	78.40%	79.87%
Municipal Police Officers' Retirement System:	2021	2020	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability	0.4386%	0.4454%	0.4687%	0.4615%	0.4989%	0.5156%	0.5338%
Employer's proportionate share of the net pension liability associated with the employer	\$ 1,072,679	\$ 886,605	\$ 802,716	\$ 821,159	\$ 898,119	\$ 852,911	\$ 838,807
State of Montana's proportionate share of the net pension liability associated with the employer	2,163,486	1,805,437	1,640,909	1,673,658	1,782,806	1,728,080	1,694,490
<b>Total</b>	<b>\$ 3,236,165</b>	<b>\$ 2,692,042</b>	<b>\$ 2,443,625</b>	<b>\$ 2,494,817</b>	<b>\$ 2,680,925</b>	<b>\$ 2,580,991</b>	<b>\$ 2,533,297</b>
Employer's covered payroll	\$ 751,277	\$ 734,121	\$ 739,840	\$ 690,213	\$ 704,307	\$ 713,602	\$ 716,232
Employer's proportionate share of the net pension liability as a percentage of its covered payroll	142.78%	120.77%	108.50%	118.97%	127.52%	119.52%	117.11%
Plan fiduciary net position as a percentage of the total pension liability	64.84%	68.84%	70.95%	68.34%	65.62%	66.90%	67.01%
Firefighters' Unified Retirement System:	2021	2020	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability	0.4611%	0.4379%	0.4534%	0.4194%	0.4338%	0.4313%	0.4649%
Employer's proportionate share of the net pension liability associated with the employer	\$ 721,482	\$ 502,385	\$ 522,244	\$ 474,106	\$ 495,410	\$ 441,077	\$ 453,804
State of Montana's proportionate share of the net pension liability associated with the employer	1,626,465	1,215,021	1,194,144	1,076,641	1,122,444	982,395	1,023,761
<b>Total</b>	<b>\$ 2,347,947</b>	<b>\$ 1,717,406</b>	<b>\$ 1,716,388</b>	<b>\$ 1,550,747</b>	<b>\$ 1,617,854</b>	<b>\$ 1,423,472</b>	<b>\$ 1,477,565</b>
Employer's covered payroll	\$ 804,892	\$ 759,441	\$ 714,156	\$ 627,026	\$ 610,810	\$ 579,545	\$ 603,871
Employer's proportionate share of the net pension liability as a percentage of its covered payroll	89.64%	66.15%	73.13%	75.61%	81.11%	76.11%	75.15%
Plan fiduciary net position as a percentage of the total pension liability	75.34%	80.08%	79.03%	77.77%	75.48%	76.90%	76.71%

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, 2021

**Public Employees Retirement System**

**Changes of Benefit Terms:**

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

2017:

**Working Retiree Limitations**

1. If a PERS retiree returns as an independent contractor to what would otherwise be PERS-covered employment, general contractor overhead costs are excluded from PERS working retiree limitations.
2. Refunds:
  - Terminating members eligible to retire may, in lieu of receiving a monthly retirement benefit, refund their accumulated contributions in a lump sum.
  - Terminating members with accumulated contributions between \$200 and \$1,000 who wish to rollover their refund must do so within 90 days of termination of service.
  - Trusts, estates, and charitable organizations listed as beneficiaries are entitled to receive only a lump-sum payment.
3. Interest Credited to Member Accounts:
  - The interest credited to member accounts increased from 0.25% to 0.77%.
4. Lump-sum Payouts:
  - Lump-sum payouts in all systems are limited to the member's accumulated contributions rate rather than the present value of the member's benefit.

**Municipal Police Officers' Retirement System**

**Changes of Benefit Terms:**

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

2017:

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

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

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

1. If the member works more than 480 hours in a calendar year and accumulates less than 5 years of service credit before terminating again, the member:
  - is not awarded service credit for the period of reemployment;
  - is refunded the accumulated contributions associated with the period of reemployment;

CITY OF MILES CITY  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION-PENSION PLAN INFORMATION  
For the Year Ended June 30, 2021

- starting the first month following termination of service, receives the same retirement benefit previously paid to the member; and
  - does not accrue post-retirement benefit adjustments during the term of reemployment but receives a Guaranteed Annual Benefit Adjustment (GABA) in January immediately following second retirement.
2. If the member works more than 480 hours in a calendar year and accumulates at least 5 years of service credit before terminating again, the member:
- is awarded service credit for the period of reemployment;
  - starting the first month following termination of service, receives:
    - i) the same retirement benefit previously paid to the member, and
    - ii) a second retirement benefit for the period of reemployment calculated based on the laws in effect as of the member's rehire date; and
  - does not accrue post-retirement benefit adjustments during the term of reemployment but receives a GABA:
    - i) on the initial retirement benefit in January immediately following second retirement, and
    - ii) on the second retirement benefit starting in January after receiving that benefit for at least 12 months.
  - A member who returns to covered service is not eligible for a disability benefit.
3. Refunds:
- Terminating members eligible to retire may, in lieu of receiving a monthly retirement benefit, refund their accumulated contributions in a lump sum.
  - Terminating members with accumulated contributions between \$200 and \$1,000 who wish to rollover their refund must do so within 90 days of termination of service.
  - Trusts, estates, and charitable organizations listed as beneficiaries are entitled to receive only a lump-sum payment.
4. Interest credited to member accounts:
- Effective July 1, 2017, the interest rate credited to member accounts increased from 0.25% to 0.77%.
5. Lump-sum payouts:
- Effective July 1, 2017, lump-sum payouts in all systems are limited to the member's accumulated contributions rate than the present value of the member's benefit.

**Firefighters Unified Retirement System:**

**Changes of Benefit Terms:**

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

2017:

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

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

CITY OF MILES CITY  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION-PENSION PLAN INFORMATION  
For the Year Ended June 30, 2021

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

1. If the member works more than 480 hours in a calendar year and accumulates less than 5 years of service credit before terminating again, the member:
  - is not awarded service credit for the period of reemployment;
  - is refunded the accumulated contributions associated with the period of reemployment;
  - starting the first month following termination of service, receives the same retirement benefit previously paid to the member; and
  - does not accrue post-retirement benefit adjustments during the term of reemployment but receives a Guaranteed Annual Benefit Adjustment (GABA) in January immediately following second retirement.
  
2. If the member works more than 480 hours in a calendar year and accumulates at least 5 years of service credit before terminating again, the member:
  - is awarded service credit for the period of reemployment;
  - starting the first month following termination of service, receives:
    - i) the same retirement benefit previously paid to the member, and
    - ii) a second retirement benefit for the period of reemployment calculated based on the laws in effect as of the member's rehire date; and
  - does not accrue post-retirement benefit adjustments during the term of reemployment but receives a GABA:
    - i) on the initial retirement benefit in January immediately following second retirement, and
    - ii) on the second retirement benefit starting in January after receiving that benefit for at least 12 months.
  - A member who returns to covered service is not eligible for a disability benefit.
  
2. Refunds:
  - Terminating members eligible to retire may, in lieu of receiving a monthly retirement benefit, refund their accumulated contributions in a lump sum.
  - Terminating members with accumulated contributions between \$200 and \$1,000 who wish to rollover their refund must do so within 90 days of termination of service.
  - Trusts, estates, and charitable organizations listed as beneficiaries are entitled to receive only a lump-sum payment.
  
3. Interest credited to member accounts:
  - Effective July 1, 2017, the interest rate credited to member accounts increased from 0.25% to 0.77%.
  
4. Lump-sum payouts:
  - Effective July 1, 2017, lump-sum payouts in all systems are limited to the member's accumulated contributions rate than the present value of the member's benefit.

**Changes in actuarial assumptions and other inputs:**

**Method and assumptions used in the PERS, MPORS and FURS calculations of actuarially determined contributions:**

Actuarial cost method	Entry age
Amortization method	Level percentage of pay, open
Remaining amortization period	30 years (PERS), 20 years (MPORS) and 10 years FURS
Asset valuation method	4 year smoothed market
Inflation	2.75%
Salary increases	3.50%
Investment rate of return	7.65%, net of pension plan investment expense and including inflation

CITY OF MILES CITY  
SCHEDULE OF CHANGES IN THE TOTAL OTHER POST-EMPLOYMENT  
BENEFITS (OPEB) LIABILITY AND RELATED RATIOS  
For the Years Ended June 30,

Schedule of Changes in the Total OPEB Liability

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total OPEB liability - beginning of year	\$ 1,202,747	\$ 978,383	\$ 561,274	\$ 531,184
Service cost	296,524	169,792	102,477	70,459
Interest cost	34,033	40,186	23,231	23,284
Differences in experience	(673,262)	-	288,777	-
Change in assumptions or other inputs	11,830	48,252	30,853	(11,893)
Benefit payments	<u>(21,806)</u>	<u>(33,866)</u>	<u>(28,229)</u>	<u>(51,760)</u>
Total OPEB liability - end of year	<u>\$ 850,066</u>	<u>\$ 1,202,747</u>	<u>\$ 978,383</u>	<u>\$ 561,274</u>
Covered-employee payroll	\$ 3,801,271	\$ 3,839,923	\$ 3,719,054	\$ 3,603,600
Total OPEB liability as a percentage of covered-employee payroll	22.36%	31.32%	26.31%	15.58%

Notes to Schedule

Changes of assumptions: Changes of assumptions and other inputs reflect the effects of changes in the discount rate of each period. The following are the discount rates used in each period.

2.27%	3.50%	3.50%	3.87%
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Differences in experience measure the expected versus actual claims experience.

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

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

OTHER SUPPLEMENTARY INFORMATION

CITY OF MILES CITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2021

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Assistance Listing Number	Award/Pass- through Grantor's Number	Program or Award Amount	Balance July 1, 2020	Receipts	Expenditures	Returned to Grantor/ Other	Balance June 30, 2021
<u>U.S. Department of Transportation:</u>								
Direct Program:								
Airport Improvement Program	20.106	DOT-FA18NM-2027	\$ 135,939	\$ (6,770)	\$ 6,767	\$ -	\$ 3	\$ -
Airport Improvement Program	20.106	DOT-FA19NM-2050	363,015	(10,350)	132,435	164,610	-	(42,525)
Airport Improvement Program (1)	20.106	DOT-FA20NM-K2056	30,000	(30,000)	30,000	-	-	-
Airport Improvement Program (1)	20.106	DOT-FA21NM-K2053	13,000	-	-	-	-	-
Airport Improvement Program	20.106	DOT-FA21NM-2017	4,303,267	-	279,727	697,168	-	(417,441)
Total U.S. Department of Transportation				(47,120)	448,929	861,778	3	(459,966)
<u>U.S. Department of Justice:</u>								
Direct Program:								
Public Safety Partnership and Community Policing Grants	16.710	2020UMWX0476	125,000	-	41,667	33,795	-	7,872
Subtotal				-	41,667	33,795	-	7,872
<u>U.S. Department of Homeland Security:</u>								
Direct Program:								
Homeland Security Grant Program	97.067	17HSMCPD	30,395	-	30,395	30,395	-	-
Subtotal				-	30,395	30,395	-	-
Passed through the Montana Department of Military Affairs - Disaster & Emergency Services Division:								
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-4508-DR-MT	5,750	-	5,750	5,750	-	-
Subtotal				-	5,750	5,750	-	-
Flood Mitigation Assistance	97.029	FMA-PL-MT-08-2017-001	75,000	(48,351)	48,005	-	346	-
Subtotal				(48,351)	48,005	-	346	-
Total U.S. Department of Homeland Security				(48,351)	53,755	5,750	346	-
<u>U.S. Department of Agriculture:</u>								
Passed through the Montana Department of Natural Resources and Conservation:								
Cooperative Forestry Assistance	10.664	RFC-21-091	1,000	-	1,000	1,000	-	-
Cooperative Forestry Assistance	10.664	RFC-21-092	726	-	-	726	-	(726)
Total U.S. Department of the Interior				-	1,000	1,726	-	(726)
<u>U.S. Department of the Interior:</u>								
Passed through the Montana Historical Society:								
Historic Preservation Fund Grants-In-Aid	15.904	MT-20-023	6,000	-	3,000	3,000	-	-
Historic Preservation Fund Grants-In-Aid	15.904	MT-21-023	6,000	-	3,000	3,000	-	-
Total U.S. Department of the Interior				-	6,000	6,000	-	-
<u>U.S. Department of the Treasury:</u>								
Passed through the Montana Department of Administration:								
Coronavirus Relief Fund (1)	21.019	N/A	1,697,734	(775,361)	1,697,734	916,623	-	5,750
Subtotal				(775,361)	1,697,734	916,623	-	5,750
Coronavirus State and Local Fiscal Recovery Funds (1)	21.027	N/A	2,110,950	-	1,055,475	-	-	1,055,475
Subtotal				-	1,055,475	-	-	1,055,475
Total U.S. Department of the Treasury				(775,361)	2,753,209	916,623	-	1,061,225



CITY OF MILES CITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2021

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Assistance Listing Number	Award/Pass- through Grantor's Number	Program or Award Amount	Balance July 1, 2020	Receipts	Expenditures	Returned to Grantor/ Other	Balance June 30, 2021
<u>Corporation for National and Community Service:</u>								
Direct Program:								
Retired and Senior Volunteer Program	94.002	20SRPMT001	91,412	-	91,412	91,412	-	-
Total Corporation for National and Community Service				-	91,412	91,412	-	-
Total Federal Awards				<u>\$ (870,832)</u>	<u>\$ 3,426,367</u>	<u>\$ 1,947,479</u>	<u>\$ 349</u>	<u>\$ 608,405</u>

(1) - Covid 19

Notes to Schedule of Expenditures of Federal Awards

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the schedule) includes the federal award activity of the government under programs of the federal government for the year ended June 30, 2021. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of the Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the government, it is not intended to and does not present the financial position or changes in net position of the government.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

NOTE 3 - INDIRECT COST RATES

The government has elected not to use the 10 percent de minimus indirect cost rate as allowed under the Uniform Guidance.

NOTE 4 - DONATED PPE

The estimated Fair Market Value (FMV) of donated PPE for the year ended June 30, 2021 was \$4,500 (unaudited).

OLNESS & ASSOCIATES, P. C.  
CERTIFIED PUBLIC ACCOUNTANTS

CURT D. WYSS, CPA

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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

Report on the Financial Statements

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 City of Miles City, Montana (the government) as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the government's basic financial statements, and have issued our report thereon dated April 7, 2022. The report included an explanatory paragraph to describe a change 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify 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 questioned costs as items 2021-001 and 2021-002 to be material weaknesses.

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 deficiencies described in the accompany schedule of findings and questioned costs as items 2021-003 and 2021-004 to be significant deficiencies.

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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2021-003 and 2021-004.

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)

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 questioned costs. 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.

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.

*O'Leary & Associates, PC*

Billings, Montana  
April 7, 2022

OLNESS & ASSOCIATES, P. C.  
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

We have audited City of Miles City, Montana's (the government) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the government's major federal programs for the year ended June 30, 2021. The government's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the government's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the government's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the government's compliance.

Opinion on Each Major Federal Program

In our opinion, the government, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH  
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY THE UNIFORM GUIDANCE (CONTINUED)

Report on Internal Control over Compliance

Management of the government is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the government's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the government's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain a deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2021-005 that we consider to be a material weakness.

The government's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The government's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*O'Hess & Associates, PC*

Billings, Montana  
April 7, 2022

CITY OF MILES CITY  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 For the Year Ended June 30, 2021

SUMMARY OF AUDITOR'S RESULTS

*FINANCIAL STATEMENTS*

Type of auditor's report issued: unmodified

Internal control over financial reporting:

- Material weakness(es) identified?   x   yes        no
- Significant deficiencies identified?   x   yes        none reported

Noncompliance material to the financial statements noted?   x   yes        no

*FEDERAL AWARDS*

Internal control over major programs:

- Material weaknesses identified?   x   yes        no
- Significant deficiencies identified?        yes   x   none reported

Type of auditor's report issued on compliance for major programs: unmodified

Any audit findings disclosed that are required to be reported in accordance 2 CFR section 200.516(a)?   x   yes        no

Major programs:

<i>CFDA Numbers</i>	<i>Name of Federal Program or Cluster</i>
20.106	Airport Improvement Program
21.019	Coronavirus Relief Fund

Dollar threshold used to distinguish between type A and type B programs? \$750,000

Auditee qualified as low-risk auditee?        yes   x   no

FINDINGS - FINANCIAL STATEMENT AUDIT

2021-001. SEGREGATION OF DUTIES

Criteria: Duties should be segregated to provide reasonable assurance that transactions are handled appropriately.

Condition: There is a lack of segregation of duties among personnel.

Effect: Transactions could be mishandled.

Cause: There are a limited number of personnel for certain functions.

Recommendation: The duties should be separated as much as possible, and alternative controls should be used to compensate for lack of separation. To assist in improving internal control, the following should be implemented:

- Journal vouchers should be adequately supported and be reviewed and approved by the mayor or finance committee on a monthly basis. After approval, the journal vouchers and supporting documentation should be filed for future reference.

Views of responsible officials and planned corrective actions: The government agrees with this finding and will adhere to the attached corrective action plan.

CITY OF MILES CITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2021

2021-002. AUDITOR PREPARED FINANCIAL STATEMENTS

Criteria: As part of its internal control structure, it is the government's responsibility to prepare its financial statements in accordance with generally accepted accounting principles (GAAP).

Condition: The government does not have the expertise to prepare or evaluate the selection and application of accounting principles and resulting disclosures and presentations within the auditor prepared financial statements.

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

Effect: It is common for a small organization 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: While it may not be cost effective to do so, we recommend the government consider hiring a qualified person to evaluate the auditor prepared financial statements.

Views of responsible officials and planned corrective actions: The government agrees with this finding and will adhere to the attached corrective action plan.

2021-03 EQUIPMENT PURCHASES NOT BID

Criteria: Per Section 7-5-4302(1), a contract for the purchase of any automobile, truck, other vehicle, road machinery, apparatus, appliances, equipment, or materials or supplies or for construction, repair, or maintenance in excess of \$80,000 must be let to the lowest responsible bidder after advertisement for bids.

Condition: The city purchased ambulance equipment in excess of \$80,000 without going through the formal bid process.

Cause: Department heads misinterpreted the specific bidding requirements for these purchases.

Effect: Noncompliance with state procurement statutes.

Recommendation: A contract for any purchase in excess of \$80,000 should be formally advertised for bid in accordance with Section 7-5-4302(1), MCA.

Views of responsible officials and planned corrective actions: The government agrees with this finding and will adhere to the attached corrective action plan.

2021-004. EXPENDITURE BUDGETS OVERSPENT

Condition: Four funds were overspent for the year ended June 30, 2021.

Effect: Non-compliance with state law.

Cause: Procedures are not in place to monitor budget expenditures.

Criteria: Section 7-6-4005, MCA, requires that expenditures be limited to appropriations for each budgeted fund.

Recommendation: Procedures should be developed to ensure that budgets are not overspent.

Views of responsible officials and planned corrective actions: The government agrees with this finding and will adhere to the attached corrective action plan.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

U.S. DEPARTMENTS OF TRANSPORTATION AND OF THE TREASURY:

2021-005. ALL MAJOR FEDERAL AWARD PROGRAMS

Finding 2021-002 applies to these federal award programs.

CITY OF MILES CITY  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
For the Year Ended June 30, 2021

PRIOR YEAR FINDINGS - FINANCIAL STATEMENT AUDIT

2020-001. SEGREGATION OF DUTIES

Status: This finding is unresolved and is repeated as finding 2021-001 for the year ended June 30, 2021.

2020-002. FINANCIAL STATEMENT PREPARATION

Status: This finding is unresolved and is repeated as finding 2021-002 for the year ended June 30, 2021.

PRIOR YEAR FINDINGS AND QUESTIONED COSTS – MAJOR  
FEDERAL AWARD PROGRAMS AUDIT

2020-003. CORONAVIRUS RELIEF FUND, CFDA 21.019, GRANT PERIOD - YEAR ENDED JUNE 30, 2020

Status: This finding was resolved.

2020-004. CORONAVIRUS RELIEF FUND, CFDA 21.019, GRANT PERIOD - YEAR ENDED JUNE 30, 2020

Status: See 2020-002 above.



CITY OF MILES CITY  
CORRECTIVE ACTION PLAN  
For the Year Ended June 30, 2021

FINDINGS - FINANCIAL STATEMENT AUDIT

2021-001. SEGREGATION OF DUTIES

Name of Contact Person: Mary Rowe, City Clerk

Corrective Action: The cost for additional employees far exceeds the benefit. Segregation of duties is implemented as much as staffing will allow and the governing body continues to provide some of these controls.

Proposed Completion Date: Ongoing.

2021-002. AUDITOR PREPARED FINANCIAL STATEMENTS

Name of contact person: Mary Rowe, City Clerk

Corrective Action: The City finds it is not cost effective to hire a qualified/certified person to evaluate the auditor prepared financial statements.

Proposed Completion Date: Ongoing.

2021-003. EQUIPMENT PURCHASES NOT BID

Name of contact person: Brandon Stevens, Fire Chief

Corrective Action: Any contracts for purchase in excess of \$80,000 will be formally advertised in accordance with Section 7-5-4302(1), MCA.

Proposed Completion Date: Immediately.

2021-004. EXPENDITURE BUDGETS OVERSPENT

Name of contact person: Mary Rowe, City Clerk

Corrective Action: Monthly review of budget expenditures by Department Heads, Finance Committee and City Council to ensure that the budgeted amounts remain within the appropriations according to Section 7-6-4005, MCA.

Proposed Completion Date: Immediately.

FINDINGS AND QUESTIONED COSTS – MAJOR  
FEDERAL AWARD PROGRAMS AUDIT

U.S. DEPARTMENTS OF TRANSPORTATION AND OF THE TREASURY:

2021-005. ALL MAJOR FEDERAL AWARD PROGRAMS

Finding 2021-002 applies to these federal award programs.