

**RED LODGE RURAL FIRE DISTRICT NUMBER 7
CARBON COUNTY
RED LODGE, MONTANA**

FINANCIAL STATEMENTS

For the Year Ended June 30, 2020

OLNESS & ASSOCIATES, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

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RED LODGE RURAL FIRE DISTRICT NUMBER 7

ORGANIZATION

June 30, 2020

BOARD OF TRUSTEES

Harris Gabrian	Chairman
Richard DeVille	Vice-Chairman
Tom Kasteliz	Secretary/Treasurer
Beth Graham	Member
Billy Oley	Member

OFFICIALS

Tom Kuntz	Fire Chief
Tim Ryan	Deputy Chief – Fire/EMS

OLNESS & ASSOCIATES, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Red Lodge Rural Fire District Number 7
Red Lodge, Montana

Report on the Financial Statements

We have audited the accompanying financial statements of the Red Lodge Rural Fire District Number 7, Red Lodge, Montana (the government) as of and for the year ended June 30, 2020, 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 financial position of the government, as of June 30, 2020, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S 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 and pension plan information 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 2, 2021, 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.

Olness & Associates, PC

Billings, Montana
February 2, 2021

RED LODGE RURAL FIRE DISTRICT NUMBER 7
MANAGEMENT'S DISCUSSION & ANALYSIS

Our discussion and analysis provides an overview of Red Lodge Rural Fire District Number 7's financial activities for the year ended June 30, 2020. Please read it in conjunction with our financial statements which begin on page 7.

FINANCIAL HIGHLIGHTS

- Net position of the district as of June 30, 2020 was \$3,001,021.
- Net position increased \$50,346 for the year ended June 30, 2020 or less than two percent.
- Red Lodge Rural Fire District Number 7, the City of Red Lodge and the Red Lodge/Roberts Ambulance District are three separate political entities. The City of Red Lodge provides fire protection services to city residents. Red Lodge Rural Fire District was created December 15, 1977 to provide fire protection services to residents of the district. The Red Lodge/Roberts Ambulance District was created via referendum on August 26, 2010 to provide funding for reliable ambulance services for members of the district. Up until July 1, 2014, the fire protection services for Red Lodge Rural Fire District Number 7 and the ambulance services for Red Lodge/Roberts Ambulance District were contracted out to and performed by the City of Red Lodge. As of July 1, 2014, city fire protection, rural fire protection and ambulance services were consolidated under Red Lodge Rural Fire District Number 7. Although all services are performed by Red Lodge Rural Fire District Number 7, all three entities still retain their separate identities as established by their respective jurisdictional boundaries.
- During fiscal year 2020, a new ambulance and monitor upgrades were purchased.

OVERVIEW OF THE FINANCIAL STATEMENTS

This financial report consists of three parts: management's discussion and analysis, the financial statements and notes which explain in detail the information in the financial statements.

REQUIRED FINANCIAL STATEMENTS

The financial statements of the government report information utilizing the full accrual basis of accounting. The financial statements conform to accounting principles which are generally accepted in the United States of America. The statement of net position includes information on the government's assets, deferred outflows and inflows of resources, liabilities and net position. The statement of revenues, expenses and changes in net position identify the government's revenues and expenses. This statement provides information on the government's operations and can be used to determine if costs have been recovered through user fees and other revenues. The third financial statement is the statement of cash flows. This statement provides information on the government's cash receipts, cash payments and changes in cash resulting from operations, noncapital and capital financing activities and investing activities.

FINANCIAL ANALYSIS OF THE GOVERNMENT

The statement of net position and the statement of revenues, expenses and changes in net position provide an indication of the government's financial condition and also indicate whether the government's financial condition improved or deteriorated. An increase in net position over time typically indicates an improvement in financial condition and a decrease in net position over time typically indicates deterioration in financial condition.

RED LODGE RURAL FIRE DISTRICT NUMBER 7
MANAGEMENT'S DISCUSSION & ANALYSIS

A summary of the government's net position and change in net position is presented below.

	2020	2019	Difference
NET POSITION:			
Current and other assets	\$ 831,959	\$ 629,259	\$ 202,700
Capital assets, net	2,934,435	3,056,790	(122,355)
Total assets	<u>3,766,394</u>	<u>3,686,049</u>	<u>80,345</u>
Deferred outflows of resources	<u>204,956</u>	<u>261,597</u>	<u>(56,641)</u>
Current liabilities	113,581	143,411	(29,830)
Long-term liabilities	835,985	844,078	(8,093)
Total liabilities	<u>949,566</u>	<u>987,489</u>	<u>(37,923)</u>
Deferred inflows of resources	<u>20,763</u>	<u>9,482</u>	<u>11,281</u>
Net position:			
Net investment in capital assets	2,718,078	2,805,920	(87,842)
Unrestricted	282,943	144,755	138,188
Total net position	<u>\$ 3,001,021</u>	<u>\$ 2,950,675</u>	<u>\$ 50,346</u>
CHANGE IN NET POSITION:			
Operating revenues:			
Grants and contributions	\$ 296,146	\$ 206,648	\$ 89,498
Charges for services	1,296,549	1,349,638	(53,089)
Total operating revenues	<u>1,592,695</u>	<u>1,556,286</u>	<u>36,409</u>
Operating expenses:			
Personal services	1,161,857	1,200,355	(38,498)
Supplies and materials	177,010	222,970	(45,960)
Purchased services	250,019	239,879	10,140
Fixed charges	40,860	40,681	179
Depreciation	234,647	227,551	7,096
Total operating expenses	<u>1,864,393</u>	<u>1,931,436</u>	<u>(67,043)</u>
Operating loss	(271,698)	(375,150)	103,452
Non-operating revenues (expenses):			
Taxes and assessments	168,268	164,395	3,873
Interest income	4,572	8,152	(3,580)
Other income	33,449	49,322	(15,873)
Interest expense	(8,162)	(8,793)	631
Intergovernmental	123,917	117,239	6,678
Gain on disposal of capital assets	-	28,231	(28,231)
Total non-operating revenues (expenses)	<u>322,044</u>	<u>358,546</u>	<u>(36,502)</u>
Change in net position	50,346	(16,604)	66,950
Net position-beginning	2,950,675	2,967,279	(16,604)
Net position-ending	<u>\$ 3,001,021</u>	<u>\$ 2,950,675</u>	<u>\$ 50,346</u>

RED LODGE RURAL FIRE DISTRICT NUMBER 7
MANAGEMENT'S DISCUSSION & ANALYSIS

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital asset additions consisted a new ambulance and monitor upgrades. As of June 30, 2020, the district had an outstanding loan through the Montana Board of Investments. For more information on capital assets and debt, see the notes to the financial statements.

THE GOVERNMENT'S FUTURE

Red Lodge Rural Fire District 7 is committed to providing exceptional fire and emergency services to the community of Red Lodge and surrounding areas. The District's administration uses the guiding principles of transparency in government along with fiduciary responsibility to provide the best possible financial management of the organization. The District will continue to operate within a budget that represents a mixture of savings through realized efficiencies, smart investment in capital programs, and fiscal responsibility. The following major highlights for the coming fiscal year represent those principles:

- The continued replacement of aging equipment with more efficient and safer equipment for our volunteer and career staff members;
- Maintenance of adequate cash reserves to meet the long term needs of the District;
- Investment in the long term training needs of our members to enable improved service delivery;
- Aggressive pursuit of grant funding to continue our hazardous fuels reduction program, capital replacement, and increased service reliability;
- Revise the capital mill levy passed by the public in 2008 to enable the District to utilize the capital mill levy funds as intended and to set up the District for possible future consolidation efforts.

ADDITIONAL FINANCIAL INFORMATION

This financial report is designed to provide the government patrons and other interested parties with an overview of the government's financial operations and financial condition. Should the reader have other questions regarding the information included in this report or wish to request additional financial information, please contact Red Lodge Rural Fire District Number 7 at P.O. Box 318, Red Lodge, Montana 59068.

RED LODGE RURAL FIRE DISTRICT NUMBER 7
STATEMENT OF NET POSITION
June 30, 2020

ASSETS:	
Current assets:	
Cash and cash equivalents	\$ 387,973
Receivables:	
Ambulance (net of allowance of \$118,359)	100,034
Taxes	2,910
Governments	175,701
Other	145,338
Prepaid items	<u>20,003</u>
Total current assets	<u>831,959</u>
Capital assets:	
Land	462,500
Buildings	1,295,751
Equipment	3,176,228
Less: accumulated depreciation	<u>(2,000,044)</u>
Total capital assets, net	<u>2,934,435</u>
Total assets	<u>3,766,394</u>
DEFERRED OUTFLOWS OF RESOURCES:	
Pension plans	<u>204,956</u>
LIABILITIES:	
Current liabilities:	
Accounts payable	18,934
Salaries payable	39,063
Compensated absences	20,638
Notes payable	<u>34,946</u>
Total current liabilities	<u>113,581</u>
Long-term liabilities, less current maturities:	
Compensated absences	61,915
Notes payable	181,411
Net pension liability	<u>592,659</u>
Total long-term liabilities	<u>835,985</u>
Total liabilities	<u>949,566</u>
DEFERRED INFLOWS OF RESOURCES:	
Pension plans	<u>20,763</u>
NET POSITION	
Net investment in capital assets	2,718,078
Unrestricted	<u>282,943</u>
Total net position	<u>\$ 3,001,021</u>

RED LODGE RURAL FIRE DISTRICT NUMBER 7
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended June 30, 2020

OPERATING REVENUES:	
Grants and contributions	\$ 296,146
Charges for services:	
Ambulance	440,728
Fire	57,476
Interlocal contract payments	<u>798,345</u>
Total operating revenues	<u>1,592,695</u>
OPERATING EXPENSES:	
Personal services	1,161,857
Supplies	177,010
Purchased services	250,019
Fixed charges	40,860
Depreciation	<u>234,647</u>
Total operating expenses	<u>1,864,393</u>
Operating loss	<u>(271,698)</u>
NON-OPERATING REVENUES (EXPENSES):	
Taxes and assessments	168,268
Interest income	4,572
Other income	33,449
Interest expense	(8,162)
Intergovernmental	<u>123,917</u>
Total non-operating revenues (expenses)	<u>322,044</u>
Change in net position	50,346
Net position-beginning	<u>2,950,675</u>
Net position-ending	<u><u>\$ 3,001,021</u></u>

RED LODGE RURAL FIRE DISTRICT NUMBER 7
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2020

CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from other governments	\$ 950,492
Receipts from customers and users	426,386
Payments to employees for wages and benefits	(975,753)
Payments for supplies and other services	<u>(485,802)</u>
Net cash used by operating activities	<u>(84,677)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Other cash receipts/disbursements	33,449
Cash received from other governments	17,288
Receipts from tax collections	<u>169,735</u>
Net cash provided by noncapital financing activities	<u>220,472</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Interest paid	(8,162)
Principal payments made on notes payable	(34,513)
Acquisition of capital assets	<u>(112,292)</u>
Net cash used by capital and related financing activities	<u>(154,967)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest received	<u>4,572</u>
Net cash provided by investing activities	<u>4,572</u>
Net change in cash and cash equivalents	(14,600)
Cash and cash equivalents - beginning	<u>402,573</u>
Cash and cash equivalents - ending	<u>\$ 387,973</u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (271,698)
Depreciation	234,647
Pensions	183,724
Change in assets and liabilities:	
Increase in accounts receivable	(40,116)
Increase in due from governments	(175,701)
Increase in prepaid items	(2,950)
Decrease in accounts payable	(14,963)
Decrease in salaries payable	(21,192)
Increase in compensated absences	<u>23,572</u>
Net cash used by operating activities	<u>\$ (84,677)</u>

See notes to financial statements.

RED LODGE RURAL FIRE DISTRICT NUMBER 7
NOTES TO 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's significant accounting policies are described below.

Reporting Entity

Red Lodge Rural Fire District Number 7 was established in accordance with 7-33-2101 MCA to provide life, safety, and fire protection systems to the Red Lodge area. The District is managed by an elected board of trustees with the authority to provide adequate and standard firefighting and emergency response apparatus, equipment, personnel, housing, and facilities for the protection of the District.

The criteria for including organizations within the District's reporting entity are set forth by Governmental Accounting Standards Board (GASB). GASB defines the financial reporting entity as the primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the District. The District has determined that no other outside agency meets the above criteria and, therefore, no other agency has been included as a component unit in the District's financial statements. In addition, the District is not aware of any entity, which would exercise such financial accountability, which would result in the District being considered a component unit of the entity.

Carbon County provides substantial services to the District; tax billings, cash collections and warrant redemption all flow through the office of the County Treasurer. This office also maintains the District's cash and invests funds at the direction of the District. The County Commissioners have the legal obligation to set levy amounts to finance the budget of the District, as directed by the board of trustees. Despite the degree of services rendered, the District does not qualify as a component unit of Carbon County.

Basis of Accounting

The government uses the accrual basis of accounting and accounts for its financial transactions on the flow of economic resources measurement focus. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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.

Assets, Liabilities, Deferred Outflows/Inflows and Net Position

Cash and Investments

The government considers cash on hand, demand, savings and time deposits with original maturities of three months or less from the date of acquisition to be cash and cash equivalents. 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 basis versus amortized cost.

The government participates in an investment pool administered by the Carbon County Treasurer. Allowable investments for the pool are the same as discussed above. Funds invested in the pool are available upon demand and are considered to be cash equivalents unless specific investments are requested.

Receivables and Payables

Receivables from and payables to external parties are reported separately and are not offset in the financial statements, unless a right of offset exists.

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

RED LODGE RURAL FIRE DISTRICT NUMBER 7
NOTES TO FINANCIAL STATEMENTS

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 expenses at the time of purchase. Inventory at year-end was not material and therefore not recorded. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Capital Assets

Capital assets, which include property, plant, and equipment are reported in the financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. 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 is included as part of the capitalized value of the assets constructed. There was no capitalized interest for the year ended June 30, 2020.

Depreciation on capital assets is calculated on the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Building and improvements	60
Machinery and equipment	6-35

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 paid time off and sick leave are accrued when incurred in the 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.

Employees earn vacation leave ranging from 15 to 22.5 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 statement of net position.

Deferred Outflows/Inflows of Resources

In addition to assets, the government's statement 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 statement 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 one item that meets this criterion: pension plans.

RED LODGE RURAL FIRE DISTRICT NUMBER 7
NOTES TO FINANCIAL STATEMENTS

Net Position

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."

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 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.

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. DETAILED NOTES

Cash and Cash Equivalents and Investments

The government's cash and investments consist of demand deposits and amounts held in Carbon County's investment pool. Montana law allows the government to require security for the portion of deposits not guaranteed or insured. Deposit insurance is administered by the FDIC. The government's demand deposit accounts were entirely insured by the FDIC. The Carbon County Treasurer has the fiduciary responsibility to ensure that adequate collateral is pledged for all investments that are not fully covered by Federal Deposit Insurance. Montana code allows the County Treasurer to take collateral up to 50% of deposits if the institution in which the deposit is made has a net worth to total assets ratio of 6% or more and 100% if the ratio is less than 6%. Risk in the event of loss is unclear in State law, but may be the liability of the County government. Risk classification of the government's deposits and pooled investments can be obtained from the Carbon County Treasurer.

The composition of cash and cash equivalents and investments as of June 30, 2020, was as follows:

	<u>Cash/Cash Equivalents</u>
Cash in banks:	
Demand deposits	\$ 126,298
County pool	<u>261,675</u>
	<u>\$ 387,973</u>

RED LODGE RURAL FIRE DISTRICT NUMBER 7
NOTES TO FINANCIAL STATEMENTS

Capital Assets

Capital asset activity for the year ended June 30, 2020, was as follows:

	Balance July 1, 2019	Additions	Deletions	Balance June 30, 2020
Capital assets, not being depreciated				
Land	\$ 462,500	\$ -	\$ -	\$ 462,500
Total capital assets, not being depreciated	462,500	-	-	462,500
Capital assets, being depreciated				
Buildings/improvements	1,295,751	-	-	1,295,751
Machinery and equipment	3,063,936	112,292	-	3,176,228
Total capital assets, being depreciated	4,359,687	112,292	-	4,471,979
Less accumulated depreciation for:				
Buildings/improvements	(647,368)	(22,132)	-	(669,500)
Machinery and equipment	(1,118,029)	(212,515)	-	(1,330,544)
Total accumulated depreciation	(1,765,397)	(234,647)	-	(2,000,044)
Total capital assets, being depreciated, net	2,594,290	(122,355)	-	2,471,935
Capital assets, net	\$ 3,056,790	\$ (122,355)	\$ -	\$ 2,934,435

Depreciation amounted to \$234,654 for the year ended June 30, 2020.

Long-Term Debt

Notes from direct borrowings currently outstanding are as follows:

	Original Amount	Term	Interest Rate	Balance June 30, 2020
Fire truck - 2016 (1)	\$ 378,554	10 yr	1.00%	\$ 216,357

Notes from direct borrowings (INTERCAP) include a provision that interest is adjusted each February 1st, up to a maximum of 15 percent. The loans are general obligations 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.

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

Year ending June 30,	Principal	Interest	Total
2021	\$ 34,946	\$ 3,586	\$ 38,532
2022	35,385	4,313	39,698
2023	35,829	3,425	39,254
2024	36,278	2,527	38,805
2025	36,732	1,622	38,354
2026	37,187	696	37,883
	<u>\$ 216,357</u>	<u>\$ 16,169</u>	<u>\$ 232,526</u>

RED LODGE RURAL FIRE DISTRICT NUMBER 7
NOTES TO FINANCIAL STATEMENTS

Long-term liability activity for the year ended June 30, 2020, was as follows:

	Balance July 1, 2019	Additions	Retirements	Balance June 30, 2020	Due Within One Year
Notes payable	\$ 250,870	\$ -	\$ (34,513)	\$ 216,357	\$ 34,946
Compensated absences	58,981	23,572	-	82,553	20,638
Total long-term liabilities	\$ 309,851	\$ 23,572	\$ (34,513)	\$ 298,910	\$ 55,584

NOTE 3. 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. Commercial policies, transferring all risks of loss, except for relatively small deductible amounts, are purchased for theft, damage or destruction of assets, professional liabilities and employee medical costs. Given lack of coverage available, the government has no coverage for potential losses from environmental damages. Coverage limits and the deductibles on the commercial policies have remained relatively constant for the last several years. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Interlocal Agreements

The Red Lodge Rural Fire District Number 7 and the Red Lodge/Roberts Ambulance District entered into an agreement where the Fire District provides emergency and non-emergency response and medical services to the citizens of the Ambulance District. The Ambulance District pays the Fire District \$69 per household that is located within the boundaries of the Ambulance District.

The Red Lodge Rural Fire District Number 7 and the City of Red Lodge entered into an agreement where the Fire District provides emergency and non-emergency response and fire protection services to the citizens of the City. The City pays the Fire District the value of 28 mills on property that is located within the boundaries of the City.

The Red Lodge Rural Fire District Number 7 and Carbon County entered into an agreement where the Fire District provides search and rescue services within the county. The County contributed .79 mills.

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.

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.

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 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.

RED LODGE RURAL FIRE DISTRICT NUMBER 7
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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.

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.

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

RED LODGE RURAL FIRE DISTRICT NUMBER 7
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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.

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 8.67% 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.

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, 2020, the government recorded a liability of \$398,432 (PERS) and \$194,227 (FURS) for its proportionate share of the net pension liability.

PERS and FURS have a special funding situation in which the State of Montana is legally responsible for making contributions directly to PERS 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, 2020	
	PERS	FURS
Employer proportionate share	\$ 398,432	\$ 194,227
State of Montana proportionate share associated with employer	129,188	469,740
Total	\$ 527,620	\$ 663,967

The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018 for PERS and FURS. The government's proportion of the net pension liability was based on the government's contributions received by PERS and FURS during the measurement period July 1, 2018, through June 30, 2019, relative to the total employer contributions received from all PERS and FURS participating employers. At June 30, 2020, the government's proportion was .0191 and .1693 percent for PERS and FURS, respectively.

For the year ended June 30, 2020, the government recognized \$84,380 (PERS) and \$72,971 (FURS) for its proportionate share of the pension expense. The government also recognized grant revenue of \$8,770 (PERS) and \$97,859 (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 \$93,150 and \$170,830 for PERS and FURS, respectively.

RED LODGE RURAL FIRE DISTRICT NUMBER 7
NOTES TO FINANCIAL STATEMENTS

At June 30, 2020, the government reported its proportionate share of PERS and FURS deferred outflows and inflows of resources from the following sources:

	PERS		FURS	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 18,893	\$ 18,748	\$ 17,461	\$ 2,015
Changes in assumptions	16,915	-	14,320	-
Net difference between projected and actual earnings on pension plan investments	4,831	-	6,472	-
Changes in the employer's proportion and differences between employer's contributions and the employer's proportionate contributions	16,330	-	29,478	-
Employer contributions subsequent to measurement date	25,027	-	55,229	-
	\$ 81,996	\$ 18,748	\$ 122,960	\$ 2,015

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, 2021. Other amounts reported as deferred outflows and inflows of resources will be recognized in pension expense as follows:

Year Ended June 30:	PERS	FURS
2021	\$ 34,396	\$ 42,751
2022	(2,308)	7,931
2023	1,797	10,764
2024	4,336	5,137
2025	-	(867)

Actuarial Assumptions

For each of the retirement plans, the total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	PERS	FURS
Investment rate of return, net of investment and administrative expenses	7.65%	7.65%
Salary increases	3.50%	3.50%
Inflation	2.75%	2.75%

Mortality rates for the PERS 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 and FURS plans. The most recent PERS 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 MPERA 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 asset class included in the PERS and FURS target asset allocation as of June 30, 2019, and are summarized in the following table:

RED LODGE RURAL FIRE DISTRICT NUMBER 7
NOTES TO FINANCIAL STATEMENTS

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash equivalents	3.0%	0.00%
Domestic equity	36.0%	2.12%
Foreign equity	18.0%	1.26%
Fixed income	23.0%	0.50%
Private equity	12.0%	1.27%
Real estate	8.0%	0.46%
	100.0%	

Discount Rate

Public Employees Retirement System

The discount rate used to measure the total pension liability was 7.65%. 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 2122. 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.

Firefighters' Unified Retirement System

The discount rate used to measure the TPL was 7.65%. 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 7.65%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.65%) or 1.00% higher (8.65%) than the current rate.

	1% Decrease (6.65%)	Current Discount Rate (7.65%)	1% Increase (8.65%)
Net pension liability-PERS	\$ 572,433	\$ 398,432	\$ 252,206
Net pension liability-FURS	339,221	194,227	77,316

Future Implementation of GASB Pronouncements

GASB 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:

- Statement No. 84, Fiduciary Activities, reporting periods beginning after December 15, 2019
- Statement No. 87, Leases, fiscal years beginning after December 15, 2020, and all reporting periods thereafter
- Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period, reporting periods beginning after December 15, 2020

RED LODGE RURAL FIRE DISTRICT NUMBER 7
NOTES TO FINANCIAL STATEMENTS

- Statement No. 90, Majority Equity Interests, reporting periods beginning after December 15, 2019
- Statement No. 91, Conduit Debt Obligations, reporting periods beginning after December 15, 2021
- Statement No. 92, Omnibus 2020, Paragraphs 6–10 and 12 Various, but no later than reporting periods beginning after June 15, 2021; Paragraphs 6 and 7—fiscal years beginning after June 15, 2021; paragraphs 8, 9 and 12 - 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, 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 - 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.

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

RED LODGE RURAL FIRE DISTRICT NUMBER 7
SCHEDULE OF CONTRIBUTIONS
PUBLIC EMPLOYEES AND FIREFIGHTERS' UNIFIED RETIREMENT SYSTEMS OF MONTANA
For the Years Ended June 30,

<u>Public Employees Retirement System:</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contributions	\$ 25,027	\$ 26,953	\$ 25,626	\$ 18,823	\$ 16,546	\$ 6,399
Contributions in relation to the contractually required contributions	<u>25,027</u>	<u>26,953</u>	<u>25,626</u>	<u>18,823</u>	<u>16,546</u>	<u>6,399</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Employer's covered payroll	\$ 286,142	\$ 314,504	\$ 302,550	\$ 224,888	\$ 197,781	\$ 76,863
Contributions as a percentage of employer's covered payroll	8.75%	8.57%	8.47%	8.37%	8.37%	8.33%
<u>Firefighters' Unified Retirement System:</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contributions	\$ 55,229	\$ 42,162	\$ 40,156	\$ 39,042	\$ 34,402	\$ 14,867
Contributions in relation to the contractually required contributions	<u>55,229</u>	<u>42,162</u>	<u>40,156</u>	<u>39,042</u>	<u>34,402</u>	<u>14,867</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Employer's covered payroll	\$ 384,601	\$ 293,608	\$ 272,828	\$ 271,882	\$ 240,620	\$ 101,552
Contributions as a percentage of employer's covered payroll	14.36%	14.36%	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.

RED LODGE RURAL FIRE DISTRICT NUMBER 7
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
PUBLIC EMPLOYEES AND FIREFIGHTERS' UNIFIED RETIREMENT SYSTEMS OF MONTANA
For the Years Ended June 30,

Public Employees Retirement System:	2020	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability	0.0191%	0.0184%	0.0181%	0.0165%	0.0140%	0.0000%
Employer's proportionate share of the net pension liability associated with the employer	\$ 398,432	\$ 383,974	\$ 353,080	\$ 281,251	\$ 195,377	\$ -
State of Montana's proportionate share of the net pension liability associated with the employer	129,188	128,242	4,240	3,437	2,400	-
Total	\$ 527,620	\$ 512,216	\$ 357,320	\$ 284,688	\$ 197,777	\$ -
Employer's covered payroll	\$ 314,504	\$ 302,550	\$ 224,888	\$ 197,781	\$ 76,863	\$ -
Employer's proportionate share of the net pension liability as a percentage of employer's covered payroll	126.69%	126.91%	157.00%	142.20%	254.19%	0.00%
Plan fiduciary net position as a percentage of the total pension liability	73.85%	73.47%	73.75%	74.71%	78.40%	0.00%
Firefighters' Unified Retirement System:	2020	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability	0.1693%	0.1732%	0.1819%	0.1709%	0.1595%	0.0000%
Employer's proportionate share of the net pension liability associated with the employer	\$ 194,227	\$ 199,512	\$ 205,575	\$ 195,160	\$ 163,141	\$ -
State of Montana's proportionate share of the net pension liability associated with the employer	469,740	456,196	466,840	442,171	363,359	-
Total	\$ 663,967	\$ 655,708	\$ 672,415	\$ 637,331	\$ 526,500	\$ -
Employer's covered payroll	\$ 293,608	\$ 272,828	\$ 271,882	\$ 240,620	\$ 101,552	\$ -
Employer's proportionate share of the net pension liability as a percentage of employer's covered payroll	66.15%	73.13%	75.61%	81.11%	160.65%	0.00%
Plan fiduciary net position as a percentage of the total pension liability	80.08%	79.03%	77.77%	75.48%	76.90%	0.00%

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

RED LODGE RURAL FIRE DISTRICT NUMBER 7
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION-PENSION PLAN INFORMATION
For the Year Ended June 30, 2020

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.

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.

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.

RED LODGE RURAL FIRE DISTRICT NUMBER 7
 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION-PENSION PLAN INFORMATION
 For the Year Ended June 30, 2020

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 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

OLNESS & ASSOCIATES, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

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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 Board of Trustees
Red Lodge Rural Fire District Number 7
Red Lodge, Montana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Red Lodge Rural Fire District Number 7, Red Lodge, Montana (the government) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the government's basic financial statements, and have issued our report thereon dated February 2, 2021.

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.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses costs as items 2020-001 and 2020-002 that we consider to be material weaknesses.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Government's Response to Findings

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

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

Purpose of this Report

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

O'Neil & Associates, PC

Billings, Montana
February 2, 2021

RED LODGE RURAL FIRE DISTRICT NUMBER 7
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2020

2020-001. 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. The governing board should provide some of these controls.

Client Response: The Red Lodge Rural Fire District does have limited staff. This limitation, which is unlikely to be resolved any time in the near future, will continue to make a full segregation of duties difficult. The following internal controls are in place to provide oversight and limit the District's exposure to mishandled transactions:

- All financial transactions are reviewed monthly by the District's Oversight Committee to include:
 - Review of bills, including actual invoices and warrants printed
 - Review of check sequence
 - Detailed review of budgeted expenses by line item
- Financial transactions are reviewed quarterly by the District's Board of Trustees to include:
 - Profit and loss statements
 - Balance sheet
 - Budget vs. actual report
 - Detailed bill payment list
- All of the District's accounts are reconciled monthly by an independent accounting firm, and all reconciliation reports, payroll reports and financial statements are reviewed by the Fire Chief.

2020-002. 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.

Client Response: The Red Lodge Rural Fire District will continue to monitor the quality and content of our internally generated financial statements. Financial statements are generated from our accounting software and are reviewed regularly by the District's Board of Trustees. We will continue to refine these statements, review them regularly, and through the use of our accounting firm, ensure their accuracy to the best of our abilities. This year's financial close out process demonstrated a smooth transfer of prepared financial statements from our independent accountant to the auditing firm. This process will continue to improve into the future.

RED LODGE RURAL FIRE DISTRICT NUMBER 7
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2020

2019-001. SEGREGATION OF DUTIES

Status: This finding is unresolved and is repeated as finding 2020-001 for the year ended June 30, 2020.

2019-002. AUDITOR PREPARED FINANCIAL STATEMENTS

Status: This finding is unresolved and is repeated as finding 2020-002 for the year ended June 30, 2020.