

**CITY OF RED LODGE  
CARBON COUNTY  
RED LODGE, MONTANA**

**FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2022**

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

**CERTIFIED PUBLIC ACCOUNTANTS**

**2810 CENTRAL AVENUE, SUITE B  
BILLINGS, MONTANA 59102  
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CITY OF RED LODGE

ORGANIZATION

June 30, 2022

MAYOR

Kristin Cogswell

COUNCIL

Kelly Heaton	Member
Pete Critelli	Member
Theresa Whistler	Member
Terri Durbin	Member
Jody Ronning	Member
Jennifer Battles	Member

CITY OFFICIALS

Dennison Butler	City Attorney
Loni Hanson	Clerk/Treasurer
Raphael He Does It	City Judge
Jason Wells	Police Chief

# OLNESS & ASSOCIATES, P. C.

CURT D. WYSS, CPA

CERTIFIED PUBLIC ACCOUNTANTS

ERNEST J. OLNESS, CPA

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## INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council  
City of Red Lodge  
Red Lodge, Montana

### Opinions

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 the City of Red Lodge, Montana (the government) as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the government's basic financial statements as listed in the table of contents.

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, 2022, 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.

### Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the government and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Emphasis of Matter

As described in Note 1 to the financial statements, the government adopted new accounting guidance, GASB Statement No. 87, Leases. Our opinion is not modified with respect to this matter.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the government's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

## INDEPENDENT AUDITOR'S REPORT (Continued)

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 government's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the government's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### 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 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 March 24, 2023, 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  
March 24, 2023

CITY OF RED LODGE  
MANAGEMENT'S DISCUSSION & ANALYSIS

The following discussion and analysis of the City of Red Lodge's financial performance provides an overview of the government's financial activities for the year ended June 30, 2022. Please read the information here in conjunction with our financial statements and footnotes.

**FINANCIAL HIGHLIGHTS**

- Net position of the governmental activities and business-type activities increased \$1,884,083 and \$1,170,034, respectively.
- In the business-type activities, revenues increased \$165,781 and expenses increased \$184,885 over the prior year.
- At the close of the fiscal year, the City's governmental funds reported an ending fund balance of \$2,497,961, a decrease of \$1,311,711.
- The general fund budget was amended for unanticipated expenditures.

**USING THIS AUDIT REPORT**

This annual report consists of a series of financial statements. The government-wide financial statements provide information about the activities of the government as a whole and present a longer-term view of the finances. The 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 government's operations in more detail than the 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 government's finances is, "Is the City as a whole better off 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 government 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—the difference between assets and deferred outflows less liabilities and deferred inflows—as one way to measure the financial health, or financial position of the City. Over time, increases or decreases in net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the property tax base and the condition of the capital assets, to assess the overall health.

In the Statement of Net Position and the Statement of Activities, our government is divided into two kinds of activities:

Governmental activities—Basic services are reported here, including police, fire, public works, and parks departments, and general administration. Property taxes and state and federal grants finance most of these activities.

Business-type activities—Fees are charged to customers to help cover all or most of the cost of certain services provided. The water and sewer system and solid waste services are reported here.

**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/or by bond covenants. Also, the governing body establishes 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. We utilize 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 called modified-accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliations, respectively).

Proprietary funds—Fees are charged to customers for services provided—whether to outside customers or to other units of the government—these services 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 the proprietary funds) are the same as the business-type activities we report in the government-wide statements, but provide more detail and additional information, such as cash flows.

CITY OF RED LODGE  
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. The following net position schedule provides a summary of the City's governmental and business-type activities.

NET POSITION:	Governmental Activities		Business-type Activities		Total	
	2022	2021	2022	2021	2022	2021
Current and other assets	\$ 5,264,804	\$ 5,102,730	\$ 5,767,229	\$ 4,685,487	\$ 11,032,033	\$ 9,788,217
Capital assets	6,491,372	3,854,104	18,197,627	18,049,310	24,688,999	21,903,414
Total assets	<u>11,756,176</u>	<u>8,956,834</u>	<u>23,964,856</u>	<u>22,734,797</u>	<u>35,721,032</u>	<u>31,691,631</u>
Deferred outflows	279,696	392,532	76,216	39,495	355,912	432,027
Other liabilities	2,149,614	666,747	101,669	24,537	2,251,283	691,284
Long-term liabilities	2,895,699	3,854,720	8,255,587	8,354,603	11,151,286	12,209,323
Total liabilities	<u>5,045,313</u>	<u>4,521,467</u>	<u>8,357,256</u>	<u>8,379,140</u>	<u>13,402,569</u>	<u>12,900,607</u>
Deferred inflows	863,663	585,086	123,041	4,411	986,704	589,497
Net position:						
Net investment in capital assets	4,649,160	3,769,172	10,401,490	10,187,730	15,050,650	13,956,902
Restricted	2,014,696	1,968,460	353,235	353,235	2,367,931	2,321,695
Unrestricted	(536,960)	(1,494,819)	4,806,050	3,849,776	4,269,090	2,354,957
Total net position	<u>\$ 6,126,896</u>	<u>\$ 4,242,813</u>	<u>\$ 15,560,775</u>	<u>\$ 14,390,741</u>	<u>\$ 21,687,671</u>	<u>\$ 18,633,554</u>

The largest portion of the City of Red Lodge's net position, \$15,050,650, reflects the net investment in capital assets (land, buildings, machinery and equipment, etc.). The City of Red Lodge uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Red Lodge's net investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City of Red Lodge's net position, \$2,367,931, represents resources that are subject to external restrictions or enabling legislature on how they may be used. Additionally, resources are set aside for debt service as required by the debt covenants. The remaining balance of unrestricted net position, \$4,269,090, may be used to meet the government's ongoing obligations to citizens and creditors.

CITY OF RED LODGE  
MANAGEMENT'S DISCUSSION & ANALYSIS

As noted below, net position of our governmental activities increased \$1,884,083. Net position of our business-type activities increased \$1,170,034. A large portion of the increase was due to capital contributions, resort taxes and water and sewer rate increases.

CHANGE IN NET POSITION	Governmental Activities		Business-type Activities		Total	
	2022	2021	2022	2021	2022	2021
Revenues:						
Program revenues:						
Charges for services	\$ 300,615	\$ 228,842	\$ 3,522,812	\$ 3,434,031	\$ 3,823,427	\$ 3,662,873
Operating grants/contributions	1,291,472	1,012,485	25,100	35,174	1,316,572	1,047,659
Capital grants/contributions	800,367	250,000	184,708	-	985,075	250,000
General revenues:						
Taxes	2,345,342	2,382,528	-	-	2,345,342	2,382,528
Licenses and permits	54,075	40,550	-	-	54,075	40,550
Intergovernmental	429,186	421,904	-	-	429,186	421,904
Interest	9,123	20,714	11,241	11,867	20,364	32,581
Miscellaneous	5,749	11,379	1,500	300	7,249	11,679
Gain on disposal of capital assets	1,762	-	-	-	1,762	-
Transfers	(178,278)	(276,486)	178,278	276,486	-	-
Total revenues	<u>5,059,413</u>	<u>4,091,916</u>	<u>3,923,639</u>	<u>3,757,858</u>	<u>8,983,052</u>	<u>7,849,774</u>
Expenses:						
General government	364,313	593,187	-	-	364,313	593,187
Public safety	1,067,042	1,160,643	-	-	1,067,042	1,160,643
Public works	1,229,601	502,446	-	-	1,229,601	502,446
Public health	310	303	-	-	310	303
Culture and recreation	370,468	357,974	-	-	370,468	357,974
Water	-	-	1,032,857	1,008,732	1,032,857	1,008,732
Sewer	-	-	1,235,951	1,094,655	1,235,951	1,094,655
Solid waste	-	-	484,797	465,333	484,797	465,333
Other current charges	83,739	83,552	-	-	83,739	83,552
Interest on long-term debt	59,857	32,966	-	-	59,857	32,966
Total expenses	<u>3,175,330</u>	<u>2,731,071</u>	<u>2,753,605</u>	<u>2,568,720</u>	<u>5,928,935</u>	<u>5,299,791</u>
Change in net position	1,884,083	1,360,845	1,170,034	1,189,138	3,054,117	2,549,983
Net position, beginning	4,242,813	2,881,968	14,390,741	13,201,603	18,633,554	16,083,571
Net position, ending	<u>\$ 6,126,896</u>	<u>\$ 4,242,813</u>	<u>\$ 15,560,775</u>	<u>\$ 14,390,741</u>	<u>\$ 21,687,671</u>	<u>\$ 18,633,554</u>

**FUND FINANCIAL STATEMENTS**

The fund financial statements provide detailed information about the major (most significant) funds. Governments may choose to report other governmental and enterprise funds as major funds, even though they do not meet this test. The General fund is always reported as a major fund. To be reported as a major fund, a fund must meet each of the two following criteria.

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

General fund fund balance increased \$24,931, which is attributable to transfers in from the resort tax fund. Fund balance in the Resort Tax fund decreased \$192,749 as a result of a supporting other funds through transfers. The Disaster fund is being used to account for the flood that occurred in June 2022. The ARPA fund accounts for resources accumulated from the American Rescue Plan Act funding. Capital Projects fund fund balance decreased \$1,599,466 as a result of building a new pool.



CITY OF RED LODGE  
MANAGEMENT'S DISCUSSION & ANALYSIS

Net position for the Water and Sewer funds increased \$719,499 and \$447,079, respectively. A large portion of the increase was due to water and sewer rate increases and transfers in from the Resort Tax fund. Solid Waste fund fund balance increased \$3,456.

The general fund budget was amended for unanticipated expenditures.

**DEBT ADMINISTRATION**

Long Term Debt: At the end of the fiscal year, the City of Red Lodge had total long-term liabilities of \$11,151,286. \$9,638,349 is related to outstanding bonds for our governmental and business-type activities. At the end of the fiscal year, the net pension liability, the total OPEB liability and compensated absences are the only other long term obligations of the government.

**THE GOVERNMENT'S FUTURE**

The budget is prepared as a team effort between employees, department heads, council and mayor. The departments weigh the urgency of the various equipment and facility repairs versus the impact on the taxes and fees paid by Red Lodge citizens. The result is a balanced budget that maintains acceptable reserves. Community members have the opportunity to review the budget and attend budget hearings to provide their input.

The city adopted a growth policy, which was updated in 2020 by the planning board and the City Council, from input from community members. The growth policy includes the city's population characteristics, economy, local services and facilities, housing, land use, public engagement, and an implementation plan to achieve the goals.

The city residents voted in 1999 to impose a 3% resort tax in the City. The City taxpayers voted in 2019 to renew the 3% resort tax, which also included an additional 1% for stormwater improvements. Public hearings were held and a Resort Tax Committee was formed and surveys were taken to find out what the community needs were.

CITY OF RED LODGE  
STATEMENT OF NET POSITION  
June 30, 2022

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and equivalents	\$ 3,379,735	\$ 2,755,807	\$ 6,135,542
Receivables:			
Taxes and assessments	531,001	35,032	566,033
Utility	-	213,745	213,745
Accounts	255,016	-	255,016
Governments	880,703	4,159	884,862
Leases	88,089	-	88,089
Internal balances	20,000	(20,000)	-
Prepaid items	13,360	26,720	40,080
Restricted assets:			
Cash and equivalents	96,900	2,751,766	2,848,666
Capital assets:			
Land and construction in progress	4,299,233	1,593,597	5,892,830
Capital assets, net of accumulated depreciation	2,192,139	16,604,030	18,796,169
Total assets	<u>11,756,176</u>	<u>23,964,856</u>	<u>35,721,032</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension plans	<u>279,696</u>	<u>76,216</u>	<u>355,912</u>
<b>LIABILITIES</b>			
Accounts payable-vendors	1,545,568	89,269	1,634,837
Unearned revenues	590,046	-	590,046
Deposits payable	14,000	12,400	26,400
Long-term liabilities:			
Due within one year:			
Bonds	157,178	526,000	683,178
Compensated absences	20,836	27,332	48,168
Due in more than one year:			
Bonds	1,685,034	7,270,137	8,955,171
Compensated absences	109,816	73,946	183,762
Net pension liability	779,931	258,866	1,038,797
Total other post-employment benefit liability	142,904	99,306	242,210
Total liabilities	<u>5,045,313</u>	<u>8,357,256</u>	<u>13,402,569</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue-long-term special assessments	472,578	-	472,578
Leases	86,228	-	86,228
Pension plans	304,857	123,041	427,898
Total deferred inflows of resources	<u>863,663</u>	<u>123,041</u>	<u>986,704</u>
<b>NET POSITION</b>			
Net investment in capital assets	4,649,160	10,401,490	15,050,650
Restricted for:			
Nonexpendable:			
Permanent fund-perpetual cemetery	4,995	-	4,995
General government	25,716	-	25,716
Public safety	226,003	-	226,003
Public works	822,543	-	822,543
Culture and recreation	84,529	-	84,529
Housing and community development	141,460	-	141,460
Capital projects	661,000	-	661,000
Debt service	48,450	353,235	401,685
Unrestricted (deficit)	<u>(536,960)</u>	<u>4,806,050</u>	<u>4,269,090</u>
Total net position	<u>\$ 6,126,896</u>	<u>\$ 15,560,775</u>	<u>\$ 21,687,671</u>

See notes to basic financial statements.

CITY OF RED LODGE  
STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2022

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
<b>Governmental activities:</b>							
General government	\$ 364,313	\$ 81,092	\$ 20,776	\$ -	\$ (262,445)	\$ -	\$ (262,445)
Public safety	1,067,042	214,823	105,607	-	(746,612)	-	(746,612)
Public works	1,229,601	2,955	1,019,555	-	(207,091)	-	(207,091)
Public health	310	-	-	-	(310)	-	(310)
Culture and recreation	370,468	1,745	145,534	800,367	577,178	-	577,178
Other current charges	83,739	-	-	-	(83,739)	-	(83,739)
Interest on long-term debt	59,857	-	-	-	(59,857)	-	(59,857)
<b>Total governmental activities</b>	<b>3,175,330</b>	<b>300,615</b>	<b>1,291,472</b>	<b>800,367</b>	<b>(782,876)</b>	<b>-</b>	<b>(782,876)</b>
<b>Business-type activities:</b>							
Water	1,032,857	1,489,449	10,684	184,708	-	651,984	651,984
Sewer	1,235,951	1,544,317	14,416	-	-	322,782	322,782
Solid Waste	484,797	489,046	-	-	-	4,249	4,249
<b>Total business-type activities</b>	<b>2,753,605</b>	<b>3,522,812</b>	<b>25,100</b>	<b>184,708</b>	<b>-</b>	<b>979,015</b>	<b>979,015</b>
<b>Total</b>	<b>\$ 5,928,935</b>	<b>\$ 3,823,427</b>	<b>\$ 1,316,572</b>	<b>\$ 985,075</b>	<b>(782,876)</b>	<b>979,015</b>	<b>196,139</b>
<b>General revenues:</b>							
Property taxes					2,345,342	-	2,345,342
Licenses and permits					54,075	-	54,075
Intergovernmental					429,186	-	429,186
Unrestricted investment earnings					9,123	11,241	20,364
Miscellaneous					5,749	1,500	7,249
Gain on disposal of capital assets					1,762	-	1,762
Transfers					(178,278)	178,278	-
<b>Total general revenues and transfers</b>					<b>2,666,959</b>	<b>191,019</b>	<b>2,857,978</b>
<b>Change in net position</b>					<b>1,884,083</b>	<b>1,170,034</b>	<b>3,054,117</b>
<b>Net position - beginning</b>					<b>4,242,813</b>	<b>14,390,741</b>	<b>18,633,554</b>
<b>Net position - ending</b>					<b>\$ 6,126,896</b>	<b>\$ 15,560,775</b>	<b>\$ 21,687,671</b>

CITY OF RED LODGE  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2022

	General	Resort Tax	Disaster	ARPA	Capital Projects	Total Nonmajor Funds	Total Governmental Funds
<b>ASSETS</b>							
Cash and cash equivalents	\$ 515,126	\$ 830,540	\$ -	\$ 590,046	\$ 221,865	\$ 1,234,713	\$ 3,392,290
Restricted assets:							
Cash and cash equivalents	-	-	-	-	-	96,900	96,900
Receivables:							
Taxes and assessments	37,078	-	-	-	-	493,923	531,001
Accounts	-	-	-	-	255,016	-	255,016
Governments	1,950	323	877,171	-	-	1,259	880,703
Leases	88,089	-	-	-	-	-	88,089
Due from other funds	-	-	-	-	20,000	-	20,000
Prepaid items	-	13,360	-	-	-	-	13,360
<b>Total assets</b>	<b>\$ 642,243</b>	<b>\$ 844,223</b>	<b>\$ 877,171</b>	<b>\$ 590,046</b>	<b>\$ 496,881</b>	<b>\$ 1,826,795</b>	<b>\$ 5,277,359</b>
<b>LIABILITIES</b>							
Cash overdraft	\$ -	\$ -	\$ 12,555	\$ -	\$ -	\$ -	\$ 12,555
Accounts payable	9,184	265,262	864,616	-	418,142	2,364	1,559,568
Unearned revenues	-	-	-	590,046	-	-	590,046
<b>Total liabilities</b>	<b>9,184</b>	<b>265,262</b>	<b>877,171</b>	<b>590,046</b>	<b>418,142</b>	<b>2,364</b>	<b>2,162,169</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>							
Leases	86,228	-	-	-	-	-	86,228
Unavailable revenue-taxes and assessments	37,078	-	-	-	-	493,923	531,001
<b>Total deferred inflows of resources</b>	<b>123,306</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>493,923</b>	<b>617,229</b>
<b>FUND BALANCES</b>							
Nonspendable:							
Prepaid items	-	13,360	-	-	-	-	13,360
Permanent fund-perpetual cemetery	-	-	-	-	-	4,995	4,995
Restricted for:							
General government	-	-	-	-	-	16,978	16,978
Public safety	-	-	-	-	-	225,254	225,254
Public works	-	-	-	-	-	817,010	817,010
Culture and recreation	-	-	-	-	-	84,529	84,529
Housing and community development	-	-	-	-	-	141,460	141,460
Capital projects	-	565,601	-	-	78,739	3,300	647,640
Debt service	-	-	-	-	-	48,450	48,450
Unassigned	509,753	-	-	-	-	(11,468)	498,285
<b>Total fund balances</b>	<b>509,753</b>	<b>578,961</b>	<b>-</b>	<b>-</b>	<b>78,739</b>	<b>1,330,508</b>	<b>2,497,961</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 642,243</b>	<b>\$ 844,223</b>	<b>\$ 877,171</b>	<b>\$ 590,046</b>	<b>\$ 496,881</b>	<b>\$ 1,826,795</b>	<b>\$ 5,277,359</b>

CITY OF RED LODGE  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF  
NET POSITION  
June 30, 2022

Total fund balances, governmental funds	\$ 2,497,961
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the fund financial statements, but are reported in the governmental activities of the statement of net position.	6,491,372
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.	58,423
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds:	
Deferred outflows of resources related to pensions	279,696
Deferred inflows of resources related to pensions	(304,857)
Some liabilities (such as bonds, the net pension liability, the total other post-employment benefits 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>(2,895,699)</u>
Net position of governmental activities	<u><u>\$ 6,126,896</u></u>

CITY OF RED LODGE  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2022

	General	Resort Tax	Disaster	ARPA	Capital Projects	Total Nonmajor Funds	Total Governmental Funds
<b>REVENUES</b>							
Taxes/assessments	\$ 506,481	\$ 1,189,865	\$ -	\$ -	\$ -	\$ 672,084	\$ 2,368,430
Fines and forfeitures	69,058	-	-	-	-	300	69,358
Licenses and permits	44,290	-	-	-	-	210,094	254,384
Intergovernmental	585,421	8,173	877,171	-	-	256,262	1,727,027
Charges for services	19,378	-	-	-	1,745	-	21,123
Investment earnings	6,814	757	-	-	500	1,052	9,123
Miscellaneous	7,190	1,001	-	-	800,367	1,014	809,572
<b>Total revenues</b>	<b>1,238,632</b>	<b>1,199,796</b>	<b>877,171</b>	<b>-</b>	<b>802,612</b>	<b>1,140,806</b>	<b>5,259,017</b>
<b>EXPENDITURES</b>							
Current:							
General government	437,990	13,000	-	-	11,851	84,834	547,675
Public safety	1,012,258	-	-	-	-	129,312	1,141,570
Public works	102,155	72,440	877,171	-	-	126,750	1,178,516
Public health	310	-	-	-	-	-	310
Culture and recreation	209,273	164,278	-	-	-	6,029	379,580
Other current charges	-	-	-	-	-	83,739	83,739
Debt service:							
Principal	-	55,643	-	-	-	96,714	152,357
Interest and other charges	-	43,055	-	-	-	16,802	59,857
Capital outlay	36,211	268,600	-	-	2,390,227	153,808	2,848,846
<b>Total expenditures</b>	<b>1,798,197</b>	<b>617,016</b>	<b>877,171</b>	<b>-</b>	<b>2,402,078</b>	<b>697,988</b>	<b>6,392,450</b>
Excess (deficiency) of revenues over expenditures	(559,565)	582,780	-	-	(1,599,466)	442,818	(1,133,433)
<b>OTHER FINANCING SOURCES (USES)</b>							
Transfers in	584,496	-	-	-	-	81,410	665,906
Transfers out	-	(775,529)	-	-	-	(68,655)	(844,184)
<b>Total other financing sources (uses)</b>	<b>584,496</b>	<b>(775,529)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>12,755</b>	<b>(178,278)</b>
<b>Net change in fund balances</b>	<b>24,931</b>	<b>(192,749)</b>	<b>-</b>	<b>-</b>	<b>(1,599,466)</b>	<b>455,573</b>	<b>(1,311,711)</b>
Fund balances - beginning	484,822	771,710	-	-	1,678,205	874,935	3,809,672
<b>Fund balances - ending</b>	<b>\$ 509,753</b>	<b>\$ 578,961</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 78,739</b>	<b>\$ 1,330,508</b>	<b>\$ 2,497,961</b>

CITY OF RED LODGE  
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, 2022

Net change in fund balances - total governmental funds	\$ (1,311,711)
 Amounts reported for governmental activities in the statement of activities are different because:	
 Governmental funds report capital outlays as 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 (\$2,848,846) exceeded depreciation (\$198,888) in the current period.	2,649,958
 Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the statement of activities reports only the gain on the sale of the assets. Thus, the change in net position differs from the change in fund balance by the book value of the asset disposed of.	
	1,762
 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.	
	(23,088)
 Governmental funds report pension contributions as expenditures. However, in the statement of activities, the cost of pension benefits is reported as pension expense.	
	241,009
 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.	
	152,357
 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	(8,677)
Other post-employment benefits	182,473
	182,473
 Change in net position of governmental activities	 \$ 1,884,083

CITY OF RED LODGE  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
June 30, 2022

	Business-type Activities			Total Enterprise Funds
	Water	Sewer	Solid Waste	
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 1,115,359	\$ 1,651,688	\$ -	\$ 2,767,047
Receivables:				
Taxes and assessments	-	11,131	23,901	35,032
Utility	96,565	117,180	-	213,745
Governments	1,558	2,601	-	4,159
Due from other funds	-	349,939	-	349,939
Prepays	13,360	13,360	-	26,720
Total current assets	<u>1,226,842</u>	<u>2,145,899</u>	<u>23,901</u>	<u>3,396,642</u>
Non-current assets:				
Restricted assets:				
Cash and cash equivalents	<u>1,172,582</u>	<u>1,579,184</u>	<u>-</u>	<u>2,751,766</u>
Capital assets:				
Land	-	680,084	-	680,084
Construction in progress	534,347	379,166	-	913,513
Buildings and systems	17,343,835	12,350,752	29,259	29,723,846
Machinery and equipment	122,964	238,681	46,569	408,214
Less: accumulated depreciation	<u>(6,935,035)</u>	<u>(6,530,130)</u>	<u>(62,865)</u>	<u>(13,528,030)</u>
Capital assets, net	<u>11,066,111</u>	<u>7,118,553</u>	<u>12,963</u>	<u>18,197,627</u>
Total non-current assets	<u>12,238,693</u>	<u>8,697,737</u>	<u>12,963</u>	<u>20,949,393</u>
Total assets	<u>13,465,535</u>	<u>10,843,636</u>	<u>36,864</u>	<u>24,346,035</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Pension plans	<u>33,003</u>	<u>43,213</u>	<u>-</u>	<u>76,216</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	20,818	68,451	-	89,269
Cash overdraft	-	-	11,240	11,240
Due to other funds	349,939	-	20,000	369,939
Deposits payable	12,400	-	-	12,400
Compensated absences	12,337	14,814	181	27,332
Bonds payable	<u>359,000</u>	<u>167,000</u>	<u>-</u>	<u>526,000</u>
Total current liabilities	<u>754,494</u>	<u>250,265</u>	<u>31,421</u>	<u>1,036,180</u>
Non-current liabilities:				
Compensated absences	25,012	47,310	1,624	73,946
Bonds payable	4,641,670	2,628,467	-	7,270,137
Net pension liability	112,095	146,771	-	258,866
Total other post-employment benefits liability	<u>50,864</u>	<u>46,020</u>	<u>2,422</u>	<u>99,306</u>
Total non-current liabilities	<u>4,829,641</u>	<u>2,868,568</u>	<u>4,046</u>	<u>7,702,255</u>
Total liabilities	<u>5,584,135</u>	<u>3,118,833</u>	<u>35,467</u>	<u>8,738,435</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Pension plans	<u>53,280</u>	<u>69,761</u>	<u>-</u>	<u>123,041</u>
<b>NET POSITION</b>				
Net investment in capital assets	6,065,441	4,323,086	12,963	10,401,490
Restricted for debt service	216,347	136,888	-	353,235
Unrestricted (deficit)	<u>1,579,335</u>	<u>3,238,281</u>	<u>(11,566)</u>	<u>4,806,050</u>
Total net position	<u>\$ 7,861,123</u>	<u>\$ 7,698,255</u>	<u>\$ 1,397</u>	<u>\$ 15,560,775</u>

See notes to basic financial statements.



CITY OF RED LODGE  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
PROPRIETARY FUNDS  
For the Year Ended June 30, 2022

	Business-type Activities			Total Enterprise Funds
	Water	Sewer	Solid Waste	
REVENUES				
Charges for services	\$ 1,489,449	\$ 1,544,317	\$ 489,046	\$ 3,522,812
Total operating revenues	1,489,449	1,544,317	489,046	3,522,812
OPERATING EXPENSES				
Personal services	303,240	446,815	10,249	760,304
Supplies	70,384	57,603	-	127,987
Purchased services	137,974	344,675	473,308	955,957
Building materials	24,373	-	-	24,373
Depreciation	371,772	344,395	740	716,907
Total operating expenses	907,743	1,193,488	484,297	2,585,528
Operating income	581,706	350,829	4,749	937,284
NON-OPERATING REVENUES (EXPENSES)				
Interest and investment revenue	1,832	9,409	-	11,241
Intergovernmental revenue	10,684	14,416	-	25,100
Miscellaneous revenue	900	600	-	1,500
Interest expense	(125,114)	(42,463)	(500)	(168,077)
Total non-operating revenues (expenses)	(111,698)	(18,038)	(500)	(130,236)
Income before capital contributions and transfers	470,008	332,791	4,249	807,048
Capital contributions	184,708	-	-	184,708
Transfers in	100,000	150,000	-	250,000
Transfers out	(35,217)	(35,712)	(793)	(71,722)
Change in net position	719,499	447,079	3,456	1,170,034
Net position - beginning	7,141,624	7,251,176	(2,059)	14,390,741
Net position - ending	<u>\$ 7,861,123</u>	<u>\$ 7,698,255</u>	<u>\$ 1,397</u>	<u>\$ 15,560,775</u>

CITY OF RED LODGE  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
For the Year Ended June 30, 2022

	Business-type Activities			Total Enterprise Funds
	Water	Sewer	Solid Waste	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Cash received from customers	\$ 1,498,428	\$ 1,536,547	\$ 497,963	\$ 3,532,938
Cash paid to employees	(295,253)	(382,765)	(13,111)	(691,129)
Cash paid to suppliers for goods and services	(235,501)	(347,321)	(473,308)	(1,056,130)
Net cash provided by operating activities	967,674	806,461	11,544	1,785,679
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>				
Cash transferred from other funds	100,000	150,000	-	250,000
Change in interfund payable	(23,082)	23,082	(5,000)	(5,000)
Cash received from miscellaneous	900	600	-	1,500
Change in deposits payable	(1,775)	-	-	(1,775)
Cash transferred to other funds	(35,217)	(35,712)	(793)	(71,722)
Cash received from intergovernmental sources	102	-	-	102
Net cash provided (used) by noncapital financing activities	40,928	137,970	(5,793)	173,105
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:</b>				
Cash paid for capital assets	(410,967)	(454,257)	-	(865,224)
Cash received from bonds	185,509	236,429	-	421,938
Cash received from capital grants	184,708	-	-	184,708
Principal payments on debt	(329,070)	(158,311)	-	(487,381)
Interest paid	(125,114)	(42,463)	(500)	(168,077)
Net cash used by capital financing activities	(494,934)	(418,602)	(500)	(914,036)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Net change in investments	73,993	112,528	-	186,521
Interest received	1,832	9,409	-	11,241
Net cash provided by investing activities	75,825	121,937	-	197,762
Change in cash and cash equivalents	589,493	647,766	5,251	1,242,510
Cash and cash equivalents - beginning	1,698,448	2,583,106	(16,491)	4,265,063
Cash and cash equivalents - ending	\$ 2,287,941	\$ 3,230,872	\$ (11,240)	\$ 5,507,573
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>				
Operating income	\$ 581,706	\$ 350,829	\$ 4,749	\$ 937,284
Adjustment to reconcile operating income to net cash provided by operating activities:				
Depreciation	371,772	344,395	740	716,907
Pension plans	79,591	127,737	-	207,328
Other post-employment benefits	(64,948)	(58,763)	(3,093)	(126,804)
(Increase) decrease in accounts receivable	5,108	(3,481)	-	1,627
(Increase) decrease in taxes/assessments receivable	3,871	(4,289)	8,917	8,499
Increase in prepaids	(13,360)	(13,360)	-	(26,720)
Increase in accounts payable	10,590	68,317	-	78,907
Increase (decrease) in compensated absences	(6,656)	(4,924)	231	(11,349)
Net cash provided by operating activities	\$ 967,674	\$ 806,461	\$ 11,544	\$ 1,785,679

See notes to basic financial statements.

CITY OF RED LODGE  
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the government have been prepared in conformity with accounting principles generally accepted in the United States of America, as applied to government units (hereinafter referred to as generally accepted accounting principles (GAAP)). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The government adopted the provisions of the following GASB statement:

For the year ended June 30, 2022, the government implemented the provisions of GASB Statement No. 87, Leases. This Statement was issued to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing 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.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the government. Governmental activities, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external customers for support. While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds, while business-type activities incorporate data from the government's enterprise funds. Separate financial statements are provided for governmental funds and proprietary funds. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's enterprise funds and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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.

The fund financial statements provide information about the government's funds. Separate statements for each fund category – governmental and proprietary - are presented. The emphasis of fund financial statements is on major governmental and enterprise funds. Major individual governmental and 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.

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 funds are reported as major.

The resort tax fund is used to account for the 3 percent resort tax that is collected within the City limits. Restrictions have been placed on how the funds may be spent.

CITY OF RED LODGE  
NOTES TO BASIC FINANCIAL STATEMENTS

The disaster fund is used to account for federal and state disaster relief funds.

The ARPA fund accounts for resources accumulated from the American Rescue Plan Act and payments made for general government services.

The capital projects fund accounts for financial resources earmarked or segregated for the acquisition and construction of major capital facilities and other project-oriented activities.

The government reports the following major enterprise 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 solid waste fund accounts for the activities of the government's sanitation services.

During the course of operations the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. Further, certain activity occurs during the year involving transfers of resources between funds reported at gross amounts as transfers in/out. While these balances are reported in the fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of recognition in the financial statements of various kinds of transactions or events.

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.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they have been earned and 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 principal and interest expenditures on general long-term debt, including lease liabilities, as well as expenditures related to compensated absences, and claims and judgments, postemployment benefits and environmental obligations are recognized later based on specific accounting rules applicable to each, generally when payment is due. General capital asset acquisitions, including entering into contracts giving the government the right to use leased assets, are reported as expenditures in governmental funds. Issuance of long-term debt and financing through 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. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). 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 are charges to customers for sales and services. Operating expenses for enterprise 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.

CITY OF RED LODGE  
NOTES TO BASIC FINANCIAL STATEMENTS

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 Clerk/Treasurer and overseen by the Mayor and City Council. The City Clerk/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

Utility and taxes/assessments 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.

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. 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 in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

Restricted Assets

Certain proceeds of the SID revolving, water, sewer, and solid waste long-term debt, as well as resources set aside for their repayment, are classified as restricted assets because their use is limited by applicable debt covenants and resolutions.

Capital Assets

Capital assets are tangible and intangible 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. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 for machinery and equipment, \$10,000 for buildings, \$5,000 for improvements and \$25,000 for infrastructure and an estimated useful life in excess of one year.

As the government constructs or acquires capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost (except for intangible right-to-use lease assets, the measurement of which is discussed below under the Leases section). The reported value excludes normal maintenance and repairs, which are amounts spent in relation to capital assets that do not increase the asset's capacity or efficiency or increase its estimated useful life. Donated capital assets are recorded at acquisition value at the date of donation. Acquisition value is the price that would be paid to acquire an asset with equivalent service potential on the date of the donation. Intangible assets follow the same capitalization policies as tangible capital assets and are reported with tangible assets in the appropriate capital asset class.

Land and construction in progress are not depreciated. The other tangible and intangible property, plant, equipment, the right to use

CITY OF RED LODGE  
NOTES TO BASIC FINANCIAL STATEMENTS

leased equipment, and infrastructure of the government are depreciated/amortized using the straight-line method over the following estimated useful lives:

Assets	Years
Infrastructure	30
Building, systems and improvements	7-40
Machinery and equipment	3-20

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.

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 includes a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net assets that applies to a future period and so will not be recognized as an expense until then. The government has one item that qualifies for reporting in this category: pension plans.

In addition to liabilities, the statements of net position includes a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net assets that applies to a future period and so will not be recognized as revenue until then. The government has three items that qualify for reporting in this category: pension plans, leases and long-term special assessments.

In the governmental funds, deferred inflow of resources is for revenues that are not considered available and leases. 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. Lease revenue is recognized over the life of the lease.

Net Position

For government-wide reporting as well as in proprietary funds, the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources is called net position. Net position is comprised of three components: net investment in capital assets, restricted, and unrestricted.

- Net investment in capital assets consists of capital assets, net of accumulated depreciation/amortization and reduced by outstanding balances of bonds, notes, and other debt that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are included in this component of net position.

CITY OF RED LODGE  
NOTES TO BASIC FINANCIAL STATEMENTS

- Restricted net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Assets are reported as restricted when constraints are placed on asset use either by external parties or by law through constitutional provision or enabling legislation.
- Unrestricted net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that does not meet the definition of the two preceding categories.

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 governmental fund types, the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources is called "fund balance." Governmental funds report the following categories of fund balance, based on the nature of any limitations requiring the use of resources for specific purposes.

- Nonspendable fund balance represents amounts that are either not in a spendable form or are legally or contractually required to remain intact.
- Restricted fund balance includes amounts that can be spent only for the specific purposes stipulated by external resource providers such as grantors or enabling federal, state, or local legislation. Restrictions may be changed or lifted only with the consent of the resource providers.
- Committed fund balance represents amounts that can be used only for the specific purposes determined by the adoption of a resolution committing fund balance for a specified purpose by the governing board prior to the end of the fiscal year. Once adopted, the limitation imposed by the resolution remains in place until the resources have been spent for the specified purpose or the governing board adopts another resolution to remove or revise the limitation.
- Assigned fund balance represents amounts that are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The governing board has by resolution authorized the clerk/treasurer to assign fund balance. The governing board may also assign fund balance, as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.
- Unassigned fund balance represents the residual amount for the general fund that is not contained in the other classifications. The general fund is the only fund that reports a positive unassigned fund balance. Additionally, any deficit fund balance within the other governmental fund types is reported as unassigned.

As previously mentioned, sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental 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 fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

#### Leases

As a lessee, the government recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in the government-wide financial statements. The government recognizes lease liabilities with an initial, individual value of \$5,000 or more. At the commencement of a lease, the government initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to leases include how the government determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The government uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the government generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the government is reasonably certain to exercise.

CITY OF RED LODGE  
NOTES TO BASIC FINANCIAL STATEMENTS

The government monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability. Lease assets are reported with other capital assets and lease liabilities are reported with long-term debt on the statement of net position.

As a lessor, the government recognizes a lease receivable and a deferred inflow of resources in the government-wide and governmental fund financial statements.

At the commencement of a lease, the government initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

Key estimates and judgments include how the government determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts.

- The government uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease receipts included in the measurement of the lease receivable is composed of fixed payments from the lessee.

The government monitors changes in circumstances that would require a remeasurement of its lease, and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

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 CCE levy fund had a deficit equity of \$11,468 as of June 30, 2022. The deficit occurred because not enough revenue was collected to offset the debt payments. The city is going to request the bank recalculate the debt payments due to prepayments.

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	\$ 3,476,635
Business-type activities	<u>5,507,573</u>
	<u>\$ 8,984,208</u>



CITY OF RED LODGE  
NOTES TO BASIC FINANCIAL STATEMENTS

Total carrying value of cash, cash equivalents and investments as of June 30, 2022, consisted of the following:

	Cash/Cash Equivalents
Cash in banks:	
Demand deposits	\$ 198,537
Savings deposits	4,484,694
Time deposits	73,489
Short-term Investment Program (STIP)	791,900
Repurchase agreements	3,435,588
	\$ 8,984,208

*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, 2022, \$4,058,183 of the government's bank balance of \$4,613,183 was exposed to custodial credit risk as follows:

Uninsured and collateral held by the pledging bank's trust department not in the government's name	\$ 4,058,183
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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. The amount of collateral held for the government's deposits as of June 30, 2022, did not exceed the amount required by state statute.

Fair value measurements are as follows at June 30, 2022:

	Fair Value
State Short-Term Investment Program (STIP)	\$ 790,639

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

The STIP investments are purchased in accordance with the statutorily mandated "Prudent Expert Principle". This pool is managed to preserve principal, while obtaining money market type returns and 24-hour liquidity. Funds may be invested for one or more days and redeemed with one business days' notice. The government's STIP ownership is represented by shares. Share prices are fixed at \$1.00 per share for transactional purposes. The STIP investment portfolio consists of securities with maximum maturity of 2 years or less. The portfolio is reported at fair value for financial reporting purposes. STIP income is distributed on the first calendar day of each month. Shareholders have the option to automatically reinvest their distribution income in additional shares.

*Interest Rate Risk.* The government does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, under state statute, an investment may not have a maturity date exceeding 5 years, except when the investment is used in an escrow account to refund an outstanding bond issue in advance.

*Credit Risk.* 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). 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.

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.

CITY OF RED LODGE  
NOTES TO BASIC FINANCIAL STATEMENTS

	Custodial Credit Risk Category			Carrying Amount	Fair Value
	1	2	3		
Repurchase agreements	\$ -	\$ -	\$ 3,435,588	\$ 3,435,588	\$ 3,435,588
Uncategorized: STIP	\$ -	\$ -	\$ 3,435,588	3,435,588	3,435,588
				791,900	790,639
				<u>\$ 4,227,488</u>	<u>\$ 4,226,227</u>

Capital Assets

Capital asset activity for the year ended June 30, 2022, was as follows:

	Balance July 1, 2021	Additions	Deletions	Balance June 30, 2022
Governmental activities:				
Capital assets, not being depreciated				
Land	\$ 1,402,627	\$ -	\$ -	\$ 1,402,627
Construction-in-progress	600,695	2,399,318	(103,407)	2,896,606
Total capital assets, not being depreciated	<u>2,003,322</u>	<u>2,399,318</u>	<u>(103,407)</u>	<u>4,299,233</u>
Capital assets, being depreciated				
Buildings/improvements	1,899,296	95,015	-	1,994,311
Improvements other than buildings	560,563	-	-	560,563
Machinery and equipment	2,238,118	457,920	(21,150)	2,674,888
Infrastructure	25,814,797	-	-	25,814,797
Total capital assets, being depreciated	<u>30,512,774</u>	<u>552,935</u>	<u>(21,150)</u>	<u>31,044,559</u>
Less accumulated depreciation for:				
Buildings/improvements	(1,356,783)	(48,259)	-	(1,405,042)
Improvements other than buildings	(133,492)	(27,274)	-	(160,766)
Machinery and equipment	(1,889,969)	(90,641)	8,460	(1,972,150)
Infrastructure	(25,281,748)	(32,714)	-	(25,314,462)
Total accumulated depreciation	<u>(28,661,992)</u>	<u>(198,888)</u>	<u>8,460</u>	<u>(28,852,420)</u>
Total capital assets, being depreciated, net	<u>1,850,782</u>	<u>354,047</u>	<u>(12,690)</u>	<u>2,192,139</u>
Governmental activities capital assets, net	<u>\$ 3,854,104</u>	<u>\$ 2,753,365</u>	<u>\$ (116,097)</u>	<u>\$ 6,491,372</u>

Depreciation expense was charged as follows:

Governmental activities:	
General government	\$ 5,301
Public safety	54,854
Public works	89,198
Culture and recreation	49,535
Total depreciation-governmental activities	<u>\$ 198,888</u>

CITY OF RED LODGE  
NOTES TO BASIC FINANCIAL STATEMENTS

	Balance July 1, 2021	Additions	Deletions	Balance June 30, 2022
Business-type activities:				
Capital assets, not being depreciated				
Land	\$ 680,084	\$ -	\$ -	\$ 680,084
Construction-in-progress	123,380	790,133	-	913,513
Total capital assets, not being depreciated	<u>803,464</u>	<u>790,133</u>	<u>-</u>	<u>1,593,597</u>
Capital assets, being depreciated				
Buildings and systems	29,648,755	75,091	-	29,723,846
Machinery and equipment	408,214	-	-	408,214
Total capital assets, being depreciated	<u>30,056,969</u>	<u>75,091</u>	<u>-</u>	<u>30,132,060</u>
Less accumulated depreciation for:				
Buildings and systems	(12,672,600)	(690,967)	-	(13,363,567)
Machinery and equipment	(138,523)	(25,940)	-	(164,463)
Total accumulated depreciation	<u>(12,811,123)</u>	<u>(716,907)</u>	<u>-</u>	<u>(13,528,030)</u>
Total capital assets, being depreciated, net	<u>17,245,846</u>	<u>(641,816)</u>	<u>-</u>	<u>16,604,030</u>
Business-type activities capital assets, net	<u>\$ 18,049,310</u>	<u>\$ 148,317</u>	<u>\$ -</u>	<u>\$ 18,197,627</u>

Depreciation expense was charged as follows:

Business-type activities:	
Water	\$ 371,772
Sewer	344,395
Solid Waste	<u>740</u>
Total depreciation-business-type activities	<u>\$ 716,907</u>

Interfund Receivables, Payables and Transfers

Interfund balances as of June 30, 2022, consisted of the following:

	Due from funds	Due to funds
Governmental activities:		
Nonmajor governmental funds	\$ 20,000	\$ -
Total governmental activities	<u>\$ 20,000</u>	<u>\$ -</u>
Business-type activities:		
Water	\$ -	\$ (349,939)
Sewer	349,939	-
Solid Waste	<u>-</u>	<u>(20,000)</u>
Total business-type activities	<u>\$ 349,939</u>	<u>\$ (369,939)</u>

The balance of \$20,000 due to the capital projects fund from the solid waste fund resulted from loans made to cover deficit cash balances; \$20,000 of the balance is not scheduled to be collected in the subsequent year. Additionally, the balance of \$349,939 due to the sewer fund from the water fund resulted from loans made to cover costs associated with the 2013 Broadway water project; \$337,064 of the balance is not scheduled to be collected in the subsequent year.

CITY OF RED LODGE  
NOTES TO BASIC FINANCIAL STATEMENTS

Interfund transfers consisted of the following:

	Transfers In	Transfers Out
Governmental activities:		
General	\$ 584,496	\$ -
Resort tax	-	(775,529)
Nonmajor governmental funds	81,410	(68,655)
<b>Total governmental activities</b>	<b>\$ 665,906</b>	<b>\$ (844,184)</b>
Business-type activities:		
Water	\$ 100,000	\$ (35,217)
Sewer	150,000	(35,712)
Solid waste	-	(793)
<b>Total business-type activities</b>	<b>\$ 250,000</b>	<b>\$ (71,722)</b>

Transfers use revenues collected in various funds to finance programs accounted for in other funds in accordance with city resolutions and budgetary authorizations.

Leases

The government leases two parcels of land to a third party. The leases were for 25 years. The government recognized \$5,749 in lease revenue and \$4,599 in interest revenue during the year related to these leases. As of June 30, 2022, the government's receivable for lease payments was \$88,089. Also, the government has a deferred inflow of resources associated with this lease that will be recognized as revenue over the lease term. As of June 30, 2022, the balance of the deferred inflow of resources was \$86,228.

Long-Term Debt

During the year, the government issued \$319,000 of sewer system revenue bonds through the Department of Natural Resources and Conservation (DNRC) with a term of twenty years. The government was advanced \$236,429 from the bonds. The interest rate is 2.5%. Further, the government issued \$1,240,000 of water system revenue bonds through the DNRC with a term of twenty years. The government was advanced \$185,509 from the bonds. The interest rate is 2.5%. In previous years, the government issued other revenue bonds through the DNRC. For all of the bonds, the government pledged income derived from the acquired or constructed assets to pay debt service. Revenue bonds outstanding were as follows:

	Original Amount	Matures	Interest Rate	Balance June 30, 2022	Due within one year
Refunding water system-2020	\$ 4,695,000	6/30/2039	2.0 to 2.5%	\$ 3,975,000	\$ 270,000
Water system-2019	1,123,000	1/1/2039	2.5%	829,000	40,000
Water system-2021	1,240,000	06/30/2041	2.5%	161,509	49,000
Sewer system-2021B	319,000	06/30/2041	2.5%	230,429	12,000
Sewer system revenue refunding bonds 2020	2,795,000	06/30/2037	1.1 to 2.0%	2,535,000	155,000
				<b>\$ 7,730,938</b>	<b>\$ 526,000</b>

Each bond has a reserve requirement and specified minimum required operating revenues. The government is in substantial compliance with these requirements.

CITY OF RED LODGE  
NOTES TO BASIC FINANCIAL STATEMENTS

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

Year ending June 30,	Business-type Activities		
	Principal	Interest	Total
2023	\$ 526,000	\$ 164,322	\$ 690,322
2024	533,000	153,284	686,284
2025	463,000	142,087	605,087
2026	431,509	132,466	563,975
2027	427,000	123,135	550,135
2028-2032	2,282,000	479,258	2,761,258
2033-2037	2,447,000	256,109	2,703,109
2038-2041	621,429	22,130	643,559
	<u>\$ 7,730,938</u>	<u>\$ 1,472,791</u>	<u>\$ 9,203,729</u>

The government issued \$969,000 of special assessment bonds in 2019 to provide funds for an overlay project in the Country Club Estates. The bonds have a stated rate of interest of 3.22 percent and are payable in equal installments of principal and interest over 10 years. Special assessment bond debt service requirements to maturity are as follows:

Year ending June 30,	Governmental Activities		
	Principal	Interest	Total
2023	\$ 99,853	\$ 13,663	\$ 113,516
2024	103,094	10,422	113,516
2024	106,441	7,075	113,516
2026	109,896	3,620	113,516
2027	29,789	480	30,269
	<u>\$ 449,073</u>	<u>\$ 35,260</u>	<u>\$ 484,333</u>

The government issued \$1,492,000 of resort tax revenue bonds, series 2021 in 2021 to pay all or a portion of the costs of improvements to the City pool. The bonds have a stated rate of interest of 3.00 percent and are payable in semi-annual equal installments of principal and interest over the next 20 years. Resort tax revenue bonds outstanding as of June 30, 2022 were \$1,393,139. Resort tax revenue bonds debt service requirements to maturity are as follows:

Year ending June 30,	Governmental Activities		
	Principal	Interest	Total
2023	\$ 57,325	\$ 41,373	\$ 98,698
2024	58,950	39,748	98,698
2025	60,839	37,859	98,698
2026	62,678	36,020	98,698
2027	64,572	34,126	98,698
2028-2032	353,184	140,309	493,493
2033-2037	410,005	83,485	493,490
2038-2041	325,586	19,858	345,444
	<u>\$ 1,393,139</u>	<u>\$ 432,778</u>	<u>\$ 1,825,917</u>

CITY OF RED LODGE  
NOTES TO BASIC FINANCIAL STATEMENTS

Long-term liability activity for the year ended June 30, 2022, was as follows:

	Balance July 1, 2021	Additions	Retirements	Balance June 30, 2022	Due Within One Year
Governmental activities:					
Special assessment bonds	\$ 545,787	\$ -	\$ (96,714)	\$ 449,073	\$ 99,853
Resort tax revenue bonds	1,448,782	-	(55,643)	1,393,139	57,325
Compensated absences	121,975	8,677	-	130,652	20,836
<b>Governmental activity long-term liabilities</b>	<b>\$ 2,116,544</b>	<b>\$ 8,677</b>	<b>\$ (152,357)</b>	<b>\$ 1,972,864</b>	<b>\$ 178,014</b>
Business-type activities:					
Revenue bonds	\$ 7,792,000	\$ 421,938	\$ (483,000)	\$ 7,730,938	\$ 526,000
Premium on revenue bonds	69,580	-	(4,381)	65,199	-
Compensated absences	112,627	231	(11,580)	101,278	27,332
<b>Business-type activity long-term liabilities</b>	<b>\$ 7,974,207</b>	<b>\$ 422,169</b>	<b>\$ (498,961)</b>	<b>\$ 7,897,415</b>	<b>\$ 553,332</b>

For the governmental activities, compensated absences are generally liquidated by the general fund.

Restricted Assets

The balances of the restricted asset accounts for governmental and business-type activities are as follows:

	Governmental Activities	Business-type Activities
SID revolving and reserve	\$ 96,900	\$ -
Customer deposits		12,400
Revenue bond-reserve	-	353,235
Revenue bond-replacement/depreciation	-	2,386,131
	<b>\$ 96,900</b>	<b>\$ 2,751,766</b>

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.

Interlocal Agreement

The City of Red Lodge and the Red Lodge Rural Fire District Number 7 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.

Commitments and Contingencies

At year-end, the government had commitments outstanding, in the form of contracts of approximately \$1,552,000, primarily for construction projects and equipment.

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,

CITY OF RED LODGE  
NOTES TO BASIC FINANCIAL STATEMENTS

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](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.

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.

CITY OF RED LODGE  
NOTES TO BASIC FINANCIAL STATEMENTS

Municipal Police Officers' Retirement System

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 % 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 have 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.

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 8.87% 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.

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

At June 30, 2022, the government recorded a liability of \$635,097 (PERS) and \$403,700 (MPORS) for its proportionate share of the net pension liability.



CITY OF RED LODGE  
NOTES TO BASIC FINANCIAL STATEMENTS

PERS and MPORS have a special funding situation in which the State of Montana is legally responsible for making contributions directly to PERS and MPORS 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, 2022	
	PERS	MPORS
Employer proportionate share	\$ 635,097	\$ 403,700
State of Montana proportionate share associated with employer	189,067	820,543
Total	\$ 824,164	\$ 1,224,243

The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2020 for PERS and MPORS. The government's proportion of the net pension liability was based on the government's contributions received by PERS and MPORS during the measurement period July 1, 2020, through June 30, 2021, relative to the total employer contributions received from all PERS and MPORS participating employers. At June 30, 2022, the government's proportion was .0350 and .2221 percent for PERS and MPORS, respectively.

For the year ended June 30, 2022, the government recognized \$34,485 (PERS) and \$50,955 (MPORS) for its proportionate share of the pension expense. The government also recognized grant revenue of \$51,126 (PERS) and \$102,947 (MPORS) 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 \$85,611 and \$153,902 for PERS and MPORS, respectively.

At June 30, 2022, the government reported its proportionate share of PERS and MPORS deferred outflows and inflows of resources from the following sources:

	PERS		MPORS	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 6,777	\$ 4,597	\$ 12,840	\$ 4,409
Changes in actuarial assumptions	94,070	-	77,132	-
Difference between projected and actual investment earnings	-	257,285	-	121,622
Changes in the proportion and differences between actual and expected contributions	-	39,985	25,133	-
Employer contributions subsequent to measurement date	86,140	-	53,820	-
	\$ 186,987	\$ 301,867	\$ 168,925	\$ 126,031

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, 2023. Other amounts reported as deferred outflows and inflows of resources will be recognized in pension expense as follows:

Year Ended June 30:	PERS	MPORS
2023	\$ (4,591)	\$ 31,080
2024	(52,156)	6,957
2025	(62,141)	(9,591)
2026	(82,132)	(39,372)

CITY OF RED LODGE  
NOTES TO BASIC FINANCIAL STATEMENTS

Actuarial Assumptions

For each of the retirement plans, the total pension liability in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	PERS	MPORS
Investment rate of return, net of investment and administrative expenses	7.06%	7.06%
Salary increases	3.50%	3.50%
Inflation	2.40%	2.40%

Mortality rates for the PERS and MPORS 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 rate of return for PERS and MPORS was calculated using the average long-term capital market assumptions published in the Survey of Capital Market Assumptions 2021 Edition by Horizon Actuarial Service, LLC, yielding a median real return of 4.66%. The assumed inflation is based on the intermediate inflation assumption of 2.40% in the 2021 OASDI Trustees Report used by the Chief Actuary for Social Security to produce 75-year cost projections. Combining these two results yields a nominal return of 7.06%. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2021, are summarized in the table below.

<u>Asset Class</u>	<u>PERS and MPORS</u>	
	<u>Target Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	3.0%	-0.33%
Domestic equity	30.0%	5.90%
International equity	17.0%	7.14%
Real assets	5.0%	4.03%
Core fixed income	15.0%	1.14%
Private investments	15.0%	9.13%
Real estate	9.0%	5.41%
Non-core fixed income	6.0%	3.02%
	<u>100.0%</u>	

Discount Rate

Public Employees Retirement System

The discount rate used to measure the total pension liability was 7.06%. 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 districts. 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 2126. 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 total pension liability was 7.06%. 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 total pension liability. A municipal bond rate was not incorporated in the discount rate.

CITY OF RED LODGE  
NOTES TO BASIC FINANCIAL STATEMENTS

Sensitivity Analysis

The following presents the employer's proportionate share of the PERS and MPORS net pension liability calculated using the discount rate of 7.06%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.06%) or 1.00% higher (8.06%) than the current rate.

	1% Decrease (6.06%)	Current Discount Rate (7.06%)	1% Increase (8.06%)
Net pension liability-PERS	\$ 1,008,118	\$ 635,097	\$ 322,220
Net pension liability-MPORS	660,502	403,700	199,561

PERS Disclosure for the Defined Contribution Plan

The government contributed to the state of Montana Public Employee Retirement System Defined Contribution Retirement Plan (PERS-DCRP) for employees that have elected the DCRP. The PERS-DCRP is administered by the PERB and is reported as a multiple-employer plan established July 1, 2002, and governed by Title 19, chapters 2 & 3, MCA.

All new PERS 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.

Member and employer contribution rates are specified by state law and are a percentage of the member's compensation. Contributions are deducted from each member's salary and remitted by participating employers. The state Legislature has the authority to establish and amend contribution rates.

Benefits are dependent upon eligibility and individual account balances. Participants are vested immediately in their own contributions and attributable income. Participants are vested after 5 years of membership service for the employer's contributions to individual accounts and the attributable income. Non-vested contributions are forfeited upon termination of employment per 19-3-2117(5), MCA. Such forfeitures are used to cover the administrative expenses of the PERS-DCRP.

At the plan level for the measurement period ended June 30, 2021, the PERS-DCRP employer did not recognize any net pension liability or pension expense for the defined contribution plan. Plan level non-vested forfeitures for the 340 employers that have participants in the PERS-DCRP totaled \$1,103,889.

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, 2022, 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	21
	21

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NOTES TO BASIC FINANCIAL STATEMENTS

Total OPEB Liability

The total OPEB liability of \$242,210 was measured as of June 30, 2022, and was determined by an actuarial valuation as of June 30, 2022.

*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, 2022
Actuarial cost method	Entry age normal funding
Salary increases	3.25%
Discount rate	2.27% (based on the 20 year municipal bond index)
Healthcare costs trend rates	7% in 2022. Thereafter, decreasing each year to an ultimate rate of 3.8% for 2079 and years later
Participation	40% of future retirees are assumed to elect medical coverage
Mortality	RP 2000 Healthy Combined Mortality Table with no projections

The actuarial assumptions used in the June 20, 2022 valuation were based on the health care premium rates and medical and prescription drug costs in effect as of June 30, 2022.

Changes in the Total OPEB Liability

Changes in the total OPEB liability were as follows:

Service cost	\$ 53,415
Interest on the total OPEB liability	13,554
Difference in experience	(257,639)
Changes in assumptions or other inputs	(103,230)
Benefits payments	<u>(15,377)</u>
Net change in total OPEB liability	<u>(309,277)</u>
Total OPEB liability - beginning of year	<u>551,487</u>
Total OPEB liability - end of year	<u><u>\$ 242,210</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</u> <u>(1.27%)</u>	<u>Current</u> <u>Discount Rate</u> <u>(2.27%)</u>	<u>1% Increase</u> <u>(3.27%)</u>
Total OPEB liability	\$ 267,574	\$ 242,210	\$ 218,312

CITY OF RED LODGE  
NOTES TO BASIC FINANCIAL STATEMENTS

*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:

	1% Decrease (6% decreasing to 2.8%)	Healthcare Cost Trend Rates (7% decreasing to 3.8%)	1% Increase (8% decreasing to 4.8%)
Total OPEB liability	\$ 205,754	\$ 242,210	\$ 288,046

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

For the year ended June 30, 2022, the government recognized OPEB expense of (\$293,900.) As of June 30, 2022, 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. 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.

GASB Statement No. 99, Omnibus 2022. The requirements of this Statement are effective as follows:

- The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance.
- The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
- The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

GASB Statement No. 100, Accounting Changes and Error Corrections - an amendment of GASB Statement No. 62. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. Statement 100 is effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

GASB Statement No. 101, Compensated Absences. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. Statement 101 is effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF RED LODGE  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
General Fund  
For the Year Ended June 30, 2022

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Budget to GAAP Differences	Actual Amounts, GAAP Basis
	Original	Final			
<b>REVENUES</b>					
Taxes/assessments	\$ 888,929	\$ 888,929	\$ 506,481	\$ -	\$ 506,481
Fees and fines	77,000	77,000	69,058	-	69,058
Licenses and permits	32,000	32,000	44,290	-	44,290
Intergovernmental	928,974	972,230	452,187	133,234	585,421
Charges for services	21,000	21,000	19,378	-	19,378
Investment earnings	2,000	2,000	6,814	-	6,814
Miscellaneous	9,600	9,600	7,190	-	7,190
Total revenues	1,959,503	2,002,759	1,105,398	133,234	1,238,632
<b>EXPENDITURES</b>					
Current:					
General government	463,836	463,836	418,655	19,335	437,990
Public safety	934,199	977,455	907,433	104,825	1,012,258
Public works	129,116	129,116	98,754	3,401	102,155
Public health	550	550	310	-	310
Culture and recreation	204,776	204,776	203,600	5,673	209,273
Capital outlay	18,461	18,461	36,211	-	36,211
Total expenditures	1,750,938	1,794,194	1,664,963	133,234	1,798,197
Excess (deficiency) of revenues over expenditures	208,565	208,565	(559,565)	-	(559,565)
<b>OTHER FINANCING SOURCES</b>					
Transfers in	141,590	141,590	584,496	-	584,496
Total other financing sources	141,590	141,590	584,496	-	584,496
Net change in fund balance	\$ 350,155	\$ 350,155	24,931	-	24,931
Fund balance - beginning			484,822	-	484,822
Fund balance - ending			\$ 509,753	\$ -	\$ 509,753

CITY OF RED LODGE  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
Resort Tax Fund  
For the Year Ended June 30, 2022

	Budgeted Amounts		Actual Amounts
	Original	Final	
<b>REVENUES</b>			
Property Taxes	\$ 1,500,000	\$ 1,500,000	\$ 1,189,865
Intergovernmental	-	-	8,173
Investment earnings	1,000	1,000	757
Miscellaneous	-	-	1,001
Total revenues	<u>1,501,000</u>	<u>1,501,000</u>	<u>1,199,796</u>
<b>EXPENDITURES</b>			
Current:			
General government	-	-	13,000
Public works	147,150	147,150	72,440
Culture and recreation	156,710	156,710	164,278
Debt service:			
Principal	98,700	98,700	55,643
Interest and other charges	-	-	43,055
Capital outlay	852,333	852,333	268,600
Total expenditures	<u>1,254,893</u>	<u>1,254,893</u>	<u>617,016</u>
Excess (deficiency) of revenues over expenditures	<u>246,107</u>	<u>246,107</u>	<u>582,780</u>
<b>OTHER FINANCING USES:</b>			
Transfers out	(791,169)	(791,169)	(775,529)
Total other financing uses	<u>(791,169)</u>	<u>(791,169)</u>	<u>(775,529)</u>
Net change in fund balance	<u>\$ (545,062)</u>	<u>\$ (545,062)</u>	(192,749)
Fund balance - beginning			<u>771,710</u>
Fund balance - ending			<u>\$ 578,961</u>



CITY OF RED LODGE  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
Disaster Fund  
For the Year Ended June 30, 2022

	Budgeted Amounts		Actual Amounts
	Original	Final	
REVENUES			
Intergovernmental	\$ -	\$ 878,000	\$ 877,171
Total revenues	<u>-</u>	<u>878,000</u>	<u>877,171</u>
EXPENDITURES			
Current:			
Public works	-	878,000	877,171
Total expenditures	<u>-</u>	<u>878,000</u>	<u>877,171</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	-
Fund balance - beginning			<u>-</u>
Fund balance - ending			<u>\$ -</u>

CITY OF RED LODGE  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
For the Year Ended June 30, 2022

BUDGETARY INFORMATION

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.

The differences between the budgetary basis and GAAP basis of accounting for the general fund consists of the state support revenue for pension plans.

CITY OF RED LODGE  
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:	2022	2021	2020	2019	2018	2017	2016	2015
Contractually required contributions	\$ 86,140	\$ 54,828	\$ 57,813	\$ 50,459	\$ 50,913	\$ 46,339	\$ 49,098	\$ 60,874
Contributions in relation to the contractually required contributions	86,140	54,828	57,813	50,459	50,913	46,339	49,098	60,874
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Employer's covered payroll	\$ 971,129	\$ 618,692	\$ 659,864	\$ 586,686	\$ 624,054	\$ 553,625	\$ 514,808	\$ 652,631
Contributions as a percentage of employer's covered payroll	8.87%	8.86%	8.76%	8.60%	8.16%	8.37%	9.54%	9.33%
Municipal Police Officers' Retirement System:	2022	2021	2020	2019	2018	2017	2016	2015
Contractually required contributions	\$ 53,820	\$ 57,838	\$ 52,558	\$ 51,524	\$ 43,697	\$ 56,015	\$ 56,013	\$ 47,443
Contributions in relation to the contractually required contributions	53,820	57,838	52,558	51,524	43,697	56,015	56,013	47,443
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Employer's covered payroll	\$ 373,489	\$ 401,912	\$ 360,742	\$ 356,142	\$ 292,154	\$ 388,720	\$ 382,374	\$ 327,286
Contributions as a percentage of employer's covered payroll	14.41%	14.39%	14.57%	14.47%	14.96%	14.41%	14.65%	14.50%

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

CITY OF RED LODGE  
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:	2022	2021	2020	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability	0.0350%	0.0393%	0.0356%	0.0366%	0.0446%	0.0430%	0.0559%	0.0619%
Employer's proportionate share of the net pension liability associated with the employer	\$ 635,097	\$ 1,037,564	\$ 743,254	\$ 762,864	\$ 869,193	\$ 732,074	\$ 781,730	\$ 770,706
State of Montana's proportionate share of the net pension liability associated with the employer	189,067	329,771	244,479	257,998	15,358	8,945	9,602	9,412
<b>Total</b>	<b>\$ 824,164</b>	<b>\$ 1,367,335</b>	<b>\$ 987,733</b>	<b>\$ 1,020,862</b>	<b>\$ 884,551</b>	<b>\$ 741,019</b>	<b>\$ 791,332</b>	<b>\$ 780,118</b>
Employer's covered payroll	\$ 824,164	\$ 659,864	\$ 586,688	\$ 624,054	\$ 553,625	\$ 514,808	\$ 652,631	\$ 714,821
Employer's proportionate share of the net pension liability as a percentage of employer's covered payroll	77.06%	157.24%	126.69%	122.24%	157.00%	142.20%	119.78%	111.22%
Plan fiduciary net position as a percentage of the total pension liability	79.91%	68.90%	73.85%	73.47%	73.75%	74.71%	78.40%	79.87%
Municipal Police Officers' Retirement System:	2022	2021	2020	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability	0.2221%	0.2106%	0.2161%	0.1851%	0.2599%	0.2709%	0.2365%	0.2065%
Employer's proportionate share of the net pension liability associated with the employer	\$ 403,700	\$ 515,069	\$ 430,111	\$ 316,983	\$ 462,466	\$ 487,596	\$ 391,179	\$ 324,447
State of Montana's proportionate share of the net pension liability associated with the employer	820,543	1,038,844	875,855	647,976	942,585	967,900	792,565	655,422
<b>Total</b>	<b>\$ 1,224,243</b>	<b>\$ 1,553,913</b>	<b>\$ 1,305,966</b>	<b>\$ 964,959</b>	<b>\$ 1,405,051</b>	<b>\$ 1,455,496</b>	<b>\$ 1,183,744</b>	<b>\$ 979,869</b>
Employer's covered payroll	\$ 401,912	\$ 360,742	\$ 356,138	\$ 292,154	\$ 388,720	\$ 382,374	\$ 327,286	\$ 277,036
Employer's proportionate share of the net pension liability as a percentage of employer's covered payroll	100.44%	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	75.76%	64.84%	68.84%	70.95%	68.34%	65.62%	66.90%	67.01%

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

CITY OF RED LODGE  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION-PENSION PLAN INFORMATION  
For the Year Ended June 30, 2022

**Public Employees Retirement System**

**Changes of Benefit Terms:**

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

2017:

Working Retiree Limitations-for PERS:

- Effective July 1, 2017, 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.

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.

Interest Credited to Member Accounts:

- The interest credited to member accounts increased from 0.25% to 0.77%.

Lump-sum Payouts:

- Effective July 1, 2017, 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.
- 

Disabled PERS Defined Contribution (DC) Members:

- PERS members hired after July 1, 2011, have a normal retirement age of 65. PERS DC members hired after July 1, 2011 who became disabled were previously only eligible for a disability benefit until age 65. Effective July 1, 2017, these individuals will be eligible for a disability benefit until they reach 70, thus ensuring the same 5-year time period available to PERS DC disabled members hired prior to July 1, 2011, who have a normal retirement age of 60 and are eligible for a disability benefit until age 65.

**Municipal Police Officers' Retirement System**

**Changes of Benefit Terms:**

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

2017:

Working Retiree Limitations-for MPORS

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

- 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.
- 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

CITY OF RED LODGE  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION-PENSION PLAN INFORMATION  
For the Year Ended June 30, 2022

- 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 on working retirees who return to covered employment for 480 or more hours in a calendar year.

Second Retirement Benefit-for MPORS:

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

- 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.
- 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.

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.

Interest credited to member accounts:

- Effective July 1, 2017, the interest rate credited to member accounts increased from 0.25% to 0.77%.

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.

CITY OF RED LODGE  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION-PENSION PLAN INFORMATION  
For the Year Ended June 30, 2022

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

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

Actuarial cost method	Entry age
Amortization method	Level percentage of pay, open
Remaining amortization period	30 years (PERS) and 20 years (MPORS)
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 RED LODGE  
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

	2022	2021	2020	2019	2018
Total OPEB liability - beginning of year	\$ 551,487	\$ 482,131	\$ 475,666	\$ 424,541	\$ 384,600
Service cost	53,415	71,004	37,060	41,086	41,835
Interest cost	13,554	13,994	17,946	16,297	16,503
Changes in assumptions or other inputs	(103,230)	-	5,999	12,414	(13,834)
Differences in experience	(257,639)	-	(37,880)	-	14,082
Benefit payments	(15,377)	(15,642)	(16,660)	(18,672)	(18,645)
Total OPEB liability - end of year	<u>\$ 242,210</u>	<u>\$ 551,487</u>	<u>\$ 482,131</u>	<u>\$ 475,666</u>	<u>\$ 424,541</u>
Covered-employee payroll	\$ 1,226,016	\$ 1,147,602	\$ 1,138,808	\$ 1,035,301	\$ 995,482
Total OPEB liability as a percentage of covered-employee payroll	19.76%	48.06%	42.34%	45.94%	42.65%

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%	2.53%	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.*



# OLNESS & ASSOCIATES, P. C.

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

To the Honorable Mayor and City Council  
City of Red Lodge  
Red Lodge, 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 the City of Red Lodge, Montana (the government) as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the government's basic financial statements, and have issued our report thereon dated March 24, 2023. The report included an explanatory paragraph to describe a change in accounting principles.

### Report on 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 responses, 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 responses as items 2022-001 through 2022-004 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 accompanying schedule of findings and responses as items 2022-005 and 2022-006 to be significant deficiencies.

### Report on 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 responses as items 2022-005 and 2022-007.

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

*Government Auditing Standards* requires the auditor to perform limited procedures on the government's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. The government's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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'ness & Associates, PC*

Billings, Montana  
March 24, 2023

CITY OF RED LODGE  
SCHEDULE OF FINDINGS AND RESPONSES  
For the Year Ended June 30, 2022

2022-001. 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.

Response: It is known by the City that there are not nor will there likely ever be enough employees to have a well-rounded segregation of duties. We have implemented procedures for reviewing claims, adjustments in UB and an approval sheet for the Administration and Finance Committee members to review monthly J.V.'s. Every effort will be made to have segregation to the best of our ability with such a limited number of employees.

2022-002. 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.

Response: The cost to hire a third-party to prepare the financial statements outweighs the benefits.

2022-003. MILL LEVY CALCULATION

Criteria: Section 15-10-420(1)(b), MCA allows the city to carry forward previously authorized, but unlevied mills. The mill authority carried forward may be imposed in a subsequent tax year.

Condition: When preparing the budget document for fiscal year 2022, the city levied 5.90 mills that were not available for carryover as they had been levied in the prior year.

Cause: Error in completing the HB 124 mill levy calculation worksheet.

Effect: Taxes were over levied by approximately \$44,500.

Recommendation: Procedures should be developed and implemented that will provide for accurate completion and review of the HB 124 mill levy calculation worksheet.

Views of Responsible Officials: The HB 124 mill levy calculation sheet does not factor in the property tax relief that our Resort Tax fund generates. The City has to do a manual calculation to determine the amount of mills to be decreased, which in turn leaves carryover mills for the subsequent year. It does not state anywhere in Statute that those mills cannot be carried forward in subsequent years. The City was not aware that the carry over mills could not be used. Going forward no carryover mills will be used in subsequent years.

2022-004. ELECTRONIC PAYMENT CONTROLS

Criteria: The city should follow its claims processing policies and procedures when making electronic payments. ACH payments are final once executed as there is no dispute time period after the transaction is released. The city needs to make

CITY OF RED LODGE  
SCHEDULE OF FINDINGS AND RESPONSES  
For the Year Ended June 30, 2022

sure it is sending money to an authorized vendor.

Condition: A bad actor posed as a legitimate vendor to get employees to execute a fraudulent ACH payment totaling \$69,799.

Cause: The city's claims processing policies and procedures were not followed.

Effect: An ACH payment was sent to an illegitimate vendor. After insurance reimbursement, the city was responsible for \$25,000 of the fraudulent ACH, which is the city's deductible for this type of insurance claim.

Recommendation: The city should develop a detailed ACH payment policy. The policy should detail the procedures to initiate, approve and execute ACH payments. It should also describe how employees will verify new or changed payee account information, address segregation of duties, and instruct employees on how they should share information with payees. Further, employees who have authority to add or edit ACH blocks or filters to bank accounts or have responsibility to monitor or reconcile bank account activity, should not play any part in the ACH payment process. The city should also consider establishing a separate cash account that is utilized solely for making ACH disbursements. This type of accounting is referred to as a disbursement clearing account.

Response: The City has payroll, claims and utility billing procedures currently in place. We have ACH procedures for payroll and utility billing payments, but do not currently have one in place for claims. When this payment was processed, we followed the procedures in place that we use for payroll and utility billing. A new policy will be created to follow procedures for all ACH transactions. The policy will detail out who initiates, approves, and executes each ACH payment. We will follow the auditor's recommendations when creating the policy and look into creating a separate bank/cash account that is used strictly for ACH disbursements.

2022-005. EQUIPMENT PURCHASES NOT BID

Criteria: Per Section 7-5-4302, a contract for the purchase of any vehicle, road machinery or other 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 a street sweeper for \$235,878 and splash deck equipment for \$141,184 without going through the formal bid process.

Effect: Noncompliance with state procurement statutes.

Cause: Unknown

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

Response: Before any payments are made for capital assets over \$80,000, the Clerk will request, from departments, copies of the proper bid documentation. The City did reach out to dealers for quotes on the street sweeper, and due to covid, supply chains are strained and equipment is very hard to come by. The City did miss the step of posting the request for bids in the paper. The City will follow policy and take the proper steps that need to be taken for the Bid process per Montana Code. The splash deck equipment was put out for bid by our engineers and they received the bids for that project and worked with the City on awarding the bid.

2022-006. CREDIT CARD PROCESSING

Criteria: All credit card purchases should be supported by approved documentation such as original invoices.

Condition: Credit cards were paid without complete and adequate documentation (contracts, invoices, receipts, etc) to support each disbursement.

Cause: Unknown

Effect: The risk of errors, irregularities, or inappropriate charges occurring and not being detected is increased if supporting documentation is not attached to all disbursements.

Recommendation: All credit card users should be required to attach complete and adequate documentation to credit cards when they are presented for payment.

Response: Each department that has use of a city credit card is responsible for getting those receipts to the City Clerk when

CITY OF RED LODGE  
SCHEDULE OF FINDINGS AND RESPONSES  
For the Year Ended June 30, 2022

claims are being processed. Going forward so that all receipts are accounted for, the City will have all credit cards in one central location and they must be signed out and receipts/invoices need to be provided when the card is checked back in.

2022-007. BUDGETS

Criteria: Accurate preparation of the budget is necessary to ensure that the government is appropriately funded, fiscally responsible and is in compliance with state budget laws.

Condition: During review of the budget document examples were found where the budget appropriation on the tax levy requirements schedule did not agree with the total budget in the budget document detail and examples were found where the cash available did not agree to the prior years ending working capital.

Cause: Procedures are not in place to provide for the proper preparation and review of the budget document.

Effect: The budget document and the tax levy requirements schedule are incorrect, and were not prepared in accordance with state law.

Recommendation: The finance committee, mayor, and employees involved in the budget preparation process should receive formal training and familiarize themselves with the budget document and its related requirements. Once the budget document has been prepared, it should be reviewed and approved by those with sufficient knowledge of the budget and its requirements.

Response: Care will be taken when preparing the City's annual budget. Further, review processes will be put in place to ensure the budget is properly prepared and in compliance with state law.

CITY OF RED LODGE  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
For the Year Ended June 30, 2022

PRIOR YEAR FINDINGS - FINANCIAL STATEMENT AUDIT
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2021-001. SEGREGATION OF DUTIES

Status: This finding is unresolved and is repeated as finding 2022-001 for the year ended June 30, 2022.

2021-002. AUDITOR PREPARED FINANCIAL STATEMENTS

Status: This finding is unresolved and is repeated as finding 2022-002 for the year ended June 30, 2022.

2021-003. MILL LEVY CALCULATION

Status: This finding is unresolved and is repeated as finding 2022-003 for the year ended June 30, 2022.

2021-004. EXPENDITURE BUDGETS OVERSPENT

Status: This finding is resolved.