



RUDD & COMPANY PLLC
certified public accountants | business consultants

CITY OF THREE FORKS, MONTANA

Annual Financial Report

June 30, 2022

giving direction to your future

City of Three Forks, Montana
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CITY OF THREE FORKS, MONTANA
2021 to 2022
ORGANIZATION

CITY COMMISSIONERS

Debra Mickelberry
Brooke McLees
Nancy Todd
George Chancellor
Gene Townsend
Steve Dahl

CITY OFFICIALS

Randy Johnston, Mayor

Susan B. Swimley, Attorney

Kelly Smith, City Treasurer/Zoning & Floodplain Official/City Court Clerk/Deputy City Clerk

Pamela J. Waggener, City Judge

Crystal Turner, City Clerk/Deputy City Treasurer/Deputy Zoning & Floodplain Official

Fawn Venzor, Library Director

Steven E. Johnston, Public Works Director

Matthew Miller, Public Works Operator



INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and City Council
City of Three Forks, Montana

Qualified and Unmodified 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 City of Three Forks, Montana (“the City”), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements as listed in the table of contents.

Qualified Opinion on the Governmental Activities

In our opinion, except for the effects of the matter described in the Basis for Qualified and Unmodified Opinions section of our report, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the City of Three Forks, Montana, as of June 30, 2022 and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions on Business-Type Activities, Each Major Fund and the Aggregate Remaining Fund Information

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of the City of Three Forks, Montana, 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 Qualified and Unmodified 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 City of Three Forks, Montana, 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 qualified and unmodified audit opinions.

Matter Giving Rise to the Qualified Opinion on the Governmental Activities

Management has not recorded the total pension liability and related expense required by GASB Statement No. 73 in the governmental activities. Accounting principles generally accepted in the United States of America require that total pension liability and related expense be record, which would increase liabilities, decrease net position and change expenses in the governmental activities. The amount by which the departure would affect liabilities, net position and expenses has not been determined.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the City has adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 87, *Leases*, for the year ended June 30, 2022. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

Auditors' 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 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.

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 City'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 City'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, the budgetary comparison information, the supplemental schedule of total other post-employment benefits liability, and the schedule of pension liabilities and contributions as listed in the table of contents, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 9, 2023, on our consideration of the City of Three Forks, Montana's internal control over financial reporting and 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 City'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 City's internal control over financial reporting and compliance.

Rudd & Company, PLLC

Bozeman, Montana

May 9, 2023

MANAGEMENT DISCUSSION AND ANALYSIS

**City of Three Forks, Montana
Management Discussion and Analysis
For the Year Ended June 30, 2022**

As management of the City of Three Forks (the “City”), we offer readers of the City of Three Forks’ financial statements this narrative overview and analysis of the financial activities of the City of Three Forks for the fiscal year ended June 30, 2022. Readers are encouraged to consider the information presented here in conjunction with additional information that has been furnished in the financial statements.

Financial Highlights

Key financial highlights for fiscal year 2022 include:

- The City’s Governmental activities’ assets and deferred outflows of resources exceed liabilities and deferred inflows of resources at June 30, 2022 by \$3,539,678. The unrestricted net position is \$979,140.
- The City’s Governmental activities’ net position increased \$418,355 as a result of this year’s operations.
- The City’s Business-type activities’ assets and deferred outflows of resources exceed liabilities and deferred inflows of resources at June 30, 2022 by \$7,932,822, of which \$1,916,602 is unrestricted.
- The City’s Business-type activities’ net position increased \$399,679 as a result of this year’s operations.

Using this financial report

This discussion and analysis is intended to serve as an introduction to the City of Three Forks’ basic financial statements. The City of Three Forks’ basic financial statements are comprised of three components: 1) the government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City of Three Forks’ finances, in a manner similar to a private-sector business. The Statement of Net Position presents information on all the City of Three Forks’ assets, deferred outflows, liabilities, and deferred inflows with the difference between them reported as net position. Over time, an increase or decrease in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. However, in evaluating the overall position of the City, non-financial factors such as the City’s tax base, change in tax laws, and the condition of the capital assets should also be considered.

**City of Three Forks, Montana
Management Discussion and Analysis
For the Year Ended June 30, 2022**

Financial Highlights (continued)

The Statement of Net Position presents information on all of the City of Three Forks' assets, deferred outflows, liabilities, and deferred inflows, with the difference between the following activities:

- Governmental activities, normally supported by taxes and intergovernmental revenues, include general government, public safety, public works, public health, culture and recreation, and other.
- Business-type activities, which recover all or a significant portion of their costs through user fees and charges, include water and sewer.

Fund Financial Statements

Fund financial statements report detailed information about the City. The emphasis of fund financial statements is to maintain control over resources that have been segregated for specific activities or objectives. The fund financial statements provide detailed information about the most significant funds. The City's major governmental funds are the General Fund, Three Forks Rodeo Arena Fund, and Library Operating Fund. The City's major proprietary funds are the Water and Sewer Funds.

As of the end of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$2,095,804, an increase of \$281,389 in comparison with prior year. The following is a summary of the City's major funds:

<u>Major Funds</u>	<u>Fund Balance at June 30,</u>		<u>Increase</u>
	<u>2022</u>	<u>2021</u>	<u>(Decrease)</u>
General	\$ 424,576	\$ 361,422	\$ 63,154

The fund balance of the General Fund increased by \$63,154. Revenues increased approximately 14% due to the receipt of a DNRC Conservation Grant in the current year and an increase in the State Entitlement Share allocated to the General Fund. Expenditures decreased approximately 8% due to the purchase of capital assets in the prior year.

<u>Major Funds</u>	<u>Fund Balance at June 30,</u>		<u>Increase</u>
	<u>2022</u>	<u>2021</u>	<u>(Decrease)</u>
Three Forks Rodeo Arena	\$ 79,155	\$ 27,751	\$ 51,404

The fund balance of the Three Forks Rodeo Arena Fund increased by \$51,404. Revenues increased by approximately 141% due to the lack of rodeo events in the prior year as a result of the pandemic. Expenditures decreased approximately 57% due to the purchase of bleachers in the prior year.

**City of Three Forks, Montana
Management Discussion and Analysis
For the Year Ended June 30, 2022**

Financial Highlights (continued)

<u>Major Funds</u>	<u>Fund Balance at June 30,</u>		<u>Increase</u>
	<u>2022</u>	<u>2021</u>	<u>(Decrease)</u>
Library Operating	\$ 84,980	\$ 94,426	\$ (9,446)

The fund balance of the Library Operating Fund decrease by \$9,446. Revenues increased by approximately 10% due to an increase of tax revenue allocated to the Library in the current year. Expenditures increased by approximately 19% due to higher payroll and program expenses in the current year related to reopening after the pandemic.

Proprietary Funds

As of the end of the current fiscal year, the City's proprietary funds reported a combined ending fund balance of \$7,932,822, an increase of \$399,679 in comparison with prior year. The following is a summary of the City's major proprietary funds:

<u>Major Funds</u>	<u>Fund Balance at June 30,</u>		<u>Increase</u>
	<u>2022</u>	<u>2021</u>	<u>(Decrease)</u>
Water	\$ 2,802,144	\$ 2,610,135	\$ 192,009
Sewer	\$ 5,130,678	\$ 4,923,008	\$ 207,670

Combined, the Water Fund and Sewer fund net positions increased \$399,679 as a result of current year activities. Water Fund revenues increased by approximately 49% due to the receipt of American Rescue Plan Act funds in the current year, while expenses were consistent with the prior year. Sewer Fund revenue and expenses were consistent with the prior year.

Governmental Funds

Governmental Funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements.

However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources as well as on the balance of spendable resources available to the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. The funds are reported using an accounting method called modified accrual accounting that measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short term view of the City's general government operations and the basic services it provides. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate a comparison between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds.

**City of Three Forks, Montana
Management Discussion and Analysis
For the Year Ended June 30, 2022**

Financial Highlights (continued)

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 City's enterprise funds are the same as the business-type activity report in the government-wide statement but provide more detail and additional information such as cash flows for proprietary funds.

Budget-to Actual-Comparisons

The budgetary comparison schedules listed in the table of contents show how actual expenditures compare to the original and final budgeted expenditures for the general fund and the major special revenue funds. The City's expenditures were within budget for the fiscal year.

**City of Three Forks, Montana
Management Discussion and Analysis
For the Year Ended June 30, 2022**

Reporting the City as a Whole

The City is providing financial information for fiscal year 2022 and 2021, as detailed in the reports. Table 1 provides a summary of the City's net position for fiscal years 2022 and 2021 for the Governmental Activities.

	Governmental Activities		Total change 2021-2022
	2022	2021	
Assets			
Current assets	\$ 2,148,501	\$ 1,851,662	\$ 296,839
Noncurrent other assets	105,735	-	105,735
Capital assets (net)	1,936,774	1,732,640	204,134
Total Assets	\$ 4,191,010	\$ 3,584,302	\$ 606,708
Deferred Outflows			
OPEB related items	\$ -	\$ 810	\$ (810)
Pension related items	23,060	28,891	(5,831)
Total Deferred Outflows	\$ 23,060	\$ 29,701	\$ (6,641)
Liabilities			
Current liabilities	\$ 72,308	\$ 58,469	\$ 13,839
Noncurrent liabilities	429,561	421,472	8,089
Total Liabilities	\$ 501,869	\$ 479,941	\$ 21,928
Deferred Inflows			
Lease related items	\$ 117,263	\$ -	\$ 117,263
OPEB related items	19,963	5,001	14,962
Pension related items	35,297	7,738	27,559
Total Deferred Inflows	\$ 172,523	\$ 12,739	\$ 159,784
Net Position			
Net investment in capital assets	\$ 1,572,982	\$ 1,436,426	\$ 136,556
Restricted	987,556	845,725	141,831
Unrestricted	979,140	839,172	139,968
Total Net Position	\$ 3,539,678	\$ 3,121,323	\$ 418,355

**City of Three Forks, Montana
Management Discussion and Analysis
For the Year Ended June 30, 2022**

Reporting the City as a Whole (continued)

Table 2 shows the changes in net position for fiscal year 2022, compared to fiscal year 2021 results for the Governmental Activities:

Table 2
Changes in Net Position

	Governmental Activities		Total change 2021-2022
	2022	2021	
Revenues			
<i>Program Revenues:</i>			
Charges for services	\$ 475,048	\$ 355,280	\$ 119,768
Operating grants and contributions	340,739	456,360	(115,621)
<i>General Revenues:</i>			
Property taxes, levied for general purposes	570,541	541,798	28,743
Grants and contributions, not restricted	206,913	147,061	59,852
Unrestricted investment earnings	1,224	1,343	(119)
Miscellaneous	7,698	6,886	812
TOTAL REVENUES	1,602,163	1,508,728	93,435
Expenses			
General government	172,085	162,618	9,467
Public safety	394,134	386,073	8,061
Public works	198,148	263,066	(64,918)
Public health	148	69	79
Culture and recreation	382,856	282,728	100,128
Housing and community development	24,277	23,397	880
Other	7,194	5,808	1,386
Interest and fiscal fees	4,772	3,964	808
Unallocated depreciation	194	282	(88)
TOTAL EXPENSES	1,183,808	1,128,005	55,803
CHANGES IN NET POSITION	418,355	380,723	37,632
Net Position, Beginning of Year	3,121,323	2,740,600	380,723
Net Position, End of Year	\$ 3,539,678	\$ 3,121,323	\$ 418,355

**City of Three Forks, Montana
Management Discussion and Analysis
For the Year Ended June 30, 2022**

Reporting the City as a Whole (continued)

Table 3 provides a summary of the City's net position for fiscal years 2022 and 2021 for the Business-type Activities.

Table 3
Summarized Schedule of Net Position

	Business-type Activities		Total change 2021-2022
	2022	2021	
Assets			
Current assets	\$ 2,818,010	\$ 2,477,268	\$ 340,742
Noncurrent other assets	224,763	224,763	-
Capital assets (net)	9,462,457	9,534,254	(71,797)
Total Assets	\$ 12,505,230	\$ 12,236,285	\$ 268,945
Deferred Outflows			
OPEB related items	\$ -	\$ 2,813	\$ (2,813)
Pension related items	72,002	87,410	(15,408)
Total Deferred Outflows	\$ 72,002	\$ 90,223	\$ (18,221)
Liabilities			
Current liabilities	\$ 709,908	\$ 591,398	\$ 118,510
Noncurrent liabilities	3,758,864	4,160,509	(401,645)
Total Liabilities	\$ 4,468,772	\$ 4,751,907	\$ (283,135)
Deferred Inflows			
OPEB related items	\$ 65,428	\$ 18,048	\$ 47,380
Pension related items	110,210	23,410	86,800
Total Deferred Inflows	\$ 175,638	\$ 41,458	\$ 134,180
Net Position			
Net investment in capital assets	\$ 5,791,457	\$ 5,624,254	\$ 167,203
Restricted	224,763	224,763	-
Unrestricted	1,916,602	1,684,126	232,476
Total Net Position	\$ 7,932,822	\$ 7,533,143	\$ 399,679

**City of Three Forks, Montana
Management Discussion and Analysis
For the Year Ended June 30, 2022**

Reporting the City as a Whole (continued)

Table 4 shows the changes in net position for fiscal year 2022, compared to fiscal year 2021 results for the Business-type Activities:

Table 4
Changes in Net Position

	Business-type Activities		Total change 2021-2022
	2022	2021	
Revenues and Special Items			
<i>Program Revenues:</i>			
Charges for services	\$ 1,371,555	\$ 1,258,457	\$ 113,098
<i>General Revenues:</i>			
Grants and contributions, not restricted	229,033	19,318	209,715
Unrestricted investment earnings	10,444	11,480	(1,036)
TOTAL REVENUES	1,611,032	1,289,255	321,777
Expenses			
Water	509,006	468,739	40,267
Sewer	702,347	665,659	36,688
TOTAL EXPENSES	1,211,353	1,134,398	76,955
CHANGES IN NET POSITION	399,679	154,857	244,822
<i>Net Position, Beginning of Year</i>	<i>7,533,143</i>	<i>7,378,286</i>	<i>154,857</i>
<i>Net Position, End of Year</i>	\$ 7,932,822	\$ 7,533,143	\$ 399,679

**City of Three Forks, Montana
Management Discussion and Analysis
For the Year Ended June 30, 2022**

Analysis of Financial Information

The following analysis is provided to help the reader understand the major operations of the City’s Governmental Activities, where the resources come from and what the resources are used for.

The largest portion of the Governmental Activities revenues are property taxes which make up 36% of revenues for fiscal year 2022.

Table 5
Major Resources

	Governmental Activities	Percent of Total
<i>General revenues:</i>		
Property taxes, levied for general	\$ 570,541	35.61%
Grants and contributions, not restricted	206,913	12.92%
Unrestricted investment earnings	1,224	0.08%
Miscellaneous	7,698	0.48%
<i>Total general revenues</i>	\$ 786,376	49.09%
Charges for services	475,048	29.65%
Operating grants and contributions	340,739	21.26%
<i>TOTAL REVENUES</i>	\$ 1,602,163	100.00%

**City of Three Forks, Montana
Management Discussion and Analysis
For the Year Ended June 30, 2022**

Analysis of Financial Information (continued)

The largest portion of Governmental Activities expenses are public safety, which make up 33% of expenses for fiscal year 2022.

Table 6
Major Expenditure Functions

<i>Expenses</i>	Governmental Activities	Percent of Total
General government	\$ 172,085	14.54%
Public safety	394,134	33.29%
Public works	198,148	16.74%
Public health	148	0.01%
Culture and recreation	382,856	32.34%
Housing and community development	24,277	2.05%
Other	7,194	0.61%
Interest and fiscal fees	4,772	0.40%
Unallocated depreciation	194	0.02%
TOTAL EXPENSES	\$ 1,183,808	100.00%

The following analysis is provided to help the reader understand the major operations of the City's Business-type Activities, where the resources come from and what the resources are used for.

The largest portion of the Business-type Activities revenues are charges for services which make up 85% of revenues for fiscal year 2022.

Table 7
Major Resources

	Business-type Activities	Percent of Total
<i>General revenues:</i>		
Grants and contributions, not restricted	\$ 229,033	14.21%
Unrestricted investment earnings	10,444	0.65%
Total general revenues	\$ 239,477	14.86%
Charges for services	1,371,555	85.14%
TOTAL REVENUES	\$ 1,611,032	100.00%

**City of Three Forks, Montana
Management Discussion and Analysis
For the Year Ended June 30, 2022**

Analysis of Financial Information (continued)

The largest portion of Business-type Activities expense is Sewer, which makes up 58% of expenses for fiscal year 2022.

Table 8
Major Expenditure Functions

<i>Expenses</i>	Business-type Activities	Percent of Total
Water	\$ 509,006	42.02%
Sewer	702,347	57.98%
<i>TOTAL EXPENSES</i>	\$ 1,211,353	100.00%

Debt Administration

The long-term debt of the City is comprised of compensated absences, other post-employment liabilities, leases, notes payable, bonds payable and net pension liabilities. Please refer to Notes 5, 6, 10, 11, and 14 for further information on the City’s long-term debt.

**City of Three Forks, Montana
Management Discussion and Analysis
For the Year Ended June 30, 2022**

Analysis of Financial Information (continued)

Capital Assets

Capital assets of the City are assets purchased over \$5,000 with a useful life of one year or more. Please refer to Note 4 for further information on the City's capital assets. Table 9 summarizes the capital assets for the Governmental Activities.

Table 9
Capital Assets

	Governmental Activities
Land	\$ 24,878
Building	584,764
Other structures and improvements	1,093,534
Machinery and equipment	1,751,949
Infrastructure	208,281
Right-of-use leased asset	101,329
<i>Total capital assets</i>	\$ 3,764,735
Less accumulated depreciation	(1,819,689)
Less accumulated amortization	(8,272)
<i>Total capital assets, net of accumulated depreciation and amortization</i>	\$ 1,936,774

Table 10 summarizes the capital assets for the Business-type Activities.

Table 10
Capital Assets

	Business-type Activities
Land	\$ 143,000
Construction in Progress	280,433
Building	146,170
Other structures and improvements	163,579
Machinery and equipment	574,636
Source of supply	1,716,747
Transmission and distribution	11,192,655
General plant	390,587
<i>Total capital assets</i>	\$ 14,607,807
Less accumulated depreciation	(5,145,350)
<i>Total capital assets, net of accumulated depreciation</i>	\$ 9,462,457

**City of Three Forks, Montana
Management Discussion and Analysis
For the Year Ended June 30, 2022**

Economic Factors and Next Year's Budget & Rates

The City of Three Forks' financial position in the General Fund for 2021-2022 continues to show an increase in Taxable Valuation and an increase in the Mill Value, allowing the Council to decrease the overall number of Mills taxed. The City Council still requests all departments to be frugal and attempt to leave 5% "on the table". Overall, the City is financially healthy.

The annual July rodeo was held in 2021, with a record turnout for spectators. The 1st year using the new bleachers was a success and allowed the Three Forks Rodeo Board to offer some VIP seating for additional income.

The portable ice rink was successful again in FY2021-2022. The former Mayor (Sean Gifford) has held some fundraisers and maintains the ice rink, almost single handedly with his family. The City has added 6 basketball hoops bordering the rink, for warm weather activities.

The Headwaters Trail System spent most of FY2021-2022 building and repairing trails. They connected the Droulliard Trail to a new trail on Jefferson Street, up Montana Street then over to the Museum. Maintenance on the oldest portion of the Trails will be started in the fall of FY2022-2023, as well as the addition of a trail attaching the new Jefferson Street trail to the existing trail along the golf course property line.

The City has been working on an update/new Growth Policy for the last year and a half. The City received \$30,000 in a Community Development Block Grant (CDBG) from the State and put in about \$11,000 of City money. It will be ready to be approved in FY2022-2023. From there the City will create a new Capital Improvement Plan (CIP), and then review Impact fees for Water, Sewer and Fire. The City has been awarded \$30,000 CDBG from the State and \$15,000 from Montana Coal Endowment Program to have a new CIP created, hopefully in FY2022-2023.

The City of Three Forks will continue to jet, clean and inspect sewer mains and to annually clean the sewer lift station, Ridgeview Subdivision lift station as well as clean the sewer outfall line, only as needed. The sewer lift stations are closely monitored for repairs and maintenance as needed.

**City of Three Forks, Montana
Management Discussion and Analysis
For the Year Ended June 30, 2022**

Economic Factors and Next Year's Budget & Rates (continued)

In FY2021-2022, it was a struggle to get new meters. Ferguson Waterworks had 100 of them on backorder for the City. They finally arrived in July 2022. The City was completely out of new meters and Public Works had been re-building the old meters to limp us along. The City has replaced some water valves and now with meters on the shelf, will continue to replace radio-read water meters in existing residences and add them to new construction. The City is continuing with the drinking water project. During the fiscal year, they were able to drill 2 test wells. Both produce around 100 gallons per minute. The City Council chose to connect the well at the City shop to the system, and that will happen next fiscal year. So far, the project has been funded from 2 sources. The first was a grant from the Department of Natural Resources and Conservation, called a Renewable Resource Grant. The other source was American Rescue Plan Act (ARPA) grant funds the City received. The Council decided to put all of the ARPA grant funds towards this water project to reduce any loan amount costs to the users of the system. The City was also awarded \$559,000 in ARPA funds from Gallatin County and \$2,000,000 in ARPA funds from the State of Montana. The City is hopeful it will not have to borrow any funds, but if needed they are working on a State Revolving Fund (SRF) loan. Next Fiscal Year the City plans to drill up to 4 more wells on the Cook property behind Magris Talc. The capacity and quality of each well will determine how many will be drilled and if the arsenic treatment facility needs to be expanded.

The City Council will continue to review expenditures in the Water and Sewer funds to evaluate operational and maintenance costs. As needed, the City will hold public meetings to adjust user fees as necessary.

The City currently has 3 outstanding loans: one for the TFRA bleachers, one loan in the Water fund and one in the Sewer fund. Budgeted payments in FY2022-2023 on these 3 loans will be \$396,706, with the Bleacher loan applying an additional principal payment.

Contact for Further Information

This financial report is designed to provide our citizens, taxpayers and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the resources it receives. If you have questions about this report or need additional information, contact the City Clerk, at City of Three Forks, 206 Main Street, PO Box 187, Three Forks, MT 59752; 406-285-3541.

FINANCIAL STATEMENTS

GOVERNMENT – WIDE FINANCIAL STATEMENTS

City of Three Forks, Montana
Statement of Net Position
June 30, 2022

	Governmental Activities	Business-type Activities	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 2,092,150	\$ 2,626,666	\$ 4,718,816
Investments	-	79,882	79,882
Lease receivables, current portion	12,307	-	12,307
Tax receivables	8,847	-	8,847
Customer receivables	-	111,462	111,462
Interest receivable	1,726	-	1,726
Due from other governments	33,471	-	33,471
Total Current assets	<u>2,148,501</u>	<u>2,818,010</u>	<u>4,966,511</u>
Noncurrent other assets			
Restricted cash and investments	-	224,763	224,763
Lease receivables, noncurrent	105,735	-	105,735
Total Noncurrent other assets	<u>105,735</u>	<u>224,763</u>	<u>330,498</u>
Capital assets			
Land	24,878	143,000	167,878
Right-of-use leased asset	101,329	-	101,329
Construction in progress	-	280,433	280,433
Other capital assets	3,638,528	14,184,374	17,822,902
Less: accumulated depreciation	(1,819,689)	(5,145,350)	(6,965,039)
Less: accumulated amortization	(8,272)	-	(8,272)
Net Capital assets	<u>1,936,774</u>	<u>9,462,457</u>	<u>11,399,231</u>
Total Assets	<u>4,191,010</u>	<u>12,505,230</u>	<u>16,696,240</u>
Deferred Outflows of Resources			
Pension related items	23,060	72,002	95,062
Total Deferred Outflows of Resources	<u>\$ 23,060</u>	<u>\$ 72,002</u>	<u>\$ 95,062</u>

The accompanying notes are an integral part of the financial statements.

City of Three Forks, Montana
Statement of Net Position (continued)
June 30, 2022

	Governmental Activities	Business-type Activities	Total
Liabilities			
Current liabilities			
Accounts payable and accrued expenses	\$ 32,458	\$ 118,746	\$ 151,204
Deposits payable	-	10,650	10,650
Lease, current portion	5,840	-	5,840
Compensated absences, current portion	5,307	14,960	20,267
Intercap loan, current portion	28,703	-	28,703
Revenues collected in advance	-	320,552	320,552
Revenue bonds, current portion	-	245,000	245,000
Total Current liabilities	<u>72,308</u>	<u>709,908</u>	<u>782,216</u>
Noncurrent liabilities			
Lease, noncurrent	89,604	-	89,604
Compensated absences, noncurrent	3,287	8,142	11,429
Intercap loan, noncurrent	239,512	-	239,512
Revenue bonds, noncurrent	-	3,426,000	3,426,000
Other post employment liability	11,557	57,447	69,004
Net pension liability	85,601	267,275	352,876
Total Noncurrent liabilities	<u>429,561</u>	<u>3,758,864</u>	<u>4,188,425</u>
Total Liabilities	<u>501,869</u>	<u>4,468,772</u>	<u>4,970,641</u>
Deferred Inflows of Resources			
Lease related items	117,263	-	117,263
OPEB related items	19,963	65,428	85,391
Pension related items	35,297	110,210	145,507
Total Deferred Inflows of Resources	<u>172,523</u>	<u>175,638</u>	<u>348,161</u>
Net Position			
Net investment in capital assets	1,572,982	5,791,457	7,364,439
Restricted for:			
Public safety	216,782	-	216,782
Public works	526,069	-	526,069
Culture and recreation	244,705	-	244,705
Debt service	-	224,763	224,763
Unrestricted	979,140	1,916,602	2,895,742
Total Net Position	<u>\$ 3,539,678</u>	<u>\$ 7,932,822</u>	<u>\$ 11,472,500</u>
Total liabilities, deferred inflows and net position	<u>\$ 4,214,070</u>	<u>\$ 12,577,232</u>	<u>\$ 16,791,302</u>

The accompanying notes are an integral part of the financial statements.

City of Three Forks, Montana
Statement of Activities
For the Year Ended June 30, 2022

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary Government:			
Governmental activities:			
General government	\$ 172,085	\$ 20,925	\$ 21,909
Public safety	394,134	30,597	-
Public works	198,148	111,016	110,546
Public health	148	-	-
Culture and recreation	382,856	312,510	208,284
Housing and community development	24,277	-	-
Other	7,194	-	-
Interest and fiscal fees	4,772	-	-
Unallocated depreciation*	194	-	-
Total governmental activities	<u>1,183,808</u>	<u>475,048</u>	<u>340,739</u>
Business-type activities			
Water	509,006	473,836	-
Sewer	702,347	897,719	-
Total business-type activities	<u>1,211,353</u>	<u>1,371,555</u>	<u>-</u>
Total primary governmental activities	<u>\$ 2,395,161</u>	<u>\$ 1,846,603</u>	<u>\$ 340,739</u>

* This amount excludes the depreciation that is included in the direct expenses of the various functions.

General revenues:

- Property taxes, levied for general purposes
- Grants and contributions, not restricted to programs
- Unrestricted investment earnings
- Miscellaneous

Total general revenues

Changes in net position

Net position, beginning of year

Net position, end of year

The accompanying notes are an integral part of the financial statements.

Net (Expense) Revenue and Changes in Net Position

Primary Government

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ (129,251)	\$ -	\$ (129,251)
(363,537)	-	(363,537)
23,414	-	23,414
(148)	-	(148)
137,938	-	137,938
(24,277)	-	(24,277)
(7,194)	-	(7,194)
(4,772)	-	(4,772)
(194)	-	(194)
<u>(368,021)</u>	<u>-</u>	<u>(368,021)</u>
-	(35,170)	(35,170)
-	195,372	195,372
<u>-</u>	<u>160,202</u>	<u>160,202</u>
<u>(368,021)</u>	<u>160,202</u>	<u>(207,819)</u>
570,541	-	570,541
206,913	229,033	435,946
1,224	10,444	11,668
7,698	-	7,698
<u>786,376</u>	<u>239,477</u>	<u>1,025,853</u>
<u>418,355</u>	<u>399,679</u>	<u>818,034</u>
<u>3,121,323</u>	<u>7,533,143</u>	<u>10,654,466</u>
<u>\$ 3,539,678</u>	<u>\$ 7,932,822</u>	<u>\$ 11,472,500</u>

The accompanying notes are an integral part of the financial statements.

FUND FINANCIAL STATEMENTS

GOVERNMENTAL FUND FINANCIAL STATEMENTS

City of Three Forks, Montana
Balance Sheet – Governmental Funds
June 30, 2022

	<u>General Fund</u>	<u>Three Forks Rodeo Arena</u>	<u>Library Operating</u>
Assets			
Cash and cash equivalents	\$ 413,911	\$ 80,234	\$ 86,908
Lease receivable	118,042	-	-
Interest receivable	1,726	-	-
Property tax receivable	5,384	-	379
Personal tax receivable	1,539	-	106
Special assessment receivable	-	-	-
Due from other governments	30,039	-	2,235
	<u>\$ 570,641</u>	<u>\$ 80,234</u>	<u>\$ 89,628</u>
Liabilities, Deferred Inflows and Fund Balance			
Liabilities:			
Accounts payable	\$ 21,879	\$ 1,079	\$ 4,164
Total Liabilities	<u>21,879</u>	<u>1,079</u>	<u>4,164</u>
Deferred inflows of resources:			
Deferred inflows of lease related items	117,263	-	-
Deferred inflows of tax revenues	6,923	-	484
Total Deferred inflows of resources	<u>124,186</u>	<u>-</u>	<u>484</u>
Fund balances:			
Restricted	-	-	84,980
Committed	-	79,155	-
Unassigned	424,576	-	-
Total Fund balances	<u>424,576</u>	<u>79,155</u>	<u>84,980</u>
Total Liabilities, Deferred Inflows, and Fund Balances	<u>\$ 570,641</u>	<u>\$ 80,234</u>	<u>\$ 89,628</u>

The accompanying notes are an integral part of the financial statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ 1,511,097	\$ 2,092,150
-	118,042
-	1,726
289	6,052
80	1,725
1,070	1,070
1,197	33,471
<u>\$ 1,513,733</u>	<u>\$ 2,254,236</u>
<u>\$ 5,203</u>	<u>\$ 32,325</u>
<u>5,203</u>	<u>32,325</u>
-	117,263
1,437	8,844
<u>1,437</u>	<u>126,107</u>
900,655	985,635
606,438	685,593
-	424,576
<u>1,507,093</u>	<u>2,095,804</u>
<u>\$ 1,513,733</u>	<u>\$ 2,254,236</u>

The accompanying notes are an integral part of the financial statements.

City of Three Forks, Montana
Reconciliation of the Balance Sheet of Governmental
Funds to the Statement of Net Position
June 30, 2022

Amounts reported for governmental activities in the statement of net position are different because:

Total fund balances - governmental funds	\$ 2,095,804
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$3,764,735, the accumulated depreciation is \$1,819,689, and the accumulated amortization is \$8,272.	1,936,774
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Property tax revenue is recognized when earned (and the claim to resources is established) rather than when "available". All of the unearned property tax revenue reported in the governmental funds is not available.	8,844
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The deferred outflows of resources related to the pension activity are not reported in the fund statements.	23,060
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The deferred inflows of resources related to the pension and other post employment benefits activity are not reported in the fund statements.	(55,260)
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Long term liabilities including other post employment benefits, leases, compensated absences, intercap loan, and net pension liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(469,544)</u>
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Total net position - governmental activities	<u>\$ 3,539,678</u>
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The accompanying notes are an integral part of the financial statements.

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City of Three Forks, Montana
Statement of Revenues, Expenditures and Changes in Fund Balances –
Governmental Funds
For the Year Ended June 30, 2022

	General Fund	Three Forks Rodeo Arena	Library Operating
Revenues:			
Taxes/assessments	\$ 508,666	\$ -	\$ 33,291
Licenses and permits	16,305	-	-
Intergovernmental	206,358	-	84,917
Charges for services	20,565	245,652	821
Fines and forfeitures	360	-	196
Interest on investments	-	26	-
Other	13,198	6,031	16,346
Total Revenues	<u>765,452</u>	<u>251,709</u>	<u>135,571</u>
Expenditures:			
Current:			
General government	172,171	-	-
Public safety	388,965	-	-
Public works	51,843	-	-
Public health	148	-	-
Culture and recreation	48,180	134,584	143,272
Housing and community development	24,019	-	-
Other	2,493	2,956	1,745
Capital outlay	11,397	29,994	-
Debt service			
Principal payments	-	27,999	-
Interest and fiscal fees	-	4,772	-
Total Expenditures	<u>699,216</u>	<u>200,305</u>	<u>145,017</u>
Excess (deficiency) of revenues over expenditures	<u>66,236</u>	<u>51,404</u>	<u>(9,446)</u>
Other financing sources (uses):			
Operating transfers	<u>(3,082)</u>	<u>-</u>	<u>-</u>
Total Other financing sources (uses)	<u>(3,082)</u>	<u>-</u>	<u>-</u>
Excess of revenues over expenditures and other financing sources (uses)	<u>63,154</u>	<u>51,404</u>	<u>(9,446)</u>
Fund balances, beginning of year	<u>361,422</u>	<u>27,751</u>	<u>94,426</u>
Fund balances, end of year	<u>\$ 424,576</u>	<u>\$ 79,155</u>	<u>\$ 84,980</u>

The accompanying notes are an integral part of the financial statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ 117,636	\$ 659,593
-	16,305
256,377	547,652
22,274	289,312
-	556
1,198	1,224
60,257	95,832
<u>457,742</u>	<u>1,610,474</u>
-	172,171
-	388,965
88,285	140,128
-	148
10,797	336,833
-	24,019
-	7,194
185,465	226,856
-	27,999
-	4,772
<u>284,547</u>	<u>1,329,085</u>
<u>173,195</u>	<u>281,389</u>
<u>3,082</u>	-
<u>3,082</u>	-
<u>176,277</u>	<u>281,389</u>
<u>1,330,816</u>	<u>1,814,415</u>
<u>\$ 1,507,093</u>	<u>\$ 2,095,804</u>

The accompanying notes are an integral part of the financial statements.

City of Three Forks, Montana
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

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$ 281,389
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeds depreciation and amortization.	102,805
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(8,311)
Repayment of principal is an expenditure in the governmental funds, but this repayment reduces long-term liabilities in the statement of net position.	33,751
The current period net decrease in compensated absences and other postemployment benefits payable did not require the use of current financial resources and, therefore, generated no expenditure to be reported in the governmental funds.	3,267
Pension expense as reported in the funds is based on contributions made by the employer, however in the statement of activities it is based on the actuarial study performed for the pension plans. This is the amount by which the contributions to the plan exceed the actual pension expense.	<u>5,454</u>
Change in net position of governmental activities	<u>\$ 418,355</u>

The accompanying notes are an integral part of the financial statements.

PROPRIETARY FUND FINANCIAL STATEMENTS

City of Three Forks, Montana
Statement of Net Position-Proprietary Funds
June 30, 2022

	Business-Type Activities Enterprise Funds		
	Water Fund	Sewer Fund	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 876,789	\$ 1,749,877	\$ 2,626,666
Investments	50,409	29,473	79,882
Customer receivable	37,957	73,505	111,462
Total Current assets	<u>965,155</u>	<u>1,852,855</u>	<u>2,818,010</u>
Other assets			
Restricted cash and investments	47,986	176,777	224,763
Total Other assets	<u>47,986</u>	<u>176,777</u>	<u>224,763</u>
Capital assets			
Land	87,500	55,500	143,000
Construction in progress	280,433	-	280,433
Buildings	98,085	48,085	146,170
Other structures and improvements	106,091	57,488	163,579
Machinery and equipment	213,708	360,928	574,636
Source of supply	1,716,747	-	1,716,747
Transmission and distribution	2,105,349	9,087,306	11,192,655
General plant	390,587	-	390,587
Accumulated depreciation and amortization	<u>(2,105,272)</u>	<u>(3,040,078)</u>	<u>(5,145,350)</u>
Net Capital assets	<u>2,893,228</u>	<u>6,569,229</u>	<u>9,462,457</u>
Total Assets	<u>3,906,369</u>	<u>8,598,861</u>	<u>12,505,230</u>
Deferred Outflows of Resources			
Pension related items	36,002	36,000	72,002
Total Deferred Outflows of Resources	<u>36,002</u>	<u>36,000</u>	<u>72,002</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 3,942,371</u>	<u>\$ 8,634,861</u>	<u>\$ 12,577,232</u>

The accompanying notes are an integral part of the financial statements.

City of Three Forks, Montana
Statement of Net Position-Proprietary Funds (continued)
June 30, 2022

	Water Fund	Sewer Fund	Total
Liabilities			
Current liabilities			
Accounts payable	\$ 100,149	\$ 18,597	\$ 118,746
Deposits payable	10,650	-	10,650
Compensated absences, current	7,480	7,480	14,960
Revenues collected in advance	320,552	-	320,552
Revenue bonds, current	32,000	213,000	245,000
Total Current liabilities	<u>470,831</u>	<u>239,077</u>	<u>709,908</u>
Noncurrent liabilities			
Compensated absences	4,071	4,071	8,142
Revenue bonds, noncurrent	416,000	3,010,000	3,426,000
OPEB liability	28,052	29,395	57,447
Net pension liability	133,642	133,633	267,275
Total Noncurrent liabilities	<u>581,765</u>	<u>3,177,099</u>	<u>3,758,864</u>
Total Liabilities	<u>1,052,596</u>	<u>3,416,176</u>	<u>4,468,772</u>
Deferred Inflows of Resources			
OPEB related items	32,524	32,904	65,428
Pension related items	55,107	55,103	110,210
Total Deferred Inflows of Resources	<u>87,631</u>	<u>88,007</u>	<u>175,638</u>
Net Position			
Net investment in capital assets	2,445,228	3,346,229	5,791,457
Restricted for debt service	47,986	176,777	224,763
Unrestricted	308,930	1,607,672	1,916,602
Total Net Position	<u>2,802,144</u>	<u>5,130,678</u>	<u>7,932,822</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 3,942,371</u>	<u>\$ 8,634,861</u>	<u>\$ 12,577,232</u>

The accompanying notes are an integral part of the financial statements.

City of Three Forks, Montana
Statement of Revenues, Expenses, and Changes in Net Position-
Proprietary Funds
For the Year Ended June 30, 2022

	Business-Type Activities Enterprise Funds		
	Water Fund	Sewer Fund	Total
Operating revenues:			
Charges for services	\$ 473,836	\$ 897,719	\$ 1,371,555
Operating expenses:			
Personal services	\$ 217,366	\$ 217,429	434,795
Depreciation and amortization	104,993	195,215	300,208
Supplies, service, materials	174,847	205,240	380,087
Total operating expenses	497,206	617,884	1,115,090
Operating income	(23,370)	279,835	256,465
Non-operating revenues (expenses)			
Interest income	9,685	759	10,444
Interest expense	(11,800)	(84,463)	(96,263)
Intergovernmental revenue	217,494	11,539	229,033
Total Non-operating revenues (expenses)	215,379	(72,165)	143,214
Change in net position	192,009	207,670	399,679
Net position, beginning of year	2,610,135	4,923,008	7,533,143
Net position, end of year	\$ 2,802,144	\$ 5,130,678	\$ 7,932,822

The accompanying notes are an integral part of the financial statements.

City of Three Forks, Montana
Statement of Cash Flows – Proprietary Funds
For the Year Ended June 30, 2022

	Business-Type Activities Enterprise Funds		
	Water Fund	Sewer Fund	Total
Increase in Cash and Cash Equivalents			
Cash Flows from Operations			
Receipts from customers	\$ 482,313	\$ 892,530	\$ 1,374,843
Payments to suppliers	(87,994)	(201,137)	(289,131)
Payments to employees	(237,674)	(237,749)	(475,423)
Net Cash Provided by Operating Activities	156,645	453,644	610,289
Cash Flows from Noncapital Financing Activities			
Subsidies from taxes and other governments	275,582	11,539	287,121
Net Cash Provided by Noncapital and Related Financing Activities	275,582	11,539	287,121
Cash Flows from Financing Activities			
Purchases of property, plant and equipment	(227,937)	(474)	(228,411)
Principal payments on bonds and loans	(32,000)	(207,000)	(239,000)
Interest paid on debt	(11,800)	(84,463)	(96,263)
Net Cash Used by Financing Activities	(271,737)	(291,937)	(563,674)
Cash Flows from Investing Activities			
Interest Earnings	9,685	759	10,444
Purchase of investments	(326)	(74)	(400)
Net Cash Provided by Investing Activities	9,359	685	10,044
Net Increase in Cash and Cash Equivalents	169,849	173,931	343,780
Cash and Cash Equivalents, Beginning of Year	754,926	1,752,723	2,507,649
Cash and Cash Equivalents, End of Year	\$ 924,775	\$ 1,926,654	\$ 2,851,429
Classified As:			
Current Assets	\$ 876,789	\$ 1,749,877	\$ 2,626,666
Restricted Assets	47,986	176,777	224,763
Total Cash and Cash Equivalents	\$ 924,775	\$ 1,926,654	\$ 2,851,429

The accompanying notes are an integral part of the financial statements.

City of Three Forks, Montana
Statement of Cash Flows – Proprietary Funds (continued)
For the Year Ended June 30, 2022

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Operating Income	\$ (23,370)	\$ 279,835	\$ 256,465
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation and amortization	104,993	195,215	300,208
Change in:			
Accounts receivable	8,627	(5,189)	3,438
Accounts payable	86,853	4,103	90,956
Deposits payable	(150)	-	(150)
Compensated absences	(21,683)	(21,683)	(43,366)
OPEB related items	4,882	4,881	9,763
Pension related items	(3,507)	(3,518)	(7,025)
Net cash provided operating activities	<u>\$ 156,645</u>	<u>\$ 453,644</u>	<u>\$ 610,289</u>

The accompanying notes are an integral part of the financial statements.

FIDUCIARY FUND FINANCIAL STATEMENTS

City of Three Forks, Montana
Statement of Fiduciary Net Position
June 30, 2022

	<u>Custodial Fund</u>
Assets	
Cash and cash equivalents	\$ 7,652
Total assets	<u>7,652</u>
 Liabilities	
Warrants payable	3,349
Due to other organizations	<u>4,303</u>
Total liabilities	<u>7,652</u>
 Net Position	
Total net position	<u>\$ -</u>

City of Three Forks, Montana
Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2022

	<u>Custodial Fund</u>
Additions	
Tax collections for other organizations	\$ 11,297
Miscellaneous	<u>5,261</u>
Total additions	<u>16,558</u>
 Deductions	
Payments to other organizations	<u>16,558</u>
Total deductions	<u>16,558</u>
 Net increase (decrease) in fiduciary net position	-
Net position - beginning of year	<u>-</u>
Net position - end of year	<u>\$ -</u>

The accompanying notes are an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

City of Three Forks, Montana
Notes to the Financial Statements
For the Year Ended June 30, 2022

1. Summary of Significant Accounting Policies

The City of Three Forks, Montana (the “City”), is an independent political entity established under Montana Law. The City is governed by an elected Mayor and City Commission. The City Commission, by law, has the authority to adopt budgets, appropriate funds, levy taxes, employ personnel and pass ordinances. The Gallatin County Treasurer's office functions in a fiduciary capacity to the extent that it bills and collects taxes and receives certain intergovernmental revenue for the City; however, Gallatin County does not function in an oversight capacity with regard to the City.

The accompanying financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB), the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The accompanying financial statements present the financial position of the City and the various funds and fund types, the results of operations of the City and the various funds and fund types, and the cash flows of the proprietary funds. The financial statements are presented as of June 30, 2022, and for the year then ended.

The more significant accounting policies of the City are described below.

Reporting Entity

As required by generally accepted accounting principles, these financial statements present the City (the primary government) and its blended component unit. The blended component unit is included in the City's reporting entity because of the significance of its operational and financial relationship with the City, as described below.

The following is a blended component unit of the City:

City of Three Forks Library: The operations of the library are included in the financial statements as a Special Revenue Fund. The library is governed by a library board which consists of five members. The library is financed by tax revenues of both the City, as well as by allocated motor vehicle local option tax, interest earnings, and library fines (charges for services). The City and County have entered into a contract which provides up to \$72,515 of County taxes in support of the library and contribute additional amounts for capital outlay. The library also has resumed renting out its basement space for \$800 per month. A citizen vote approved 3.0 mills to be levied for the City of Three Forks Library. The City also approved a total of 7.25 mills (including the voter approved 3 mills) for the fiscal year ended June 30, 2022 and received \$25,719 in total tax revenue.

City of Three Forks, Montana
Notes to the Financial Statements
For the Year Ended June 30, 2022

1. Summary of Significant Accounting Policies (continued)

Basis of Accounting/Measurement Focus

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Government-Wide Financial Statements

The Government-wide Financial Statements (the Statement of Net Position and the Statement of Activities) report information of all the non-fiduciary activities of the primary government and its component units. These statements present summaries of Governmental and Business-Type Activities for the City accompanied by a total column.

These statements are presented on an “*economic resources*” measurement focus and the accrual basis of accounting. Accordingly, all of the City’s assets and liabilities, including capital assets and long-term liabilities, are included in the accompanying Statement of Net Position. The City did not retroactively include infrastructure in its assets.

The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The types of transactions reported as program revenues for the City are reported in three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions.

Certain eliminations have been made as prescribed by GASB 34 in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. There are no internal service fund transactions to be eliminated.

The City applies all applicable GASB pronouncements (including all National Council on Governmental Accounting Statements and Interpretations currently in effect) as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) of the Committee on Accounting Procedure. In addition, the City applies all applicable FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements to its business-type activities.

City of Three Forks, Montana
Notes to the Financial Statements
For the Year Ended June 30, 2022

1. Summary of Significant Accounting Policies (continued)

Governmental Fund Financial Statements

Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balances for the major governmental funds and nonmajor funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in fund balances and changes in fund balances as presented in these statements to the net position and changes in net position presented in the Government-Wide Financial Statements. The City has presented the major funds that met those qualifications.

All governmental funds are accounted for on a spending or “*current financial resources*” measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheets. The Statement of Revenues, Expenditures, and Changes in Fund Balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources which have been treated as susceptible to accrual by the City are property tax, intergovernmental revenues, and other taxes. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Proprietary Fund Financial Statements

Proprietary Fund Financial Statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position, and a Statement of Cash Flows for each major proprietary fund. The City has no nonmajor proprietary funds. There is no column representing internal service funds presented in the statements.

Proprietary funds are accounted for using the “*economic resources*” measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows, liabilities, and deferred inflows (whether current or noncurrent) are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Fund Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

City of Three Forks, Montana
Notes to the Financial Statements
For the Year Ended June 30, 2022

1. Summary of Significant Accounting Policies (continued)

Fiduciary Fund Financial Statements

Fiduciary Fund Financial Statements include a Statement of Net Position. The City's Fiduciary Funds represent Agency Funds, which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Agency Funds do not have a measurement focus.

Funds

As mentioned, the Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balances for the major governmental funds and nonmajor funds aggregated.

The following major funds are presented in a separate column on the Governmental Fund Financial Statements:

The *General Fund* is the primary operating unit of the City. It accounts for all financial resources of the City, except those required to be accounted for in another fund.

The *Three Forks Rodeo Arena Fund* is managed by the Three Forks Rodeo Arena Board, who is appointed by the City Council. They manage the Fairgrounds operations and schedule all events.

The *Library Operating Fund* is a special revenue fund that accounts for the financial resources of the Library.

The following major funds are presented in a separate column on the Proprietary Fund Financial Statements:

The Water Fund accounts for the City's water utility operations.

The Sewer Fund accounts for the City's sewer utility operations.

Use of Restricted/Unrestricted Net Position

When an expense is incurred for purposes for which both restricted and unrestricted net positions are available, the City's policy is to apply restricted net position first.

City of Three Forks, Montana
Notes to the Financial Statements
For the Year Ended June 30, 2022

1. Summary of Significant Accounting Policies (continued)

Budgets and Budgetary Accounting

An annual appropriated operating budget is adopted each fiscal year for the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Funds on the modified accrual basis. An annual appropriated operating budget is adopted each fiscal year for the Proprietary Funds on the accrual basis.

The final budget is legally enacted by the City Commission on the second Monday in August, after holding public hearings as required by State statutes.

The operating budgets cannot be increased except through a public hearing or for a public emergency, which could not have been reasonably foreseen at the time of adoption of the budget. Budget appropriation transfers may be made between the general classifications of salaries and wages, maintenance and operation and capital outlay.

New Accounting Pronouncement

On July 1, 2021, the City implemented GASB Statement 87: *Leases*, which had no effect on the beginning net position. 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 Statement has a material impact on the City's Statement of Net Position but did not have an impact on the City's Statement of Activities. See Notes 3 and 14 for additional disclosure related to leases.

Capital Assets

The City's assets are capitalized at historical cost or estimated historical cost. Their capitalization threshold for reporting capital assets is \$5,000. Gifts or contributions of capital assets are recorded at fair market value when received. Depreciable capital assets are reported on the Statement of Net Position, net of applicable accumulated depreciation. Capital assets which are not depreciable, such as land and construction in progress are reported separately.

The City records an intangible lease asset and related debt for all material lease contracts when the City is the lessee in accordance with GASB Statement No. 87. The asset is amortized over the lease or the useful life of the leased asset, whichever is less.

Depreciation and amortization expense is reported in the Statement of Activities and is calculated using the straight-line method based on the assets estimated useful life. Depreciation is recorded on a straight-line basis over the useful lives of the assets.

City of Three Forks, Montana
Notes to the Financial Statements
For the Year Ended June 30, 2022

1. Summary of Significant Accounting Policies (continued)

Capital Assets (continued)

The estimated useful lives as follows:

Building and structures	20 to 50 years
Improvements	10 to 25 years
Machinery and equipment	5 to 30 years
Utility lines and improvements	25 to 50 years
Intangible assets	10 to 20 years

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement 34 which requires the inclusion of infrastructure capital assets in local governments' basic financial statements. According to GASB 34, the City must record infrastructure assets prospectively from the date of implementation.

The City defines infrastructure as the basic physical assets that allow the City to function. The assets to be recorded will include the street system, water purification and distribution system, sewer collection treatment system; park and recreation lands and improvement system, storm water conveyance system, and buildings combined with the site amenities such as parking and landscaped areas; and streets, sidewalks, curbs, and street lights.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Enterprise Accounts Receivable

No reserve for estimated uncollected accounts receivable is maintained as management considers all balances to be fully collectible.

Inventories

Inventories of materials and supplies are expensed at the time of purchase. Inventories of materials and supplies on hand are not maintained. Inventories were not, however, considered material.

Assessments

Unpaid special improvement district assessments are reflected as special assessments receivable and deferred inflows in the various funds. Revenue is not recognized until collection of these fees.

1. Summary of Significant Accounting Policies (continued)

Compensated Absences Payable

Earned but unpaid vacation and sick pay is included as a liability in the proprietary fund types and Government-Wide Financial Statements. The portion relating to the governmental fund types not expected to be paid with expendable and available resources is not reported in the governmental fund statements.

Interfund Transactions

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those short-term loans related to goods and services type transactions are classified as “due to and from other funds.” Long-term interfund loans (noncurrent portion) are reported as “advances to and from other funds.” Interfund receivables and payables between funds are eliminated in the Statement of Net Position.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the City considers all investments with original maturities of three months or less to be highly liquid investments and, therefore, cash equivalents.

Restricted Cash

Certain resources in the Water and Sewer Funds are classified as restricted assets on the statement of net position because their use is limited by applicable bond covenants.

Investments

Investments are comprised of certificates of deposits (“CD”) that have an original maturity of greater than three months.

Lease Receivable

Lease receivables are recorded by the City as the present value of future lease payments expected to be received from the lessee during the lease term. Lease receivables are subsequently reduced over the life of the lease as cash is received in the applicable reporting period.

Fund Balance/Net Position

Fund Balance

The City has implemented Governmental Accounting Standards Board Statement 54. As a result, the classifications for fund balance used for governmental funds are reported in two general classifications, nonspendable and spendable.

Nonspendable represents the portion of fund balance that is not in spendable form such as inventories, and, in the general fund, long term notes and loans receivable. Spendable fund balance is further categorized as restricted, committed, assigned, and unassigned.

1. Summary of Significant Accounting Policies (continued)

Fund Balance/Net Position (continued)

The restricted fund balance category contains balances that can be spent only for the specific purposes stipulated by external parties or through enabling legislation. External parties include grantors, debt covenants, votes, and laws and regulations of other governments.

The committed fund balance category includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority, the City Council.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. Assignments of fund balance are created by an official who the governing body has delegated the authority to assign amounts to be used for specific purposes. The City Council, the Mayor, and the Clerk/Treasurer individually have the authority to express assignments. In governmental funds other than the general fund, assigned fund balance also represents the remaining amount that is not restricted or committed. Also included in the assigned fund balance for the general fund are assignments for the portion of the current general fund balance that is projected to be used to fund expenditures and other cash outflows in excess of the expected revenues and other cash inflows in the next fiscal year.

Unassigned fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

When both restricted and unrestricted resources are available in a fund, the assumed order of spending is restricted first, next committed, next assigned, and finally unassigned.

Minimum General Fund – Fund Balance

The City does not maintain a stabilization fund.

Net Position

In funds other than governmental, net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net positions are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

1. Summary of Significant Accounting Policies (continued)

Fund Balance/Net Position (continued)

Classification of Net Position

In the Government-Wide Financial Statements, net position is classified in the following categories:

Net Investment in Capital Assets – This category groups all capital assets, including infrastructure in future years, into one component of net position.

Accumulated depreciation, the outstanding balances of bonds, notes and other borrowings, deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of these assets reduce this category.

Restricted – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional or enabling legislation. Additionally, this category presents restrictions placed on the categories of Capital Projects, Debt Service, and specific projects and programs established by the City Council.

Unrestricted – This category represents the net position of the City which is not restricted for any project or other purpose.

In the Fund Financial Statements, commitments and assignments segregate portions of fund balance that are either not available or have been earmarked for specific purposes. The various commitments and assignments are established by the actions of the City Council and Management and can be increased, reduced or eliminated by similar actions.

Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position

In addition to assets, the statement of financial position and the governmental funds balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period and thus, will not be recognized as an outflow of resources (expenses/expenditures) until then.

The City has several types of deferred outflows of resources and all relate to the net pension liability and OPEB liability. They relate to the City's allocable share of the difference between actual and expected contributions, the difference between actual and expected experience and the effect of changes of assumptions during the year on the valuation of the net pension liability and OPEB liability. It also includes the contributions paid to the pension plans subsequent to the measurement date. This amount is reported only in the government-wide financial statements. Sees Note 10 and 11 for detailed information.

1. Summary of Significant Accounting Policies (continued)

Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position (continued)

In addition to liabilities, the statement of financial position and the governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

The City has several types of items in this area. One type, unavailable revenue, only arises under a modified accrual basis of accounting. Accordingly, this is reported only in the governmental funds balance sheet.

Other types of deferred inflows of resources relate to the net pension liability and OPEB liability. This relates to the difference between projected and actual earnings on the pension plans and OPEB liability and changes in proportion and differences between employer contributions and proportionate share of contributions. See Notes 10 and 11 for detailed information.

The City also has deferred inflows related to leases where the City is the lessor. The deferred inflows of resources related to leases are recognized as an inflow of resources (revenue) on a straight-line basis over the terms of the lease.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense, information about the fiduciary net position of the Montana Public Employee Retirement System (PERS) and additions to/deductions from PERS's fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Tax Abatements

Per GASB No. 77, governments that enter into tax abatement agreements are to disclose pertinent information about the agreements in the notes to the financial statements. Per the County Treasurer, the City had no tax abatements for fiscal year 2022.

Subsequent Events

Subsequent events have been evaluated through May 9, 2023, the date the report was available to be issued.

City of Three Forks, Montana
Notes to the Financial Statements
For the Year Ended June 30, 2022

2. Cash and Investments

Cash and investments may include cash, demand, time, savings, and fiscal agent deposits; investments in the State Short-Term Investment Pool (STIP); direct obligations of the United States government and securities issued by agencies of the United States; repurchase agreements; and registered warrants.

As of June 30, 2022, the carrying amount of the City's deposits with financial institutions was \$5,031,113 and the bank balance was \$5,070,104. These deposits include demand and savings deposits, and certificates of deposit. Interest bearing accounts are covered by the Federal Depository Insurance Corporation (FDIC) up to \$250,000, per bank, per depositor. The uninsured portion was fully secured by pledged securities held by the financial institutions or by their trust departments or agents, but not in the City's name (class 3 collateral).

Montana statutes require that the City obtain securities for the uninsured portion of the 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) securities equal to 100% of the uninsured deposits if the institution in which the deposits are made has a net worth to total assets ratio of less than 6%. The state statutes do not specify in whose custody or name the collateral is to be held. The amount of collateral held for the City deposits at June 30, 2022 exceeded the amount required by state statutes.

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. 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. As of June 30, 2022, the City had no investments categorized as Level 1, 2 or 3 inputs.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit risk is minimized by compliance with State law, which limits local governments to certain investment types. The City has no formal investment policy that would further limit its exposure to credit risk.

On June 30, 2022, the book value approximated the fair value of the investments, therefore no unrealized gain or loss was recorded for the year.

City of Three Forks, Montana
Notes to the Financial Statements
For the Year Ended June 30, 2022

3. Taxes and Assessments Receivable

Property tax levies are set in August in connection with the budget process and are based on taxable values listed as of January 1 for all property located in the City's jurisdiction. Taxable values are established by the Montana Department of Revenue based on market values. A re-evaluation of all property is required to be completed on a periodic basis. Taxable value is defined by state statute as a fixed percentage of market value.

Real property taxes and special assessments are generally billed in October and are payable 50% by November 30 and 50% by May 31. After these dates, taxes and assessments become delinquent and the City may file a lien on the related property. Personal property is assessed and personal property taxes are billed throughout the year, with a significant portion generally billed in May, June, and July. Personal property taxes are based on levies set during the prior August. These taxes become delinquent 30 days after billing.

Taxes and assessments that become delinquent are charged interest at the rate of 5/6 of 1% per month plus a penalty of 2%. Real property on which taxes and assessments remain delinquent and unpaid may be seized and sold at tax sales. In the case of personal property, the property may be seized and sold after the taxes become delinquent. The City is permitted by state statutes to levy taxes up to certain fixed limits for various purposes.

The taxes levied by the City for the year ended June 30, 2022, were within legal limits. The tax levies were based upon a taxable valuation of \$3,512,296.

City of Three Forks, Montana
Notes to the Financial Statements
For the Year Ended June 30, 2022

4. Capital Assets

All capital assets of the City are depreciable with the exceptions of land and construction in progress. Capital assets of the City for the year ended June 30, 2022, consisted of the following:

	As of June 30, 2021	Adoption of New Accounting Standard	Additions	Retirements	As of June 30, 2022
Governmental Activities					
Capital assets not subject to depreciation:					
Land	\$ 24,878	\$ -	\$ -	\$ -	\$ 24,878
Capital assets subject to depreciation:					
Buildings	584,764	-	-	-	584,764
Other structures and improvements	948,944	-	144,590	-	1,093,534
Machinery and equipment	1,669,683	-	82,266	-	1,751,949
Infrastructure	208,281	-	-	-	208,281
Total capital assets	3,436,550	-	226,856	-	3,663,406
Accumulated depreciation					
Buildings	(272,830)	-	(12,799)	-	(285,629)
Other structures and improvements	(505,003)	-	(45,456)	-	(550,459)
Machinery and equipment	(725,028)	-	(55,569)	-	(780,597)
Infrastructure	(201,049)	-	(1,955)	-	(203,004)
Accumulated depreciation	(1,703,910)	-	(115,779)	-	(1,819,689)
Total governmental activities capital assets (net)	1,732,640	-	111,077	-	1,843,717
Right-of-use lease asset subject to amortization					
Leased office space	-	101,329	-	-	101,329
Accumulated amortization					
Leased office space	-	-	(8,272)	-	(8,272)
Total governmental activities right-of-use lease asset (net)	-	101,329	93,057	-	93,057
Total governmental activities	\$ 1,732,640	\$ 101,329	\$ 204,134	\$ -	\$ 1,936,774
Business-type Activities					
Capital assets not subject to depreciation:					
Land	\$ 143,000	\$ -	\$ -	\$ -	\$ 143,000
Construction in progress	74,478	-	205,955	-	280,433
Capital assets subject to depreciation:					
Buildings	146,170	-	-	-	146,170
Other structures and improvements	163,579	-	-	-	163,579
Machinery and equipment	574,636	-	-	-	574,636
Source of supply	1,707,682	-	9,065	-	1,716,747
Transmission and distribution	11,179,264	-	13,391	-	11,192,655
General plant	390,587	-	-	-	390,587
Total capital assets	14,379,396	-	228,411	-	14,607,807
Accumulated depreciation					
Buildings	(63,025)	-	(7,466)	-	(70,491)
Other structures and improvements	(142,863)	-	(3,503)	-	(146,366)
Machinery and equipment	(440,262)	-	(12,913)	-	(453,175)
Source of supply	(283,064)	-	(37,022)	-	(320,086)
Transmission and distribution	(3,631,126)	-	(231,167)	-	(3,862,293)
General plant	(284,802)	-	(8,137)	-	(292,939)
Accumulated depreciation	(4,845,142)	-	(300,208)	-	(5,145,350)
Total business-type activities	\$ 9,534,254	\$ -	\$ (71,797)	\$ -	\$ 9,462,457
Total capital assets (net)	\$ 11,266,894	\$ 101,329	\$ 132,337	\$ -	\$ 11,399,231

City of Three Forks, Montana
Notes to the Financial Statements
For the Year Ended June 30, 2022

4. Capital Assets (continued)

In accordance with GASB 34, the City has reported all capital assets, with the exception of pre-July 1, 2003 infrastructure in the Government-Wide Statement of Net Position. The assets are reported whereby accumulated depreciation/amortization and depreciation/amortization expense have been recorded. For the year ended June 30, 2022, depreciation/amortization expense on capital assets was charged to the governmental functions/programs as follows:

Governmental Activities:	<u>Depreciation</u>	<u>Amortization</u>
General government	\$ 1,191	\$ -
Public safety	2,649	7,660
Public works	64,394	-
Culture and recreation	47,351	-
Unallocated depreciation	194	-
	<u>\$ 115,779</u>	<u>\$ 7,660</u>
Business-type Activities:		
Water	\$ 104,993	\$ -
Sewer	195,215	-
	<u>\$ 300,208</u>	<u>\$ -</u>

5. Compensated Absences

The City's policy relating to compensated absences is described in Note 1. As shown in the table below, the long-term portion of the debt for governmental activities and for business-type activities at June 30, 2022, is expected to be paid in future years from future resources. In prior years, compensated absences have been liquidated primarily by the general fund and the proprietary funds. The total amounts outstanding at June 30, 2022, are listed below:

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
Balance July 1, 2021	\$ 14,865	\$ 66,468	\$ 81,333
Additions	-	-	-
Reductions	(6,271)	(43,366)	(49,637)
Balance June 30, 2022	<u>8,594</u>	<u>23,102</u>	<u>\$ 31,696</u>
Current portion	\$ 5,307	\$ 14,960	\$ 20,267
Long term portion	3,287	8,142	11,429
Total Compensated Absences	<u>\$ 8,594</u>	<u>\$ 23,102</u>	<u>\$ 31,696</u>

City of Three Forks, Montana
Notes to the Financial Statements
For the Year Ended June 30, 2022

6. Long-Term Debt

Governmental Activities Long Term Debt – Direct Borrowing

The following is a summary of long-term debt transactions of the City’s governmental activities for the fiscal year ended June 30, 2022:

	<u>Interacap - Bleachers</u>
Balance July 1, 2021	\$ 296,214
Additions	-
Reductions	<u>(27,999)</u>
Balance June 30, 2022	<u>\$ 268,215</u>
Current portion	\$ 28,703
Long term portion	<u>239,512</u>
	<u>\$ 268,215</u>

Interacap Loan Payable- The City applies for funding as needed to finance projects or fixed assets acquisitions. The Interacap loan is payable solely by the Three Forks Rodeo Arena fund revenues.

Governmental activities:	<u>Balance July 1, 2021</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2022</u>	<u>Current portion</u>	<u>Long term portion</u>
BOI Interacap/Rodeo Bleachers	\$ 296,214	\$ -	\$ (27,999)	\$ 268,215	\$ 28,703	\$ 239,512

<u>Purpose</u>	<u>Origination Date</u>	<u>Interest Rate</u>	<u>Term</u>	<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Balance June 30, 2022</u>
BOI Interacap/Rodeo Bleachers	8/7/2020	1.65% Variable	10 yrs	8/15/2030	\$ 310,000	\$ 268,215

Interacap loans payable currently outstanding and debt service requirements to maturity are as follows:

	<u>Interacap - Bleachers</u>	
	<u>Principal</u>	<u>Interest</u>
FY2023	\$ 28,703	\$ 4,308
FY2024	29,425	3,831
FY2025	30,165	3,343
FY2026	30,924	2,842
FY2027	31,702	2,328
FY2028-2030	117,296	3,917
	<u>\$ 268,215</u>	<u>\$ 20,569</u>

City of Three Forks, Montana
Notes to the Financial Statements
For the Year Ended June 30, 2022

6. Long-Term Debt (continued)

Business-type Activities Long Term Debt - Direct Borrowing

The following is a summary of long-term debt transactions of the City's business-type activities for the fiscal year ended June 30, 2022:

	<u>Revenue Bonds</u>
Balance July 1, 2021	\$ 3,910,000
Reductions	<u>(239,000)</u>
Balance June 30, 2022	<u>\$ 3,671,000</u>
Current portion	\$ 245,000
Long term portion	<u>3,426,000</u>
	<u>\$ 3,671,000</u>

Revenue Bonds – The City has pledged future water and sewer net revenues to repay the water and waste water system revenue bonds. Proceeds from the bonds provided financing for various water and sewer projects and are payable solely from water and sewer net revenues. The following is a summary of the revenue bonds:

	<u>Balance</u> <u>July 1, 2021</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2022</u>	<u>Current</u> <u>portion</u>	<u>Long term</u> <u>portion</u>
Water System Revenue Bonds, Series 2014B	480,000	-	(32,000)	448,000	32,000	416,000
Waste Water System Revenue Bonds	<u>3,430,000</u>	<u>-</u>	<u>(207,000)</u>	<u>3,223,000</u>	<u>213,000</u>	<u>3,010,000</u>
Total	<u>\$ 3,910,000</u>	<u>\$ -</u>	<u>\$ (239,000)</u>	<u>\$ 3,671,000</u>	<u>\$ 245,000</u>	<u>\$ 3,426,000</u>

	<u>Date issued</u>	<u>Final maturity</u>	<u>Amount of issue</u>	<u>Debt service</u>	<u>Future debt</u> <u>service</u>
Water System Revenue Bonds, Series 2014B, serial maturities through 2034	8/8/2014	7/1/2034	681,000	43,800	521,363
Water Fund Total			<u>\$ 681,000</u>	<u>\$ 43,800</u>	<u>\$ 521,363</u>
Waste Water System Revenue Bonds, serial maturities through 2035	6/25/2015	7/1/2035	\$ 4,605,340	\$ 291,463	\$ 3,794,613
Sewer Fund Total			<u>\$ 4,605,340</u>	<u>\$ 291,463</u>	<u>\$ 3,794,613</u>

City of Three Forks, Montana
Notes to the Financial Statements
For the Year Ended June 30, 2022

6. Long-Term Debt (continued)

These revenue bonds are unsecured and repayment is from charges for services of the corresponding facilities.

Revenue bonds resolutions include various restrictive covenants. The more significant covenants 1) require that cash be restricted and reserved for operations, debt services, and replacement and depreciation of facilities; 2) specify minimum required operating revenue; and 3) specific and timely reporting of financial information to bond holders and the registrar.

The following information is presented to satisfy bond covenant provisions. Bond requirements the Revenue bonds require that net revenues in excess of current expenses equal 110 percent of the maximum amount of principal and interest in any subsequent fiscal year.

Revenue bond debt service requirements to maturity are as follows:

	Revenue Bonds		
	Principal	Interest	Interest Rate
FY2023	\$ 245,000	\$ 90,250	2.50%
FY2024	252,000	84,088	2.50%
FY2025	258,000	77,750	2.50%
FY2026	264,000	71,263	2.50%
FY2027	271,000	64,613	2.50%
FY2028-2032	1,459,000	217,425	2.50%
FY2033-2036	922,000	39,588	2.50%
	<u>\$ 3,671,000</u>	<u>\$ 644,977</u>	

City of Three Forks, Montana
Notes to the Financial Statements
For the Year Ended June 30, 2022

7. Interfund Activity

The interfund transfers for the fiscal year ended June 30, 2022 were as follows:

Major Fund	<u>Transfers In</u>	<u>Transfer Out</u>
General Fund	\$ -	\$ 3,082
Nonmajor Funds		
Parks Special Projects	-	5,000
Parks Capital Improvement Fund	5,000	-
Gas Tax - Special Road/Street Allocation	<u>3,082</u>	<u>-</u>
	<u>\$ 8,082</u>	<u>\$ 8,082</u>

The transfer to the Gas Tax – Special Road/Street Allocation Fund from the General Fund was to match funds promised for the project and approved through the budget process.

The transfer to the Parks Capital Improvement Fund from the Parks Special Projects Fund was to move a donation initially recorded in the Park Special Projects Fund for part of an ice rink pad that was paid for out of the Parks Capital Improvement Fund.

8. Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, which is available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency. In accordance with Governmental Accounting Standards Board Statement No. 32, the City has removed the balances from their financial statements related to the deferred compensation plan, as these amounts represent neither assets nor liabilities to the City, and the plan is administered by an independent third party.

9. Segment Information For Enterprise Funds

Segment disclosures herein are not required because both of the City’s enterprise funds are reported as a major fund in the fund statements.

10. Other Post-Employment Benefits

Plan Description

As required by State law (MCA 2-18-704), the City allows its retiring employees with at least five years of service and who are at least 50 years of age, along with their eligible spouses and dependents, the option to continue participation in the local government's group health insurance plan until the retiree becomes eligible for Medicare coverage. This option creates a defined benefit other post-employment benefits plan (OPEB) since retirees are typically older than the average age of active plan participants and therefore receive a benefit of lower insurance rates. The OPEB plan is a single-employer defined benefit plan administered by the City. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75. The City covers OPEB cost when they come due, on a pay-as-you-go basis.

The City's contract with Allegiance Benefits details the plan eligibility. Montana Municipal Interlocal Authority (MMIA) is the administrator of the benefit plan which covers both active and retired members. The City's current labor contracts do not include any obligations for payments to retirees. The City also allows terminated employees to continue their health care coverage for 18 months past the date of termination as required by the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA).

Because the local government has fewer than 100 employees (active and inactive) that are provided with OPEB through the plan, the local government qualifies to use the alternative measurement method for calculating the OPEB liability.

OPEB is recorded on an accrual basis for all enterprise funds. OPEB is recorded on a modified accrual basis for the governmental funds. Plan contributions are recognized in the period in which the contributions are made. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Funding Policy

The City of Three Forks provides Group Health Insurance – Medical and Dental – through MMIA. The premiums vary for single, employee and spouse, for employee and children, and for employee and family. The premiums for MMIA Dental also vary. The City pays 100% of the premiums for the librarian. The City pays 90% of the premiums for all other employees and their dependents.

City Council members have the option to sign up for the Group Health Insurance and pay 100% of their own premiums.

City of Three Forks, Montana
Notes to the Financial Statements
For the Year Ended June 30, 2022

10. Other Post-Employment Benefits (continued)

MMIA, as the plan administrator for many Montana cities and towns, engaged an actuary to assist the cities, including the City of Three Forks, with the alternative measurement method (AMM) for June 30, 2022. MMIA allows members to stay on the City’s plan after age 65. The rate MMIA charges for individuals with Medicare (age 65) is less than an employee or retiree under 65; however, with Medicare being primary for benefit payments, the costs end up being even lower than the premium amounts. MMIA’s actuary assumes all members will stay on the plan for their entire life expectancy. With the life expectancy at 78 and the assumed retirement age at 62, this results in more years after 65 than before.

This valuation constitutes the only analysis and presentation of the City’s post-employment benefit plan. There is no separate, audited GAAP-basis postemployment benefit plan report.

Employees Covered by the Benefit Terms

At June 30, 2022, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	-
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	5
	<u>5</u>

Total OPEB Liability

The City’s total OPEB liability of \$69,004 was measured as of June 30, 2022, and was determined using the alternative measurement method calculation as of that date.

Actuarial Assumptions and Other Inputs

The total OPEB liability as of June 30, 2022 was determined using the following assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

	<u>OPEB Valuation</u>
Average age of retirement based on historical data	59.6
Turnover rate	0.00 percent
Discount rate	4.02 percent
Salary increase	4.00 percent

The discount rate was based on a 20-year tax exempt municipal bond yield.

City of Three Forks, Montana
Notes to the Financial Statements
For the Year Ended June 30, 2022

10. Other Post-Employment Benefits (continued)

Health cost trend rates were based on the following table:

	<u>Annual %</u>		<u>Annual %</u>
2022-2023	3.04%	2053-2057	4.80%
2023-2024	6.50%	2057-2062	4.70%
2024-2025	6.00%	2062-2069	4.60%
2025-2026	5.90%	2069-2070	4.50%
2026-2027	5.70%	2070-2071	4.40%
2027-2028	5.60%	2071-2072	4.30%
2028-2029	5.50%	2072-2074	4.20%
2029-2030	5.30%	2074-2075	4.10%
2030-2047	5.20%	2075-2077	4.00%
2047-2048	5.10%	2077-2078	3.90%
2048-2050	5.00%	2078+	3.80%
2050-2053	4.90%		

Changes in the Total Liability

Changes in total OPEB liability as of June 30, 2022:

Balance as of June 30, 2021	\$ 122,202
Changes for the year:	
Service cost	28,042
Interest	6,040
Changes of assumptions or other inputs	(14,912)
Differences between expected and actual experience	(70,478)
Benefit payments	(1,890)
Change in net OPEB obligation	<u>(53,198)</u>
Balance as of June 30, 2022	<u>\$ 69,004</u>

	<u>Water</u>	<u>Sewer</u>	<u>Governmental</u>	<u>Total</u>
Prior year OPEB liab	\$ 48,267	\$ 49,610	\$ 24,325	\$ 122,202
Current year OPEB liab	28,052	29,395	11,557	69,004
Change	<u>\$ (20,215)</u>	<u>\$ (20,215)</u>	<u>\$ (12,768)</u>	<u>\$ (53,198)</u>

There were no changes to the benefit terms in the current year. The changes in assumptions or other inputs was the revised discount rate per Bond Buyer's 20-year municipal bond rates as of June 30, 2022.

City of Three Forks, Montana
Notes to the Financial Statements
For the Year Ended June 30, 2022

10. Other Post-Employment Benefits (continued)

Sensitivity Analysis

The following table presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is one percent lower (3.02%) or one percent higher (5.02%) than the current discount rate.

	Discount Rate		
	1.0% Decrease	4.02%	1.0% Increase
Total OPEB Liability	\$ 77,370	\$ 69,004	\$ 61,923

The following table presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percent lower or one percent higher than the current health cost trend rates (*see healthcare cost trend rates in the table on the previous page):

	Healthcare Cost Trend Rates*		
	1.0% Decrease	4.02%	1.0% Increase
Total OPEB Liability	\$ 60,444	\$ 69,004	\$ 79,305

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

For the year ending June 30, 2022, the City recognized OPEB expense of \$12,766. The City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ (70,479)
Changes in assumptions or other inputs	-	(14,912)
Total	\$ -	\$ (85,391)

City of Three Forks, Montana
Notes to the Financial Statements
For the Year Ended June 30, 2022

10. Other Post-Employment Benefits (continued)

Amounts reported as deferred outflow (inflows) of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30:	Deferred (Inflows) Outflows of Resources
2023	\$ (85,391)
2024	\$ -
2025	\$ -
2026	\$ -
2027	\$ -
Thereafter	\$ -

11. Net Pension Liability

Plan Description

PERS

The 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 & 3, Montana Code Annotated (MCA). This plan provides retirement benefits to covered employees of the State, and local governments, and certain employees of the Montana University System, and school districts. Benefits are established by state law and can only be amended by the Legislature.

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. All new members from the universities also have a third option to join the university system’s Montana University System Retirement Program (MUS-RP).

The PERS-DBRP provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, year on service, and highest average compensation (HAC). Members rights are vested after five years of service.

11. Net Pension Liability (continued)

Summary of Benefits

PERS

Eligibility for benefit

Service retirement:

- Hired prior to July 1, 2011: Age 60, 5 years of membership service; Age 65, regardless of membership service; or Any age, 30 years of membership service.
- Hired on or after July 1, 2011: Age 65, 5 years of membership service; Age 70, regardless of membership service.

Early Retirement (actuarially reduced)

- Hired prior to July 1, 2011: Age 50, 5 years of membership service; or Any age, 25 years of membership service.
- Hired on or after July 1, 2011: Age 55, 5 years of membership service.

Second Retirement (requires returning to PERS-covered employer or PERS service):

- 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:
 - A refund of member's contributions plus return interest (currently 2.02% effective July 1, 2018)
 - No service credit for second employment;
 - Start the same benefit amount the month following termination; and
 - Guaranteed Annual Benefit Adjustment (GABA) starts again in the January immediately following the second retirement.
- Retire before January 1, 2016 and accumulate at least 2 years of additional service credit:
 - A recalculated retirement benefit based on provisions in effect after the initial retirement; and
 - GABA starts on the recalculated benefit in the January after receiving the new benefit for 12 months.
- Retire on or after January 1, 2016 and accumulated 5 or more years of service credit:
 - The same retirement as prior to the return to service;
 - A second retirement benefit as prior to the second period of service based on laws in effect upon the rehire date; and
 - GABA starts on both benefits in the January after receiving the original and the new benefit for 12 months.

11. Net Pension Liability (continued)

Member's highest average compensation (HAC)

- Hired prior to July 1, 2011 - highest average compensation during any consecutive 36 months;
- Hired on or after July 1, 2011 – highest average compensation during any consecutive 60 months;

Compensation Cap

- Hired on or after July 1, 2013 – 110% annual cap on compensation considered as part of a member's highest average compensation.

Monthly benefit formula

Members hired prior to July 1, 2011:

- Less than 25 years of membership service: 1.785% of HAC per year of service credit;
- 25 years of membership service or more: 2% of HAC per year of service credit.

Members hired on or after July 1, 2011:

- Less than 10 years of membership service: 1.5% of HAC per year of service credit;
- 10 years or more, but less than 30 years of membership service: 1.785% of HAC per year of service credit;
- 30 years or more of membership service: 2% of HAC per year of service credit.

Guaranteed Annual Benefit Adjustment (GABA):

After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of other adjustments to the member's benefit.

- 3.0% for members hired prior to July 1, 2007
- 1.5% for members hired between July 1, 2007 and June 30, 2013
- Members hired on or after July 1, 2013:
 - 1.5% for each year PERS is funded at or above 90%
 - 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and
 - 0% whenever the amortization period for PERS is 40 years or more.

Overview of Contributions

PERS

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

City of Three Forks, Montana
Notes to the Financial Statements
For the Year Ended June 30, 2022

11. Net Pension Liability (continued)

Special Funding: The state of Montana, as the non-employer contributing entity, paid to the Plan, additional contributions that qualify as special funding. Those employers who received special funding are all participating employers.

Not Special Funding: Per Montana law, state agencies and universities paid their own additional contributions. The employer paid contributions are not accounted for as special funding for state agencies and universities but are reported as employer contributions.

Member and employer contribution rates are shown in the table below.

Fiscal Year	Member		State &				
	Hired <07/01/11	Hired >07/01/11	Universities Employer	Local Government Employer	State	School Districts Employer	State
2022	7.900%	7.900%	8.970%	8.870%	0.100%	8.600%	0.370%
2021	7.900%	7.900%	8.870%	8.770%	0.100%	8.500%	0.370%
2020	7.900%	7.900%	8.770%	8.670%	0.100%	8.400%	0.370%
2019	7.900%	7.900%	8.670%	8.570%	0.100%	8.300%	0.370%
2018	7.900%	7.900%	8.570%	8.470%	0.100%	8.200%	0.370%
2017	7.900%	7.900%	8.470%	8.370%	0.100%	8.100%	0.370%
2016	7.900%	7.900%	8.370%	8.270%	0.100%	8.000%	0.370%
2015	7.900%	7.900%	8.270%	8.170%	0.100%	7.900%	0.370%
2014	7.900%	7.900%	8.170%	8.070%	0.100%	7.800%	0.370%
2012-2013	6.900%	7.900%	7.170%	7.070%	0.100%	6.800%	0.370%
2010-2011	6.900%		7.170%	7.070%	0.100%	6.800%	0.370%
2008-2009	6.900%		7.035%	6.935%	0.100%	6.800%	0.235%
2000-2007	6.900%		6.900%	6.800%	0.100%	6.800%	0.100%

1. Member contributions to the system of 7.9% are temporary and will be decreased to 6.9% on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and additional member contribution rates.
2. Employer contributions to the system:
 - a. Effective July 1, 2014, following the 2013 Legislative session, PERS-employer contributions increased an additional 0.1% a year and will continue over 10 years through 2024. The additional employer contributions including the 0.27% added in 2007 and 2009, will terminate on January 1 following an actuary valuation results that show the amortization period has dropped below 25 years and would remain below the 25 years following the reductions of both the additional employer and additional member contributions rates.
 - b. Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required

City of Three Forks, Montana
Notes to the Financial Statements
For the Year Ended June 30, 2022

11. Net Pension Liability (continued)

- c. The portion of employer contributions allocated to the Plan Choice Rate (PCR) are included in the employers reporting. The PCR was paid off effective March 2016 and the contributions previously directed to the PCR are directed to member accounts.
3. Non Employer Contributions
- a. Special Funding
- i. The State contributes 0.1% of members' compensation on behalf of local government entities.
 - ii. The State contributes 0.37% of members' compensation on behalf of school district entities.
 - iii. The state contributed a Statutory Appropriation from the General Fund of \$34,290,660.

Stand-Alone Statements

PERS

The stand-alone financial statements of the Montana Public Employees Retirement Board (PERB) *Annual Comprehensive Financial Report* (ACFR) and the GASB 68 Report disclose the Plan's fiduciary net position. The reports are available from the PERB at PO Box 200131, Helena, MT 59620-0131, (406) 444-3154 or both are available on the MPERA website at <http://mpera.mt.gov/about/annualreports1/annualreports>.

Actuarial Assumptions

PERS

The total pension liability as of June 30, 2021, was determined on the results of an actuarial valuation date of June 30, 2020, using the following actuarial assumptions, applied to all periods included in the measurement.

Among those assumptions were the following:

- Investment Return (net of admin expense) 7.06%
- Admin Expense as a percent of payroll 0.28%
- General Wage Growth* 3.50%
- *includes Inflation at 2.40%
- Merit Increases 0% to 4.80%

11. Net Pension Liability (continued)

- Postretirement Benefit Increases
Guaranteed Annual Benefit Adjustment (GABA)
After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage January, inclusive of other adjustments to the member's benefit.
 - 3.0% for members hired prior to July 1, 2007
 - 1.5% for members between July 1, 2007 and June 30, 2013
 - 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 0.1% for each 2.0% PERS is funded below 90%; and
 - c) 0% whenever the amortization period for PERS is 40 years or more

- Mortality assumptions among contributing members, service retired members and beneficiaries based on RP-2000 Combined Employee and Annuitant Mortality Tables projected to 2020 with scale BB, set back one year for males
- Mortality assumptions among disabled members were based on RP-2000 Combined Mortality Tables with no projections

The long-term rate of return as of June 30, 2021, 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 rate of return of 4.66%. The assumed inflation is based on the intermediate inflation of 2.40% in the *2021 OASDI Trustees Report* 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 on the top of page 64.

**City of Three Forks, Montana
Notes to the Financial Statements
For the Year Ended June 30, 2022**

11. Net Pension Liability (continued)

Target Allocations

PERS

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return Arithmetic Basis
Cash	3.00%	-0.33%
Domestic Equity	30.00%	5.90%
International Equity	17.00%	7.14%
Private Investments	15.00%	9.13%
Real Assets	5.00%	4.03%
Real Estate	9.00%	5.41%
Core Fixed Income	15.00%	1.14%
Non-Core Fixed Income	6.00%	3.02%
Total	100.00%	

Discount Rate

PERS

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 would be made based on the Board's funding policy, which establishes the contractually required rates under Montana Code Annotated. The state contributed 0.10% of salaries paid by local governments and 0.37% paid by school districts. In addition, the State contributed a statutory appropriation from the general fund. Based on those assumptions, the Plan's 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. A municipal bond rate was not incorporated in the discount rate.

City of Three Forks, Montana
Notes to the Financial Statements
For the Year Ended June 30, 2022

11. Net Pension Liability (continued)

Sensitivity Analysis

The following presents the employer's sensitivity of the NPL to the discount rate in the table below. A small change in the discount rate can create a significant change in the liability. The Net Pension Liability was 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 1.00% lower or 1.00% higher than the current rate.

	1.0% Decrease (6.06%)	Current Discount Rate	1.0% Increase (8.06%)
City's Proportionate Share of the PERS Net Pension Liability at June 30, 2022	\$ 560,137	\$ 352,876	\$ 179,034

Summary of Significant Accounting Policies

PERS

The Montana Public Employee Retirement Administration (MPERA) prepared its financial statements using the accrual basis of accounting. The same accrual basis was used by MPERA for the purposes of determining the Net Pension Liability; Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions; Pension Expense; the Fiduciary Net Position; and the Additions to or Deductions from Fiduciary Net Position. Member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Revenues are recognized in the accounting period they are earned and become measurable. Benefit payments and refunds are recognized in the accounting period when due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred. Investments are reported at fair value. MPERA adhered to all accounting principles generally accepted by the United States of America. MPERA applied all applicable pronouncements of the Governmental Accounting Standards Board (GASB).

City of Three Forks, Montana
Notes to the Financial Statements
For the Year Ended June 30, 2022

11. Net Pension Liability (continued)

Net Pension Liability

PERS

In accordance with GASB Statement 68, *Accounting and Financial Reporting for Pensions*, employers and the non-employer contributing entity are required to recognize and report certain amounts associated with participation in the Public Employees' Retirement System Defined Benefit Retirement Plan (the Plan). This includes the proportionate share of the collective Net Pension Liability; Pension Expense; and Deferred Outflows and Deferred Inflows of Resources associated with pensions. Employers are provided guidance in GASB Statement 68, paragraph 74, where pension amounts must be combined as a total or aggregate for reporting, whether provided through cost-sharing, single-employer, or agent plans.

GASB Statement 68 allows a measurement date of up to 12 months before the employer's fiscal year-end can be utilized to determine the Plan's Total Pension Liability. The basis for the Total Pension Liability as of June 30, 2021, was determined by taking the results of the June 30, 2020, actuarial valuation and applying standard roll forward procedures. The roll forward procedure uses a calculation that adds the annual normal cost (also called the service cost), subtracts the actual benefit payments and refunds for the plan year, and then applies the expected investment rate of return for the year. The update procedures are in conformity with Actuarial Standards of Practice issued by the Actuarial Standards Board.

The Total Pension Liability (TPL) minus the Fiduciary Net Position equals the Net Pension Liability (NPL). The proportionate shares of the employer's and the state of Montana's NPL for June 30, 2022, and 2021, are displayed below. The employer's proportionate share equals the ratio of the employer's contributions to the sum of all employer and non-employer contributions during the measurement period. The state's proportionate share for a particular employer equals the ratio of the contributions for the particular employer to the total state contributions paid. The employer recorded a liability of \$352,876 and the employer's proportionate share was 0.019461 percent.

	Net Pension Liability as of 06/30/2022	Net Pension Liability as of 06/30/2021	Percent of Collective NPL as of 06/30/2022	Percent of Collective NPL as of 06/30/2021	Change in Percent of Collective NPL
City's PERS Proportionate Share	\$ 352,876	\$ 500,953	0.019461%	0.018988%	0.000473%
State of Montana PERS Proportionate Share associated with employer	103,543	157,160	0.005710%	0.005957%	-0.000247%
Total	\$ 456,419	\$ 658,113	0.025171%	0.024945%	0.000226%

City of Three Forks, Montana
Notes to the Financial Statements
For the Year Ended June 30, 2022

11. Net Pension Liability (continued)

PERS

Changes in actuarial assumptions and methods:

The following changes in assumptions or other inputs were made that affected the measurement of the TPL:

- 1) The discount rate was lowered from 7.34% to 7.06%.
- 2) The investment rate of return was lowered from 7.34% to 7.06%.

PERS

Changes in benefit terms:

There have been no changes in benefit terms since the previous measurement date.

PERS

Changes in proportionate share:

There were no changes between the measurement date of the collective NPL and the employer's reporting date that are expected to have a significant effect on the employer's proportionate share of the collective NPL.

Pension Expense

	Pension Expense as of 06/30/2022
	PERS
City's Proportionate Share	\$ 20,389
State of Montana Proportionate Share associated with the Employer	30,469
Total	\$ 50,858

At the June 30, 2022, the employer recognized \$20,389 for its proportionate share of the Plan's pension expense. The employer also recognized grant revenue of \$30,469 for the support provided by the State of Montana proportionate share of the pension expense associated with the employer.

City of Three Forks, Montana
Notes to the Financial Statements
For the Year Ended June 30, 2022

11. Net Pension Liability (continued)

Recognition of Deferred Inflows and Outflow

At June 30, 2022, the employer reported its proportionate share of PERS' deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between actual and expected experience	\$ 3,766	\$ 2,554
Changes in assumptions	52,268	-
Difference between projected and actual earnings on pension plan investments	-	142,953
Changes in proportion differences between employer contributions and proportionate share of contributions	6,479	-
Contributions paid subsequent to the measurement date	<u>32,549</u>	<u>-</u>
Total	<u>\$ 95,062</u>	<u>\$ 145,507</u>

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in Pension Expense as follows:

Year ended June 30:	<u>Deferred Outflows of Resources</u> PERS	<u>Deferred Inflows of Resources</u> PERS	<u>Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense</u> PERS
2023	\$ 4,574	\$ -	\$ 4,574
2024	\$ -	\$ 7,408	\$ (7,408)
2025	\$ -	\$ 34,527	\$ (34,527)
2026	\$ -	\$ 45,634	\$ (45,634)
2027	\$ -	\$ -	\$ -
Thereafter	\$ -	\$ -	\$ -

City of Three Forks, Montana
Notes to the Financial Statements
For the Year Ended June 30, 2022

11. Net Pension Liability (continued)

FDRA

City volunteer fire fighters are covered by the Firemen's Pension and Disability benefit plan (the plan), which is established by State law. The Association is managed by a Board of Trustees made up of members of the fire department and is accounted for as an agency fund. The Association provides retirement benefits. Retirement benefits are \$50 per month with 10 years of service at age 60, plus \$2.50 per month for each year of service over 10 years, up to a maximum monthly benefit of \$75 for 20 years of service and above at age 55. Disability benefits are similar without regard to age.

Per Montana Code Annotated 19-18-503, each pension fund must be soundly funded. The fund is soundly funded at fiscal year-end if (a) assets are maintained at a level equal to at least three times but no more than five times the benefits paid by the fund in the previous or current fiscal year, whichever is greater; or (b) funding is maintained at a level determined by an actuarial valuation to be sufficient to keep the fund actuarially sound. As the plan covers volunteers, there are no salaries paid and no contributions required by the volunteers. The contributions to the plan have been sufficient to fund current year benefit payments, and are enough to maintain the plan as soundly funded currently; however, in the past, it was not. The City requested a voted levy to help fund the plan and it passed in fiscal year 2010. The proceeds from the levy in addition to another 4.27 mills are being contributed to the plan each year. The City contributions to the pension plan were \$16,558 for the year ended June 30, 2022. The City has elected to omit pension reporting related to the FDRA in accordance with GASB 73. See Note 17 for the qualified opinion related to the omission.

12. Risk Management

The City faces a considerable number of risks of loss, including: a. damage to and loss of property and contents, b. employee torts c. professional liability, i.e., errors and omissions d. environmental damage e. workers' compensation, i.e. employee injuries, and f. medical insurance cost of employees.

A variety of methods are used to provide insurance for these risks. Commercial policies, transferring all risks of losses, except for relatively small deductible amounts, are purchased for property and content damage, employee medical costs, and professional liabilities.

The City participates in two state-wide public risk pools operated by the Montana Municipal Interlocal Authority (MMIA), for workers' compensation and for tort liability coverage. And, given the lack of coverage available, the City has no coverage for potential losses from environmental damages.

Coverage limits and the deductibles on the commercial policies have stayed relatively constant for the last several years. The premiums for the policies are allocated between the City's enterprise funds and an Insurance (special revenue) Fund based on total appropriations. The Insurance Fund has a special-purpose property tax levy for this purpose. Settled claims resulting from these risks did not exceed commercial insurance coverage during June 30, 2022.

In 1986, the City joined together with other Montana cities to form MMIA, which established a workers' compensation plan and a tort liability plan. Both public entity risk pools currently operate as common risk management and insurance programs for the member governments.

The liability limits for damages in tort action are \$750,000 per claim and \$1.5 million per occurrence, and \$12.5 million per occurrence for any claim that is not subject to the limitations on government liability, as described in Montana Code Annotated Section 2-9-108 (the Statute) or any successor statute, either as matter of law, by operation of the Statute, or by a judicial determination that the Statute is inapplicable or is otherwise invalid, with a \$750 deductible per occurrence. State tort law limits the City's liability to \$1.5 million. The City pays premiums for its employee injury insurance coverage, which is allocated to the employer funds based on total salaries and wages. The agreements for formation of the pools provide that they will be self-sustaining through member premiums. The tort liability plan and workers' compensation program issued \$4.41 million and \$6.155 million, respectively, of bonds to immediately finance the necessary insurance reserves. All members signed a contingent note for a pro rata share of this liability in case operating revenues were insufficient to cover the debt service; these notes were retired in 2011.

The City also owns a policy with MMIA for loss or damage to property. This is an all risk policy, essentially all property owned by the City being insured for 100% of replacement cost, subject to a \$1,000 deductible per occurrence. MMIA reinsures their property insurance with a national municipal pool, Public Entities' Property Insurance.

City of Three Forks, Montana
Notes to the Financial Statements
For the Year Ended June 30, 2022

13. Major Purpose Presentation

The table presented below displays the City’s fund balances by major purpose, as displayed on pages 24 and 25 on the governmental funds balance sheet. Statement 54 requires the disclosure of the purpose of each Major Special Revenue Fund.

	General Fund	Three Forks Rodeo Arena	Library Operating	Nonmajor Governmental Funds	Total
Restricted for:					
Public safety	\$ -	\$ -	\$ -	\$ 216,415	\$ 216,415
Public works	-	-	-	524,999	524,999
Culture and recreation	-	-	84,980	159,241	244,221
Subtotal Restricted Fund Balance	<u>-</u>	<u>-</u>	<u>84,980</u>	<u>900,655</u>	<u>985,635</u>
Committed for:					
Public safety	-	-	-	140,713	140,713
Public works	-	-	-	420,029	420,029
Culture and recreation	-	79,155	-	45,696	124,851
Subtotal Committed Fund Balance	<u>-</u>	<u>79,155</u>	<u>-</u>	<u>606,438</u>	<u>685,593</u>
Unassigned:	<u>424,576</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>424,576</u>
Total Fund Balances	<u>\$ 424,576</u>	<u>\$ 79,155</u>	<u>\$ 84,980</u>	<u>\$ 1,507,093</u>	<u>\$ 2,095,804</u>

14. Leases

Lessee Activities and Lease Liabilities

As a lessee, the City recognizes a lease liability and an intangible right-of-use lease asset in the government-wide financial statements. At the commencement of a lease, the City 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 right-of-use 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 rates it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The City uses the discount rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the City 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.

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

On October 1, 2013, the City entered into a 20-year lease agreement to rent an office space for the purpose of operation of offices for the Sheriff's Department of the City of Three Forks. The City has the right to renew the lease for one ten-year renewal period. Based on this agreement, the City will be making monthly payments through 2033. The monthly base rent increases at a set rate per square foot every five years.

At June 30, 2022, the City has recognized right-of-use lease asset of \$101,329 and accumulated amortization of \$8,272, as well as a lease liability of \$95,444. At the time of initial assessment, there was no interest rate specified in the original lease agreement. The City used a discount rate of 1.75% based on their estimated incremental borrowing rate.

Amortization expense of \$8,272 and lease-related interest expense of \$1,712 was recognized for the year ended June 30, 2022.

City of Three Forks, Montana
Notes to the Financial Statements
For the Year Ended June 30, 2022

14. Leases (continued)

Remaining obligations associated with this lease are as follows:

Year Ending	Principal	Interest
2023	\$ 5,840	\$ 1,616
2024	7,112	1,508
2025	7,636	1,372
2026	7,771	1,237
2027	7,908	1,100
2028-2032	46,497	3,198
2033-2034	12,680	131
	<u>\$ 95,444</u>	<u>\$ 10,162</u>

Lessor Activities and Lease Receivables

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

At the commencement of a lease, the City 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 related to leases include how the government determines (1) the discount rates it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts.

- The City 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.

On August 31, 2000, the City entered into a 20-year lease agreement for the lease of a parcel of land for placement of a cell tower. An amendment to the agreement on August 31, 2016 allows for two additional five-year renewals with a rent escalation of 3% per year. Renewals shall automatically renew unless an election not to renew is made by the tenant no less than sixty days prior to the expiration of the current term. Based on this agreement, the City is receiving yearly payments through 2030. At the time of initial assessment, there was no interest rate specified in the original lease agreement. The City used a discount rate of 1.75% based on their estimated incremental borrowing rate.

City of Three Forks, Montana
Notes to the Financial Statements
For the Year Ended June 30, 2022

14. Leases (continued)

The remaining receivable for the lease was \$118,042 as of June 30, 2022. Deferred inflows related to this lease were \$117,263 as of June 30, 2022.

Rent income of \$14,364 and related interest income of \$2,111 was recognized for the year ended June 30, 2022.

Remaining receivables associated with this lease are as follows:

Year Ending	Principal	Interest
2023	\$ 12,307	\$ 1,902
2024	12,956	1,680
2025	13,625	1,438
2026	14,327	1,187
2027	15,052	923
2028-2031	49,775	1,058
	<u>\$ 118,042</u>	<u>\$ 8,188</u>

15. Subsequent Events

In 2017, the Madison, Ruby, and Jefferson River watersheds were remapped by FEMA and DNRC. The new floodplain maps use more accurate data and show that the City’s flood risk is far higher than previously understood, a higher risk of flooding than previously thought. The maps and their associated regulations have the potential to devastate the City’s economy and sense of community.

The City continues to work with DNRC, Great West Engineering, and Headwaters Economics to design a flood mitigation channel. The conveyance channel is located roughly 1-mile west of the City’s limits. This channel would be 5-feet deep, 100-feet wide, and roughly 1800-feet in length and would redirect nearly 1800 cubic feet per second (CFS) away from the City and back to the Jefferson River. The proposed project will remove 90% of residential properties from the current and proposed Jefferson floodplain.

The project would significantly decrease (almost eliminate) the Jefferson River floodplain within city limits and some parts of Gallatin County, protecting residents and infrastructure from flooding. The City is well positioned for growth, but this is not possible given the updated flood risk maps. The mitigation project would allow the City to grow and develop according to their growth policy and strategic plans. It would significantly reduce the requirement for flood insurance policies as properties are removed from the floodplain, and reduce the cost of flood insurance policies if the removed properties choose to obtain it.

City of Three Forks, Montana
Notes to the Financial Statements
For the Year Ended June 30, 2022

15. Subsequent Events (continued)

The estimated project cost is \$5,536,500. In 2020, The City applied for a FEMA Building Resilient Infrastructure and Communities (BRIC) grant for 75%, knowing that if successful the City will have to come up with 25%. In 2021, the City received word the BRIC grant was denied. At the end of 2021, the City reapplied for a BRIC grant and added an application for a FEMA Flood Mitigation Assistance grant (FMA). Toward the end of 2022, the City was made aware they tentatively (pending verifications) would be awarded the FMA grant in the amount of \$4,152,375. The 25% + match is planned to be funded via a combination of city reserves, a new Special Improvement District passed in October 2022 (city taxes for up to \$3,00,000), MDT match, and possibly county taxes. Ongoing maintenance will be paid by the Flood Mitigation District also created in October 2022, that will annually tax the cost to maintain the channel divided by all properties in the district.

As of the report date, the City has spent roughly \$5,000 and received over \$100,000 of donated in-kind from Headwaters Economics.

The Water Systems Improvements Project has changed location. Originally, the City planned on drilling up to 2 wells on the Kent property, near the City's original well #2. The Kents were not agreeable to the location the hydrogeologist recommended. There is a developer wanting to annex into the City and construct a large housing development, south of the Magris Talc Plant, but the City does not have the water capacity for the project. The City Engineers have negotiated with the developer to allow the City to drill up to 4 water wells on this property.

16. Recent Accounting Pronouncements

The GASB issued GASB Statement 96: *Subscription-Based Information Technology Arrangements* in May 2020. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users. This Statement (1) defines SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.

17. Qualified Opinion

The City elected to omit pension reporting related to the FDRA in accordance with GASB 73 as is required by accounting principles generally accepted in the United States of America. The effect of this omission is not reasonably determinable.

REQUIRED SUPPLEMENTAL INFORMATION

City of Three Forks, Montana
Statement of Revenues and Expenditures – Budget and Actual - General Fund
For the Year Ended June 30, 2022

	General Fund	
	Original and Final Budget	Actual
Revenues:		
Taxes	\$ 122,993	\$ 508,666
Licenses and permits	17,900	16,305
Intergovernmental	277,010	202,565
Charges for services	21,565	20,565
Fines and forfeitures	500	360
Other	9,000	13,198
Total revenues	<u>448,968</u>	<u>761,659</u>
Expenditures:		
Current:		
General government	334,614	168,378
Public safety	409,329	388,965
Public works	49,562	51,843
Public health	200	148
Culture and recreation	81,492	48,180
Housing & community development	27,818	24,019
Other	14,650	2,493
Capital outlay	-	11,397
Total expenditures	<u>917,665</u>	<u>695,423</u>
Revenues over (under) expenditures before other financing use	<u>\$ (468,697)</u>	<u>\$ 66,236</u>

See Independent Auditors' Report.
The accompanying notes are an integral part of the required supplemental information.

City of Three Forks, Montana
Statement of Revenues and Expenditures - Budget and Actual –
Three Forks Rodeo Arena Fund
For the Year Ended June 30, 2022

	Three Forks Rodeo Arena Special Revenue Fund	
	Original and Final Budget	Actual
Revenues:		
Charges for services	\$ 252,000	\$ 245,652
Interest on investments	300	26
Other	5,000	6,031
Total revenues	<u>257,300</u>	<u>251,709</u>
Expenditures:		
Current:		
Culture and recreation	171,551	134,584
Other	3,000	2,956
Capital outlay	-	29,994
Debt service	46,771	32,771
Total expenditures	<u>221,322</u>	<u>200,305</u>
Revenues over (under) expenditures before other financing use	<u>\$ 35,978</u>	<u>\$ 51,404</u>

See Independent Auditors' Report.
The accompanying notes are an integral part of the required supplemental information.

City of Three Forks, Montana
Statement of Revenues and Expenditures - Budget and Actual –
Library Operating Fund
For the Year Ended June 30, 2022

	<u>Library Operating</u>	
	<u>Original and Final Budget</u>	<u>Actual</u>
Revenues:		
Taxes	\$ 6,660	\$ 33,291
Intergovernmental	83,650	84,917
Charges for Services	550	821
Fines and forfeitures	1,500	196
Other	16,300	16,346
Total revenues	<u>108,660</u>	<u>135,571</u>
Expenditures:		
Current:		
Culture and recreation	166,425	143,272
Other	4,056	1,745
Total expenditures	<u>170,481</u>	<u>145,017</u>
Revenues over (under) expenditures before other financing use	<u>\$ (61,821)</u>	<u>\$ (9,446)</u>

See Independent Auditors' Report.
The accompanying notes are an integral part of the required supplemental information.

City of Three Forks, Montana
Schedule of Changes in the Total Other Post-Employment Benefits (OPEB) Liability and
Related Ratios
For the Last Ten Fiscal Years*

Total OPEB Liability	2022	2021	2020	2019	2018
Service cost	\$ 28,042	\$ 18,981	\$ 17,701	\$ 11,023	\$ 11,127
Interest	6,040	3,243	4,065	4,934	4,994
Differences between expected and actual experience	(70,478)	(23,050)	(37,768)	-	4,501
Changes of assumptions or other inputs	(14,912)	3,623	(280)	4,275	(3,730)
Benefit payments	(1,890)	(4,469)	(2,831)	(7,191)	(4,874)
Change in total OPEB obligation	(53,198)	(1,672)	(19,113)	13,041	12,018
Beginning balance, total OPEB liability	122,202	123,874	142,987	129,946	117,928
Ending balance, total OPEB liability	\$ 69,004	\$ 122,202	\$ 123,874	\$ 142,987	\$ 129,946
Covered-employee payroll	\$ 509,248	\$ 413,633	\$ 377,552	\$ 350,543	\$ 342,002
Total OPEB Obligation as a percentage of covered-employee payroll	13.55%	29.54%	32.81%	40.79%	38.00%

*The amounts presented above for each fiscal year were determined as of June 30, the measurement date. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See Independent Auditors' Report.
The accompanying notes are an integral part of the required supplemental information.

City of Three Forks, Montana
Schedule of Proportionate Share of the Net Pension Liability
Montana Public Employees' Retirement System
For the Last Ten Fiscal Years*

Reporting Date	2022	2021	2020	2019	2018
As of Measurement Date	2021	2020	2019	2018	2017
City's proportion of the net pension liability	0.019461%	0.018988%	0.019087%	0.018928%	0.022923%
City's proportionate share of the net pension liability	\$ 352,876	\$ 500,953	\$ 398,973	\$ 395,055	\$ 446,457
State's proportionate share of the net pension liability associated with the City	\$ 103,543	\$ 157,160	\$ 129,340	\$ 131,714	\$ 5,334
Total	\$ 456,419	\$ 658,113	\$ 528,313	\$ 526,769	\$ 451,791
District's covered payroll	\$ 343,761	\$ 318,593	\$ 314,929	\$ 311,282	\$ 284,365
District's proportionate share of the net pension share of the net pension liability as a percentage of its covered payroll	102.65%	157.24%	126.69%	126.91%	157.00%
Plan fiduciary net position as a percentage of the total pension liability	79.91%	68.90%	73.85%	73.47%	73.75%

Reporting Date	2017	2016	2015
As of Measurement Date	2016	2015	2014
City's proportion of the net pension liability	0.025209%	0.025273%	0.026345%
City's proportionate share of the net pension liability	\$ 429,400	\$ 353,279	\$ 328,263
State's proportionate share of the net pension liability associated with the City	\$ 5,247	\$ 4,340	\$ 4,009
Total	\$ 434,647	\$ 357,619	\$ 332,272
District's covered payroll	\$ 301,962	\$ 294,937	\$ 298,226
District's proportionate share of the net pension share of the net pension liability as a percentage of its covered payroll	142.20%	119.78%	110.07%
Plan fiduciary net position as a percentage of the total pension liability	74.71%	78.40%	79.87%

*The amounts presented above for each fiscal year were determined as of June 30, the measurement date. This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See Independent Auditors' Report.
The accompanying notes are an integral part of the required supplemental information.

City of Three Forks, Montana
Schedule of Contributions
Montana Public Employees' Retirement System
For the Last Ten Fiscal Years*

As of most recent fiscal year end (reporting date)	2022	2021	2020	2019	2018
City's contractually required DB contribution	\$ 32,801	\$ 30,148	\$ 27,622	\$ 26,989	\$ 26,366
City's Contribution in relation to the contractually required contribution	32,801	30,148	27,622	26,989	26,366
City's Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered payroll	\$ 369,793	\$ 343,761	\$ 318,593	\$ 314,929	\$ 311,282
Contributions as percentage of Covered Payroll	8.87%	8.77%	8.67%	8.57%	8.47%

As of most recent fiscal year end (reporting date)	2017	2016	2015
City's contractually required DB contribution	\$ 23,802	\$ 25,240	\$ 24,304
City's Contribution in relation to the contractually required contribution	23,802	25,240	24,304
City's Contribution deficiency (excess)	\$ -	\$ -	\$ -
District's covered payroll	\$ 284,365	\$ 301,962	\$ 294,937
Contributions as percentage of Covered Payroll	8.37%	8.36%	8.24%

*The amounts presented above for each fiscal year were determined as of June 30, the measurement date. This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See Independent Auditors' Report.
The accompanying notes are an integral part of the required supplemental information.

City of Three Forks, Montana
Notes to Required Supplemental Information
For the Year Ended June 30, 2022

1. Budgets

State law permits the inclusion of obligations for construction in progress and obligations for the purchase of personal property as expenditures for budget purposes (MCA 20-9-121). However, the City does not use encumbrances, so there is no difference between Budget Basis and GAAP Basis in expenditures related to encumbrances. The difference between budget and actual for the general fund is related to the on-behalf state pension revenue and expense payments. The on-behalf payment for fiscal year 2022 was \$3,793 for PERS.

	<u>Expenditures</u>	<u>Revenues</u>
Budget Basis	\$ 695,423	\$ 761,659
State On-Behalf Payments	<u>3,793</u>	<u>3,793</u>
GAAP Basis	<u>\$ 699,216</u>	<u>\$ 765,452</u>

Budget authority may be transferred between expenditure classifications within the same fund. Budgeted amounts shown are the original and amended final budgeted amounts and reflect line item budget transfers within the funds during the year (if any).

2. Other Post-Employment Benefits (OPEB)

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

Change in assumptions: The discount rate was revised per Bond Buyer’s 20-year municipal bond rate as of June 30, 2022. See also Note 10 for the healthcare cost trend rates used in the valuation of the ending Total OPEB Liability.

3. Net Pension Liability

PERS

Change in benefit terms: The following changes to the plan provisions 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.

City of Three Forks, Montana
Notes to Required Supplemental Information
For the Year Ended June 30, 2022

3. Net Pension Liability (continued)

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.

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.

Changes in Actuarial Assumptions and Methods

The following Actuarial Assumptions were adopted from the June 30, 2020 actuarial valuation:

General Wage Growth*	3.50%
Investment Rate of Returns*	7.65%
*Includes inflation at	2.75%
Merit salary increases	0% to 8.47%
Asset valuation method	Four-year smoothed market
Actuarial cost method	Entry age Normal
Amortization method	Level percentage of payroll, open
Remaining amortization period	30 years
Mortality (Healthy members)	For Males and Females: RP 2000 Combined Employee and Annuitant Mortality Table projected to 2020 using Scale BB, males set back 1 year
Mortality (Disabled members)	For Males and Females: RP 2000 Combined Mortality Table, with no projections
Admin Expense as % of Payroll	0.28%

Administrative expenses are recognized by an additional amount added to the normal cost contribution rate for the System. This amount varies from year to year based on the prior year's actual administrative expenses.

SUPPLEMENTAL INFORMATION

**City of Three Forks, Montana
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2022**

	Special Revenue		
	Street Lighting District 1	Parks Special Projects	Street Maintenance District
Assets			
Cash and cash equivalents	\$ 46,361	\$ 3,984	\$ 267,999
Property tax receivable	-	-	-
Personal tax receivable	-	-	-
Special assessment receivable	9	-	977
Due from other governments	-	-	-
Total assets	<u>\$ 46,370</u>	<u>\$ 3,984</u>	<u>\$ 268,976</u>
Liabilities, Deferred Inflows, and Fund Balances			
Liabilities:			
Accounts payable	\$ 1,999	\$ -	\$ 30
Total liabilities	<u>1,999</u>	<u>-</u>	<u>30</u>
Deferred inflows of resources:			
Deferred inflows of tax revenues	9	-	977
Total deferred inflows of resources	<u>9</u>	<u>-</u>	<u>977</u>
Fund balances:			
Restricted	44,362	3,984	267,969
Committed	-	-	-
Total fund balances	<u>44,362</u>	<u>3,984</u>	<u>267,969</u>
Total liabilities, deferred inflows, and fund balances	<u>\$ 46,370</u>	<u>\$ 3,984</u>	<u>\$ 268,976</u>

See Independent Auditors' Report.

Special Revenue

Ridgeview Street Maintenance District	Fire Control Capital Improvement	Gas Tax Apportionment	Gas Tax - Special Road/Street
\$ 24,468	\$ 215,216	\$ 139,545	\$ 51,719
-	289	-	-
-	80	-	-
84	-	-	-
-	1,197	-	-
<u>\$ 24,552</u>	<u>\$ 216,782</u>	<u>\$ 139,545</u>	<u>\$ 51,719</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,117</u>	<u>\$ 1,947</u>
<u>-</u>	<u>-</u>	<u>1,117</u>	<u>1,947</u>
<u>84</u>	<u>367</u>	<u>-</u>	<u>-</u>
<u>84</u>	<u>367</u>	<u>-</u>	<u>-</u>
24,468	216,415	138,428	49,772
-	-	-	-
<u>24,468</u>	<u>216,415</u>	<u>138,428</u>	<u>49,772</u>
<u>\$ 24,552</u>	<u>\$ 216,782</u>	<u>\$ 139,545</u>	<u>\$ 51,719</u>

See Independent Auditors' Report.

City of Three Forks, Montana
Combining Balance Sheet
Nonmajor Governmental Funds (Continued)
June 30, 2022

	Special Revenue		
	Headwaters Trails System	Fire Impact Fees	Total
Assets			
Cash and cash equivalents	\$ 104,139	\$ 88,168	\$ 941,599
Property tax receivable	-	-	289
Personal tax receivable	-	-	80
Special assessment receivable	-	-	1,070
Due from other governments	-	-	1,197
Total assets	<u>\$ 104,139</u>	<u>\$ 88,168</u>	<u>\$ 944,235</u>
Liabilities, Deferred Inflows, and Fund Balances			
Liabilities:			
Accounts payable	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,093</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>5,093</u>
Deferred inflows of resources:			
Deferred inflows of resources	<u>-</u>	<u>-</u>	<u>1,437</u>
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>1,437</u>
Fund balances:			
Restricted	104,139	-	849,537
Committed	<u>-</u>	<u>88,168</u>	<u>88,168</u>
Total fund balances	<u>104,139</u>	<u>88,168</u>	<u>937,705</u>
Total liabilities, deferred inflows, and fund balances	<u>\$ 104,139</u>	<u>\$ 88,168</u>	<u>\$ 944,235</u>

See Independent Auditors' Report.

Capital Project Funds

	Library Reserve	Street Capital Improve- ment Fund	Parks Capital Improve- ment Fund	Fire Depart Capital Improve- ment Fund	Total
Assets					
Cash and cash equivalents	\$ 51,228	\$ 420,029	\$ 45,696	\$ 52,545	\$ 569,498
Total assets	<u>\$ 51,228</u>	<u>\$ 420,029</u>	<u>\$ 45,696</u>	<u>\$ 52,545</u>	<u>\$ 569,498</u>
Liabilities, Deferred Inflows, and Fund Balances					
Liabilities:					
Accounts payable	\$ 110	\$ -	\$ -	\$ -	\$ 110
Total liabilities	<u>110</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>110</u>
Fund balances:					
Restricted	51,118	-	-	-	51,118
Committed	-	420,029	45,696	52,545	518,270
Total fund balances	<u>51,118</u>	<u>420,029</u>	<u>45,696</u>	<u>52,545</u>	<u>569,388</u>
Total liabilities, deferred inflows, and fund balances	<u>\$ 51,228</u>	<u>\$ 420,029</u>	<u>\$ 45,696</u>	<u>\$ 52,545</u>	<u>\$ 569,498</u>

See Independent Auditors' Report.

City of Three Forks, Montana
Combining Balance Sheet
Nonmajor Governmental Funds (Continued)
June 30, 2022

	Total Nonmajor Governmental
Assets	
Cash and cash equivalents	\$ 1,511,097
Property tax receivable	289
Personal tax receivable	80
Special assessment receivable	1,070
Due from other governments	1,197
	<hr/>
Total assets	\$ 1,513,733
	<hr/>
Liabilities, Deferred Inflows, and Fund Balances	
Liabilities:	
Accounts payable	\$ 5,203
	<hr/>
Total liabilities	5,203
	<hr/>
Deferred inflows or resources:	
Deferred inflows of tax revenues	1,437
	<hr/>
Total deferred inflows of resources	1,437
	<hr/>
Fund balances:	
Restricted	900,655
Committed	606,438
	<hr/>
Total fund balances	1,507,093
	<hr/>
Total liabilities, deferred inflows, and fund balances	\$ 1,513,733
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See Independent Auditors' Report.

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City of Three Forks, Montana
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2022

	Special Revenue Funds		
	Street Lighting District 1	Parks Special Projects	Street Maintenance District
Revenues:			
Taxes/assessments	\$ 46,937	\$ -	\$ 47,733
Intergovernmental	-	-	-
Charges for services	-	-	-
Interest on investments	-	-	-
Other	-	11,002	-
Total revenues	<u>46,937</u>	<u>11,002</u>	<u>47,733</u>
Expenditures:			
Current:			
Public works	26,188	-	4,530
Culture and recreation	-	4,612	-
Capital outlay	-	-	-
Total expenditures	<u>26,188</u>	<u>4,612</u>	<u>4,530</u>
Revenues over (under) expenditures	<u>20,749</u>	<u>6,390</u>	<u>43,203</u>
Other financing sources (uses):			
Operating transfers	-	(5,000)	-
Total other financing sources (uses)	<u>-</u>	<u>(5,000)</u>	<u>-</u>
Excess of revenues over expenditures and other financing sources (uses)	20,749	1,390	43,203
Fund balances, beginning of year	<u>23,613</u>	<u>2,594</u>	<u>224,766</u>
Fund balances, end of year	<u>\$ 44,362</u>	<u>\$ 3,984</u>	<u>\$ 267,969</u>

See Independent Auditors' Report.

Special Revenue Funds

<u>Ridgeview Street Maintenance District</u>	<u>Fire Control Capital Improvement</u>	<u>Gas Tax Apportionment</u>	<u>Gas Tax - Special Road/Street</u>
\$ 3,416	\$ 19,550	\$ -	\$ -
-	-	47,983	61,639
-	-	-	-
-	-	-	-
-	-	-	-
<u>3,416</u>	<u>19,550</u>	<u>47,983</u>	<u>61,639</u>
876	-	21,930	29,267
-	-	-	-
-	-	23,800	-
<u>876</u>	<u>-</u>	<u>45,730</u>	<u>29,267</u>
2,540	19,550	2,253	32,372
-	-	-	3,082
-	-	-	3,082
2,540	19,550	2,253	35,454
<u>21,928</u>	<u>196,865</u>	<u>136,175</u>	<u>14,318</u>
<u>\$ 24,468</u>	<u>\$ 216,415</u>	<u>\$ 138,428</u>	<u>\$ 49,772</u>

See Independent Auditors' Report.

City of Three Forks, Montana
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds (Continued)
For the Year Ended June 30, 2022

	Special Revenue Funds		
	Headwaters Trails System	Fire Impact Fees	Total
Revenues:			
Taxes/assessments	\$ -	\$ -	\$ 117,636
Intergovernmental	127,559	-	237,181
Charges for services	-	22,274	22,274
Interest on investments	-	163	163
Other	32,462	-	43,464
Total revenues	<u>160,021</u>	<u>22,437</u>	<u>420,718</u>
Expenditures:			
Current:			
Public works	5,494	-	88,285
Culture and recreation	-	-	4,612
Capital outlay	<u>120,792</u>	<u>-</u>	<u>144,592</u>
Total expenditures	<u>126,286</u>	<u>-</u>	<u>237,489</u>
Revenues over (under) expenditures	<u>33,735</u>	<u>22,437</u>	<u>183,229</u>
Other financing sources (uses):			
Operating transfers	<u>-</u>	<u>-</u>	<u>(1,918)</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(1,918)</u>
Excess of revenues over expenditures and other financing sources (uses)	33,735	22,437	181,311
Fund balances, beginning of year	<u>70,404</u>	<u>65,731</u>	<u>756,394</u>
Fund balances, end of year	<u>\$ 104,139</u>	<u>\$ 88,168</u>	<u>\$ 937,705</u>

See Independent Auditors' Report.

Capital Project Funds

	Library Reserve	Streets Capital Improve- ment	Parks Capital Improvement	Fire Department Capital Improve- ment	Total
Revenues:					
Intergovernmental	\$ -	\$ 19,196	\$ -	\$ -	\$ 19,196
Interest on investments	191	461	191	192	1,035
Other	-	13,970	-	2,823	16,793
Total revenues	191	33,627	191	3,015	37,024
Expenditures:					
Current:					
Culture and recreation	6,185	-	-	-	6,185
Capital outlay	-	-	26,446	14,427	40,873
Total expenditures	6,185	-	26,446	14,427	47,058
Revenues over (under) expenditures	(5,994)	33,627	(26,255)	(11,412)	(10,034)
Other financing sources (uses):					
Operating transfers	-	-	5,000	-	5,000
Total other financing sources (uses)	-	-	5,000	-	5,000
Excess of revenues over expenditures and other financing sources (uses)	(5,994)	33,627	(21,255)	(11,412)	(5,034)
Fund balances, beginning of year	57,112	386,402	66,951	63,957	574,422
Fund balances, end of year	\$ 51,118	\$ 420,029	\$ 45,696	\$ 52,545	\$ 569,388

See Independent Auditors' Report.

City of Three Forks, Montana
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds (Continued)
For the Year Ended June 30, 2022

	Total Nonmajor Governmental Funds
Revenues:	
Taxes/assessments	\$ 117,636
Intergovernmental	256,377
Charges for services	22,274
Interest on investments	1,198
Other	60,257
Total revenues	<u>457,742</u>
Expenditures:	
Current:	
Public works	88,285
Culture and recreation	10,797
Capital outlay	185,465
Total expenditures	<u>284,547</u>
Revenues over (under) expenditures	<u>173,195</u>
Other financing sources (uses):	
Operating transfers	3,082
Total other financing sources (uses)	<u>3,082</u>
Excess of revenues over expenditures and other financing sources (uses)	176,277
Fund balances, beginning of year	<u>1,330,816</u>
Fund balances, end of year	<u>\$ 1,507,093</u>

See Independent Auditors' Report.



INDEPENDENT AUDITORS' 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 Three Forks, Montana:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Three Forks, Montana (the "City"), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the City of Three Forks, Montana basic financial statements and have issued our report thereon dated May 9, 2023. Our report qualifies our opinion on the governmental activities because management has not recorded the total pension liability and related expense required by GASB Statement No. 73.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City'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 City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2022-1 that we consider to be a material weakness.

Report on Compliance and Other Matters

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

City's Response to Findings

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

Purpose of this Report

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

Rudd & Company, PLLC

Bozeman, Montana

May 9, 2023

City of Three Forks, Montana
Schedule of Findings and Summary of Prior Year Findings
For the Year Ended June 30, 2022

Current Year Findings:

Internal Control Findings – Material Weakness

2022-1 FDRA Pension Liability not Recorded

Criteria

U.S. generally accepted accounting principles require the total pension liability and related expense (GASB Statement No. 73) be recorded in the financial statements.

Condition

The City did not record the FDRA pension liability and related expense in the financial statements.

Context

The City did not engage an actuarial firm to assist in determining the FDRA pension liability and related expense as of and for the year ended June 30, 2022.

Effect

The effect is the City's governmental activities liabilities are understated, net position is overstated and expense would change.

Recommendation

We recommend the City engage an actuarial firm to determine the total pension liability and related expense.

City Response

The City understands that GASB Statement No. 73 requires municipalities with Fire Department Relief Associations (FDRA) to report pension information in the manner required by GASB 68. The City recognizes that the FDRA is subject to these requirements and have voted to not have an actuarial study completed during the current year.

Prior Year Findings:

2021-1 FDRA Pension Liability not Recorded – Repeat finding, see 2022-1