



RUDD & COMPANY PLLC
certified public accountants | business consultants

CITY OF THREE FORKS, MONTANA

Annual Financial Report

June 30, 2023

giving direction to your future

City of Three Forks, Montana
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CITY OF THREE FORKS, MONTANA
2022 to 2023
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/Deputy
City Court Clerk

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, 2023, 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, 2023 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, 2023, 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.

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 for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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 April 9, 2024, 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

April 9, 2024

MANAGEMENT DISCUSSION AND ANALYSIS

**City of Three Forks, Montana
Management Discussion and Analysis
For the Year Ended June 30, 2023**

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, 2023. 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 2023 include:

- The City’s Governmental activities’ assets and deferred outflows of resources exceed liabilities and deferred inflows of resources at June 30, 2023 by \$3,687,100. The unrestricted net position is \$1,106,578.
- The City’s Governmental activities’ net position increased \$147,422 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, 2023 by \$8,495,502, of which \$2,257,388 is unrestricted.
- The City’s Business-type activities’ net position increased \$562,680 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, 2023**

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, Library Operating Fund, and Headwaters Trail Project 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 \$2,155,151, an increase of \$59,347 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 (Decrease)</u>
	<u>2023</u>	<u>2022</u>	
General	\$ 389,327	\$ 424,576	\$ (35,249)

The fund balance of the General Fund decreased by \$35,249. Revenues were comparable to the prior period. Expenditures increased approximately 8% due to minor equipment purchases and the development of a comprehensive capital improvement plan.

<u>Major Funds</u>	<u>Fund Balance at June 30,</u>		<u>Increase (Decrease)</u>
	<u>2023</u>	<u>2022</u>	
Three Forks Rodeo Arena	\$ 167,885	\$ 79,155	\$ 88,730

The fund balance of the Three Forks Rodeo Arena Fund increased by \$88,730. Revenues were comparable to the prior period. Expenditures decreased approximately 9% due to capital outlay in the prior year.

**City of Three Forks, Montana
Management Discussion and Analysis
For the Year Ended June 30, 2023**

Financial Highlights (continued)

<u>Major Funds</u>	<u>Fund Balance at June 30,</u>		<u>Increase (Decrease)</u>
	<u>2023</u>	<u>2022</u>	
Library Operating	\$ 86,283	\$ 84,980	\$ 1,303

The fund balance of the Library Operating Fund increased by \$1,303. Revenues and expenditures were consistent with the prior year.

<u>Major Funds</u>	<u>Fund Balance at June 30,</u>		<u>Increase (Decrease)</u>
	<u>2023</u>	<u>2022</u>	
Headwaters Trail Project	\$ 44,472	104,139	\$ (59,667)

The fund balance of the Headwaters Trail Project Fund decreased by \$59,667. Revenues decreased by approximately 24% due to the receipt of an open space grant in the prior year. Expenditures increased by approximately 43% due to capital outlay in the current year.

Proprietary Funds

As of the end of the current fiscal year, the City's proprietary funds reported a combined ending fund balance of \$8,495,502, an increase of \$562,680 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 (Decrease)</u>
	<u>2023</u>	<u>2022</u>	
Water	\$ 3,092,883	\$ 2,802,144	\$ 290,739
Sewer	\$ 5,402,619	\$ 5,130,678	\$ 271,941

Combined, the Water Fund and Sewer fund net positions increased \$562,680 as a result of current year activities. Water Fund revenues increased by approximately 13% due to the receipt of a Renewable Resource Grant in the current year, while expenses were consistent with the prior year. Sewer Fund revenue and expenses were consistent with the prior year.

**City of Three Forks, Montana
Management Discussion and Analysis
For the Year Ended June 30, 2023**

Financial Highlights (continued)

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.

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, 2023**

Reporting the City as a Whole

The City is providing financial information for fiscal year 2023 and 2022, as detailed in the reports. Table 1 provides a summary of the City's net position for fiscal years 2023 and 2022 for the Governmental Activities.

Table 1
Summarized Schedule of Net Position

	Governmental Activities		Total change 2022-2023
	2023	2022	
Assets			
Current assets	\$ 2,240,977	\$ 2,148,501	\$ 92,476
Noncurrent other assets	92,779	105,735	(12,956)
Capital assets (net)	1,959,969	1,936,774	23,195
Total Assets	\$ 4,293,725	\$ 4,191,010	\$ 102,715
Deferred Outflows			
Pension related items	26,754	23,060	3,694
Total Deferred Outflows	\$ 26,754	\$ 23,060	\$ 3,694
Liabilities			
Current liabilities	\$ 63,373	\$ 72,308	\$ (8,935)
Noncurrent liabilities	441,526	429,561	11,965
Total Liabilities	\$ 504,899	\$ 501,869	\$ 3,030
Deferred Inflows			
Lease related items	\$ 102,900	\$ 117,263	\$ (14,363)
OPEB related items	15,545	19,963	(4,418)
Pension related items	10,035	35,297	(25,262)
Total Deferred Inflows	\$ 128,480	\$ 172,523	\$ (44,043)
Net Position			
Net investment in capital assets	\$ 1,630,728	\$ 1,572,982	\$ 57,746
Restricted	949,794	987,556	(37,762)
Unrestricted	1,106,578	979,140	127,438
Total Net Position	\$ 3,687,100	\$ 3,539,678	\$ 147,422

**City of Three Forks, Montana
Management Discussion and Analysis
For the Year Ended June 30, 2023**

Reporting the City as a Whole (continued)

Table 2 shows the changes in net position for fiscal year 2023, compared to fiscal year 2022 results for the Governmental Activities:

Table 2
Changes in Net Position

	Governmental Activities		Total change 2022-2023
	2023	2022	
Revenues			
<i>Program Revenues:</i>			
Charges for services	\$ 483,340	\$ 475,048	\$ 8,292
Operating grants and contributions	173,072	340,739	(167,667)
Capital grants and contributions	69,000	-	69,000
<i>General Revenues:</i>			
Property taxes, levied for general purposes	598,458	570,541	27,917
Grants and contributions, not restricted	219,224	206,913	12,311
Unrestricted investment earnings	8,143	1,224	6,919
Miscellaneous	7,134	7,698	(564)
TOTAL REVENUES	1,558,371	1,602,163	(43,792)
Expenses			
General government	205,220	172,085	33,135
Public safety	416,110	394,134	21,976
Public works	329,260	198,148	131,112
Public health	179	148	31
Culture and recreation	433,673	382,856	50,817
Housing and community development	13,524	24,277	(10,753)
Other	8,937	7,194	1,743
Interest and fiscal fees	4,046	4,772	(726)
Unallocated depreciation	-	194	(194)
TOTAL EXPENSES	1,410,949	1,183,808	227,141
CHANGES IN NET POSITION	147,422	418,355	(270,933)
<i>Net Position, Beginning of Year</i>	<i>3,539,678</i>	<i>3,121,323</i>	<i>418,355</i>
<i>Net Position, End of Year</i>	\$ 3,687,100	\$ 3,539,678	\$ 147,422

**City of Three Forks, Montana
Management Discussion and Analysis
For the Year Ended June 30, 2023**

Reporting the City as a Whole (continued)

Table 3 provides a summary of the City's net position for fiscal years 2023 and 2022 for the Business-type Activities.

Table 3
Summarized Schedule of Net Position

	Business-type Activities		Total change 2022-2023
	2023	2022	
Assets			
Current assets	\$ 3,044,251	\$ 2,818,010	\$ 226,241
Noncurrent other assets	224,763	224,763	-
Capital assets (net)	9,411,103	9,462,457	(51,354)
Total Assets	\$ 12,680,117	\$ 12,505,230	\$ 174,887
Deferred Outflows			
Pension related items	70,159	72,002	(1,843)
Total Deferred Outflows	\$ 70,159	\$ 72,002	\$ (1,843)
Liabilities			
Current liabilities	\$ 607,451	\$ 709,908	\$ (102,457)
Noncurrent liabilities	3,571,779	3,758,864	(187,085)
Total Liabilities	\$ 4,179,230	\$ 4,468,772	\$ (289,542)
Deferred Inflows			
OPEB related items	\$ 49,228	\$ 65,428	\$ (16,200)
Pension related items	26,316	110,210	(83,894)
Total Deferred Inflows	\$ 75,544	\$ 175,638	\$ (100,094)
Net Position			
Net investment in capital assets	\$ 5,985,103	\$ 5,791,457	\$ 193,646
Restricted	224,763	224,763	-
Unrestricted	2,285,636	1,916,602	369,034
Total Net Position	\$ 8,495,502	\$ 7,932,822	\$ 562,680

**City of Three Forks, Montana
Management Discussion and Analysis
For the Year Ended June 30, 2023**

Reporting the City as a Whole (continued)

Table 4 shows the changes in net position for fiscal year 2023, compared to fiscal year 2022 results for the Business-type Activities:

Table 4
Changes in Net Position

	Business-type Activities		Total change 2022-2023
	2023	2022	
Revenues and Special Items			
<i>Program Revenues:</i>			
Charges for services	\$ 1,431,128	\$ 1,371,555	\$ 59,573
Capital grants and contributions	224,772	-	224,772
<i>General Revenues:</i>			
Grants and contributions, not restricted	11,084	229,033	(217,949)
Unrestricted investment earnings	68,140	10,444	57,696
TOTAL REVENUES	1,735,124	1,611,032	124,092
Expenses			
Water	502,464	509,006	(6,542)
Sewer	669,980	702,347	(32,367)
TOTAL EXPENSES	1,172,444	1,211,353	(38,909)
CHANGES IN NET POSITION	562,680	399,679	163,001
<i>Net Position, Beginning of Year</i>	<i>7,932,822</i>	<i>7,533,143</i>	<i>399,679</i>
<i>Net Position, End of Year</i>	\$ 8,495,502	\$ 7,932,822	\$ 562,680

**City of Three Forks, Montana
Management Discussion and Analysis
For the Year Ended June 30, 2023**

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 38% of revenues for fiscal year 2023.

Table 5
Major Resources

	Governmental Activities	Percent of Total
<i>General revenues:</i>		
Property taxes, levied for general	\$ 598,458	38.40%
Grants and contributions, not restricted	219,224	14.07%
Unrestricted investment earnings	8,143	0.52%
Miscellaneous	7,134	0.45%
<i>Total general revenues</i>	\$ 832,959	53.44%
Charges for services	483,340	31.02%
Operating grants and contributions	173,072	11.11%
Capital grants and contributions	69,000	4.43%
<i>TOTAL REVENUES</i>	\$ 1,558,371	100.00%

**City of Three Forks, Montana
Management Discussion and Analysis
For the Year Ended June 30, 2023**

Analysis of Financial Information (continued)

The largest portion of Governmental Activities expenses are culture and recreation, which make up 31% of expenses for fiscal year 2023.

Table 6
Major Expenditure Functions

<i>Expenses</i>	Governmental Activities	Percent of Total
General government	\$ 205,220	14.54%
Public safety	416,110	29.49%
Public works	329,260	23.34%
Public health	179	0.01%
Culture and recreation	433,673	30.74%
Housing and community development	13,524	0.96%
Other	8,937	0.63%
Interest and fiscal fees	4,046	0.29%
<i>TOTAL EXPENSES</i>	\$ 1,410,949	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 82% of revenues for fiscal year 2023.

Table 7
Major Resources

	Business-type Activities	Percent of Total
<i>General revenues:</i>		
Grants and contributions, not restricted	\$ 11,084	0.64%
Unrestricted investment earnings	68,140	3.93%
<i>Total general revenues</i>	\$ 79,224	4.57%
Charges for services	1,431,128	82.48%
Capital grants and contributions	224,772	12.95%
<i>TOTAL REVENUES</i>	\$ 1,735,124	100.00%

**City of Three Forks, Montana
Management Discussion and Analysis
For the Year Ended June 30, 2023**

Analysis of Financial Information (continued)

The largest portion of Business-type Activities expense is Sewer, which makes up 57% of expenses for fiscal year 2023.

Table 8
Major Expenditure Functions

<i>Expenses</i>	Business-type Activities	Percent of Total
Water	\$ 502,464	42.86%
Sewer	669,980	57.14%
<i>TOTAL EXPENSES</i>	\$ 1,172,444	100.00%

Capital Assets

Capital assets of the City are assets purchased over \$10,000 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
Construction in Progress	43,228
Building	584,764
Other structures and improvements	1,188,764
Machinery and equipment	1,751,949
Infrastructure	222,783
Right-of-use leased asset	101,329
<i>Total capital assets</i>	\$ 3,917,695
Less accumulated depreciation	(1,941,182)
Less accumulated amortization	(16,544)
<i>Total capital assets, net of accumulated depreciation and amortization</i>	\$ 1,959,969

**City of Three Forks, Montana
Management Discussion and Analysis
For the Year Ended June 30, 2023**

Analysis of Financial Information (continued)

Capital Assets (continued)

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

Table 10
Capital Assets

	Business-type Activities
Land	\$ 143,000
Construction in Progress	488,493
Building	146,170
Other structures and improvements	163,579
Machinery and equipment	591,634
Source of supply	1,742,355
Transmission and distribution	11,192,655
General plant	390,587
<i>Total capital assets</i>	\$ 14,858,473
Less accumulated depreciation	(5,447,370)
<i>Total capital assets, net of accumulated depreciation</i>	\$ 9,411,103

Debt Administration

The long-term debt of the City is comprised of compensated absences, other post-employment liabilities, leases, loans 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, 2023**

Economic Factors and Next Year's Budget & Rates

The City of Three Forks' financial position in the General Fund for 2022-2023 continues to show an increase in Taxable Valuation and an increase in the Mill Value. The City Council still requests all departments to be frugal and remain within budget. Overall, the City is financially healthy.

The City completed an update/new Growth Policy in FY2022-2023. The City received \$30,000 in a Community Development Block Grant (CDBG) from the State and put in about \$11,000 of City money. 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 and hoped to have a new CIP created in FY2022-2023. However, this is still in progress as of FY2023-2024.

The annual July rodeo was held in 2022 and again had record turnout of spectators.

The Headwaters Trail System repaired and maintained trails quite a bit this fiscal year. There was a crack seal and seal coat project on the oldest part of the trail along Talc Road which cost \$76,000. The City completed the final section of trail from Jefferson Street for \$86,425. The City also received an AARP grant for \$13,099 to purchase outdoor exercise equipment for seniors. Equipment has been ordered and paid for, but it has not arrived yet to be installed.

Within the Park Capital Improvement fund, the City drilled a new cased well for Bertagnolli Park in order to irrigate this park. This park was using treated drinking water to irrigate a full acre, so this saved valuable water for the residents' use. The well cost just under \$7,000.

The City of Three Forks has continued to work with DNRC, Great West Engineering, and Headwaters Economics to be awarded the FEMA Flood Mitigation Assistance (FMA) grant for the Jefferson River flood mitigation channel project. Great West Engineering has been preparing and submitting the final studies to U.S. Fish Wildlife and Parks (FWP) to receive their approval for the City to be officially awarded the grant. This has been a slower process than expected due to a rare orchid in/near a portion of the proposed channel site. In FY2022-2023, the City spent \$43,230 for engineering towards this project.

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, 2023**

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

In FY2022-2023 the City replaced some water valves and since the lag of COVID production has passed, now has meters on the shelf. The City will continue to replace radio-read water meters in existing residences and add them to new construction. The City continues with the drinking water project. The City Council connected the newly drilled well at the City shop to the system. The City has been drawing from the grants received from the Department of Natural Resources and Conservation as well as ARPA funds which is a direct allocation called the "Minimum Allocation Grant". The City was also awarded \$559,000 in ARPA funds from Gallatin County and \$2,000,000 in ARPA competitive 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. The Council adjusted the minimum water and sewer rates by reducing the sewer base rate \$5.00 and increasing the water base rate by \$5.00. This is a net zero change to the customer but allowed the City to add revenue to the water fund to pay for the project without depleting the sewer fund.

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 three 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 three loans was \$396,706.

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.

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FINANCIAL STATEMENTS

GOVERNMENT – WIDE FINANCIAL STATEMENTS

City of Three Forks, Montana
Statement of Net Position
June 30, 2023

	Governmental Activities	Business-type Activities	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 1,970,130	\$ 2,848,741	\$ 4,818,871
Investments	170,014	79,987	250,001
Accounts receivable	90	-	90
Lease receivables, current portion	12,956	-	12,956
Tax receivables	16,749	-	16,749
Customer receivables	-	115,523	115,523
Interest receivable	1,546	-	1,546
Due from other governments	69,492	-	69,492
Total Current assets	2,240,977	3,044,251	5,285,228
Noncurrent other assets			
Restricted cash and investments	-	224,763	224,763
Lease receivables, noncurrent	92,779	-	92,779
Total Noncurrent other assets	92,779	224,763	317,542
Capital assets			
Land	24,878	143,000	167,878
Right-of-use leased asset	101,329	-	101,329
Construction in progress	43,228	488,493	531,721
Other capital assets	3,748,260	14,226,980	17,975,240
Less: accumulated depreciation	(1,941,182)	(5,447,370)	(7,388,552)
Less: accumulated amortization	(16,544)	-	(16,544)
Net Capital assets	1,959,969	9,411,103	11,371,072
Total Assets	4,293,725	12,680,117	16,973,842
Deferred Outflows of Resources			
Pension related items	26,754	70,159	96,913
Total Deferred Outflows of Resources	\$ 26,754	\$ 70,159	\$ 96,913
Total assets and deferred outflows	\$ 4,320,479	\$ 12,750,276	\$ 17,070,755

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

City of Three Forks, Montana
Statement of Net Position (continued)
June 30, 2023

	Governmental Activities	Business-type Activities	Total
Liabilities			
Current liabilities			
Accounts payable and accrued expenses	\$ 21,508	\$ 29,691	\$ 51,199
Deposits payable	-	10,850	10,850
Lease, current portion	7,112	-	7,112
Compensated absences, current portion	5,328	22,606	27,934
Intercap loan, current portion	29,425	-	29,425
Revenues collected in advance	-	292,304	292,304
Revenue bonds, current portion	-	252,000	252,000
Total Current liabilities	63,373	607,451	670,824
Noncurrent liabilities			
Lease, noncurrent	82,492	-	82,492
Compensated absences, noncurrent	3,131	10,636	13,767
Intercap loan, noncurrent	210,087	-	210,087
Revenue bonds, noncurrent	-	3,174,000	3,174,000
Other post employment liability	8,742	27,684	36,426
Net pension liability	137,074	359,459	496,533
Total Noncurrent liabilities	441,526	3,571,779	4,013,305
Total Liabilities	504,899	4,179,230	4,684,129
Deferred Inflows of Resources			
Lease related items	102,900	-	102,900
OPEB related items	15,545	49,228	64,773
Pension related items	10,035	26,316	36,351
Total Deferred Inflows of Resources	128,480	75,544	204,024
Net Position			
Net investment in capital assets	1,630,728	5,985,103	7,615,831
Restricted for:			
General government	2,835	-	2,835
Public safety	236,017	-	236,017
Public works	528,129	-	528,129
Culture and recreation	182,813	-	182,813
Debt service	-	224,763	224,763
Unrestricted	1,106,578	2,285,636	3,392,214
Total Net Position	\$ 3,687,100	\$ 8,495,502	\$ 12,182,602
Total liabilities, deferred inflows and net position	\$ 4,320,479	\$ 12,750,276	\$ 17,070,755

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, 2023

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary Government:			
Governmental activities:			
General government	\$ 205,220	\$ 16,337	\$ 48,422
Public safety	416,110	30,080	-
Public works	329,260	90,744	46,714
Public health	179	-	-
Culture and recreation	433,673	346,179	77,936
Housing and community development	13,524	-	-
Other	8,937	-	-
Interest and fiscal fees	4,046	-	-
Total governmental activities	<u>1,410,949</u>	<u>483,340</u>	<u>173,072</u>
Business-type activities			
Water	502,464	499,418	-
Sewer	669,980	931,710	-
Total business-type activities	<u>1,172,444</u>	<u>1,431,128</u>	<u>-</u>
Total primary governmental activities	<u>\$ 2,583,393</u>	<u>\$ 1,914,468</u>	<u>\$ 173,072</u>

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.

Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position		
	Primary Government		
	Governmental Activities	Business-type Activities	Total
\$ -	\$ (140,461)	\$ -	\$ (140,461)
-	(386,030)	-	(386,030)
-	(191,802)	-	(191,802)
-	(179)	-	(179)
69,000	59,442	-	59,442
-	(13,524)	-	(13,524)
-	(8,937)	-	(8,937)
-	(4,046)	-	(4,046)
<u>69,000</u>	<u>(685,537)</u>	<u>-</u>	<u>(685,537)</u>
224,772	-	221,726	221,726
-	-	261,730	261,730
<u>224,772</u>	<u>-</u>	<u>483,456</u>	<u>483,456</u>
<u>\$ 293,772</u>	<u>(685,537)</u>	<u>483,456</u>	<u>(202,081)</u>
	598,458	-	598,458
	219,224	11,084	230,308
	8,143	68,140	76,283
	7,134	-	7,134
	<u>832,959</u>	<u>79,224</u>	<u>912,183</u>
	<u>147,422</u>	<u>562,680</u>	<u>710,102</u>
	<u>3,539,678</u>	<u>7,932,822</u>	<u>11,472,500</u>
	<u>\$ 3,687,100</u>	<u>\$ 8,495,502</u>	<u>\$ 12,182,602</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, 2023

	General Fund	Three Forks Rodeo Arena	Library Operating
Assets			
Cash and cash equivalents	\$ 333,528	\$ 68,682	\$ 86,526
Investments	-	100,000	-
Accounts receivable	90	-	-
Lease receivable	105,735	-	-
Interest receivable	1,546	-	-
Property tax receivable	9,692	-	820
Personal tax receivable	3,866	-	315
Special assessment receivable	-	-	-
Due from other governments	66,431	-	2,671
	<u>520,888</u>	<u>168,682</u>	<u>90,332</u>
Total Assets	<u>\$ 520,888</u>	<u>\$ 168,682</u>	<u>\$ 90,332</u>
Liabilities, Deferred Inflows and Fund Balance			
Liabilities:			
Accounts payable	\$ 15,103	\$ 797	\$ 2,914
Total Liabilities	<u>15,103</u>	<u>797</u>	<u>2,914</u>
Deferred inflows of resources:			
Deferred inflows of lease related items	102,900	-	-
Deferred inflows of tax revenues	13,558	-	1,135
Total Deferred inflows of resources	<u>116,458</u>	<u>-</u>	<u>1,135</u>
Fund balances:			
Nonspendable	2,835	-	-
Restricted	-	-	86,283
Committed	-	167,885	-
Unassigned	386,492	-	-
Total Fund balances	<u>389,327</u>	<u>167,885</u>	<u>86,283</u>
Total Liabilities, Deferred Inflows, and Fund Balances	<u>\$ 520,888</u>	<u>\$ 168,682</u>	<u>\$ 90,332</u>

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

Headwaters Trail Project	Nonmajor Governmental Funds	Total Governmental Funds
\$ 44,520	\$ 1,436,874	\$ 1,970,130
-	70,014	170,014
-	-	90
-	-	105,735
-	-	1,546
-	515	11,027
-	203	4,384
-	1,338	1,338
-	390	69,492
<u>\$ 44,520</u>	<u>\$ 1,509,334</u>	<u>\$ 2,333,756</u>
<u>\$ 48</u>	<u>\$ 2,521</u>	<u>\$ 21,383</u>
48	2,521	21,383
-	-	102,900
-	2,057	16,750
-	2,057	119,650
44,472	813,012	943,767
-	691,744	859,629
-	-	386,492
<u>44,472</u>	<u>1,504,756</u>	<u>2,192,723</u>
<u>\$ 44,520</u>	<u>\$ 1,509,334</u>	<u>\$ 2,333,756</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, 2023

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

Total fund balances - governmental funds	\$ 2,192,723
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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 \$3,917,695, the accumulated depreciation is \$1,941,182, and the accumulated amortization is \$16,544.	1,959,969
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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.	16,750
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The deferred outflows of resources related to the pension activity are not reported in the fund statements.	26,754
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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.	(25,580)
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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>(483,516)</u>
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Total net position - governmental activities	<u>\$ 3,687,100</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, 2023

	<u>General Fund</u>	<u>Three Forks Rodeo Arena</u>	<u>Library Operating</u>
Revenues:			
Taxes/assessments	\$ 460,007	\$ -	\$ 41,053
Licenses and permits	16,816	-	-
Intergovernmental	223,568	-	87,825
Charges for services	17,499	266,947	925
Fines and forfeitures	57	-	59
Interest on investments	-	34	-
Other	7,134	3,447	18,824
Total Revenues	<u>725,081</u>	<u>270,428</u>	<u>148,686</u>
Expenditures:			
Current:			
General government	201,180	-	-
Public safety	409,696	-	-
Public works	55,759	-	-
Public health	179	-	-
Culture and recreation	75,224	145,219	145,239
Housing and community development	15,229	-	-
Other	3,063	3,730	2,144
Capital outlay	-	-	-
Debt service			
Principal payments	-	28,703	-
Interest and fiscal fees	-	4,046	-
Total Expenditures	<u>760,330</u>	<u>181,698</u>	<u>147,383</u>
Excess (deficiency) of revenues over expenditures	<u>(35,249)</u>	<u>88,730</u>	<u>1,303</u>
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	<u>(35,249)</u>	<u>88,730</u>	<u>1,303</u>
Fund balances, beginning of year	<u>424,576</u>	<u>79,155</u>	<u>84,980</u>
Fund balances, end of year	<u>\$ 389,327</u>	<u>\$ 167,885</u>	<u>\$ 86,283</u>

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

Headwaters Trail Project	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 145,530	\$ 646,590
-	-	16,816
69,000	80,902	461,295
-	33,580	318,951
-	-	116
-	8,110	8,144
52,182	16,966	98,553
<u>121,182</u>	<u>285,088</u>	<u>1,550,465</u>
-	-	201,180
-	-	409,696
85,619	117,507	258,885
-	-	179
-	8,049	373,731
-	-	15,229
-	-	8,937
95,230	57,730	152,960
-	-	28,703
-	-	4,046
<u>180,849</u>	<u>183,286</u>	<u>1,453,546</u>
<u>(59,667)</u>	<u>101,802</u>	<u>96,919</u>
<u>(59,667)</u>	<u>101,802</u>	<u>96,919</u>
<u>104,139</u>	<u>1,402,954</u>	<u>2,095,804</u>
<u>\$ 44,472</u>	<u>\$ 1,504,756</u>	<u>\$ 2,192,723</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, 2023

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

Net change in fund balances - total governmental funds	\$ 96,919
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.	23,195
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	7,906
Repayment of principal and lease payments are an expenditure in the governmental funds, but this repayment reduces long-term liabilities in the statement of net position.	34,551
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.	7,368
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>(22,517)</u>
Change in net position of governmental activities	<u>\$ 147,422</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, 2023

	Business-Type Activities Enterprise Funds		
	Water Fund	Sewer Fund	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 867,815	\$ 1,980,926	\$ 2,848,741
Investments	50,489	29,498	79,987
Customer receivable	44,668	70,855	115,523
Total Current assets	<u>962,972</u>	<u>2,081,279</u>	<u>3,044,251</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	488,493	-	488,493
Buildings	98,085	48,085	146,170
Other structures and improvements	106,092	57,487	163,579
Machinery and equipment	219,271	372,363	591,634
Source of supply	1,742,355	-	1,742,355
Transmission and distribution	2,105,349	9,087,306	11,192,655
General plant	390,587	-	390,587
Accumulated depreciation and amortization	<u>(2,210,463)</u>	<u>(3,236,907)</u>	<u>(5,447,370)</u>
Net Capital assets	<u>3,027,269</u>	<u>6,383,834</u>	<u>9,411,103</u>
Total Assets	<u>4,038,227</u>	<u>8,641,890</u>	<u>12,680,117</u>
Deferred Outflows of Resources			
Pension related items	35,087	35,072	70,159
Total Deferred Outflows of Resources	<u>35,087</u>	<u>35,072</u>	<u>70,159</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 4,073,314</u>	<u>\$ 8,676,962</u>	<u>\$ 12,750,276</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, 2023

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Liabilities			
Current liabilities			
Accounts payable	\$ 13,271	\$ 16,420	\$ 29,691
Deposits payable	10,850	-	10,850
Compensated absences, current	10,497	12,109	22,606
Revenues collected in advance	292,304	-	292,304
Revenue bonds, current	34,000	218,000	252,000
Total Current liabilities	<u>360,922</u>	<u>246,529</u>	<u>607,451</u>
Noncurrent liabilities			
Compensated absences	6,124	4,512	10,636
Revenue bonds, noncurrent	382,000	2,792,000	3,174,000
OPEB liability	13,842	13,842	27,684
Net pension liability	179,768	179,691	359,459
Total Noncurrent liabilities	<u>581,734</u>	<u>2,990,045</u>	<u>3,571,779</u>
Total Liabilities	<u>942,656</u>	<u>3,236,574</u>	<u>4,179,230</u>
Deferred Inflows of Resources			
OPEB related items	24,614	24,614	49,228
Pension related items	13,161	13,155	26,316
Total Deferred Inflows of Resources	<u>37,775</u>	<u>37,769</u>	<u>75,544</u>
Net Position			
Net investment in capital assets	2,611,269	3,373,834	5,985,103
Restricted for debt service	47,986	176,777	224,763
Unrestricted	433,628	1,852,008	2,285,636
Total Net Position	<u>3,092,883</u>	<u>5,402,619</u>	<u>8,495,502</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 4,073,314</u>	<u>\$ 8,676,962</u>	<u>\$ 12,750,276</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, 2023

	Business-Type Activities Enterprise Funds		
	Water Fund	Sewer Fund	Total
Operating revenues:			
Charges for services	\$ 499,418	\$ 931,710	\$ 1,431,128
Total operating revenues	499,418	931,710	1,431,128
Operating expenses:			
Personnel services	\$ 188,137	\$ 186,393	374,530
Depreciation and amortization	105,191	196,829	302,020
Supplies, service, materials	198,136	207,508	405,644
Total operating expenses	491,464	590,730	1,082,194
Operating income	7,954	340,980	348,934
Non-operating revenues (expenses)			
Interest income	63,470	4,670	68,140
Interest expense	(11,000)	(79,250)	(90,250)
Intergovernmental revenue	230,315	5,541	235,856
Total Non-operating revenues (expenses)	282,785	(69,039)	213,746
Change in net position	290,739	271,941	562,680
Net position, beginning of year	2,802,144	5,130,678	7,932,822
Net position, end of year	\$ 3,092,883	\$ 5,402,619	\$ 8,495,502

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, 2023

	Business-Type Activities Enterprise Funds		
	Water Fund	Sewer Fund	Total
Increase in Cash and Cash Equivalents			
Cash Flows from Operations			
Receipts from customers	\$ 492,907	\$ 934,360	\$ 1,427,267
Payments to suppliers	(285,014)	(209,685)	(494,699)
Payments to employees	(200,092)	(200,128)	(400,220)
Net Cash Provided by Operating Activities	7,801	524,547	532,348
Cash Flows from Noncapital Financing Activities			
Subsidies from taxes and other governments	202,067	5,541	207,608
Net Cash Provided by Noncapital and Related Financing Activities	202,067	5,541	207,608
Cash Flows from Financing Activities			
Purchases of property, plant and equipment	(239,232)	(11,434)	(250,666)
Principal payments on bonds and loans	(32,000)	(213,000)	(245,000)
Interest paid on debt	(11,000)	(79,250)	(90,250)
Net Cash Used by Financing Activities	(282,232)	(303,684)	(585,916)
Cash Flows from Investing Activities			
Interest Earnings	63,470	4,670	68,140
Purchase of investments	(80)	(25)	(105)
Net Cash Provided by Investing Activities	63,390	4,645	68,035
Net Increase (Decrease) in Cash and Cash Equivalents	(8,974)	231,049	222,075
Cash and Cash Equivalents, Beginning of Year	924,775	1,926,654	2,851,429
Cash and Cash Equivalents, End of Year	\$ 915,801	\$ 2,157,703	\$ 3,073,504
Classified As:			
Current Assets	\$ 867,815	\$ 1,980,926	\$ 2,848,741
Restricted Assets	47,986	176,777	224,763
Total Cash and Cash Equivalents	\$ 915,801	\$ 2,157,703	\$ 3,073,504

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, 2023

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Operating Income	\$ 7,954	\$ 340,980	\$ 348,934
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	105,191	196,829	302,020
Change in:			
Accounts receivable	(6,711)	2,650	(4,061)
Accounts payable	(86,878)	(2,177)	(89,055)
Deposits payable	200	-	200
Compensated absences	5,070	5,070	10,140
OPEB related items	(22,120)	(23,843)	(45,963)
Pension related items	5,095	5,038	10,133
Net cash provided operating activities	<u>\$ 7,801</u>	<u>\$ 524,547</u>	<u>\$ 532,348</u>

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

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FIDUCIARY FUND FINANCIAL STATEMENTS

City of Three Forks, Montana
Statement of Fiduciary Net Position
June 30, 2023

	<u>Custodial Fund</u>
Assets	
Taxes receivable	\$ 275
Total assets	<u>275</u>
 Liabilities	
Due to other organizations	\$ 275
Total liabilities	<u>275</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, 2023

	<u>Custodial Fund</u>
Additions	
Tax collections for other organizations	\$ 7,485
Miscellaneous	<u>5,368</u>
Total additions	<u>12,853</u>
 Deductions	
Payments to other organizations	<u>12,853</u>
Total deductions	<u>12,853</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, 2023

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, 2023, 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 \$73,988 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 \$950 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 8.75 mills (including the voter approved 3 mills) for the fiscal year ended June 30, 2023 and received \$30,989 in total tax revenue.

City of Three Forks, Montana
Notes to the Financial Statements
For the Year Ended June 30, 2023

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 regarding 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, 2023

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, 2023

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 *Headwaters Trail Project Fund* is a special revenue fund that accounts for the financial resources related to the building and maintenance of the Headwaters Trail.

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.

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

During the year, the City implemented GASB Statement 96: *Subscription-Based Information Technology Arrangements*. 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 City has evaluated the present value of all the City’s future subscription payments, and the amount is not material to the financial statements as a whole. The adoption of this standard resulted in no additional disclosures related to subscription-based information technology arrangements.

Capital Assets

The City’s assets are capitalized at historical cost or estimated historical cost. Their capitalization threshold for reporting capital assets is \$10,000. 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, 2023

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 streetlights.

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.

City of Three Forks, Montana
Notes to the Financial Statements
For the Year Ended June 30, 2023

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.

City of Three Forks, Montana
Notes to the Financial Statements
For the Year Ended June 30, 2023

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 2023.

Subsequent Events

Subsequent events have been evaluated through April 9, 2024, 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, 2023

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, 2023, the carrying amount of the City's deposits with financial institutions was \$5,298,016 and the bank balance was \$5,487,013. 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, 2023 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, 2023, 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, 2023, 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, 2023

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 $\frac{5}{6}$ 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, 2023, were within legal limits. The tax levies were based upon a taxable valuation of \$3,583,426.

City of Three Forks, Montana
Notes to the Financial Statements
For the Year Ended June 30, 2023

4. Capital Assets

All capital assets of the City are depreciable with the exception of land and construction in progress. Capital assets of the City for the year ended June 30, 2023, consisted of the following:

	As of June 30, 2022	Additions	Retirements	As of June 30, 2023
Governmental Activities				
Capital assets not subject to depreciation:				
Land	\$ 24,878	\$ -	\$ -	\$ 24,878
Construction in progress	-	43,228	-	43,228
Capital assets subject to depreciation:				
Buildings	584,764	-	-	584,764
Other structures and improvements	1,093,534	95,230	-	1,188,764
Machinery and equipment	1,751,949	-	-	1,751,949
Infrastructure	208,281	14,502	-	222,783
Total capital assets	<u>3,663,406</u>	<u>152,960</u>	<u>-</u>	<u>3,816,366</u>
Accumulated depreciation				
Buildings	(285,629)	(12,798)	-	(298,427)
Other structures and improvements	(550,459)	(48,440)	-	(598,899)
Machinery and equipment	(780,597)	(58,842)	-	(839,439)
Infrastructure	(203,004)	(1,413)	-	(204,417)
Accumulated depreciation	<u>(1,819,689)</u>	<u>(121,493)</u>	<u>-</u>	<u>(1,941,182)</u>
Total governmental activities capital assets (net)	<u>1,843,717</u>	<u>31,467</u>	<u>-</u>	<u>1,875,184</u>
Right-of-use lease asset subject to amortization				
Leased office space	101,329	-	-	101,329
Accumulated amortization				
Leased office space	(8,272)	(8,272)	-	(16,544)
Total governmental activities right-of-use lease asset (net)	<u>93,057</u>	<u>(8,272)</u>	<u>-</u>	<u>84,785</u>
Total governmental activities	<u>\$ 1,936,774</u>	<u>\$ 23,195</u>	<u>\$ -</u>	<u>\$ 1,959,969</u>
Business-type Activities				
Capital assets not subject to depreciation:				
Land	\$ 143,000	\$ -	\$ -	\$ 143,000
Construction in progress	280,433	208,060	-	488,493
Capital assets subject to depreciation:				
Buildings	146,170	-	-	146,170
Other structures and improvements	163,579	-	-	163,579
Machinery and equipment	574,636	16,998	-	591,634
Source of supply	1,716,747	25,608	-	1,742,355
Transmission and distribution	11,192,655	-	-	11,192,655
General plant	390,587	-	-	390,587
Total capital assets	<u>14,607,807</u>	<u>250,666</u>	<u>-</u>	<u>14,858,473</u>
Accumulated depreciation				
Buildings	(70,491)	(7,467)	-	(77,958)
Other structures and improvements	(146,366)	(3,472)	-	(149,838)
Machinery and equipment	(453,175)	(14,698)	-	(467,873)
Source of supply	(320,086)	(37,146)	-	(357,232)
Transmission and distribution	(3,862,293)	(231,100)	-	(4,093,393)
General plant	(292,939)	(8,137)	-	(301,076)
Accumulated depreciation	<u>(5,145,350)</u>	<u>(302,020)</u>	<u>-</u>	<u>(5,447,370)</u>
Total business-type activities	<u>\$ 9,462,457</u>	<u>\$ (51,354)</u>	<u>\$ -</u>	<u>\$ 9,411,103</u>
Total capital assets (net)	<u>\$ 11,399,231</u>	<u>\$ (28,159)</u>	<u>\$ -</u>	<u>\$ 11,371,072</u>

City of Three Forks, Montana
Notes to the Financial Statements
For the Year Ended June 30, 2023

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, 2023, 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	\$ 1,005	\$ -
Public safety	3,990	8,272
Public works	68,256	-
Culture and recreation	48,242	-
	<u>\$ 121,493</u>	<u>\$ 8,272</u>
Business-type Activities:		
Water	\$ 105,191	\$ -
Sewer	196,829	-
	<u>\$ 302,020</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, 2023, 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, 2023, are listed below:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Balance July 1, 2022	\$ 8,594	\$ 23,102	\$ 31,696
Additions	-	10,140	10,140
Reductions	(135)	-	(135)
Balance June 30, 2023	<u>8,459</u>	<u>33,242</u>	<u>\$ 41,701</u>
Current portion	\$ 5,328	\$ 22,606	\$ 27,934
Long term portion	<u>3,131</u>	<u>10,636</u>	<u>13,767</u>
Total Compensated Absences	<u>\$ 8,459</u>	<u>\$ 33,242</u>	<u>\$ 41,701</u>

City of Three Forks, Montana
Notes to the Financial Statements
For the Year Ended June 30, 2023

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, 2023:

	<u>Interacap - Bleachers</u>
Balance July 1, 2022	\$ 268,215
Additions	-
Reductions	<u>(28,703)</u>
Balance June 30, 2023	<u>\$ 239,512</u>
Current portion	\$ 29,425
Long term portion	<u>210,087</u>
	<u>\$ 239,512</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, 2022</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2023</u>	<u>Current portion</u>	<u>Long term portion</u>
BOI Interacap/Rodeo Bleachers	\$ 268,215	\$ -	\$ (28,703)	\$ 239,512	\$ 29,425	\$ 210,087
<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, 2023</u>
BOI Interacap/Rodeo Bleachers	8/7/2020	1.55% - 6%	10 yrs	8/15/2030	\$ 310,000	\$ 239,512

City of Three Forks, Montana
Notes to the Financial Statements
For the Year Ended June 30, 2023

6. Long-Term Debt (continued)

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

	<u>Intercept - Bleachers</u>	
	<u>Principal</u>	<u>Interest</u>
FY2024	\$ 29,425	\$ 13,650
FY2025	30,165	11,649
FY2026	30,924	9,903
FY2027	31,702	8,114
FY2028	32,500	6,280
FY2029-2030	84,796	7,369
	<u>\$ 239,512</u>	<u>\$ 56,965</u>

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, 2023:

	<u>Revenue Bonds</u>
Balance July 1, 2022	\$ 3,671,000
Reductions	<u>(245,000)</u>
Balance June 30, 2023	<u>\$ 3,426,000</u>
Current portion	\$ 252,000
Long term portion	<u>3,174,000</u>
	<u>\$ 3,426,000</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 July 1, 2022</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2023</u>	<u>Current portion</u>	<u>Long term portion</u>
Water System Revenue Bonds, Series 2014B	448,000	-	(32,000)	416,000	34,000	382,000
Waste Water System Revenue Bonds	<u>3,223,000</u>	-	<u>(213,000)</u>	<u>3,010,000</u>	<u>218,000</u>	<u>2,792,000</u>
Total	<u>\$ 3,671,000</u>	<u>\$ -</u>	<u>\$ (245,000)</u>	<u>\$ 3,426,000</u>	<u>\$ 252,000</u>	<u>\$ 3,174,000</u>

City of Three Forks, Montana
Notes to the Financial Statements
For the Year Ended June 30, 2023

6. Long-Term Debt (continued)

	<u>Date issued</u>	<u>Final maturity</u>	<u>Amount of issue</u>	<u>Debt service</u>	<u>Future debt service</u>
Water System Revenue Bonds, Series 2014B, serial maturities through 2034	8/8/2014	7/1/2034	681,000	44,188	478,363
Water Fund Total			<u>\$ 681,000</u>	<u>\$ 44,188</u>	<u>\$ 478,363</u>
Waste Water System Revenue Bonds, serial maturities through 2035	6/25/2015	7/1/2035	\$ 4,605,340	\$ 291,900	\$ 3,502,363
Sewer Fund Total			<u>\$ 4,605,340</u>	<u>\$ 291,900</u>	<u>\$ 3,502,363</u>

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:

	<u>Revenue Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Interest Rate</u>
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	277,000	57,800	2.50%
FY2029-2033	1,497,000	180,713	2.50%
FY2034-2035	607,000	18,499	2.50%
	<u>\$ 3,426,000</u>	<u>\$ 554,726</u>	

City of Three Forks, Montana
Notes to the Financial Statements
For the Year Ended June 30, 2023

7. Interfund Activity

There were no interfund transfers for the fiscal year ended June 30, 2023.

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.

City of Three Forks, Montana
Notes to the Financial Statements
For the Year Ended June 30, 2023

10. Other Post-Employment Benefits (continued)

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.

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, 2023. 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, 2023, 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 \$36,426 was measured as of June 30, 2023, and was determined using the alternative measurement method calculation as of that date.

City of Three Forks, Montana
Notes to the Financial Statements
For the Year Ended June 30, 2023

10. Other Post-Employment Benefits (continued)

Actuarial Assumptions and Other Inputs

The total OPEB liability as of June 30, 2023 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	55.6
Turnover rate	0.00 percent
Discount rate	4.11 percent
Salary increase	3.50 percent

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

Health cost trend rates were based on the following table:

	<u>Annual %</u>		<u>Annual %</u>
2023-2024	9.06%	2054-2058	4.80%
2024-2025	6.50%	2058-2063	4.70%
2025-2026	6.50%	2063-2070	4.60%
2026-2027	5.90%	2070-2071	4.50%
2027-2028	5.70%	2071-2072	4.40%
2028-2029	5.60%	2072-2073	4.30%
2029-2030	5.50%	2073-2075	4.20%
2030-2031	5.30%	2075-2076	4.10%
2031-2048	5.20%	2076-2078	4.00%
2048-2049	5.10%	2078-2079	3.90%
2049-2051	5.00%	2079+	3.80%
2051-2054	4.90%		

City of Three Forks, Montana
Notes to the Financial Statements
For the Year Ended June 30, 2023

10. Other Post-Employment Benefits (continued)

Changes in the Total Liability

Changes in total OPEB liability as of June 30, 2023:

Balance as of June 30, 2022	\$	69,004
Changes for the year:		
Service cost		18,666
Interest		3,603
Changes of benefit terms		9,925
Changes of assumptions or other inputs		(38,666)
Differences between expected and actual experience		<u>(26,106)</u>
Change in net OPEB obligation		<u>(32,578)</u>
Balance as of June 30, 2023	\$	<u>36,426</u>

	<u>Water</u>	<u>Sewer</u>	<u>Governmental</u>	<u>Total</u>
Prior year OPEB liab	\$ 28,052	\$ 29,395	\$ 11,557	\$ 69,004
Current year OPEB liab	<u>13,842</u>	<u>13,842</u>	<u>8,742</u>	<u>36,426</u>
Change	<u>\$ (14,210)</u>	<u>\$ (15,553)</u>	<u>\$ (2,815)</u>	<u>\$ (32,578)</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, 2023.

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 (3.11%) or one percent higher (5.11%) than the current discount rate.

	Discount Rate		
	<u>1.0% Decrease</u>	<u>4.11%</u>	<u>1.0% Increase</u>
Total OPEB Liability	\$ 37,727	\$ 36,426	\$ 35,138

City of Three Forks, Montana
Notes to the Financial Statements
For the Year Ended June 30, 2023

10. Other Post-Employment Benefits (continued)

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 page 55):

	<u>1.0% Decrease</u>	Healthcare Cost Trend Rates*	<u>1.0% Increase</u>
Total OPEB Liability	\$ 34,248	\$ 36,426	\$ 38,808

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

For the year ending June 30, 2023, the City recognized OPEB expense of (\$63,122). The City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ (26,107)
Changes in assumptions or other inputs	-	(38,666)
Total	<u>\$ -</u>	<u>\$ (64,773)</u>

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

<u>Year ended June 30:</u>	<u>Deferred (Inflows) Outflows of Resources</u>
2023	\$ (64,773)
2024	\$ -
2025	\$ -
2026	\$ -
2027	\$ -
Thereafter	\$ -

11. 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 their 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. The information is provided to employers who are using a June 30, 2022 measurement date for the June 30, 2023 reporting.

Summary of Significant Accounting Policies

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 in which they are 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).

Plan Description

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).

11. Net Pension Liability (continued)

Benefits Provided

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

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

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 retired 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 accumulate 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. 1.5% for each year PERS is funded at or above 90%
 2. 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and
 3. 0% whenever the amortization period for PERS is 40 years or more.

**City of Three Forks, Montana
 Notes to the Financial Statements
 For the Year Ended June 30, 2023**

11. Net Pension Liability (continued)

Contributions

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

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.

Per Montana law, state agencies and universities paid their own additional contributions. These 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.

Local Government

<u>Fiscal Year</u>	<u>Hired <07/01/11</u>	<u>Hired >07/01/11</u>	<u>Employer</u>	<u>State</u>
2023	7.90%	7.90%	8.970%	0.100%
2022	7.90%	7.90%	8.870%	0.100%
2021	7.90%	7.90%	8.770%	0.100%
2020	7.90%	7.90%	8.670%	0.100%
2019	7.90%	7.90%	8.570%	0.100%
2018	7.90%	7.90%	8.470%	0.100%
2017	7.90%	7.90%	8.370%	0.100%
2016	7.90%	7.90%	8.270%	0.100%
2015	7.90%	7.90%	8.170%	0.100%
2014	7.90%	7.90%	8.070%	0.100%
2012-2013	6.90%	7.90%	7.070%	0.100%
2010-2011	6.90%		7.070%	0.100%
2008-2009	6.90%		6.935%	0.100%
2000-2007	6.90%		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

11. Net Pension Liability (continued)

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 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.
 - 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 \$34,633,570.

GASB Statement 68 allows a measurement date of up to 12 months before the employer's fiscal year-end. The basis for the Total Pension Liability (TPL) as of June 30, 2022, is on an actuarial valuation performed by the Plan's actuary as of June 30, 2022.

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, 2023, and 2022, are displayed on page 63. 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 \$496,533 and the employer's proportionate share was 0.020881 percent.

City of Three Forks, Montana
Notes to the Financial Statements
For the Year Ended June 30, 2023

11. Net Pension Liability (continued)

	Net Pension Liability as of 06/30/2023	Net Pension Liability as of 06/30/2022	Percent of Collective NPL as of 06/30/2023	Percent of Collective NPL as of 06/30/2022	Change in Percent of Collective NPL
City's PERS Proportionate Share State of Montana PERS Proportionate Share associated with employer	\$ 496,533	\$ 352,877	0.020881%	0.019461%	0.001420%
	<u>147,714</u>	<u>103,543</u>	<u>0.006212%</u>	<u>0.005710%</u>	<u>0.000502%</u>
Total	<u>\$ 644,247</u>	<u>\$ 456,420</u>	<u>0.027093%</u>	<u>0.025171%</u>	<u>0.001922%</u>

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 increased from 7.06% to 7.30%.
2. The investment rate of return was increased from 7.06% to 7.30%.
3. Updated all mortality tables to the PUB2010 tables for general employees.
4. Updates the rates of withdrawal, retirement, and disability.
5. Lowered the payroll growth assumption from 3.50% to 3.25%.
6. The inflation rate was increased from 2.40% to 2.75%.

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

Changes in proportionate share: There were no changes to the Plan 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

At June 30, 2023, the employer recognized a Pension Expense of \$65,140 for its proportionate share of the Plan's pension expense. The employer also recognized grant revenue of \$15,311 for the support provided by the State of Montana for its 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, 2023**

11. Net Pension Liability (continued)

	Pension Expense as of 06/30/2023 <u>PERS</u>
City's Proportionate Share	\$ 65,140
State of Montana Proportionate Share associated with the Employer	<u>15,311</u>
Total	<u>\$ 80,451</u>

Deferred Inflows and Outflows

At June 30, 2023, the employer reported its proportionate share of the Plan's deferred outflows of resources and deferred inflows of resources from the following sources:

	<u>PERS</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between actual and expected experience	\$ 6,330	\$ -
Changes in assumptions	18,504	36,351
Difference between projected and actual earnings on pension plan investments	14,593	-
Changes in proportion differences between employer contributions and proportionate share of contributions	25,081	-
Contributions paid subsequent to the measurement date	<u>32,405</u>	<u>-</u>
Total	<u>\$ 96,913</u>	<u>\$ 36,351</u>

City of Three Forks, Montana
Notes to the Financial Statements
For the Year Ended June 30, 2023

11. Net Pension Liability (continued)

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions are recognized in the employer's pension expense as follows:

Year ended June 30:	Deferred Outflows of Resources	Deferred Inflows of Resources	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
	PERS	PERS	PERS
2024	\$ 19,754	\$ -	\$ 19,754
2025	\$ -	\$ 9,083	\$ (9,083)
2026	\$ -	\$ 15,739	\$ (15,739)
2027	\$ 33,225	\$ -	\$ 33,225
2028	\$ -	\$ -	\$ -
Thereafter	\$ -	\$ -	\$ -

Actuarial Assumptions

The total pension liability as of June 30, 2022 was determined on the results of an actuarial valuation date of June 30, 2022, using the following actuarial assumptions, applied to all periods included in the measurement. Among those assumptions were the following:

- Investment Return (net of pension plan investment expense, including inflation) 7.30%
- General Wage Growth* 3.50%
*includes Inflation at 2.75%
- Merit Increases 0% to 4.80%
- Postretirement Benefit Increases
Guaranteed Annual Benefit Adjustment (GABA) each January
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 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 active participants based on PUB-2010 General Amount Weighted Employer Mortality projected to 2021 for males and females, projected generationally using MP-2021.
- Mortality assumptions among disabled retirees based on PUB-2010 General Amount Weighted Disabled Retiree Mortality table, projected to 2021, set forward one year for both males and females.

City of Three Forks, Montana
Notes to the Financial Statements
For the Year Ended June 30, 2023

11. Net Pension Liability (continued)

- Mortality assumptions among contingent survivors based on PUB-2010 General Amount Weighted Contingent Survivor Mortality projected to 2021 with ages set forward one year for males and females, projected generationally using MP-2021.
- Mortality assumptions among healthy retirees based on PUB-2010 General Amount Weighted Healthy Retiree Mortality table projected to 2021 with ages set forward one year and adjusted 104% for males and 103% for females, projected generationally using MP-2021.

The actuarial assumptions and methods utilized in the June 30, 2022 valuation, were developed in the five-year experience study for the period ending 2021.

Discount Rate

The discount rate used to measure the Total Pension Liability was 7.30%. 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 established 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.

Target Allocations

The long-term expected rate of return on pension plan investments is reviewed as part of regular experience studies prepared for the Plan about every five years. The long-term rate of return as of June 30, 2022, is based on analysis in the experience study report dated May 2, 2022 without consideration for the administrative expense analysis shown. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and an analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation), along with estimates of variability and correlations for each asset class. These ranges were combined to develop the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption (30 to 50 years) and is not expected to change absent a significant change in the asset allocation, a change to the underlying inflation assumption, or a fundamental change in the market that alters expected returns in future years.

City of Three Forks, Montana
Notes to the Financial Statements
For the Year Ended June 30, 2023

11. Net Pension Liability (continued)

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class as of the most recent experience study, are summarized in the following table:

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%	

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 NPL was calculated using the discount rate of 7.30%, as well as what the NPL would be if it were calculated using a discount rate 1.00% lower or 1.00% higher than the current rate.

	1.0% Decrease (6.30%)	Current Discount Rate	1.0% Increase (8.30%)
City's Proportionate Share of the PERS Net Pension Liability at June 30, 2023	\$ 715,776	\$ 496,533	\$ 312,591

Stand-Alone Statements

The stand-alone financial statements (76d) 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, as well as the actuarial valuations and experience study, are available from the PERB at PO Box 200131, Helena, MT 59620-0131, (406) 444-3154 or are available on the MPERA website at <http://mpera.mt.gov/about/annualreports1/annualreports>.

City of Three Forks, Montana
Notes to the Financial Statements
For the Year Ended June 30, 2023

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 \$12,853 for the year ended June 30, 2023. The City has elected to omit pension reporting related to the FDRA in accordance with GASB 73. See Note 16 for the qualified opinion related to the omission.

City of Three Forks, Montana
Notes to the Financial Statements
For the Year Ended June 30, 2023

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 or volunteer 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 and general funds based on total appropriations. Settled claims resulting from these risks did not exceed commercial insurance coverage during June 30, 2023.

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. 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 \$5,000 deductible per occurrence for locations/buildings and a \$1,000 deductible per occurrence for mobile equipment. 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, 2023

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	Headwaters Trail Project	Nonmajor Governmental Funds	Total
Restricted for:						
Public safety	\$ -	\$ -	\$ -	\$ -	\$ 235,298	\$ 235,298
Public works	-	-	-	-	526,791	526,791
Culture and recreation	-	-	86,283	44,472	50,923	181,678
Subtotal Restricted Fund Balance	-	-	86,283	44,472	813,012	943,767
Committed for:						
Public safety	-	-	-	-	173,192	173,192
Public works	-	-	-	-	486,063	486,063
Culture and recreation	-	167,885	-	-	32,489	200,374
Subtotal Committed Fund Balance	-	167,885	-	-	691,744	859,629
Nonspendable:	2,835	-	-	-	-	2,835
Unassigned:	386,492	-	-	-	-	386,492
Total Fund Balances	\$ 389,327	\$ 167,885	\$ 86,283	\$ 44,472	\$ 1,504,756	\$ 2,192,723

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.

City of Three Forks, Montana
Notes to the Financial Statements
For the Year Ended June 30, 2023

14. Leases (continued)

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, 2023, the City has recognized right-of-use lease asset of \$101,329 and accumulated amortization of \$16,544, as well as a lease liability of \$89,604. 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 \$8,273 and lease-related interest expense of \$1,616 was recognized for the year ended June 30, 2023.

City of Three Forks, Montana
Notes to the Financial Statements
For the Year Ended June 30, 2023

14. Leases (continued)

Remaining obligations associated with this lease are as follows:

Year Ending	Principal	Interest
2024	\$ 7,112	\$ 1,508
2025	7,636	1,372
2026	7,771	1,237
2027	7,908	1,100
2028	8,045	963
2029-2033	48,574	2,362
2033-2034	2,558	4
	<u>\$ 89,604</u>	<u>\$ 8,546</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, 2023

14. Leases (continued)

The remaining receivable for the lease was \$105,735 as of June 30, 2023. Deferred inflows related to this lease were \$102,900 as of June 30, 2023.

Rent income of \$14,364 and related interest income of \$1,902 was recognized for the year ended June 30, 2023.

Remaining receivables associated with this lease are as follows:

Year Ending	Principal	Interest
2024	\$ 12,956	\$ 1,680
2025	13,625	1,438
2026	14,327	1,187
2027	15,052	923
2028	15,803	649
2029-2031	33,972	409
	\$ 105,735	\$ 6,286

15. Subsequent Events

The City will continue to work with DNRC, Great West Engineering, and Headwaters Economics for the flood mitigation channel project. The City hopes to have an official award of the FMA grant by early 2024, obtain permitting in the spring of 2024. The City has hopes to begin construction late summer or fall of 2024, but most likely it will be spring of 2025.

As of the report date, the City has spent roughly \$104,500 and received over \$100,000 of donated time and engineering bills paid from Headwaters Economics. The City has put aside over \$535,000 to help fund this project.

There still remains 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 negotiated with the developer to allow the City to drill up to 4 water wells on this property which is still ongoing within the Water Project mentioned earlier. The City has drilled 2 of the 4 wells. The first was of poor quantity and the second is being further explored and may be connected to the existing system in FY2023-2024. The test well at the City water tank is also being looked at to connect to the water system in this fiscal year.

The City has learned of House Bill 335 that passed the Montana Legislature. This bill will help fund repair and maintenance projects for government infrastructure, prioritized if used for water, sewer, or fire suppression. The City of Three Forks has \$172,000 set aside by the state for its use, from this bill.

City of Three Forks, Montana
Notes to the Financial Statements
For the Year Ended June 30, 2023

16. 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
Schedule of Revenues and Expenditures – Budget and Actual - General Fund
For the Year Ended June 30, 2023

	General Fund	
	Original and Final Budget	Actual
Revenues:		
Taxes	\$ 87,050	\$ 460,007
Licenses and permits	19,150	16,816
Intergovernmental	284,665	221,340
Charges for services	23,000	17,499
Fines and forfeitures	500	57
Other	10,000	7,134
Total revenues	<u>424,365</u>	<u>722,853</u>
Expenditures:		
Current:		
General government	290,097	198,952
Public safety	417,452	409,696
Public works	59,465	55,759
Public health	200	179
Culture and recreation	71,560	75,224
Housing & community development	27,570	15,229
Other	8,377	3,063
Total expenditures	<u>874,721</u>	<u>758,102</u>
Revenues over (under) expenditures before other financing use	<u>\$ (450,356)</u>	<u>\$ (35,249)</u>

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

City of Three Forks, Montana
Schedule of Revenues and Expenditures - Budget and Actual –
Three Forks Rodeo Arena Fund
For the Year Ended June 30, 2023

	Three Forks Rodeo Arena Special Revenue Fund	
	Original and Final Budget	Actual
Revenues:		
Charges for services	\$ 285,000	\$ 266,947
Interest on investments	100	34
Other	7,000	3,447
Total revenues	<u>292,100</u>	<u>270,428</u>
Expenditures:		
Current:		
Culture and recreation	152,392	145,219
Other	2,956	3,730
Capital outlay	25,000	-
Debt service	61,456	32,749
Total expenditures	<u>241,804</u>	<u>181,698</u>
Revenues over (under) expenditures before other financing use	<u>\$ 50,296</u>	<u>\$ 88,730</u>

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

City of Three Forks, Montana
Schedule of Revenues and Expenditures - Budget and Actual –
Library Operating Fund
For the Year Ended June 30, 2023

	<u>Library Operating</u>	
	<u>Original and Final Budget</u>	<u>Actual</u>
Revenues:		
Taxes	\$ 9,600	\$ 41,053
Intergovernmental	85,690	87,825
Charges for Services	1,750	925
Fines and forfeitures	500	59
Other	19,500	18,824
Total revenues	<u>117,040</u>	<u>148,686</u>
Expenditures:		
Current:		
Culture and recreation	162,762	145,239
Other	5,427	2,144
Total expenditures	<u>168,189</u>	<u>147,383</u>
Revenues over (under) expenditures before other financing use	<u>\$ (51,149)</u>	<u>\$ 1,303</u>

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

City of Three Forks, Montana
Schedule of Revenues and Expenditures - Budget and Actual –
Headwaters Trail Project
For the Year Ended June 30, 2023

	Headwaters Trail Project		
	Original Budget	Amended Final Budget	Actual
Revenues:			
Intergovernmental	\$ 54,000	\$ 69,000	\$ 69,000
Other	7,500	52,183	52,182
Total revenues	<u>61,500</u>	<u>121,183</u>	<u>121,182</u>
Expenditures:			
Current:			
Public works	101,122	120,852	85,619
Capital outlay	<u>60,000</u>	<u>60,000</u>	<u>95,230</u>
Total expenditures	<u>161,122</u>	<u>180,852</u>	<u>180,849</u>
Revenues over (under) expenditures before other financing use	<u>\$ (99,622)</u>	<u>\$ (59,669)</u>	<u>\$ (59,667)</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	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Service cost	\$ 18,666	\$ 28,042	\$ 18,981	\$ 17,701	\$ 11,023
Interest	3,603	6,040	3,243	4,065	4,934
Changes of benefit terms	9,925	-	-	-	-
Differences between expected and actual experience	(26,106)	(70,478)	(23,050)	(37,768)	-
Changes of assumptions or other inputs	(38,666)	(14,912)	3,623	(280)	4,275
Benefit payments	-	(1,890)	(4,469)	(2,831)	(7,191)
Change in total OPEB obligation	<u>(32,578)</u>	<u>(53,198)</u>	<u>(1,672)</u>	<u>(19,113)</u>	<u>13,041</u>
Beginning balance, total OPEB liability	69,004	122,202	123,874	142,987	129,946
Ending balance, total OPEB liability	<u>\$ 36,426</u>	<u>\$ 69,004</u>	<u>\$ 122,202</u>	<u>\$ 123,874</u>	<u>\$ 142,987</u>
Covered-employee payroll	\$ 439,529	\$ 509,248	\$ 413,633	\$ 377,552	\$ 350,543
Total OPEB Obligation as a percentage of covered-employee payroll	8.29%	13.55%	29.54%	32.81%	40.79%
	<u>2018</u>				
Service cost	\$ 11,127				
Interest	4,994				
Changes of benefit terms	-				
Differences between expected and actual experience	4,501				
Changes of assumptions or other inputs	(3,730)				
Benefit payments	<u>(4,874)</u>				
Change in total OPEB obligation	12,018				
Beginning balance, total OPEB liability	117,928				
Ending balance, total OPEB liability	<u>\$ 129,946</u>				
Covered-employee payroll	\$ 342,002				
Total OPEB Obligation as a percentage of covered-employee payroll	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	2023	2022	2021	2020	2019
As of Measurement Date	2022	2021	2020	2019	2018
City's proportion of the net pension liability	0.020881%	0.019461%	0.018988%	0.019087%	0.018928%
City's proportionate share of the net pension liability	\$ 496,533	\$ 352,877	\$ 500,953	\$ 398,973	\$ 395,055
State's proportionate share of the net pension liability associated with the City	\$ 147,714	\$ 103,543	\$ 157,160	\$ 129,340	\$ 131,714
Total	<u>\$ 644,247</u>	<u>\$ 456,420</u>	<u>\$ 658,113</u>	<u>\$ 528,313</u>	<u>\$ 526,769</u>
City's covered payroll	\$ 369,793	\$ 343,761	\$ 318,593	\$ 314,929	\$ 311,282
City's proportionate share of the net pension share of the net pension liability as a percentage of its covered payroll	134.27%	102.65%	157.24%	126.69%	126.91%
Plan fiduciary net position as a percentage of the total pension liability	73.66%	79.91%	68.90%	73.85%	73.47%
Reporting Date	2018	2017	2016	2015	
As of Measurement Date	2017	2016	2015	2014	
City's proportion of the net pension liability	0.022923%	0.025209%	0.025273%	0.026345%	
City's proportionate share of the net pension liability	\$ 446,457	\$ 429,400	\$ 353,279	\$ 328,263	
State's proportionate share of the net pension liability associated with the City	\$ 5,334	\$ 5,247	\$ 4,340	\$ 4,009	
Total	<u>\$ 451,791</u>	<u>\$ 434,647</u>	<u>\$ 357,619</u>	<u>\$ 332,272</u>	
City's covered payroll	\$ 284,365	\$ 301,962	\$ 294,937	\$ 298,226	
City's proportionate share of the net pension share of the net pension liability as a percentage of its covered payroll	157.00%	142.20%	119.78%	110.07%	
Plan fiduciary net position as a percentage of the total pension liability	73.75%	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)	2023	2022	2021	2020	2019
City's contractually required DB contribution	\$ 32,405	\$ 32,801	\$ 30,148	\$ 27,622	\$ 26,989
City's Contribution in relation to the contractually required contribution	32,405	32,801	30,148	27,622	26,989
City's Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
City's covered payroll	\$ 361,273	\$ 369,793	\$ 343,761	\$ 318,593	\$ 314,929
Contributions as percentage of Covered Payroll	8.97%	8.87%	8.77%	8.67%	8.57%

As of most recent fiscal year end (reporting date)	2018	2017	2016	2015
City's contractually required DB contribution	\$ 26,366	\$ 23,802	\$ 25,240	\$ 24,304
City's Contribution in relation to the contractually required contribution	26,366	23,802	25,240	24,304
City's Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
City's covered payroll	\$ 311,282	\$ 284,365	\$ 301,962	\$ 294,937
Contributions as percentage of Covered Payroll	8.47%	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, 2023

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 2023 was \$2,228 for PERS.

	<u>Expenditures</u>	<u>Revenues</u>
Budget Basis	\$ 758,102	\$ 722,853
State On-Behalf Payments	<u>2,228</u>	<u>2,228</u>
GAAP Basis	<u>\$ 760,330</u>	<u>\$ 725,081</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, 2023. 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, 2023

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 and methods were used to determine contribution rates reported for fiscal year ending June 30, 2022, which were based on the results of the June 30, 2021 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	0.29%

City of Three Forks, Montana
Notes to Required Supplemental Information
For the Year Ended June 30, 2023

3. Net Pension Liability (continued)

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.

The actuarial assumptions and methods utilized in the June 30, 2021 valuation, were developed in the six-year experience study for the period ending 2016.

SUPPLEMENTAL INFORMATION

**City of Three Forks, Montana
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2023**

	Special Revenue		
	Street Lighting District 1	Parks Special Projects	Street Maintenance District
Assets			
Cash and cash equivalents	\$ 42,849	\$ 4,952	\$ 301,633
Property tax receivable	-	-	-
Personal tax receivable	-	-	-
Special assessment receivable	521	-	817
Due from other governments	-	-	-
Total assets	<u>\$ 43,370</u>	<u>\$ 4,952</u>	<u>\$ 302,450</u>
Liabilities, Deferred Inflows, and Fund Balances			
Liabilities:			
Accounts payable	\$ 2,521	\$ -	\$ -
Total liabilities	<u>2,521</u>	<u>-</u>	<u>-</u>
Deferred inflows of resources:			
Deferred inflows of tax revenues	521	-	817
Total deferred inflows of resources	<u>521</u>	<u>-</u>	<u>817</u>
Fund balances:			
Restricted	40,328	4,952	301,633
Committed	-	-	-
Total fund balances	<u>40,328</u>	<u>4,952</u>	<u>301,633</u>
Total liabilities, deferred inflows, and fund balances	<u>\$ 43,370</u>	<u>\$ 4,952</u>	<u>\$ 302,450</u>

See Independent Auditors' Report.

Special Revenue

Ridgeview Street Maintenance District	Fire Control Capital Improvement	Gas Tax Apportionment	Gas Tax - Special Road/Street
\$ 27,495	\$ 234,909	\$ 157,335	\$ -
-	515	-	-
-	203	-	-
-	-	-	-
-	390	-	-
<u>\$ 27,495</u>	<u>\$ 236,017</u>	<u>\$ 157,335</u>	<u>\$ -</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>719</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>719</u>	<u>-</u>	<u>-</u>
27,495	235,298	157,335	-
-	-	-	-
<u>27,495</u>	<u>235,298</u>	<u>157,335</u>	<u>-</u>
<u>\$ 27,495</u>	<u>\$ 236,017</u>	<u>\$ 157,335</u>	<u>\$ -</u>

See Independent Auditors' Report.

City of Three Forks, Montana
Combining Balance Sheet
Nonmajor Governmental Funds (Continued)
June 30, 2023

	<u>Special Revenue</u>	
	<u>Fire Impact Fees</u>	<u>Total</u>
Assets		
Cash and cash equivalents	\$ 119,353	\$ 888,526
Property tax receivable	-	515
Personal tax receivable	-	203
Special assessment receivable	-	1,338
Due from other governments	-	390
	<u> </u>	<u> </u>
Total assets	<u>\$ 119,353</u>	<u>\$ 890,972</u>
 Liabilities, Deferred Inflows, and Fund Balances		
Liabilities:		
Accounts payable	\$ -	\$ 2,521
	<u> </u>	<u> </u>
Total liabilities	<u>-</u>	<u>2,521</u>
 Deferred inflows of resources:		
Deferred inflows of resources	-	2,057
	<u> </u>	<u> </u>
Total deferred inflows of resources	<u>-</u>	<u>2,057</u>
 Fund balances:		
Restricted	-	767,041
Committed	119,353	119,353
	<u> </u>	<u> </u>
Total fund balances	<u>119,353</u>	<u>886,394</u>
 Total liabilities, deferred inflows, and fund balances		
	<u>\$ 119,353</u>	<u>\$ 890,972</u>

See Independent Auditors' Report.

City of Three Forks, Montana
Combining Balance Sheet
Nonmajor Governmental Funds (Continued)
June 30, 2023

	Capital Project Funds				Total
	Library Reserve	Street Capital Improve- ment Fund	Parks Capital Improve- ment Fund	Fire Depart Capital Improve- ment Fund	
Assets					
Cash and cash equivalents	\$ 45,971	\$ 416,049	\$ 32,489	\$ 53,839	\$ 548,348
Investments	-	70,014	-	-	70,014
Total assets	<u>\$ 45,971</u>	<u>\$ 486,063</u>	<u>\$ 32,489</u>	<u>\$ 53,839</u>	<u>\$ 618,362</u>
Liabilities, Deferred Inflows, and Fund Balances					
Fund balances:					
Restricted	45,971	-	-	-	45,971
Committed	-	486,063	32,489	53,839	572,391
Total fund balances	<u>45,971</u>	<u>486,063</u>	<u>32,489</u>	<u>53,839</u>	<u>618,362</u>
Total liabilities, deferred inflows, and fund balances	<u>\$ 45,971</u>	<u>\$ 486,063</u>	<u>\$ 32,489</u>	<u>\$ 53,839</u>	<u>\$ 618,362</u>

See Independent Auditors' Report.

City of Three Forks, Montana
Combining Balance Sheet
Nonmajor Governmental Funds (Continued)
June 30, 2023

	Total Nonmajor Governmental Funds
Assets	
Cash and cash equivalents	\$ 1,436,874
Investments	70,014
Property tax receivable	515
Personal tax receivable	203
Special assessment receivable	1,338
Due from other governments	390
	<hr/>
Total assets	\$ 1,509,334
	<hr/>
Liabilities, Deferred Inflows, and Fund Balances	
Liabilities:	
Accounts payable	\$ 2,521
	<hr/>
Total liabilities	2,521
	<hr/>
Deferred inflows or resources:	
Deferred inflows of tax revenues	2,057
	<hr/>
Total deferred inflows of resources	2,057
	<hr/>
Fund balances:	
Restricted	813,012
Committed	691,744
	<hr/>
Total fund balances	1,504,756
	<hr/>
Total liabilities, deferred inflows, and fund balances	\$ 1,509,334
	<hr/>

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, 2023

	Special Revenue Funds		
	Street Lighting District 1	Parks Special Projects	Street Maintenance District
Revenues:			
Taxes/assessments	\$ 24,055	\$ -	\$ 44,947
Intergovernmental	-	-	-
Charges for services	-	-	-
Interest on investments	-	-	-
Other	-	2,576	-
Total revenues	<u>24,055</u>	<u>2,576</u>	<u>44,947</u>
Expenditures:			
Current:			
Public works	28,089	-	11,283
Culture and recreation	-	1,608	-
Total expenditures	<u>28,089</u>	<u>1,608</u>	<u>11,283</u>
Revenues over (under) expenditures	<u>(4,034)</u>	<u>968</u>	<u>33,664</u>
Excess of revenues over expenditures and other financing sources (uses)	(4,034)	968	33,664
Fund balances, beginning of year	<u>44,362</u>	<u>3,984</u>	<u>267,969</u>
Fund balances, end of year	<u>\$ 40,328</u>	<u>\$ 4,952</u>	<u>\$ 301,633</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>
\$ 3,584	\$ 18,883	\$ -	\$ -
-	-	46,713	-
-	-	-	-
-	-	-	-
-	-	-	-
<u>3,584</u>	<u>18,883</u>	<u>46,713</u>	<u>-</u>
557	-	27,806	49,772
-	-	-	-
<u>557</u>	<u>-</u>	<u>27,806</u>	<u>49,772</u>
<u>3,027</u>	<u>18,883</u>	<u>18,907</u>	<u>(49,772)</u>
3,027	18,883	18,907	(49,772)
<u>24,468</u>	<u>216,415</u>	<u>138,428</u>	<u>49,772</u>
<u>\$ 27,495</u>	<u>\$ 235,298</u>	<u>\$ 157,335</u>	<u>\$ -</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, 2023

	<u>Special Revenue Funds</u>	
	<u>Fire Impact Fees</u>	<u>Total</u>
Revenues:		
Taxes/assessments	\$ -	\$ 91,469
Intergovernmental	-	46,713
Charges for services	30,080	30,080
Interest on investments	1,105	1,105
Other	-	2,576
Total revenues	<u>31,185</u>	<u>171,943</u>
Expenditures:		
Current:		
Public works	-	117,507
Culture and recreation	-	1,608
Total expenditures	<u>-</u>	<u>119,115</u>
Revenues over (under) expenditures	<u>31,185</u>	<u>52,828</u>
Excess of revenues over expenditures and other financing sources (uses)	31,185	52,828
Fund balances, beginning of year	<u>88,168</u>	<u>833,566</u>
Fund balances, end of year	<u>\$ 119,353</u>	<u>\$ 886,394</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, 2023

	Capital Project Funds				Total
	Library Reserve	Streets Capital Improvement	Parks Capital Improvement	Fire Department Capital Improvement	
Revenues:					
Taxes/assessments	\$ -	\$ 54,061	\$ -	\$ -	\$ 54,061
Intergovernmental	-	34,189	-	-	34,189
Charges for services	-	3,500	-	-	3,500
Interest on investments	1,294	3,122	1,295	1,294	7,005
Other	-	14,390	-	-	14,390
Total revenues	1,294	109,262	1,295	1,294	113,145
Expenditures:					
Current:					
Culture and recreation	6,441	-	-	-	6,441
Capital outlay	-	43,228	14,502	-	57,730
Total expenditures	6,441	43,228	14,502	-	64,171
Revenues over (under) expenditures	(5,147)	66,034	(13,207)	1,294	48,974
Excess of revenues over expenditures and other financing sources (uses)	(5,147)	66,034	(13,207)	1,294	48,974
Fund balances, beginning of year	51,118	420,029	45,696	52,545	569,388
Fund balances, end of year	\$ 45,971	\$ 486,063	\$ 32,489	\$ 53,839	\$ 618,362

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, 2023

	Total Nonmajor Governmental Funds
Revenues:	
Taxes/assessments	\$ 145,530
Intergovernmental	80,902
Charges for services	33,580
Interest on investments	8,110
Other	16,966
	<hr/>
Total revenues	285,088
	<hr/>
Expenditures:	
Current:	
Public works	117,507
Culture and recreation	8,049
Capital outlay	57,730
	<hr/>
Total expenditures	183,286
	<hr/>
Revenues over (under) expenditures	101,802
	<hr/>
Excess of revenues over expenditures and other financing sources (uses)	101,802
	<hr/>
Fund balances, beginning of year	1,402,954
	<hr/>
Fund balances, end of year	\$ 1,504,756
	<hr/>

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, 2023, and the related notes to the financial statements, which collectively comprise the City of Three Forks, Montana's basic financial statements and have issued our report thereon dated April 9, 2024. 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 were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2023-1 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

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the finding identified in our audit and 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 the response.

Purpose of This Report

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

Rudd & Company, PLLC

Bozeman, Montana

April 9, 2024

City of Three Forks, Montana
Schedule of Findings and Summary of Prior Year Findings
For the Year Ended June 30, 2023

Current Year Findings:

Internal Control Findings – Material Weakness

2023-1 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, 2023.

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:

2022-1 FDRA Pension Liability not Recorded – Repeat finding, see 2023-1