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CITY OF THREE FORKS, MONTANA

Annual Financial Report

June 30, 2025

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City of Three Forks, Montana
Table of Contents
June 30, 2025

Introductory Section

Organization of Entity.....1

Financial Section

Independent Auditors' Report..... 2 to 5

Management Discussion and Analysis ..... 6 to 19

Financial Statements

Government-Wide Financial Statements

Statement of Net Position .....20 and 21

Statement of Activities.....22 and 23

Fund Financial Statements

Governmental Funds Financial Statements

Balance Sheet – Governmental Funds .....24 and 25

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position 26

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....27 and 28

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....29

Proprietary Fund Financial Statements

Statement of Net Position – Proprietary Funds.....30 and 31

Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds.....32

Statement of Cash Flows – Proprietary Funds.....33 and 34

Fiduciary Fund Financial Statements

Statement of Fiduciary Net Position.....35

Statement of Changes in Fiduciary Net Position 35

Notes to the Financial Statements..... 36 to 73

DRAFT

Required Supplemental Information

Schedule of Revenues and Expenditures – Budget and Actual – General Fund 74

Schedule of Revenues and Expenditures – Budget and Actual –
Three Forks Rodeo Arena Fund.....75

Schedule of Revenues and Expenditures – Budget and Actual –
Street Maintenance District #1 Fund and Headwaters Trail Project Fund 76

Schedule of Changes in the Total Other Post-Employment Benefits (OPEB)
Liability and Related Ratios 77

Schedule of Proportionate Share of the Net Pension Liability 78

Schedule of Contributions.....79

Notes to the Required Supplemental Information ..... 80 to 82

Supplemental Information

Combining Financial Statements

Combining Balance Sheet - Nonmajor Governmental Funds ..... 83 to 89

Combining Statement of Revenues, Expenditures, and Changes in
Fund Balance - Nonmajor Governmental Funds ..... 88 to 92

Single Audit Section

Schedule of Expenditures of Federal Awards.....93

Notes to the Schedule of Expenditures of Federal Awards 94

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*.....95 and 96

Independent Auditors' Report on Compliance for the Major Program and on
Internal Control Over Compliance Required by the Uniform Guidance..... 97 to 99

Schedule of Findings and Questioned Costs..... 100 to 105

DRAFT

CITY OF THREE FORKS, MONTANA
2024 to 2025
ORGANIZATION

CITY COMMISSIONERS

Gene Townsend
George Chancellor
(Warren) Garret Buchanan
Ed Tharp
Roxi McDermott
Raegan Hooton

CITY OFFICIALS

Randy Johnston, Mayor

Susan B. Swimley, Attorney

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

Carl (Bud) Mohler, City Judge

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

Jaime Ewan, Library Director

Steven E. Johnston, Public Works Director

Wendell Ewan, Public Works Operator

Bob Crosiar, Public Works Operator

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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, 2025, 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, 2025 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, 2025, 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 Auditors' 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.

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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.

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- 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 combining and individual nonmajor fund financial statements, and schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is 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. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, and schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

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Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory section but does not include the basic financial statements and our auditors' report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated REPORT DATE, 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.

Bozeman, Montana
REPORT DATE

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MANAGEMENT DISCUSSION AND ANALYSIS

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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, 2025. 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 2025 include:

- The City's Governmental activities' assets and deferred outflows of resources exceed liabilities and deferred inflows of resources at June 30, 2025 by $5,004,174. The unrestricted net position is $1,164,792.

- The City's Governmental activities' net position increased $650,579 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, 2025 by $10,391,494, of which $2,454,176 is unrestricted.

- The City's Business-type activities' net position increased $1,341,511 as a result of this year's operations.

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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.

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, Street Maintenance District #1 Fund, Headwaters Trail Project Fund, and Streets/Flood Capital Improvement 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 $2,777,290, an decrease of $37,654 in comparison with prior year. The following is a summary of the City's major funds:

Major Funds	Fund Balance at June 30, 2025	Fund Balance at June 30, 2024	Increase (Decrease)
General	$ 170,063	$ 306,798	$ (136,735)
Three Forks Rodeo Arena	$ 260,070	$ 244,333	$ 15,737
Street Maintenance District #1	$ 134,071	$ 345,592	$ (211,521)
Headwaters Trail Project	$ 17,311	2,032	$ 15,279
Streets/Flood Capital Improvement	$ 680,077	$ 515,350	$ 164,727

Major Funds	2025 Revenue	2024 Revenue	Increase (Decrease)
General	$ 868,360	$ 745,171	$ 123,189
Three Forks Rodeo Arena	$ 287,715	$ 293,987	$ (6,272)
Street Maintenance District #1	$ 60,532	$ 54,590	$ 5,942
Headwaters Trail Project	$ 321,889	$ 132,228	$ 189,661
Streets/Flood Capital Improvement	$ 375,667	$ 138,597	$ 237,070

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Financial Highlights (continued)

Major Funds	2025 Expense	2024 Expense	Increase (Decrease)
General	$ 989,828	$ 812,879	$ 176,949
Three Forks Rodeo Arena	$ 271,978	$ 217,539	$ 54,439
Street Maintenance District #1	$ 272,053	$ 10,631	$ 261,422
Headwaters Trail Project	$ 306,610	$ 174,668	$ 131,942
Streets/Flood Capital Improvement	$ 226,207	$ 109,311	$ 116,896

The fund balance of the General Fund decreased by $136,735. Revenues increased approximately 17% due to receiving $45,000 in grant funds for the completed Capital Improvement Plan, and SLIPPA grant funds of almost $93,000 for the remodeling of City Hall. Expenditures increased approximately 22% due to the City making several one-time purchases in FY24-25, but received grant money to cover some of those extra expenses. The City purchased a new Vactor truck, a code enforcement vehicle, remodeled City Hall and Fire Department Radios.

The fund balance of the Three Forks Rodeo Arena Fund increased by $15,737. Revenues were comparable to the prior period. Expenditures increased approximately 25% due to purchasing a new Public Address system for the crows nest, and adding 9 additional power outlets for vendors that sell items during the annual rodeo.

The fund balance of the Street Maintenance District #1 Fund decreased by $211,521. Revenues were comparable to the prior period. Expenditures increased approximately 2,459% due to chip seal projects performed in FY24-25.

The fund balance of the Headwaters Trail Project Fund increased by $15,279. Revenues increased approximately 143% due to grants received from the Gallatin County Open Space Grant and the FWP Trails grants. Expenditures increased approximately 76% due to a crack seal and seal coat project on the older part of the trails, and over $100,000 spent to extend the trails a little closer to Logan.

The fund balance of the Streets/Flood Capital Improvement Fund increased by $164,727. Revenues increased approximately 171% due to the City starting to draw on the $4+ million FEMA flood mitigation grant the City was granted. Expenditures increased approximately 107% due to the City starting the flood mitigation project and having expenses for this.

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Financial Highlights (continued)

Proprietary Funds

As of the end of the current fiscal year, the City's proprietary funds reported a combined ending fund balance of $10,391,494, an increase of $1,341,511 in comparison with prior year. The following is a summary of the City's major proprietary funds:

Major Funds	Fund Balance at June 30, 2025	Fund Balance at June 30, 2024	Increase (Decrease)
Water	$ 4,825,311	$ 3,524,534	$ 1,300,777
Sewer	$ 5,566,183	$ 5,525,449	$ 40,734

Major Funds	2025 Revenue	2024 Revenue	Increase (Decrease)
Water	$ 1,857,283	$ 960,403	$ 896,880
Sewer	$ 807,471	$ 810,897	$ (3,426)

Major Funds	2025 Expense	2024 Expense	Increase (Decrease)
Water	$ 556,506	$ 528,752	$ 27,754
Sewer	$ 766,737	$ 688,067	$ 78,670

Combined, the Water Fund and Sewer fund net positions increased $1,341,511 as a result of current year activities. Water Fund revenues increased by approximately 95% due to the recognition of American Rescue Plan Act (ARPA) funds in the current year, while expenses were consistent with the prior year. Sewer Fund revenues and expenses were comparable to the prior period.

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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.

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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Reporting the City as a Whole

The City is providing financial information for fiscal year 2025 and 2024, as detailed in the reports. Table 1 provides a summary of the City's net position for fiscal years 2025 and 2024 for the Governmental Activities.

Table 1 - Summarized Schedule of Net Position

	Governmental Activities		Total change
Assets	2025	2024	2024-2025
Current assets	$ 2,924,225	$ 2,879,011	$ 45,214
Noncurrent other assets	64,827	79,154	(14,327)
Capital assets (net)	2,606,318	1,971,864	634,454
Total Assets	5,595,370	4,930,029	665,341
Deferred Outflows			
Pension related items	33,613	18,311	15,302
Total Deferred Outflows	33,613	18,311	15,302
Liabilities			
Current liabilities	146,237	66,752	79,485
Noncurrent liabilities	398,878	419,067	(20,189)
Total Liabilities	545,115	485,819	59,296
Deferred Inflows			
Lease related items	74,173	88,536	(14,363)
OPEB related items	1,846	14,309	(12,463)
Pension related items	3,675	6,081	(2,406)
Total Deferred Inflows	79,694	108,926	(29,232)
Net Position			
Net investment in capital assets	2,351,437	1,679,171	672,266
Restricted	1,487,945	1,567,406	(79,461)
Unrestricted	1,164,792	1,107,018	57,774
Total Net Position	$ 5,004,174	$ 4,353,595	$ 650,579

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Reporting the City as a Whole (continued)

Table 2 shows the changes in net position for fiscal year 2025, compared to fiscal year 2024 results for the Governmental Activities:

Table 2 - Changes in Net Position

	Governmental Activities		Total change 2024-2025
Revenues	2025	2024	
Program Revenues:			
Charges for services	$ 594,825	$ 678,995	$ (84,170)
Operating grants and contributions	255,205	466,561	(211,356)
Capital grants and contributions	719,093	-	719,093
General Revenues:			
Property taxes, levied for general purposes	678,267	596,443	81,824
Grants and contributions, not restricted	186,932	402,760	(215,828)
Unrestricted investment earnings	98,941	31,743	67,198
Miscellaneous	22,872	14,438	8,434
TOTAL REVENUES	*2,556,135*	*2,190,940*	*365,195*
Expenses			
General government	236,772	225,492	11,280
Public safety	429,336	413,227	16,109
Public works	683,004	362,095	320,909
Public health	200	176	24
Culture and recreation	494,040	461,568	32,472
Housing and community development	37,701	42,339	(4,638)
Other	10,859	5,904	4,955
Interest and fiscal fees	13,644	13,644	-
TOTAL EXPENSES	*1,905,556*	*1,524,445*	*381,111*
CHANGES IN NET POSITION	***650,579***	***666,495***	***(15,916)***
Net Position, Beginning of Year	*4,353,595*	*3,687,100*	*666,495*
Net Position, End of Year	***$ 5,004,174***	***$ 4,353,595***	***$ 650,579***

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Reporting the City as a Whole (continued)

Table 3 provides a summary of the City's net position for fiscal years 2025 and 2024 for the Business-type Activities.

Table 3 - Summarized Schedule of Net Position

	Business-type Activities		Total change
Assets	2025	2024	2024-2025
Current assets	$ 3,373,335	$ 3,190,746	$ 182,589
Noncurrent other assets	224,763	224,763	-
Capital assets (net)	10,628,555	9,440,127	1,188,428
Total Assets	14,226,653	12,855,636	1,371,017
Deferred Outflows			
Pension related items	80,797	41,752	39,045
Total Deferred Outflows	80,797	41,752	39,045
Liabilities			
Current liabilities	796,878	484,462	312,416
Noncurrent liabilities	3,104,398	3,303,766	(199,368)
Total Liabilities	3,901,276	3,788,228	113,048
Deferred Inflows			
OPEB related items	5,846	45,312	(39,466)
Pension related items	8,834	13,865	(5,031)
Total Deferred Inflows	14,680	59,177	(44,497)
Net Position			
Net investment in capital assets	7,712,555	6,266,127	1,446,428
Restricted	224,763	224,763	-
Unrestricted	2,454,176	2,559,093	(104,917)
Total Net Position	$ 10,391,494	$ 9,049,983	$ 1,341,511

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Reporting the City as a Whole (continued)

Table 4 shows the changes in net position for fiscal year 2025, compared to fiscal year 2024 results for the Business-type Activities:

Table 4 - Changes in Net Position

	Business-type Activities		Total change
Revenues and Special Items	2025	2024	2024-2025
Program Revenues:			
Charges for services	$ 1,335,637	$ 1,319,285	$ 16,352
Capital grants and contributions	1,255,029	324,923	930,106
General Revenues:			
Grants and contributions, not restricted	348	8,776	(8,428)
Unrestricted investment earnings	73,740	118,316	(44,576)
TOTAL REVENUES	*2,664,754*	*1,771,300*	*893,454*
Expenses			
Water	556,506	528,752	27,754
Sewer	766,737	688,067	78,670
TOTAL EXPENSES	*1,323,243*	*1,216,819*	*106,424*
CHANGES IN NET POSITION	***1,341,511***	***554,481***	***787,030***
Net Position, Beginning of Year	*9,049,983*	*8,495,502*	*554,481*
Net Position, End of Year	***$ 10,391,494***	***$ 9,049,983***	***$ 1,341,511***

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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 capital grants and contributions, which make up approximately 27% of revenues for fiscal year 2025.

Table 5 - Major Resources

	Governmental Activities	Percent of Total
General revenues:		
Property taxes, levied for general purposes	$ 678,267	26.53%
Grants and contributions, not restricted	186,932	7.31%
Unrestricted investment earnings	98,941	3.87%
Miscellaneous	22,872	0.90%
Total general revenues	987,012	38.61%
Charges for services	594,825	23.27%
Operating grants and contributions	255,205	9.98%
Capital grants and contributions	719,093	28.14%
TOTAL REVENUES	$ 2,556,135	100.00%

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Analysis of Financial Information (continued)

The largest portion of Governmental Activities expenses are public works, which make up 36% of expenses for fiscal year 2025.

Table 6 - Major Expenditure Functions

Expenses	Governmental Activities	Percent of Total
General government	$ 236,772	12.43%
Public safety	429,336	22.53%
Public works	683,004	35.84%
Public health	200	0.01%
Culture and recreation	494,040	25.92%
Housing and community development	37,701	1.98%
Other	10,859	0.57%
Interest and fiscal fees	13,644	0.72%
TOTAL EXPENSES	$ 1,905,556	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 50% of revenues for fiscal year 2025.

Table 7 - Major Resources

	Business-type Activities	Percent of Total
General revenues:		
Grants and contributions, not restricted	$ 348	5.23%
Unrestricted investment earnings	73,740	2.77%
Total general revenues	74,088	8.00%
Charges for services	1,335,637	50.08%
Capital grants and contributions	1,255,029	41.92%
TOTAL REVENUES	$ 2,664,754	100.00%

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Analysis of Financial Information (continued)

The largest portion of Business-type Activities expense is Sewer, which makes up 58% of expenses for fiscal year 2025.

Table 8 - Major Expenditure Functions

Expenses	Business-type Activities	Percent of Total
Water	$ 556,506	42.06%
Sewer	766,737	57.94%
TOTAL EXPENSES	$ 1,323,243	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	362,693
Buildings	798,439
Other structures and improvements	1,324,593
Machinery and equipment	1,974,842
Infrastructure	234,915
Right-of-use lease asset	101,329
Total capital assets	4,821,689
Less accumulated depreciation	(2,215,371)
Total capital assets, net of accumulated depreciation and amortization	***$ 2,606,318***

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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	2,069,111
Buildings	186,238
Other structures and improvements	163,579
Machinery and equipment	807,308
Source of supply	1,742,355
Transmission and distribution	11,192,655
General plant	390,587
Total capital assets	16,694,833
Less accumulated depreciation	(6,066,278)
Total capital assets, net of accumulated depreciation	***$ 10,628,555***

Debt Administration

The long-term liabilities 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.

Economic Factors and Next Year's Budget & Rates

The City of Three Forks' financial position in the General Fund for 2024-2025 continued to show an increase in Total Market value but had a decrease in the Mill Value, due to the Montana Legislature's new property tax calculations. The City will receive a little over $10,000 more in tax revenues over FY2023-2024, as it was able to tax more total mills this year. The City Council still requests all departments to be frugal and remain within budget. Overall, the City is financially healthy.

After completing an update to the Capital Improvement Plan (CIP) and Impact Fee schedule and ordinance in FY2023-2024, the City began working to update its Zoning ordinance. The City received $20,000 in a Community Development Block Grant (CDBG) and $27,500 from the Montana Coal Endowment Program (MCRA) and is contributing $5,000 of City money to complete this project.

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

The annual July rodeo held in 2024 had over 3,000 spectator turnout each night. The Rodeo Board finished the electrical improvements project from the previous fiscal year and continues working on seating improvements. Electrical upgrades in FY2024-2025 included additional power to the crow's nest and new panels on the inside of the fence along Milwaukee Street to accommodate vendors. In FY2024-2025 the Rodeo Board replaced the existing PA system with the purchase of a new amplifier and weatherproof speakers for just over $18,000. Additional bleacher seating has maintained a goal with estimates near $1,000,000 for an additional 1,000 seats.

The Headwaters Trail System repaired and maintained trails quite a bit this fiscal year. There was a crack seal, seal coat and overlay project around Bellach Park and the whole trail from 7th to the ponds. Total cost for crack and seal coating projects cost $182,016. The Trail System was again awarded $100,000 in grant funding from Gallatin County's Open Space Program, to continue to expand the section of trail Logan/Carpenter road.

The City of Three Forks has continued to work with the Montana Department of Natural Resources and Conservation (DNRC), Great West Engineering, and Headwaters Economics to be officially awarded the FEMA Flood Mitigation Assistance (FMA) grant for the Jefferson River flood mitigation channel project. This has been an extremely slow process. In FY2024-2025, the City spent $226,206 for engineering and legal fees for easement documents.

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

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 has continued to utilize ARPA grant funds on a large water project. In FY2024-2025 the City spent $1,250,190 towards this project. The City did a clay water main replacement in the oldest part of town (2nd to 4th Avenues East) and replaced all the shut-off valves in this area. The City also drilled an additional well on the ground behind Magris Talc and are building two well houses to connect the new wells to the City systems for use.

The City remains hopeful it will not have to borrow any funds, but if needed continues planning for a State Revolving Fund (SRF) loan.

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 FY2024-2025 on these three loans combined was $377,561.

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FINANCIAL STATEMENTS

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GOVERNMENT – WIDE FINANCIAL STATEMENTS

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City of Three Forks, Montana
Statement of Net Position
June 30, 2025

	Governmental Activities	Business-type Activities	Total
Assets			
Current assets			
Cash and cash equivalents	$ 2,364,680	$ 2,787,384	$ 5,152,064
Investments	294,885	89,014	383,899
Accounts receivable	20	-	20
Lease receivable, current	14,327	-	14,327
Taxes and special assessment receivables	36,550	-	36,550
Customer receivable	-	116,031	116,031
Interest receivable	1,157	-	1,157
Due from other governments	212,606	380,906	593,512
Total Current assets	2,924,225	3,373,335	6,297,560
Noncurrent other assets			
Restricted cash and investments	-	224,763	224,763
Lease receivable, noncurrent	64,827	-	64,827
Total Noncurrent other assets	64,827	224,763	289,590
Capital assets			
Land	24,878	143,000	167,878
Right-of-use lease asset	101,329	-	101,329
Construction in progress	362,693	2,069,111	2,431,804
Other capital assets	4,332,789	14,482,722	18,815,511
Less: accumulated depreciation	(2,215,371)	(6,066,278)	(8,281,649)
Net Capital assets	2,606,318	10,628,555	13,234,873
Total Assets	5,595,370	14,226,653	19,822,023
Deferred Outflows of Resources			
Pension related items	33,613	80,797	114,410
Total Deferred Outflows of Resources	33,613	80,797	114,410
Total Assets and Deferred Outflows	$ 5,628,983	$ 14,307,450	$ 19,936,433

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

City of Three Forks, Montana
Statement of Net Position (continued)
June 30, 2025

	Governmental Activities	Business-type Activities	Total
Liabilities			
Current liabilities			
Accounts payable and accrued expenses	$ 101,143	$ 403,244	$ 504,387
Deposits payable	-	10,725	10,725
Lease liability, current	7,771	-	7,771
Compensated absences, current	6,399	22,064	28,463
Intercap loan, current	30,924	-	30,924
Revenues collected in advance	-	96,845	96,845
Revenue bonds, current	-	264,000	264,000
Total Current liabilities	146,237	796,878	943,115
Noncurrent liabilities			
Lease liability, noncurrent	67,085	-	67,085
Compensated absences, noncurrent	6,004	18,658	24,662
Intercap loan, noncurrent	148,997	-	148,997
Revenue bonds, noncurrent	-	2,652,000	2,652,000
Other post employment liability	11,506	36,436	47,942
Net pension liability	165,286	397,304	562,590
Total Noncurrent liabilities	398,878	3,104,398	3,503,276
Total Liabilities	545,115	3,901,276	4,446,391
Deferred Inflows of Resources			
Lease related items	74,173	-	74,173
OPEB related items	1,846	5,846	7,692
Pension related items	3,675	8,834	12,509
Total Deferred Inflows of Resources	79,694	14,680	94,374
Net Position			
Net investment in capital assets	2,351,437	7,712,555	10,063,992
Restricted for:			
Public safety	298,636	-	298,636
Public works	630,081	-	630,081
Culture and recreation	177,676	-	177,676
Debt service	381,552	224,763	606,315
Unrestricted	1,164,792	2,454,176	3,618,968
Total Net Position	5,004,174	10,391,494	15,395,668
Total Liabilities, Deferred Inflows and Net Position	$ 5,628,983	$ 14,307,450	$ 19,936,433

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

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City of Three Forks, Montana
Statement of Activities
For the Year Ended June 30, 2025

		Program Revenues	
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions
Primary Government:			
Governmental activities:			
General government	$ 236,772	$ 7,921	$ -
Public safety	429,336	3,009	2,225
Public works	683,004	312,632	147,147
Public health	200	-	-
Culture and recreation	494,040	271,263	105,833
Housing and community development	37,701	-	-
Other	10,859	-	-
Interest and fiscal fees	13,644	-	-
Total governmental activities	1,905,556	594,825	255,205
Business-type activities			
Water	556,506	546,304	-
Sewer	766,737	789,333	-
Total business-type activities	1,323,243	1,335,637	-
Total primary governmental activities	$ 3,228,799	$ 1,930,462	$ 255,205

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

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

	Net (Expense) Revenue and Changes in Net Position		
	Primary Government		
Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
$ 92,956	$ (135,895)	$ -	$ (135,895)
-	(424,102)	-	(424,102)
242,881	19,656	-	19,656
-	(200)	-	(200)
383,256	266,312	-	266,312
-	(37,701)	-	(37,701)
-	(10,859)	-	(10,859)
-	(13,644)	-	(13,644)
719,093	(336,433)	-	(336,433)
1,255,029	-	1,244,827	1,244,827
-	-	22,596	22,596
1,255,029	-	1,267,423	1,267,423
$ 1,974,122	(336,433)	1,267,423	930,990
	678,267	-	678,267
	186,932	348	187,280
	98,941	73,740	172,681
	22,872	-	22,872
	987,012	74,088	1,061,100
	650,579	1,341,511	1,992,090
	4,353,595	9,049,983	13,403,578
	$ 5,004,174	$ 10,391,494	$ 15,395,668

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

FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUND FINANCIAL STATEMENTS

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City of Three Forks, Montana
Balance Sheet – Governmental Funds
June 30, 2025

	General Fund	Three Forks Rodeo Arena	Street Maintenance District #1
Assets			
Cash and cash equivalents	$ 120,550	$ 46,820	$ 134,071
Investments	-	216,970	-
Accounts receivable	20	-	-
Lease receivable	79,154	-	-
Interest receivable	1,157	-	-
Property tax receivable	8,531	-	-
Personal tax receivable	2,179	-	-
Special assessment receivable	-	-	661
Due from other governments	61,254	-	-
Total Assets	$ 272,845	$ 263,790	$ 134,732
Liabilities, Deferred Inflows and Fund Balance			
Liabilities:			
Accounts payable	$ 17,900	$ 3,720	$ -
Total Liabilities	17,900	3,720	-
Deferred inflows of resources:			
Deferred inflows of lease related items	74,173	-	-
Deferred inflows of tax revenues	10,709	-	661
Total Deferred inflows of resources	84,882	-	661
Fund balances:			
Nonspendable	4,981	-	-
Restricted	-	-	134,071
Committed	-	260,070	-
Unassigned	165,082	-	-
Total Fund balances	170,063	260,070	134,071
Total Liabilities, Deferred Inflows, and Fund Balances	$ 272,845	$ 263,790	$ 134,732

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

Headwaters Trail Project	Streets/Flood Capital Improvement	Nonmajor Governmental Funds	Total Governmental Funds
$ 21,751	$ 557,312	$ 1,484,176	$ 2,364,680
-	77,915	-	294,885
-	-	-	20
-	-	-	79,154
-	-	-	1,157
-	-	5,033	13,564
-	-	317	2,496
-	-	19,829	20,490
-	109,919	41,433	212,606
$ 21,751	$ 745,146	$ 1,550,788	$ 2,989,052
$ 4,440	$ 65,069	$ 9,910	$ 101,039
4,440	65,069	9,910	101,039
-	-	-	74,173
-	-	25,180	36,550
-	-	25,180	110,723
-	-	-	4,981
17,311	-	1,310,722	1,462,104
-	680,077	204,976	1,145,123
-	-	-	165,082
17,311	680,077	1,515,698	2,777,290
$ 21,751	$ 745,146	$ 1,550,788	$ 2,989,052

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City of Three Forks, Montana
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2025

Amounts reported for governmental activities in the statement of net position are different because:		
Total fund balances - governmental funds	$	2,777,290
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is $4,821,689, the accumulated depreciation is $2,215,371.		2,606,318
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.		36,550
The deferred outflows of resources related to the pension activity are not reported in the fund statements.		33,613
The deferred inflows of resources related to the pension and other post employment benefits activity are not reported in the fund statements.		(5,521)
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.		(444,076)
Total net position - governmental activities	$	5,004,174

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

City of Three Forks, Montana
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
For the Year Ended June 30, 2025

	General Fund	Three Forks Rodeo Arena	Street Maintenance District #1
Revenues:			
Taxes/assessments	$ 512,236	$ -	$ 60,532
Licenses and permits	17,825	-	-
Intergovernmental	302,746	-	-
Charges for services	10,902	267,090	-
Fines and forfeitures	-	-	-
Interest on investments	-	13,376	-
Other	24,651	7,249	-
Total Revenues	868,360	287,715	60,532
Expenditures:			
Current:			
General government	198,229	-	-
Public safety	433,865	-	-
Public works	63,179	-	272,053
Public health	200	-	-
Culture and recreation	73,449	193,467	-
Housing and community development	40,083	-	-
Other	2,257	6,768	-
Capital outlay	178,566	29,932	-
Debt service			
Principal payments	-	28,167	-
Interest and fiscal fees	-	13,644	-
Total Expenditures	989,828	271,978	272,053
Excess (deficiency) of revenues over expenditures	(121,468)	15,737	(211,521)
Other financing sources (uses):			
Operating transfers	(15,267)	-	-
Total Other financing sources (uses)	(15,267)	-	-
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	(136,735)	15,737	(211,521)
Fund balances, beginning of year	306,798	244,333	345,592
Fund balances, end of year	$ 170,063	$ 260,070	$ 134,071

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

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Headwaters Trail Project	Streets/Flood Capital Improvement	Nonmajor Governmental Funds	Total Governmental Funds
$ 15,971	$ 58,421	$ 291,579	$ 938,739
-	-	-	17,825
262,000	256,535	309,643	1,130,924
-	-	4,957	282,949
-	-	446	446
14,641	60,711	10,213	98,941
29,277	-	20,832	82,009
321,889	375,667	637,670	2,551,833
-	39,829	-	238,058
-	-	-	433,865
161,287	-	108,223	604,742
-	-	-	200
-	-	172,552	439,468
-	-	-	40,083
-	-	1,834	10,859
145,323	186,378	240,202	780,401
-	-	-	28,167
-	-	-	13,644
306,610	226,207	522,811	2,589,487
15,279	149,460	114,859	(37,654)
-	15,267	-	-
-	15,267	-	-
15,279	164,727	114,859	(37,654)
2,032	515,350	1,400,839	2,814,944
$ 17,311	$ 680,077	$ 1,515,698	$ 2,777,290

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

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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, 2025

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

Net change in fund balances - total governmental funds	$ (37,654)
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.	634,454
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	4,302
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.	37,697
The current period net increase in compensated absences and other postemployment benefits payable did not require the use current financial resources and, therefore, generated no expenditure to be reported in the governmental funds.	10,160
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 actual pension expense exceed the contributions to the plan.	1,620
Change in net position of governmental activities	$ 650,579

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

PROPRIETARY FUND FINANCIAL STATEMENTS

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City of Three Forks, Montana
Statement of Net Position-Proprietary Funds
June 30, 2025

	Business-Type Activities Enterprise Funds		
	Water Fund	Sewer Fund	Total
Assets			
Current assets			
Cash and cash equivalents	$ 864,005	$ 1,923,379	$ 2,787,384
Investments	56,187	32,827	89,014
Customer receivable	48,692	67,339	116,031
Due from other governments	380,906	-	380,906
Total Current assets	1,349,790	2,023,545	3,373,335
Other assets			
Restricted cash and investments	47,986	176,777	224,763
Total Other assets	47,986	176,777	224,763
Capital assets			
Land	87,500	55,500	143,000
Construction in progress	2,069,111	-	2,069,111
Buildings	118,119	68,119	186,238
Other structures and improvements	106,092	57,487	163,579
Machinery and equipment	255,197	552,111	807,308
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	(2,429,470)	(3,636,808)	(6,066,278)
Net Capital assets	4,444,840	6,183,715	10,628,555
Total Assets	5,842,616	8,384,037	14,226,653
Deferred Outflows of Resources			
Pension related items	40,400	40,397	80,797
Total Deferred Outflows of Resources	40,400	40,397	80,797
Total Assets and Deferred Outflows of Resources	$ 5,883,016	$ 8,424,434	$ 14,307,450

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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, 2025

	Water Fund	Sewer Fund	Total
Liabilities			
Current liabilities			
Accounts payable	$ 357,557	$ 45,687	$ 403,244
Deposits payable	10,725	-	10,725
Compensated absences, current	11,032	11,032	22,064
Revenues collected in advance	96,845	-	96,845
Revenue bonds, current	35,000	229,000	264,000
Total Current liabilities	511,159	285,719	796,878
Noncurrent liabilities			
Compensated absences	9,329	9,329	18,658
Revenue bonds, noncurrent	313,000	2,339,000	2,652,000
OPEB liability	18,218	18,218	36,436
Net pension liability	198,659	198,645	397,304
Total Noncurrent liabilities	539,206	2,565,192	3,104,398
Total Liabilities	1,050,365	2,850,911	3,901,276
Deferred Inflows of Resources			
OPEB related items	2,923	2,923	5,846
Pension related items	4,417	4,417	8,834
Total Deferred Inflows of Resources	7,340	7,340	14,680
Net Position			
Net investment in capital assets	4,096,840	3,615,715	7,712,555
Restricted for debt service	47,986	176,777	224,763
Unrestricted	680,485	1,773,691	2,454,176
Total Net Position	4,825,311	5,566,183	10,391,494
Total Liabilities, Deferred Inflows of Resources and Net Position	$ 5,883,016	$ 8,424,434	$ 14,307,450

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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, 2025

	Business-Type Activities Enterprise Funds		
	Water Fund	Sewer Fund	Total
Operating revenues:			
Charges for services	$ 546,304	$ 789,333	$ 1,335,637
Total operating revenues	546,304	789,333	1,335,637
Operating expenses:			
Personnel services	$ 230,301	$ 230,339	460,640
Depreciation and amortization	112,014	205,309	317,323
Supplies, service, materials	204,853	262,676	467,529
Total operating expenses	547,168	698,324	1,245,492
Operating income (loss)	(864)	91,009	90,145
Non-operating revenues (expenses)			
Interest income	55,776	17,964	73,740
Interest expense	(9,338)	(68,413)	(77,751)
Intergovernmental revenue	1,255,203	174	1,255,377
Total Non-operating revenues (expenses)	1,301,641	(50,275)	1,251,366
Change in net position	1,300,777	40,734	1,341,511
Net position, beginning of year	3,524,534	5,525,449	9,049,983
Net position, end of year	$ 4,825,311	$ 5,566,183	$ 10,391,494

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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, 2025

	Business-Type Activities Enterprise Funds		
	Water Fund	Sewer Fund	Total
Change in Cash and Cash Equivalents			
Cash Flows from Operating Activities			
Receipts from customers	$ 543,980	$ 791,672	$ 1,335,652
Payments to suppliers	121,490	(236,192)	(114,702)
Payments to employees	(239,757)	(239,793)	(479,550)
Net Cash Provided by Operating Activities	425,713	315,687	741,400
Cash Flows from Noncapital Financing Activities			
Subsidies from taxes and other governments	-	174	174
Net Cash Provided by Noncapital Financing Activities	-	174	174
Cash Flows from Capital and Related Financing Activities			
Purchases of property, plant and equipment	(1,305,970)	(199,781)	(1,505,751)
Grant proceeds for capital projects	828,361	-	828,361
Principal payments on bonds and loans	(34,000)	(224,000)	(258,000)
Interest paid on debt	(9,338)	(68,413)	(77,751)
Net Cash Used by Capital and Related Financing Activities	(520,947)	(492,194)	(1,013,141)
Cash Flows from Investing Activities			
Interest Earnings	55,776	17,964	73,740
Purchase of investments	(4,529)	(2,647)	(7,176)
Net Cash Provided by Investing Activities	51,247	15,317	66,564
Net Change in Cash and Cash Equivalents	(43,987)	(161,016)	(205,003)
Cash and Cash Equivalents, Beginning of Year	955,978	2,261,172	3,217,150
Cash and Cash Equivalents, End of Year	$ 911,991	$ 2,100,156	$ 3,012,147

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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, 2025

	Water Fund	Sewer Fund	Total
Classified As:			
Current Assets	$ 864,005	$ 1,923,379	$ 2,787,384
Restricted Assets	47,986	176,777	224,763
Total Cash and Cash Equivalents	$ 911,991	$ 2,100,156	$ 3,012,147

Operating Income (Loss)	$ (864)	$ 91,009	$ 90,145
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	112,014	205,309	317,323
Change in:			
Accounts receivable	(1,849)	2,339	490
Accounts payable	326,343	26,484	352,827
Deposits payable	(475)	-	(475)
Compensated absences	3,554	3,554	7,108
OPEB related items	(19,655)	(19,655)	(39,310)
Pension related items	6,645	6,647	13,292
Net Cash Provided by Operating Activities	$ 425,713	$ 315,687	$ 741,400

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FIDUCIARY FUND FINANCIAL STATEMENTS

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City of Three Forks, Montana
Statement of Fiduciary Net Position
June 30, 2025

	Custodial Fund
Assets	
Taxes receivable	$ 706
Total assets	706
Liabilities	
Due to other organizations	$ 706
Total liabilities	706
Net Position	
Total net position	$ -

City of Three Forks, Montana
Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2025

	Custodial Fund
Additions	
Tax collections for other organizations	$ 8,309
Miscellaneous	8,369
Total additions	16,678
Deductions	
Payments to other organizations	16,678
Total deductions	16,678
Net increase (decrease) in fiduciary net position	-
Net position - beginning of year	-
Net position - end of year	$ -

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

NOTES TO THE FINANCIAL STATEMENTS

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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, 2025, 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 $85,649 of County taxes in support of the library and contribute additional amounts for capital outlay. A citizen vote approved 3.0 mills to be levied for the City of Three Forks Library. The City also approved a total of 6.0 mills (including the voter approved 3 mills) for the fiscal year ended June 30, 2025 and received $42,921 in total tax revenue.

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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.

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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.

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.

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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 *Street Maintenance District #1 Fund* is a special revenue fund that accounts for balances and revenues received primarily through assessments levied on property owners within the district to cover maintenance costs.

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 *Streets/Flood Capital Improvement Fund* is a capital project fund that accounts for revenues received from bond or other long term general obligation debt issues, special assessment debt issues, grants, or shared revenues from other governments, transfers from other funds or other sources, and used to acquire and/or construct major, long-lived capital facilities other than those financed by Proprietary Fund revenue.

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.

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1. Summary of Significant Accounting Policies (continued)

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.

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.

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 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.

The estimated useful lives of assets are 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
Leased assets – office space	10 years

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1. Summary of Significant Accounting Policies (continued)

Capital Assets (continued)

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.

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.

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1. Summary of Significant Accounting Policies (continued)

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.

Due from Other Governments

These accounts are composed primarily of: (1) revenue accruals from property taxes received from the county and (2) revenue accruals for the various reimbursable type grants for which revenue is recognized as expenditures are made. If receipts exceed expenditures, the excess is generally deferred until expenditures of funds, but may be recognized as revenue depending on the terms of the particular grant agreement.

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 the stated rate within the lease agreement or 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.

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1. Summary of Significant Accounting Policies (continued)

Lessee Activities and Lease Liabilities

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

Key estimates and judgments related to leases include how to 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 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 is 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.

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, leases receivable and loans receivable. Spendable fund balance is further categorized as restricted, committed, assigned, and unassigned.

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.

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1. Summary of Significant Accounting Policies (continued)

Fund Balance/Net Position (continued)

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.

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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. 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. 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. See Note 11 for detailed information.

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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 2025.

Subsequent Events

Subsequent events have been evaluated through Date xx, XXXX, the date the report was available to be issued. See Note 15.

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1. Summary of Significant Accounting Policies (continued)

Implementation of New Accounting Standards

Effective July 1, 2024, City implemented Governmental Accounting Standards Board (GASB) Statement No. 101, *Compensated Absences*. GASB 101 establishes a unified recognition and measurement framework for all types of compensated absences, including vacation, sick leave, paid time off, and other leave types.

Under GASB 101, a liability for compensated absences is recognized when the leave:

1. Is attributable to services already rendered,
2. Accumulates and may be carried forward to future periods, and
3. Is more likely than not to be used for time off or otherwise paid or settled.

The implementation of GASB 101 did not result in a material change to the financial statements. The City previously recognized liabilities for compensated absences in accordance with GASB 16, and the transition to GASB 101 did not significantly alter the measurement or recognition of these liabilities. Accordingly, no restatement of prior period balances was necessary.

Upcoming Accounting Pronouncements

GASB Statement No. 103 – Financial Reporting Model Improvements. The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement continues the requirement that the basic financial statements be preceded by management's discussion and analysis (MD&A), which is presented as required supplementary information. The Statement requires that governments display the inflows and outflows related to unusual or infrequent items separately as the last presented flow(s) of resources prior to the net change in resource flows in the government-wide and governmental fund statements of resource flows. The Statement continues the requirement that the proprietary fund statement of revenues, expenses, and changes in fund net position continue to distinguish between operating and nonoperating revenues and expenses. The Statement requires governments to present budgetary comparison information using a single method of communication – RSI. Governments are also required to present (1) variances between original and final budget amounts and (2) variances between final budget and actual amounts. The requirements of this Statement are effective for fiscal years beginning after June 15, 2025.

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1. Summary of Significant Accounting Policies (continued)

Upcoming Accounting Pronouncements (continued)

GASB Statement No. 104 – Disclosure of Certain Capital Assets. This Statement requires certain types of capital assets to be disclosed separately in the capital assets note disclosures required by Statement No. 34. Lease assets recognized in accordance with Statement No. 87, *Leases*, and intangible right-to-use assets recognized in accordance with Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, should be disclosed separately by major class of underlying asset in the capital assets note disclosures. Subscription assets recognized in accordance with Statement No. 96, *Subscription-Based Information Technology Arrangements*, also should be separately disclosed. This Statement also requires additional disclosure for capital assets held for sale and requires that capital assets held for sale be evaluated each reporting period. The requirements of this Statement are effective for fiscal years beginning after June 15, 2025.

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, 2025, the carrying amount of the City's deposits with financial institutions was $5,766,703 and the bank balance was $6,023,191. 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, 2025 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, 2025, the City's certificates of deposit fair market values are valued using level 2 inputs.

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2. Cash and Investments (continued)

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, 2025, the book value approximated the fair value of the investments, therefore no unrealized gain or loss was recorded for the year.

3. Taxes and Assessments Receivable

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

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

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

The taxes levied by the City for the year ended June 30, 2025, were within legal limits. The tax levies were based upon a taxable valuation of $5,530,020.

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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, 2025, consisted of the following:

	As of June 30, 2024	Additions	Retirements	As of June 30, 2025
Governmental Activities				
Capital assets not subject to depreciation:				
Land	$ 24,878	$ -	$ -	$ 24,878
Construction in progress	176,315	186,378	-	362,693
Capital assets subject to depreciation:				
Buildings	584,764	213,675	-	798,439
Other structures and improvements	1,197,466	145,323	(18,196)	1,324,593
Machinery and equipment	1,751,949	222,893	-	1,974,842
Infrastructure	222,783	12,132	-	234,915
Lease assets - Office space	101,329	-	-	101,329
Total capital assets	4,059,484	780,401	(18,196)	4,821,689
Accumulated depreciation				
Buildings	(311,226)	(17,331)	-	(328,557)
Other structures and improvements	(648,357)	(48,973)	18,196	(679,134)
Machinery and equipment	(897,029)	(69,496)	-	(966,525)
Infrastructure	(206,192)	(1,875)	-	(208,067)
Lease assets - Office space	(24,816)	(8,272)	-	(33,088)
Accumulated depreciation	(2,087,620)	(145,947)	18,196	(2,215,371)
Total governmental activities	$ 1,971,864	$ 634,454	$ -	$ 2,606,318
Business-type Activities				
Capital assets not subject to depreciation:				
Land	$ 143,000	$ -	$ -	$ 143,000
Construction in progress	819,101	1,250,010	-	2,069,111
Capital assets subject to depreciation:				
Buildings	146,170	40,068	-	186,238
Other structures and improvements	163,579	-	-	163,579
Machinery and equipment	591,634	215,674	-	807,308
Source of supply	1,742,355	-	-	1,742,355
Transmission and distribution	11,192,655	-	-	11,192,655
General plant	390,587	-	-	390,587
Total capital assets	15,189,081	1,505,752	-	16,694,833
Accumulated depreciation				
Buildings	(85,425)	(7,918)	-	(93,343)
Other structures and improvements	(153,239)	(1,816)	-	(155,055)
Machinery and equipment	(480,736)	(32,665)	-	(513,401)
Source of supply	(395,987)	(38,755)	-	(434,742)
Transmission and distribution	(4,324,354)	(228,033)	-	(4,552,387)
General plant	(309,213)	(8,137)	-	(317,350)
Accumulated depreciation	(5,748,954)	(317,324)	-	(6,066,278)
Total business-type activities	$ 9,440,127	$ 1,188,428	$ -	$ 10,628,555
Total capital assets (net)	$ 11,411,991	$ 1,822,882	$ -	$ 13,234,873

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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 and depreciation expense have been recorded. For the year ended June 30, 2025, depreciation expense on capital assets was charged to the governmental functions/programs as follows:

Governmental Activities:	Depreciation
General government	$ 1,437
Public safety	5,001
Public works	79,668
Culture and recreation	59,841
	$ 145,947
Business-type Activities:	
Water	$ 112,014
Sewer	205,309
	$ 317,323

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, 2025, is expected to be paid in future years from future resources and the change in the liability is presented as a net change. In prior years, compensated absences have been liquidated primarily by the general fund and the proprietary funds. The total amounts outstanding at June 30, 2025, are listed below:

	Governmental Activities	Business-type Activities	Total
Balance July 1, 2024	$ 10,148	$ 33,614	$ 43,762
Net change	2,255	7,108	9,363
Balance June 30, 2025	12,403	40,722	$ 53,125
Current portion	$ 6,399	$ 22,064	$ 28,463
Long-term portion	6,004	18,658	24,662
Total Compensated Absences	$ 12,403	$ 40,722	$ 53,125

The change in the compensated absence liability is presented as a net change.

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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, 2025:

	Intercap - Bleachers
Balance July 1, 2024	$ 210,086
Reductions	(30,165)
Balance June 30, 2025	$ 179,921
Current portion	$ 30,924
Long-term portion	148,997
	$ 179,921

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

Origination Date	Interest Rate	Term	Maturity Date	Principal Amount	Balance June 30, 2025
8/7/2020	1.55% - 6%	10 yrs	8/15/2030	$ 310,000	$ 179,921

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

	Intercap - Bleachers	
	Principal	Interest
FY2026	$ 30,924	$ 9,286
FY2027	31,702	7,056
FY2028	32,500	5,461
FY2029	33,317	3,826
FY2030	34,156	2,149
FY2031-2035	17,322	433
	$ 179,921	$ 28,211

DRAFT

6. Long-Term Debt (continued)

Business-type Activities Long Term Debt - Direct Borrowing

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

	Balance July 1, 2024	Additions	Reductions	Balance June 30, 2025	Current portion	Long-term portion
Water System Revenue Bonds, Series 2014B	$ 382,000	$ -	$ (34,000)	$ 348,000	$ 35,000	$ 313,000
Waste Water System Revenue Bonds	2,792,000	-	(224,000)	2,568,000	229,000	2,339,000
Total	$ 3,174,000	$ -	$ (258,000)	$ 2,916,000	$ 264,000	$ 2,652,000

	Date issued	Final maturity	Amount of issue	Debt service	Future debt service
Water System Revenue Bonds, Series 2014B, serial maturities through 2034	8/8/2014	7/1/2034	$ 681,000	$ 43,338	$ 390,838
Water Fund Total			$ 681,000	$ 43,338	$ 390,838
Waste Water System Revenue Bonds, serial maturities through 2035	6/25/2015	7/1/2035	$ 4,605,340	$ 292,413	$ 2,918,050
Sewer Fund Total			$ 4,605,340	$ 292,413	$ 2,918,050

Revenue bond 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) require specific and timely reporting of financial information to bond holders and the registrar.

DRAFT

6. Long-Term Debt (continued)

Business-type Activities Long Term Debt - Direct Borrowing (continued)

The Revenue bonds require that net revenues in excess of current expenses equal 110 percent of the maximum amount of principal and interest in any subsequent fiscal year.

Revenue bond debt service requirements to maturity are as follows:

	Revenue Bonds		
	Principal	Interest	Interest Rate
FY2026	$ 264,000	$ 71,263	2.50%
FY2027	271,000	64,613	2.50%
FY2028	277,000	57,800	2.50%
FY2029	285,000	50,825	2.50%
FY2030	291,000	43,663	2.50%
FY2031-2035	1,528,000	104,724	2.50%
	$ 2,916,000	$ 392,888	

7. Interfund Activity

The interfund transfers for the fiscal year ended June 30, 2025 were as follows:

Major Fund	Transfers In	Transfer Out
General Fund	$ -	$ 15,267
Streets Capital Improvement Fund	15,267	-
	$ 15,267	$ 15,267

The transfer to the Streets Capital Improvement Fund from the General Fund was to reallocate rental income.

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.

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9. Segment Information for Enterprise Funds

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

10. Other Post-Employment Benefits

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

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

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

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

Funding Policy
The City of Three Forks provides Group Health Insurance – Medical and Dental – through MMIA. The premiums vary for single, for 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.

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10. Other Post-Employment Benefits (continued)

Funding Policy (continued)

MMIA, as the plan administrator for many Montana cities and towns, engaged an actuary to assist the cities, including the City of Three Forks, with the alternative measurement method (AMM) for June 30, 2025. 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, 2025, 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	6
	6

Total OPEB Liability

As of June 30, 2025, the City's total OPEB liability is $47,942 and was determined by using the alternative measurement method as of June 30, 2025.

Actuarial Assumptions and Other Inputs

The total OPEB liability as of June 30, 2025 was determined using the following assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

	OPEB Valuation	Roll-forward
Average age of retirement based on historical data	56	
Turnover rate	0.00 percent	
Discount rate	4.93 percent	0.00 percent
Salary increase	3.50 percent	

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, 2025.

DRAFT

10. Other Post-Employment Benefits (continued)

Actuarial Assumptions and Other Inputs (continued)

Health cost trend rates were based on the following table:

	Annual %		Annual %
2024-2025	8.04%	2045-2058	4.60%
2025-2026	12.20%	2058-2067	4.50%
2026-2027	6.06%	2067-2069	4.40%
2027-2028	5.49%	2069-2071	4.30%
2028-2029	5.41%	2071-2073	4.20%
2029-2030	5.33%	2073+	4.10%
2030-2031	5.26%		
2031-2032	5.16%		
2032-2033	5.08%		
2033-2034	5.00%		
2034-2035	4.78%		
2035-2044	4.68%		

Changes in the Total Liability

Changes in total OPEB liability as of June 30, 2025:

Balance as of June 30, 2024	$ 47,738
Changes for the year:	
Service cost	9,234
Interest	2,807
Changes of assumptions or other inputs	(836)
Differences between expected and actual experience	(6,856)
Benefit payments	(4,145)
Change in net OPEB obligation	204
Balance as of June 30, 2025	$ 47,942

	Water	Sewer	Governmental	Total
Prior year OPEB liab	$ 18,140	$ 18,140	$ 11,458	$ 47,738
Current year OPEB liab	18,218	18,218	11,506	47,942
Change	$ 78	$ 78	$ 48	$ 204

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10. Other Post-Employment Benefits (continued)

Sensitivity Analysis

The following table presents the total OPEB liability reported by the City, as well as how that liability would change if the discount rate used to calculate the OPEB liability were decreased or increased by 1 percent:

	Discount Rate		
	1.0% Decrease	4.34%	1.0% Increase
Total OPEB Liability	$ 49,595	$ 47,942	$ 46,294

The following table presents the total OPEB liability reported by the City, as well as how that liability would change if the healthcare trend rate used in projecting benefit payments were to decrease or increase by 1 percent:

		Healthcare Cost Trend	
	1.0% Decrease	Rates*	1.0% Increase
Total OPEB Liability	$ 45,049	$ 47,942	$ 51,143

(*See Actuarial Assumptions and Other Inputs disclosure on pages 56 and 57 to determine the healthcare cost trends used to calculate the OPEB liability.)

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

For the year ending June 30, 2025, the City recognized OPEB expense of ($51,725). The City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ (6,856)
Changes in assumptions or other inputs	-	(836)
Total	$ -	$ (7,692)

Amounts reported as deferred outflow (inflows) of resources related to OPEB will be recognized in OPEB expense in the year ended June 30, 2026.

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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, 2024 measurement date for the 2025 reporting.

Summary of Significant Accounting Policies

Montana Public Employee Retirement Administration (MPERA) prepared 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 (NPL); Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions; Pension Expense; the Fiduciary Net Position; and 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).

DRAFT

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.

DRAFT

11. Net Pension Liability (continued)

Benefits Provided (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.

DRAFT

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. The employer paid contributions are not accounted for as special funding for state agencies and universities but are reported as employer contributions.

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

Local Government

Fiscal Year	Hired <07/01/	Hired >07/01/1	Employ	State
2025	7.90%	7.90%	9.070%	0.100%
2024	7.90%	7.90%	9.070%	0.100%
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.

DRAFT

11. Net Pension Liability (continued)

Contributions (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 $35,329,705.

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, 2025, is on an actuarial valuation performed by the Plan's actuary as of June 30, 2024.

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, 2025 and June 30, 2024, are displayed on page 66. 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 $562,590 and the employer's proportionate share was 0.023003 percent.

DRAFT

11. Net Pension Liability (continued)

	Net Pension Liability as of 06/30/2025	Net Pension Liability as of 06/30/2024	Percent of Collective NPL as of 06/30/2025	Percent of Collective NPL as of 06/30/2024	Change in Percent of Collective NPL
City's PERS Proportionate Share	$ 562,590	$ 489,019	0.023003%	0.020039%	0.002964%
State of Montana PERS Proportionate Share associated with employer	145,605	134,571	0.005953%	0.005514%	0.000439%
Total	$ 708,195	$ 623,590	0.028956%	0.025553%	0.003403%

Changes in actuarial assumptions and methods: There have been no changes to the assumptions or other inputs that affected the measurement of the TPL since the previous measurement date.

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, 2025, the employer recognized a Pension Expense of $58,225 for its proportionate share of the Plan's pension expense. The employer also recognized grant revenue of $7,803 for the support provided by the State of Montana for its proportionate share of the pension expense associated with the employer.

	Pension Expense as of 06/30/2025
	PERS
City's Proportionate Share	$ 58,225
State of Montana Proportionate Share associated with the Employer	7,803
Total	$ 66,028

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11. Net Pension Liability (continued)

Deferred Inflows and Outflows

At June 30, 2025, the employer reported its proportionate share of the Plan's deferred outflows of resources and deferred inflows of resources from the following sources:

	PERS	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Expected vs. Actual Experience	$ 28,430	$ -
Projected Investment Earnings vs. Actual Investment Earnings	-	12,509
Changes in Assumptions	-	-
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	41,265	-
Employer Contributions Subsequent to the Measurement Date	44,715	-
Total	$ 114,410	$ 12,509

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:	Recognition of Deferred Outflows and Deferred Inflows in future years as an increase or (decrease) to Pension Expense
2026	$ 10,394
2027	$ 60,972
2028	$ (8,795)
2029	$ (5,385)
2030	$ -
Thereafter	$ -

DRAFT

11. Net Pension Liability (continued)

Actuarial Assumptions

The total pension liability as of June 30, 2025 was determined on the results of an actuarial valuation date of June 30, 2024, 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.
- 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, 2024 valuation, were developed in the five-year experience study for the period ending 2021. However, the current long-term rate of return is based on analysis in the experience study, without consideration for the administrative expenses shown in the experience study.

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11. Net Pension Liability (continued)

Discount Rate

The discount rate used to measure the TPL 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 2128. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL. A municipal bond rate was not incorporated in the discount rate.

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, 2024, is based on analysis in the experience study report dated May 2, 2022 without consideration for the administrative expense analysis shown in the experience study. 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 in the underlying inflation assumption, or a fundamental change in the market that alters expected returns in future years.

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11. Net Pension Liability (continued)

Target Allocations (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, 2025	$ 820,135	$ 562,590	$ 346,627

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.

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11. Net Pension Liability (continued)

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

Per Montana Code Annotated 19-18-503, each pension fund must be soundly funded. The fund is soundly funded at fiscal year-end if (a) assets are maintained at a level equal to at least three times but no more than five times the benefits paid by the fund in the previous or current fiscal year, whichever is greater; or (b) funding is maintained at a level determined by an actuarial valuation to be sufficient to keep the fund actuarially sound. As the plan covers volunteers, there are no salaries paid and no contributions required by the volunteers. The contributions to the plan have been sufficient to fund current year benefit payments and are enough to maintain the plan as soundly funded currently; however, in the past, it was not. The City requested a voted levy to help fund the plan and it passed in fiscal year 2010. The proceeds from the levy in addition to another 4.27 mills are being contributed to the plan each year. The City contributions to the pension plan were $16,677 for the year ended June 30, 2025. 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.

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, 2025.

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12. Risk Management (continued)

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.

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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	Street Maintenance District #1	Headwaters Trail Project	Streets/Flood Capital Improvement	Nonmajor Governmental Funds	Total
Restricted for:							
Public safety	$ -	$ -	$ -	$ -	-	$ 296,084	$ 296,084
Public works	-	-	134,071	-	-	492,882	626,953
Culture and recreation	-	-	-	17,311	-	159,704	177,015
Debt service	-	-	-	-	-	362,052	362,052
Subtotal Restricted Fund Balance	-	-	134,071	17,311	-	1,310,722	1,462,104
Committed for:							
Public safety	-	-	-	-	-	170,462	170,462
Public works	-	-	-	-	680,077	-	680,077
Culture and recreation	-	260,070	-	-	-	34,514	294,584
Subtotal Committed Fund Balance	-	260,070	-	-	680,077	204,976	1,145,123
Nonspendable:	4,981	-	-	-	-	-	4,981
Unassigned:	165,082	-	-	-	-	-	165,082
Total Fund Balances	$ 170,063	$ 260,070	$ 134,071	$ 17,311	$ 680,077	$ 1,515,698	$ 2,777,290

14. Leases

Lessee Activities and Lease Liabilities

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 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.

Lease-related interest expense of $1,372 was recognized for the year ended June 30, 2025.

	Balance July 1, 2024	Reductions	Balance June 30, 2025	Current portion	Long-term portion
Office Lease	$ 82,492	$ (7,636)	$ 74,856	$ 7,771	$ 67,085

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14. Leases (continued)

Remaining obligations associated with this lease are as follows:

Year Ending June 30	Principal	Interest
2026	$ 7,771	$ 1,237
2027	7,908	1,100
2028	8,045	963
2029	9,128	811
2030	9,605	811
2031-2034	32,399	1,555
	$ 74,856	$ 6,477

Lessor Activities and Lease Receivables

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 renewal 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. The remaining receivable for the lease was $79,154 as of June 30, 2025. Deferred inflows related to this lease were $74,173 as of June 30, 2025. Rent income of $14,327 and related interest income of $1,438 was recognized for the year ended June 30, 2025. Remaining receivables associated with this lease are as follows:

Year Ending June 30	Principal	Interest
2026	$ 14,327	$ 1,187
2027	15,052	923
2028	15,803	649
2029	16,581	357
2030-2031	17,391	52
	$ 79,154	$ 3,168

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15. Subsequent Events

The City continue to work with DNRC, Great West Engineering, and Headwaters Economics for the flood mitigation channel project. The City continues to collect on the special improvement district that passed for this project to help fund the additional cost for ground easements. Great West Engineering continues working to obtain permits. The City was granted the floodplain permit from Gallatin County, the wetlands permit from the Corp of Engineers, and have submitted the Conditional Letter of Map Revision (CLOMR) to FEMA and expects a response in the next 60 days. The City is working with the Montana Department of Transportation for an encroachment permit. The City continues to negotiation the final details of the easements with the landowners. Once the City has received the CLOMR, Great West Engineering will immediately solicit construction bids. The City hopes to begin construction in the spring / summer of 2026, and project complete by the end of 2026.

A developer is still interested in annexing into the City and constructing a large housing development south of the Magris Talc Plant. As part of the negotiations, the City Engineers secured an agreement allowing the City to drill up to four water wells on the property. The City has now drilled three of the four wells. The first produced insufficient volume, but the second and third wells have demonstrated strong production and good water quality, and have been completed as full supply wells rather than remaining as test wells.

The City reviewed its water and sewer rates as per policy, and found that the City needed to increase both, so the Council increased the minimum/base rate by $5.00 each per account, per month (Res. #442-2025 on July 8, 2025).

The City has contracted with River & Oaks to draft ordinances regarding "5G" telecommunications and small cell towers within the city limits. These cover telecommunications within the City's right-of-way, including regulations on installation, repairs and maintenance, as well as aesthetic guidelines for small cell facilities.

Three Forks' Rodeo Arena Board of Directors requested the City Council allow it to borrow up to $310,000 toward a $425,000 bleacher project, which was approved. These would replace one of the existing steel-framed wooden set that seats 200-250, with an aluminum set seating nearly 750 that include 8 additional ADA-accessible seats.

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.

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REQUIRED SUPPLEMENTAL INFORMATION

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City of Three Forks, Montana
Schedule of Revenues and Expenditures – Budget and Actual - General Fund
For the Year Ended June 30, 2025

	General Fund	
	Original and Final Budget	Actual
Revenues:		
Taxes	$ 89,700	$ 512,236
Licenses and permits	18,750	17,825
Intergovernmental	369,262	302,601
Charges for services	24,000	10,902
Fines and forfeitures	750	-
Other	28,500	24,651
Total revenues	530,962	868,215
Expenditures:		
Current:		
General government	403,432	198,084
Public safety	441,298	433,865
Public works	72,439	63,179
Public health	250	200
Culture and recreation	104,658	73,449
Housing & community development	62,023	40,083
Other	8,537	2,257
Capital outlay	55,000	178,566
Total expenditures	1,147,637	989,683
Revenues under expenditures before other financing uses	$ (616,675)	$ (121,468)
Other financing uses:		
Operating transfers	(15,500)	(15,267)
Revenues under expenditures and other financing uses	$ (632,175)	$ (136,735)

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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, 2025

	Three Forks Rodeo Arena Special Revenue Fund	
	Original and Final Budget	Actual
Revenues:		
Charges for services	$ 300,000	$ 267,090
Interest on investments	8,000	13,376
Other	6,000	7,249
Total revenues	314,000	287,715
Expenditures:		
Current:		
Culture and recreation	261,740	193,467
Other	6,200	6,768
Capital outlay	-	29,932
Debt service	57,647	41,811
Total expenditures	325,587	271,978
Revenues over (under) expenditures before other financing uses	$ (11,587)	$ 15,737

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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 –
Street Maintenance District #1 Fund and Headwaters Trail Project Fund
For the Year Ended June 30, 2025

	Street Maintenance District #1	
	Original and Final Budget	Actual
Revenues:		
Taxes/assessments	$ 61,000	$ 60,532
Total revenues	61,000	60,532
Expenditures:		
Current:		
Public works	315,500	272,053
Total expenditures	315,500	272,053
Revenues under expenditures before other financing uses	$ (254,500)	$ (211,521)

	Headwaters Trail Project Fund		
	Original Budget	Amended and Final Budget	Actual
Revenues:			
Taxes/assessments	$ 16,000	$ 16,000	$ 15,971
Intergovernmental	262,000	262,000	262,000
Interest on investments	7,250	7,250	14,641
Other	32,500	36,640	29,277
Total revenues	317,750	321,890	321,889
Expenditures:			
Current:			
Public works	195,500	195,500	161,287
Capital outlay	122,000	122,000	145,323
Total expenditures	317,500	317,500	306,610
Revenues over expenditures before other financing uses	$ 250	$ 4,390	$ 15,279

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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	2025	2024	2023	2022
Service cost	$ 9,234	$ 6,721	$ 18,666	$ 28,042
Interest	2,807	1,874	3,603	6,040
Changes of benefit terms	-	-	9,925	-
Differences between expected and actual experience	(6,856)	5,151	(26,106)	(70,478)
Changes of assumptions or other inputs	(836)	-	(38,666)	(14,912)
Benefit payments	(4,145)	(2,434)	-	(1,890)
Change in total OPEB obligation	204	11,312	(32,578)	(53,198)
Beginning balance, total OPEB liability	47,738	36,426	69,004	122,202
Ending balance, total OPEB liability	$ 47,942	$ 47,738	$ 36,426	$ 69,004
Covered-employee payroll	$ 568,687	$ 506,440	$ 439,529	$ 509,248
Total OPEB Obligation as a percentage of covered-employee payroll	8.43%	9.43%	8.29%	13.55%

	2021	2019	2018	2017
Service cost	$ 18,981	$ 17,701	$ 11,023	$ 11,127
Interest	3,243	4,065	4,934	4,994
Changes of benefit terms	-	-	-	-
Differences between expected and actual experience	(23,050)	(37,768)	-	4,501
Changes of assumptions or other inputs	3,623	(280)	4,275	(3,730)
Benefit payments	(4,469)	(2,831)	(7,191)	(4,874)
Change in total OPEB obligation	(1,672)	(19,113)	13,041	12,018
Beginning balance, total OPEB liability	123,874	142,987	129,946	117,928
Ending balance, total OPEB liability	$ 122,202	$ 123,874	$ 142,987	$ 129,946
Covered-employee payroll	$ 413,633	$ 377,552	$ 350,543	$ 342,002
Total OPEB Obligation as a percentage of covered-employee payroll	29.54%	32.81%	40.79%	38.00%

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**The amounts presented above for each fiscal year were determined as of June 30th, the Plan's 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

PERS

Reporting Date	2025	2024	2023	2022	2021
As of Measurement Date	2024	2023	2022	2021	2020
City's proportion of the net pension liability	0.023003%	0.020039%	0.020881%	0.019461%	0.018988%
City's proportionate share of the net pension liability	$ 562,590	$ 489,019	$ 496,533	$ 352,877	$ 500,953
State's proportionate share of the net pension liability associated with the City	$ 145,605	$ 134,571	$ 147,714	$ 103,543	$ 157,160
Total	$ 708,195	$ 623,590	$ 644,247	$ 456,420	$ 658,113
City's covered payroll	$ 433,791	$ 361,273	$ 369,793	$ 343,761	$ 318,593
City's proportionate share of the net pension share of the net pension liability as a percentage of its covered payroll	129.69%	135.36%	134.27%	102.65%	157.24%
Plan fiduciary net position as a percentage of the total pension liability	74.77%	73.93%	73.66%	79.91%	68.90%

Reporting Date	2020	2019	2018	2017	2016
As of Measurement Date	2019	2018	2017	2016	2015
City's proportion of the net pension liability	0.019087%	0.018928%	0.022923%	0.025209%	0.025273%
City's proportionate share of the net pension liability	$ 398,973	$ 395,055	$ 446,457	$ 429,400	$ 353,279
State's proportionate share of the net pension liability associated with the City	$ 129,340	$ 131,714	$ 5,334	$ 5,247	$ 4,340
Total	$ 528,313	$ 526,769	$ 451,791	$ 434,647	$ 357,619
City's covered payroll	$ 314,929	$ 311,282	$ 284,365	$ 301,962	$ 294,937
City's proportionate share of the net pension share of the net pension liability as a percentage of its covered payroll	126.69%	126.91%	157.00%	142.20%	119.78%
Plan fiduciary net position as a percentage of the total pension liability	73.85%	73.47%	73.75%	74.71%	78.40%

The amounts presented above for each fiscal year were determined as of June 30th, the Plan's measurement date.

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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

PERS

As of Reporting Date	2025	2024	2023	2022	2021
City's contractually required DB contribution	$ 44,715	$ 39,345	$ 32,405	$ 32,801	$ 30,148
City's Contribution in relation to the contractually required contribution	44,715	39,345	32,405	32,801	30,148
City's Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
City's covered payroll	$ 493,001	$ 437,563	$ 361,273	$ 369,793	$ 343,761
Contributions as percentage of Covered Payroll	9.07%	8.99%	8.97%	8.87%	8.77%

As of Reporting Date	2020	2019	2018	2017	2016
City's contractually required DB contribution	$ 27,622	$ 26,989	$ 26,366	$ 23,802	$ 25,240
City's Contribution in relation to the contractually required contribution	27,622	26,989	26,366	23,802	25,240
City's Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
City's covered payroll	$ 318,593	$ 314,929	$ 311,282	$ 284,365	$ 301,962
Contributions as percentage of Covered Payroll	8.67%	8.57%	8.47%	8.37%	8.36%

The amounts presented above for each fiscal year were determined as of June 30th, the City's most recent fiscal year end.

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

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 2025 was $145 for PERS.

	Expenditures	Revenues
Budget Basis	$ 989,683	$ 868,215
State On-Behalf Payments	145	145
GAAP Basis	$ 989,828	$ 868,360

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, 2025. 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

1. Terminating members eligible to retire may, in lieu of receiving a monthly retirement benefit, refund their accumulated contributions in a lump sum.
2. 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.
3. Trusts, estates, and charitable organizations listed as beneficiaries are entitled to receive only a lump-sum payment.

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3. Net Pension Liability (continued)

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
Actuarially determined contributions are determined on the valuation date payable in the fiscal year beginning immediately following the valuation date. The following actuarial assumptions and methods were used to determine contribution rates reported for fiscal year ending June 30, 2024, which were based on the results of the June 30, 2023 actuarial valuation:

General Wage Growth*	3.50%
Investment Rate of Returns*	7.30%, net of pension plan investment and administrative expenses
*Includes inflation at	2.75%
Merit salary increases	0% to 4.80%
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 (Active participants)	PUB-2010 General Amount Weighted Employee Mortality projected to 2021 for males and females. Projected generationally using MP-2021.
Mortality (Disabled retirees)	PUB-2010 General Amount Weighted Disabled Retiree mortality table, projected to 2021, set forward one year for both males and females.

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3. Net Pension Liability (continued)

Mortality (Contingent Survivors)	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 (Health Retirees)	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.

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SUPPLEMENTAL INFORMATION

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City of Three Forks, Montana
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2025

	Special Revenue		
	Street Lighting District 1	Parks Special Projects	Gas Tax Apportionment
Assets			
Cash and cash equivalents	$ 42,334	$ 16,562	$ 445,888
Property tax receivable	-	-	-
Personal tax receivable	-	-	-
Special assessment receivable	329	-	-
Due from other governments	-	-	-
Total assets	$ 42,663	$ 16,562	$ 445,888
Liabilities, Deferred Inflows, and Fund Balances			
Liabilities:			
Accounts payable	$ 2,536	$ -	$ 4,531
Total liabilities	2,536	-	4,531
Deferred inflows of resources:			
Deferred inflows of tax revenues	329	-	-
Total deferred inflows of resources	329	-	-
Fund balances:			
Restricted	39,798	16,562	441,357
Committed	-	-	-
Total fund balances	39,798	16,562	441,357
Total liabilities, deferred inflows, and fund balances	$ 42,663	$ 16,562	$ 445,888

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Ridgeview Street Maintenance District	Fire Control Capital Improvement	Library Operating	Fire Impact Fees	Total
$ 11,727	$ 293,902	$ 109,042	$ 124,732	$ 1,044,187
-	2,403	2,630	-	5,033
-	148	169	-	317
-	-	-	-	329
-	2,183	3,356	-	5,539
$ 11,727	$ 298,636	$ 115,197	$ 124,732	$ 1,055,405
$ -	$ -	$ 2,843	$ -	$ 9,910
-	-	2,843	-	9,910
-	2,552	2,799	-	5,680
-	2,552	2,799	-	5,680
11,727	296,084	109,555	-	915,083
-	-	-	124,732	124,732
11,727	296,084	109,555	124,732	1,039,815
$ 11,727	$ 298,636	$ 115,197	$ 124,732	$ 1,055,405

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City of Three Forks, Montana
Combining Balance Sheet
Nonmajor Governmental Funds (Continued)
June 30, 2025

	Debt Service Funds	
	S.I.D. 34	Total
Assets		
Cash and cash equivalents	$ 362,052	$ 362,052
Special assessment receivable	19,500	19,500
Total assets	$ 381,552	$ 381,552
Liabilities, Deferred Inflows, and Fund Balances		
Deferred inflows of resources:		
Deferred inflows of tax revenues	$ 19,500	$ 19,500
Total deferred inflows of resources	19,500	19,500
Fund balances:		
Restricted	362,052	362,052
Total fund balances	362,052	362,052
Total liabilities, deferred inflows, and fund balances	$ 381,552	$ 381,552

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City of Three Forks, Montana
Combining Balance Sheet
Nonmajor Governmental Funds (Continued)
June 30, 2025

	Capital Project Funds			
	Library Reserve	Parks Capital	Fire Depart Capital	Total
Assets				
Cash and cash equivalents	$ (2,307)	$ 34,514	$ 45,730	$ 77,937
Due from other governments	35,894	-	-	35,894
Total assets	$ 33,587	$ 34,514	$ 45,730	$ 113,831
Liabilities, Deferred Inflows, and Fund Balances				
Liabilities:				
Accounts payable	$ -	$ -	$ -	$ -
Total liabilities	-	-	-	-
Fund balances:				
Restricted	33,587	-	-	33,587
Committed	-	34,514	45,730	80,244
Total fund balances	33,587	34,514	45,730	113,831
Total liabilities, deferred inflows, and fund balances	$ 33,587	$ 34,514	$ 45,730	$ 113,831

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City of Three Forks, Montana
Combining Balance Sheet
Nonmajor Governmental Funds (Continued)
June 30, 2025

		Total Nonmajor Governmental Funds
Assets		
Cash and cash equivalents	$	1,484,176
Property tax receivable		5,033
Personal tax receivable		317
Special assessment receivable		19,829
Due from other governments		41,433
Total assets	$	1,550,788
Liabilities, Deferred Inflows, and Fund Balances		
Liabilities:		
Accounts payable	$	9,910
Total liabilities		9,910
Deferred inflows or resources:		
Deferred inflows of tax revenues		25,180
Total deferred inflows of resources		25,180
Fund balances:		
Restricted		1,310,722
Committed		204,976
Total fund balances		1,515,698
Total liabilities, deferred inflows, and fund balances	$	1,550,788

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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, 2025

	Special Revenue Funds		
	Street Lighting District 1	Parks Special Projects	Street Maintenance District
Revenues:			
Taxes/assessments	$ 28,233	$ -	$ -
Intergovernmental	-	-	110,635
Charges for services	-	-	-
Fines and forfeitures	-	-	-
Interest on investments	-	-	-
Other	-	14,429	-
Total revenues	28,233	14,429	110,635
Expenditures:			
Current:			
General government	-	-	-
Public safety	-	-	-
Public works	26,239	-	59,251
Public health	-	-	-
Culture and recreation	-	2,985	-
Housing and community developmer	-	-	-
Other	-	-	-
Capital outlay	-	-	151,000
Debt service			
Principal payments	-	-	-
Interest and fiscal fees	-	-	-
Total expenditures	26,239	2,985	210,251
Revenues over (under) expenditures	1,994	11,444	(99,616)
Excess of revenues over expenditures and other financing sources (uses)	1,994	11,444	(99,616)
Fund balances, beginning of year	37,804	5,118	540,973
Fund balances, end of year	$ 39,798	$ 16,562	$ 441,357

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See Independent Auditors' Report.

Ridgeview Street Maintenance District	Fire Control Capital Improvement	Library Operating	Fire Impact Fees	Total
$ 3,500	$ 30,630	$ 42,921	$ -	$ 105,284
-	-	99,430	-	210,065
-	-	1,948	3,009	4,957
-	-	446	-	446
-	-	2,889	3,641	6,530
-	-	6,403	-	20,832
3,500	30,630	154,037	6,650	348,114
-	-	-	-	-
-	-	-	-	-
22,733	-	-	-	108,223
-	-	-	-	-
-	-	145,717	-	148,702
-	-	-	-	-
-	-	1,834	-	1,834
-	-	-	5,734	156,734
-	-	-	-	-
-	-	-	-	-
22,733	-	147,551	5,734	415,493
(19,233)	30,630	6,486	916	(67,379)
(19,233)	30,630	6,486	916	(67,379)
30,960	265,454	103,069	123,816	1,107,194
$ 11,727	$ 296,084	$ 109,555	$ 124,732	$ 1,039,815

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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, 2025

	Debt Service Funds	
	S.I.D. 34	Total
Revenues:		
Taxes/assessments	$ 186,295	$ 186,295
Total revenues	186,295	186,295
Revenues over (under) expenditures	186,295	186,295
Excess of revenues over expenditures and other financing sources (uses)	186,295	186,295
Fund balances, beginning of year	175,757	175,757
Fund balances, end of year	$ 362,052	$ 362,052

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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, 2025

	Capital Project Funds			
	Library Reserve	Parks Capital Improvement	Fire Department Capital Improve-ment	Total
Revenues:				
Intergovernmental	99,578	-	-	99,578
Interest on investments	1,120	1,083	1,480	3,683
Total revenues	100,698	1,083	1,480	103,261
Expenditures:				
Current:				
Culture and recreation	23,850	-	-	23,850
Capital outlay	81,089	-	2,379	83,468
Total expenditures	104,939	-	2,379	107,318
Revenues over (under) expenditures	(4,241)	1,083	(899)	(4,057)
Excess of revenues over expenditures and other financing sources (uses)	(4,241)	1,083	(899)	(4,057)
Fund balances, beginning of year	37,828	33,431	46,629	117,888
Fund balances, end of year	$ 33,587	$ 34,514	$ 45,730	$ 113,831

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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, 2025

	Total Nonmajor Governmental Funds
Revenues:	
Taxes/assessments	$ 291,579
Intergovernmental	309,643
Charges for services	4,957
Fines and forfeitures	446
Interest on investments	10,213
Other	20,832
Total revenues	637,670
Expenditures:	
Current:	
Public works	108,223
Culture and recreation	172,552
Other	1,834
Capital outlay	240,202
Total expenditures	522,811
Revenues over (under) expenditures	114,859
Excess of revenues over expenditures and other financing sources (uses)	114,859
Fund balances, beginning of year	1,400,839
Fund balances, end of year	$ 1,515,698

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SINGLE AUDIT

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City of Three Forks, Montana
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2025

Federal Source/Pass-through Grantor/Program Title	Grant or Pass-Through Number	AL Number	Federal Expenditures
Department of Homeland Security			
Montana Disaster and Emergency Services			
Flood Mitigation Assistance	FMA-EMD-2021-FM-003	97.029	$ 165,017
Total Department of Homeland Security			165,017
Department of the Treasury			
Montana Department of Natural Resources and Conservation			
Coronavirus State and Local Fiscal Recovery Funds	AC-22-0163	21.027	1,066,883
Gallatin County, Montana			
Coronavirus State and Local Fiscal Recovery Funds	SUB - 0164465	21.027	45,936
Montana Department of Commerce			
Coronavirus State and Local Fiscal Recovery Funds	MT-ARPA-CG-23-624	21.027	136,761
Coronavirus State and Local Fiscal Recovery Funds	MT-ARPA-PL-25-047	21.027	5,386
Total Department of the Treasury			1,254,966
Total Federal Expenditures			$ 1,419,983

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See Independent Auditors' Report.
The accompanying notes are an integral part of the financial statements.

1. Basis of Accounting

The accompanying schedule of expenditures of federal awards includes the federal award activity of the City of Three Forks, Montana (the "City") under programs of the federal government for the year ended June 30, 2025 and is presented on the accrual basis of accounting. The information in the schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City.

2. Indirect Cost Allocation

The City has elected not to us the 10% de minimis indirect cost rate described in the Uniform Guidance.

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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, 2025, 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 REPORT DATE. 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2025-001 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2025-002 to be significant deficiencies.

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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and is described in the accompanying schedule of findings and responses as item 2025-003.

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.

Bozeman, Montana
REPORT DATE

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

To the Honorable Mayor and City Council
City of Three Forks, Montana:

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited the City of Three Forks, Montana's compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on the City of Three Forks, Montana's major federal program for the year ended June 30, 2025. The City of Three Forks, Montana's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the City of Three Forks, Montana complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2025.

Basis for Opinion on the Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance 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 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City of Three Forks, Montana's compliance with the compliance requirements referred to above.

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Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the City of Three Forks, Montana's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City of Three Forks, Montana's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City of Three Forks, Montana's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 City of Three Forks, Montana's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City of Three Forks, Montana's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City of Three Forks, Montana's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

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Report on Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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

Rudd & Company, PLLC

Bozeman, Montana
REPORT DATE

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Financial Statements

Type of auditor's report issued:	Qualified
Internal control over financial reporting:	
Material weaknesses identified?	Yes
Significant deficiencies identified?	Yes
Noncompliance material to financial statements noted?	Yes

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiencies identified?	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with CFR section 200.516(a)?	No

Identification of major programs:

AL Number	Name of Federal Program
21.027	Coronavirus State and Local Fiscal Recovery Funds

Dollar threshold used to distinguish between Type A and Type B programs:	$750,000
Auditee qualified as a low-risk auditee?	No

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Current Year Findings:

Internal Control Findings – Material Weakness

2025-001 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, 2025.

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.

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Internal Control Findings –Significant Deficiency

2025-002 Capital Assets Not Capitalized in Accordance with GAAP

Criteria
Under U.S. generally accepted accounting principles (GAAP), governments are required to capitalize capital assets that meet the entity's established capitalization threshold and record them in the government-wide financial statements. Capital assets should be recorded at historical cost and depreciated over their estimated useful lives.

Condition
During our audit, we identified instances in which the City did not initially capitalize $235,493 of certain expenditures that met the capitalization threshold. These items were instead recorded as repairs and maintenance or other operating expenditures rather than being coded as capital outlay within the government fund financial statements and capitalized as capital assets within governmental activities on the government-wide financial statements. As a result, capital assets and related depreciation were understated within the governmental activities on the government-wide financial statements.

Context
The expenditures identified related to major repairs and improvements—such as building upgrades and other substantial components—that should have been capitalized under the City's capitalization policy. These items were not captured in the year-end capitalization process and therefore were excluded from the capital asset listings and related schedules prepared for the audit.

Effect
Failure to properly identify and capitalize qualifying capital assets can result in inaccurate financial reporting in the government-wide financial statements. This may affect the reliability of the City's financial information and reduce its usefulness to management, the City Council, and other financial statement users.

Recommendation
We recommend the City strengthen its year-end capitalization procedures to ensure all qualifying capital expenditures are identified and recorded in accordance with GAAP. This includes: reviewing all large maintenance, repair, and construction disbursements for potential capitalization, and providing training and resources to staff responsible for tracking and coding capital expenditures.

City Response
The City acknowledges the issue identified regarding the capitalization of certain assets. Historically, the City has not capitalized routine maintenance and repair activities—such as chip sealing, trail maintenance, roof repairs, and repairs to the Arsenic Treatment Plant—because these types of expenditures do not typically meet the criteria for capitalization under the City's policy.

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Internal Control Findings –Significant Deficiency (continued)

2025-002 Capital Assets Not Capitalized in Accordance with GAAP (continued)

City Response (continued)

During the fiscal year, the City received SLIPPA grant funds that were restricted specifically for repairs and maintenance. Because the grant was designed for maintenance-related work, the City initially did not consider any of these expenditures to be capital in nature. This understanding aligned with prior capitalization discussions, which focused on excluding maintenance-type activities from capital asset reporting.

However, upon further review near year-end, the City identified that certain expenditures included in the project—such as HVAC components, floor coverings, and interior construction—did meet the capitalization threshold and should be treated as capital assets rather than repairs. Once this was recognized, City staff re-evaluated the expenditures and agreed with the auditors' assessment. The issue was not the result of intentional omission, but rather an interpretation based on past practice that did not fully account for the unique nature of building-related improvements within this project.

The City Clerk and City Treasurer will strengthen their year-end review procedures to ensure that all qualifying expenditures—especially those embedded within maintenance-funded projects—are properly evaluated for capitalization in accordance with GAAP.

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State of Montana and Other Compliance Findings

2025-003 Bond Covenants

Criteria
Per the loan agreements with the DNRC, the City must maintain a minimum Debt Service Coverage Ratio (DSCR) of 110% in the Sewer Fund, calculated on a trailing 12-month basis.

Condition
During our review of the City's compliance with its long-term debt agreement with the DNRC, we noted that the City failed to meet the minimum DSCR.

Context
During the testing completed during the audit, we noted a bond was not in compliance with the covenants.

Effect
The effect is the City is not in compliance with its bond covenants.

Recommendation
We recommend that the City adequately bill and develop a process to ensure the coverage ratio is met.

City Response
The City acknowledges the finding regarding noncompliance with the Debt Service Coverage Ratio (DSCR) requirement outlined in the DNRC loan agreements. Maintaining a minimum DSCR of 110% on a trailing twelve-month basis is a key covenant intended to ensure the Sewer Fund generates sufficient revenues to support its long-term debt obligations.

The City Treasurer evaluates billing practices and monitors the DSCR at a minimum twice per year.

In early 2025, the City Treasurer realized the Sewer Fund was most likely going to be below the 110% DSCR. She approached the budget committee with this information. The budget committee made a recommendation to the City Council to raise the minimum Sewer Rates by $5 per account per month and raise the minimum Water Rates by the same amount. Water and Sewer Rates had not been raised for over 10 years and raising them by $10 per month per account after that long seemed reasonable. For the 1st seven months of FY2025-2026, the Sewer Account is receiving an average of $5,000 more than the same period in FY2024-2025 in Charges for Services. This will equate to an additional $60,000 in revenue in the Sewer account. With only this additional revenue the DSCR would have been 121.77% as of June 30, 2025, and 128.6% in the 13th month/period.

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State of Montana and Other Compliance Findings (continued)

2025-003 Bond Covenants (continued)

City Response (continued)
The City also spent $41,180.41 to Great West Engineering for the start of a Wastewater PER. The City will receive up to $55,000 in grant funds towards this PER once it is completed. This is an expense that is counted in the DSCR, but the grant funds are not counted as revenue as it is not a charge for service, and it has not been received yet. With only this deduction of the $41,180.41 from the expenses for calculating the DSCR, the DSCR would have been 115.34% as of June 30, 2025, and 122.15% in the 13th month/period.

The City is committed to maintaining compliance with all debt covenants and ensuring the financial stability of the Sewer fund. We believe we have been proactive in the planned corrective action the City has taken, and will continue to do the bi-yearly reviews to prevent non-compliance and help prevent any recurrence in future periods.

Prior Year Findings:

2024-001 FDRA Pension Liability not Recorded – Repeat finding, see 2025-001

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