

TOWN OF VALIER

**PONDERA COUNTY
VALIER, MONTANA**

FINANCIAL AND COMPLIANCE REPORT

Fiscal Year Ended June 30, 2022

Strom & Associates, P. C.

PO BOX 1980

Billings, Montana 59103

TOWN OF VALIER
PONDERA COUNTY
VALIER, MONTANA 59486
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TOWN OF VALIER
PONDERA COUNTY
VALIER, MONTANA 59486
ORGANIZATION

MAYOR AND TOWN COUNCIL

Glenn Wunderlich Mayor
Janelle Nelson Council President
Dave Widalm Council Member
Angi Kirkbride Council Member
Steve Nelson Council Member

OFFICIALS

Stephanie Sullivan Clerk/Treasurer
Josh Clifford Public Works Supervisor
Cody Shaw Town Judge
Joe Sherwood Town Attorney



STROM & ASSOCIATES, P.C.

Certified Public Accountants

3203 3rd Ave N. Suite 208
PO Box 1980
Billings, MT 59103

Phone: 406-252-2765
E-mail: audit@stromcpa.net

INDEPENDENT AUDITOR'S REPORT

Mayor and Town Council
Town of Valier
Pondera County
Valier, Montana 59486

Report on the Audit of Financial Statements

Opinions

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Valier (Town) as of and for the year ended June 30, 2022 and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town as of June 30, 2022, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Financial Statements section of our report. We are required to be independent of the Town, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with GAAP, 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 Town's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 opinion. 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 GAAS 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 consolidated financial statements.

In performing an audit in accordance with GAAS 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 Town's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those in charge of 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.

Change in Accounting Principle

As described in Note 1 to the financial statements, during the year ended June 30, 2022, the Town adopted Governmental Accounting Standards Board (GASB) Statement No. 87 – *Leases*. Our opinions are not modified with respect to this matter.

Required Supplementary Information

GAAP requires that the Schedule of Proportionate Share of Net Pension Liability and Schedule of Contributions to Montana Retirement Systems (pages 37-40), and the Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (pages 41-43) 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 GASB 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 GAAS, which consisted of inquiries of management about 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.

Management has omitted the Management's Discussion and Analysis that GAAP requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 3, 2023 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town'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 Town's internal control over financial reporting and compliance.



STROM & ASSOCIATES, PC
Billings, Montana
August 3, 2023

STATEMENT OF NET POSITION
June 30, 2022

| | Governmental Activities | Business-type Activities | Total | Component Units |
|--|----------------------------|-----------------------------|---------------------|--------------------|
| ASSETS: | | | | |
| Current Assets: | | | | |
| Cash and Cash Equivalents | \$ 474,120 | \$ 487,627 | \$ 961,747 | \$ 76,380 |
| Taxes Receivable | 11,975 | - | 11,975 | - |
| Special Assessments Receivable | 16,463 | 13,969 | 30,432 | - |
| Accounts Receivable - Net | - | 42,504 | 42,504 | - |
| Due from Other Governments | 39,175 | - | 39,175 | - |
| Inventories | - | 42,074 | 42,074 | - |
| Total Current Assets | <u>541,733</u> | <u>586,175</u> | <u>1,127,907</u> | <u>76,380</u> |
| Noncurrent Assets: | | | | |
| Restricted Cash and Investments | - | 260,523 | 260,523 | - |
| Capital Assets: | | | | |
| Land | 112,100 | - | 112,100 | - |
| Net Depreciable Assets | 599,814 | 4,938,858 | 5,538,672 | - |
| Total Noncurrent Assets | <u>711,914</u> | <u>5,199,381</u> | <u>5,911,295</u> | <u>-</u> |
| Total Assets | <u>1,253,647</u> | <u>5,785,556</u> | <u>7,039,203</u> | <u>76,380</u> |
| DEFERRED OUTFLOWS OF RESOURCES: | | | | |
| Employer Pension Plan Related | 20,615 | 31,695 | 52,310 | - |
| Total Deferred Outflows of Resources | <u>20,615</u> | <u>31,695</u> | <u>52,310</u> | <u>-</u> |
| Total Assets and Deferred Outflows of Resources | <u>\$ 1,274,262</u> | <u>\$ 5,817,251</u> | <u>\$ 7,091,513</u> | <u>\$ 76,380</u> |
| LIABILITIES: | | | | |
| Current Liabilities: | | | | |
| Unearned Revenue | \$ 124,330 | \$ - | \$ 124,330 | \$ - |
| Current Portion of Compensated Absences | 2,091 | 3,488 | 5,579 | - |
| Current Portion of Long-term Capital Obligations | 6,003 | 47,003 | 53,006 | - |
| Total Current Liabilities | <u>132,424</u> | <u>50,491</u> | <u>182,915</u> | <u>-</u> |
| Noncurrent Liabilities: | | | | |
| Compensated Absences | 2,091 | 3,488 | 5,579 | - |
| Net Pension Accrual | 69,681 | 107,130 | 176,811 | - |
| Capital Debt Obligations | 5,968 | 1,548,750 | 1,554,718 | - |
| Total Noncurrent Liabilities | <u>77,740</u> | <u>1,659,368</u> | <u>1,737,108</u> | <u>-</u> |
| Total Liabilities | <u>210,164</u> | <u>1,709,858</u> | <u>1,920,023</u> | <u>-</u> |
| DEFERRED INFLOWS OF RESOURCES: | | | | |
| Employer Pension Plan Related | 28,733 | 44,175 | 72,908 | - |
| Total Deferred Inflows of Resources | <u>28,733</u> | <u>44,175</u> | <u>72,908</u> | <u>-</u> |
| NET POSITION: | | | | |
| Net Investment in Capital Assets | 699,943 | 3,343,105 | 4,043,048 | - |
| Restricted | 287,147 | 260,523 | 547,670 | 76,380 |
| Unrestricted (Deficit) | 48,275 | 459,589 | 507,864 | - |
| Total Net Position | <u>1,035,365</u> | <u>4,063,218</u> | <u>5,098,582</u> | <u>76,380</u> |
| Total Liabilities, Deferred Inflows of Resources, and Net Position | <u>\$ 1,274,262</u> | <u>\$ 5,817,251</u> | <u>\$ 7,091,513</u> | <u>\$ 76,380</u> |

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2022

| | Program Revenues | | | | Net (Expenses) Revenues and Changes in Net Position | | | Component Units |
|----------------------------------|---------------------|------------------------|--|--|--|-----------------------------|---------------------|--------------------|
| | Expenses | Charge for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-type Activities | Total | |
| GOVERNMENT OPERATIONS: | | | | | | | | |
| General Government | \$ 92,582 | \$ 350 | \$ 5,251 | \$ - | \$ (86,981) | | \$ (86,981) | |
| Public Safety | 70,928 | 398 | 1,094 | - | (69,436) | | (69,436) | |
| Public Works | 137,448 | - | 85,207 | - | (52,241) | | (52,241) | |
| Culture and Recreation | 137,481 | 49,772 | - | - | (87,709) | | (87,709) | |
| Debt Service: | | | | | | | | |
| Interest and Other Charges | 270 | - | - | - | (270) | | (270) | |
| Total Governmental Operations | <u>438,709</u> | <u>50,520</u> | <u>91,552</u> | <u>-</u> | <u>(296,637)</u> | | <u>(296,637)</u> | |
| BUSINESS-TYPE ACTIVITIES: | | | | | | | | |
| Water | 299,942 | 216,761 | 4,526 | - | | (78,656) | (78,656) | |
| Sewer | 265,981 | 233,554 | 24,129 | - | | (8,299) | (8,299) | |
| Total Business-type Activities | <u>565,924</u> | <u>450,315</u> | <u>28,654</u> | <u>-</u> | | <u>(86,955)</u> | <u>(86,955)</u> | |
| Total Primary Government | <u>\$ 1,004,632</u> | <u>\$ 500,835</u> | <u>\$ 120,206</u> | <u>\$ -</u> | <u>\$ (296,637)</u> | <u>\$ (86,955)</u> | <u>\$ (383,591)</u> | |
| COMPONENT UNITS: | | | | | | | | |
| Library Foundation | 1,032 | - | - | - | | | | (1,032) |
| Total Component Units | <u>\$ 1,032</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | | | | <u>\$ (1,032)</u> |
| GENERAL REVENUES: | | | | | | | | |
| Taxes/Assessments | | | | | 208,168 | - | 208,168 | - |
| Local Option Taxes | | | | | 13,555 | - | 13,555 | - |
| Licenses and Permits | | | | | 6,314 | - | 6,314 | - |
| Federal/State Shared Revenues | | | | | 56,046 | - | 56,046 | - |
| Miscellaneous | | | | | 10,908 | - | 10,908 | - |
| Investment and Royalty Earnings | | | | | 227 | 1,034 | 1,261 | (10,570) |
| Total General Revenues | | | | | <u>295,218</u> | <u>1,034</u> | <u>296,252</u> | <u>(10,570)</u> |
| Change in Net Position | | | | | (1,419) | (85,921) | (87,340) | (11,602) |
| NET POSITION: | | | | | | | | |
| Beginning of the Year | | | | | 1,036,784 | 4,146,891 | 5,183,674 | 87,982 |
| Prior Period Adjustments | | | | | - | 2,248 | 2,248 | - |
| End of the Year | | | | | <u>\$ 1,035,365</u> | <u>\$ 4,063,218</u> | <u>\$ 5,098,583</u> | <u>\$ 76,380</u> |

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2022

| | MAJOR | | | | | |
|--|-------------------|-------------------|-----------------------------|-------------------|--------------------------------|--------------------------------|
| | General | Library | BaRSAA HB 473 Allocation | ARPA | Other Governmental Funds | Total Governmental Funds |
| ASSETS: | | | | | | |
| Current Assets: | | | | | | |
| Cash and Cash Equivalents | \$ 118,281 | \$ 117,622 | \$ 60,469 | \$ 124,330 | \$ 53,418 | \$ 474,120 |
| Taxes Receivable | 11,975 | - | - | - | - | 11,975 |
| Special Assessments Receivable | - | - | - | - | 16,463 | 16,463 |
| Due from Other Governments | - | 39,175 | - | - | - | 39,175 |
| Total Assets | 130,256 | 156,797 | 60,469 | 124,330 | 69,881 | 541,733 |
| DEFERRED OUTFLOWS OF RESOURCES: | | | | | | |
| Total Deferred Outflows of Resources | - | - | - | - | - | - |
| Total Assets and Deferred Outflows of Resources | \$ 130,256 | \$ 156,797 | \$ 60,469 | \$ 124,330 | \$ 69,881 | \$ 541,733 |
| LIABILITIES: | | | | | | |
| Current Liabilities: | | | | | | |
| Unearned Revenue | - | - | - | \$ 124,330 | - | \$ 124,330 |
| Total Liabilities | - | - | - | 124,330 | - | 124,330 |
| DEFERRED INFLOWS OF RESOURCES: | | | | | | |
| Unavailable Property Taxes Receivable | 11,975 | - | - | - | 16,463 | 28,438 |
| Total Deferred Inflows of Resources | 11,975 | - | - | - | 16,463 | 28,438 |
| FUND BALANCE (DEFICITS): | | | | | | |
| Restricted | - | 156,797 | 60,469 | - | 53,418 | 270,684 |
| Assigned | 38,675 | - | - | - | - | 38,675 |
| Unassigned | 79,606 | - | - | - | - | 79,606 |
| Total Fund Balance | 118,281 | 156,797 | 60,469 | - | 53,418 | 388,965 |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | \$ 130,256 | \$ 156,797 | \$ 60,469 | \$ 124,330 | \$ 69,881 | \$ 541,733 |

RECONCILIATION TO THE STATEMENT OF NET POSITION

| | |
|--|---------------------|
| Total Fund Balance Reported Above | \$ 388,965 |
| Unavailable Property Taxes Receivable | 28,438 |
| Governmental Capital Assets | 711,914 |
| Employer Pension Plan Related | 20,615 |
| Liabilities: | |
| Compensated Absences | (4,182) |
| Net Pension Accrual | (69,681) |
| Capital Debt Obligations | (11,971) |
| Employer Pension Plan Related | (28,733) |
| Net Position of Governmental Activities | \$ 1,035,365 |

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

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

| | MAJOR | | | | | Total Governmental Funds |
|--|-------------------|-------------------|-----------------------------|-------------|--------------------------------|--------------------------------|
| | General | Library | BaRSAA HB 473 Allocation | ARPA | Other Governmental Funds | |
| REVENUES: | | | | | | |
| Taxes and Assessments | \$ 101,974 | \$ 102,508 | \$ - | \$ - | \$ 24,113 | \$ 228,595 |
| Licenses and Permits | 4,914 | - | - | - | - | 4,914 |
| Intergovernmental Revenues | 61,931 | 2,258 | 60,469 | - | 24,738 | 149,397 |
| Charges for Services | 47,231 | 402 | - | - | - | 47,633 |
| Miscellaneous | 2,094 | 2,489 | - | - | - | 4,584 |
| Investment and Royalty Earnings | 193 | - | - | - | 34 | 227 |
| Total Revenues | <u>218,337</u> | <u>107,658</u> | <u>60,469</u> | <u>-</u> | <u>48,886</u> | <u>435,349</u> |
| EXPENDITURES: | | | | | | |
| Current: | | | | | | |
| General Government | 91,688 | - | - | - | - | 91,688 |
| Public Safety | 64,891 | - | - | - | - | 64,891 |
| Public Works | 45,911 | - | 23,988 | - | 58,714 | 128,613 |
| Culture and Recreation | 49,582 | 75,446 | - | - | - | 125,027 |
| Debt Service: | | | | | | |
| Principal | - | - | - | - | 5,855 | 5,855 |
| Interest and Other Charges | - | - | - | - | 270 | 270 |
| Total Expenditures | <u>252,071</u> | <u>75,446</u> | <u>23,988</u> | <u>-</u> | <u>64,840</u> | <u>416,344</u> |
| Excess (Deficiency) of Revenues Over Expenditures | <u>(33,734)</u> | <u>32,212</u> | <u>36,481</u> | <u>-</u> | <u>(15,954)</u> | <u>19,005</u> |
| OTHER FINANCING SOURCES (USES): | | | | | | |
| Total Other Financial Sources (Uses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Net Change in Fund Balance | (33,734) | 32,212 | 36,481 | - | (15,954) | 19,005 |
| FUND BALANCE: | | | | | | |
| Beginning of the Year | <u>152,015</u> | <u>124,585</u> | <u>23,988</u> | <u>-</u> | <u>69,372</u> | <u>369,960</u> |
| End of the Year | <u>\$ 118,281</u> | <u>\$ 156,797</u> | <u>\$ 60,469</u> | <u>\$ -</u> | <u>\$ 53,418</u> | <u>\$ 388,965</u> |

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

Town of Valier
Pondera County
Valier, Montana 59486

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2022

| | | |
|---|----------|----------|
| Net Changes in Fund Balance | \$ | 19,005 |
| Revenues on the Statement of Activities not Included in Governmental Funds Statement: | | |
| Increase (Decrease) in Taxes Receivable | 1,941 | 1,941 |
| Expenses on the Statement of Activities not Included in the Governmental Funds Statement: | | |
| Depreciation Expense | (30,978) | |
| Actuarial Pension Expense | 1,839 | |
| (Increase) Decrease in Compensated Absence Liability | 919 | (28,220) |
| Expenditures Reported in the Governmental Funds Statement not Included in the Statement of Activities | | |
| Principal Payments on Debt | 5,855 | 5,855 |
| Change in net Position Reported on the Statement of Activities | \$ | (1,419) |

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2022

| | MAJOR | | |
|--|---------------------|---------------------|------------------------|
| | Water | Sewer | Total Enterprise Funds |
| ASSETS: | | | |
| Current Assets: | | | |
| Cash and Cash Equivalents | \$ 154,367 | \$ 333,260 | \$ 487,627 |
| Special Assessments Receivable | 3,148 | 10,822 | 13,969 |
| Accounts Receivable - Net | 17,403 | 25,102 | 42,504 |
| Inventories | 30,714 | 11,360 | 42,074 |
| Total Current Assets | <u>205,632</u> | <u>380,543</u> | <u>586,175</u> |
| Noncurrent Assets: | | | |
| Restricted Cash and Investments | 115,624 | 144,899 | 260,523 |
| Capital Assets: | | | |
| Net Depreciable Assets | <u>2,365,894</u> | <u>2,572,964</u> | <u>4,938,858</u> |
| Total Noncurrent Assets | <u>2,481,518</u> | <u>2,717,863</u> | <u>5,199,381</u> |
| Total Assets | <u>2,687,150</u> | <u>3,098,406</u> | <u>5,785,556</u> |
| DEFERRED OUTFLOWS OF RESOURCES: | | | |
| Employer Pension Plan Related | <u>14,858</u> | <u>16,838</u> | <u>31,695</u> |
| Total Deferred Outflows of Resources | <u>14,858</u> | <u>16,838</u> | <u>31,695</u> |
| Total Assets and Deferred Outflows of Resources | <u>\$ 2,702,007</u> | <u>\$ 3,115,244</u> | <u>\$ 5,817,251</u> |
| LIABILITIES: | | | |
| Current Liabilities: | | | |
| Current Portion of Compensated Absences | \$ 1,590 | \$ 1,898 | \$ 3,488 |
| Current Portion of Long-term Capital Obligations | <u>15,953</u> | <u>31,050</u> | <u>47,003</u> |
| Total Current Liabilities | <u>17,543</u> | <u>32,948</u> | <u>50,491</u> |
| Noncurrent Liabilities: | | | |
| Compensated Absences | 1,590 | 1,898 | 3,488 |
| Net Pension Accrual | 50,219 | 56,911 | 107,130 |
| Capital Debt Obligations | <u>737,447</u> | <u>811,303</u> | <u>1,548,750</u> |
| Total Noncurrent Liabilities | <u>789,255</u> | <u>870,112</u> | <u>1,659,368</u> |
| Total Liabilities | <u>806,798</u> | <u>903,060</u> | <u>1,709,859</u> |
| DEFERRED INFLOWS OF RESOURCES: | | | |
| Employer Pension Plan Related | <u>20,708</u> | <u>23,467</u> | <u>44,175</u> |
| Total Deferred Inflows of Resources | <u>20,708</u> | <u>23,467</u> | <u>44,175</u> |
| NET POSITION: | | | |
| Net Investment in Capital Assets | 1,612,495 | 1,730,611 | 3,343,105 |
| Restricted for Debt Service | 84,910 | 133,539 | 218,449 |
| Restricted for Inventory | 30,714 | 11,360 | 42,074 |
| Unrestricted (Deficit) | <u>146,383</u> | <u>313,206</u> | <u>459,589</u> |
| Total Net Position | <u>1,874,502</u> | <u>2,188,716</u> | <u>4,063,218</u> |
| Total Liabilities, Deferred Inflows of Resources, and Net Position | <u>\$ 2,702,007</u> | <u>\$ 3,115,244</u> | <u>\$ 5,817,251</u> |

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

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

| | MAJOR | | |
|---|---------------------|---------------------|---------------------------|
| | Water | Sewer | Total Enterprise Funds |
| OPERATING REVENUES: | | | |
| Charges for Services | \$ 216,761 | \$ 233,554 | \$ 450,315 |
| Total Operating Revenues | <u>216,761</u> | <u>233,554</u> | <u>450,315</u> |
| OPERATING EXPENSES: | | | |
| Personal Services | 62,954 | 82,591 | 145,544 |
| Supplies | 72,423 | 38,266 | 110,689 |
| Purchased Services | 65,395 | 38,561 | 103,955 |
| Fixed Charges | 9,044 | 8,981 | 18,025 |
| Depreciation | 64,422 | 73,749 | 138,171 |
| Total Operating Expense | <u>274,238</u> | <u>242,147</u> | <u>516,385</u> |
| Operating Income (Loss) | <u>(57,477)</u> | <u>(8,594)</u> | <u>(66,071)</u> |
| NONOPERATING REVENUES (EXPENSES) | | | |
| Intergovernmental | 4,526 | 24,129 | 28,654 |
| Interest | 411 | 623 | 1,034 |
| Debt Service Interest | <u>(25,704)</u> | <u>(23,834)</u> | <u>(49,538)</u> |
| Total Nonoperating Revenue (Expenses) | <u>(20,768)</u> | <u>918</u> | <u>(19,850)</u> |
| Change in Net Position | (78,245) | (7,676) | (85,921) |
| NET POSITION: | | | |
| Beginning of the Year | 1,952,386 | 2,194,505 | 4,146,891 |
| Prior Period Adjustments | 361 | 1,887 | 2,248 |
| End of the Year | <u>\$ 1,874,502</u> | <u>\$ 2,188,716</u> | <u>\$ 4,063,218</u> |

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

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

| | MAJOR | | |
|---|-------------------|-------------------|------------------------------|
| | Water | Sewer | Total Enterprise Funds |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Receipts from Customers | \$ 221,023 | \$ 234,674 | \$ 455,697 |
| Payments to Employees | (65,490) | (73,195) | (138,685) |
| Payments to Suppliers | (101,139) | (67,575) | (168,714) |
| Net Cash Provided (Used) by Operating Activities | <u>54,394</u> | <u>93,904</u> | <u>148,298</u> |
| CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES: | | | |
| Subsidies from Other Governments | - | 19,000 | 19,000 |
| Principal Paid on Non-capital Debt | (15,431) | (47,062) | (62,493) |
| Net Cash Provided (Used) by Non-capital Financing Activities | <u>(15,431)</u> | <u>(28,062)</u> | <u>(43,493)</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | | |
| Interest Paid on Capital Debt | (25,704) | (23,834) | (49,538) |
| Net Cash Provided (Used) by Capital and Related Financing Activities | <u>(25,704)</u> | <u>(23,834)</u> | <u>(49,538)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Interest and Dividends | 411 | 623 | 1,034 |
| Net Cash Provided (Used) by Investing Activities | <u>411</u> | <u>623</u> | <u>1,034</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | <u>13,670</u> | <u>42,631</u> | <u>56,301</u> |
| BALANCE: | | | |
| Beginning of the Year | 256,321 | 435,528 | 691,849 |
| End of the Year | <u>\$ 269,991</u> | <u>\$ 478,159</u> | <u>\$ 748,150</u> |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES: | | | |
| Operating Income (Loss) | \$ (57,477) | \$ (8,594) | \$ (66,071) |
| Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities: | | | |
| Depreciation Expense | 64,422 | 73,749 | 138,171 |
| GASBS No. 68 Pension Expense | (1,178) | 8,717 | 7,539 |
| Changes in Assets and Liabilities: | | | |
| Accounts Receivable | 3,318 | 1,767 | 5,085 |
| Special Assessments Receivable | 1,305 | 1,242 | 2,547 |
| Compensated Absences | (1,358) | 679 | (679) |
| Inventories | 45,362 | 16,344 | 61,706 |
| Net Cash Provided (Used) by Operating Activities | <u>\$ 54,394</u> | <u>\$ 93,904</u> | <u>\$ 148,298</u> |
| Supplemental Schedule of Noncash Activities: | | | |
| GASBS No. 68 State Contribution | <u>\$ 4,526</u> | <u>\$ 5,129</u> | <u>\$ 9,655</u> |

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

Town of Valier
Pondera County
Valier, Montana 59486

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2022

| | <u>Custodial Funds</u> |
|-------------------------------|------------------------|
| | Aggregate |
| | Other |
| | Custodial |
| | <u>Funds</u> |
| ASSETS: | |
| Current Assets: | |
| Cash and Cash Equivalents | \$ 1,625 |
| Total Assets | <u>\$ 1,625</u> |
| LIABILITIES: | |
| Total Liabilities | <u>-</u> |
| NET POSITION: | |
| Restricted For: | |
| Individuals and Organizations | 1,625 |
| Total Net Position | <u>\$ 1,625</u> |

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
For the Year Ended June 30, 2022

| | <u>Custodial Funds</u> |
|--|------------------------|
| | Aggregate |
| | Other |
| | Custodial |
| | <u>Funds</u> |
| ADDITIONS: | |
| Contributions from Individuals and Organizations | \$ 1,094 |
| Total Additions | <u>1,094</u> |
| DEDUCTIONS: | |
| Total Deductions | <u>-</u> |
| Change in Net Position | 1,094 |
| NET POSITION: | |
| Beginning of the Year | <u>531</u> |
| End of the Year | <u>\$ 1,625</u> |

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

TOWN OF VALIER

NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2022

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. a. REPORTING ENTITY

The basic financial statements of the Town of Valier (Town) have been prepared on a prescribed basis of accounting that demonstrates compliance with the accounting and budget laws of the State of Montana (Montana), which conforms to Generally Accepted Accounting Principles (GAAP), as applied to governmental units. The Town applies all relevant Governmental Accounting Standards Board (GASB) pronouncements, which is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

At the end of fiscal year 2022, the Town adopted the following GASB Statements:

- GASB Statement No. 87 – *Leases*. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021.
- GASB Statement No. 97 – *Certain Component Unit Criteria, and Accounting and Financial Reporting For Internal Revenue Code Section 457 Deferred Compensation Plans—An Amendment of GASB Statements No. 14 and No. 84, and a Suppression of GASB Statement No. 32*. This Statement (a) clarifies how the absence of a governing board should be considered in determining whether a primary government is financially accountable for purposes of evaluating potential component units and (b) modifies the applicability of certain component unit criteria as they relate to defined contribution pension plans, defined contribution other postemployment benefits (OPEB) plans, and other employee benefit plans (for example, certain Section 457 plans). This Statement also establishes accounting and financial reporting requirements for Section 457 plans that meet the definition of a pension plan and for benefits provided through those plans and modifies the investment valuation requirements for all Section 457 plans. The requirements of this Statement are effective for fiscal years beginning after June 15, 2021 and some elements are effective for reporting periods beginning after June 15, 2021.
- GASB Statement No. 98 – *The Annual Comprehensive Financial Report*. This Statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. The requirements of this Statement are effective for fiscal years beginning after June 15, 2021.
- GASB Statement No. 99 – *OMNIBUS 2022*. This Statement provided for the following elements the Town could address:
 - Extension of the period during which the London Interbank Offered Rate (LIBOR) is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt
 - Accounting for the distribution of benefits as part of the Supplemental Nutrition Assistance Program (SNAP)
 - Disclosures related to nonmonetary transactions
 - Pledges of future revenues when resources are not received by the pledging government
 - Clarification of provisions in Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, as amended, related to the focus of the government-wide financial statements
 - Terminology updates related to certain provisions of Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position
 - Terminology used in Statement 53 to refer to resource flows statements.

The Town determined these elements of the Statement do not significantly affect its financial reporting.

The following is a listing of GASB Statements which have been issued and the Town's assessment of effects to the financial statements when implemented.

TOWN OF VALIER

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2022

- GASB Statement No. 96 – *Subscription-Based Information Technology Arrangements*. This Statement establishes standards of accounting and financial reporting for subscription based information technology arrangements by a government end user (a government). At the commencement of the subscription term, a government should recognize a subscription liability and an intangible right-to-use asset (a capital asset hereinafter referred to as the subscription asset). The requirements of this Statement are effective for fiscal years beginning after June 15, 2022. The Town plans to implement this Statement once it has identified how it affects the Town and has reviewed the Q&A on this Statement.
- GASB Statement No. 99 – *OMNIBUS 2022*. This Statement provided for the following, which have not been implemented:
 - Classification and reporting of derivative instruments within the scope of Statement No. 53, Accounting and Financial Reporting for Derivative Instruments, which do not meet the definition of either an investment derivative instrument or a hedging derivative instrument.
 - The requirements of this Statement are effective for fiscal years beginning after June 15, 2022. The Town plans to implement this Statement once it has identified how it affects the Town and has reviewed the Q&A on this Statement.
 - Clarification of provisions in Statement No. 87, Leases, as amended, related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives.
 - Clarification of provisions in Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements, related to (a) the determination of the public-private and public-public partnership term and (b) recognition and measurement of installment payments and the transfer of the underlying public-private and public-public partnership asset.
 - Clarification of provisions in Statement No. 96, Subscription-Based Information Technology Arrangements, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability.
 - The requirements of this Statement are effective for fiscal years beginning after June 15, 2023. The Town plans to implement this Statement once it has identified how it affects the Town and has reviewed the Q&A on this Statement.
- GASB Statement No. 100 – *Accounting Changes And Error Corrections – An Amendment Of GASB Statement NO. 62*. This Statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. As part of those descriptions, for (1) certain changes in accounting principles and (2) certain changes in accounting estimates that result from a change in measurement methodology, a new principle or methodology should be justified on the basis that it is preferable to the principle or methodology used before the change. That preferability should be based on the qualitative characteristics of financial reporting—understandability, reliability, relevance, timeliness, consistency, and comparability. This Statement also addresses corrections of errors in previously issued financial statements. The requirements of this Statement are effective for fiscal years beginning after June 15, 2023. The Town plans to implement this Statement once it has identified how it affects the Town and has reviewed the Q&A on this Statement.
- GASB Statement No. 101 – *Compensated Absences*. This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave is attributable to services already rendered when an employee has performed the services required to earn the leave. Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise paid or settled. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. However, leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences. This Statement also addresses corrections of errors in previously issued financial statements. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023. The Town plans to implement this Statement once it has identified how it affects the Town and has reviewed the Q&A on this Statement.

Services Provided: The Town provides a full range of governmental services to the citizens of the Town. These services include but are not limited to construction, reconstruction, maintenance, and repair of roads, streets, and alleys, parks and recreation, library, public safety, and other municipal services. Water and sewer services are provided and accounted for in enterprise funds.

TOWN OF VALIER

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2022

The mayor and Town council are elected by the public and have the authority to make decisions, appoint administrators and managers, and significantly influence operations.

Incorporation: The Town was incorporated under the laws of Montana and, as required by GAAP, the financial statements of the reporting entity include those of the Town (the primary government) and any component units. The criteria for including organizations as component units within the Town's reporting entity are set forth in Section 2100 of the *GASB Codification of Government Accounting and Financial Reporting Standards*. The basic criteria include appointing a voting majority of an organization's governing body, as well as the Town's ability to impose its will on that organization, or the potential for the organization to provide specific financial benefit to, or impose specific financial burdens on, the Town. Based on those criteria, the Town reports the Library Foundation as a component unit.

Discretely presented component unit: The Valier Library Foundation (Foundation) was established to provide funding for the Valier Public Library (Library). The Foundation is run by a separate board of directors and performs fundraising and investing activities for the purpose of maintaining and improving the Library. The component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the primary government.

1. b. BASIS OF PRESENTATION AND ACCOUNTING

1. b. 1. GOVERNMENT-WIDE STATEMENTS

The government-wide financial statements include the Statement of Net Position and the Statement of Activities. The governmental activities column incorporates data from governmental funds while business-type activities incorporate data from the government's enterprise funds (primary government). Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The component unit column incorporates data from certain legally separate component units where the Town is financially accountable.

The government-wide financial statements report using the economic resource measurement focus and the accrual basis of accounting and generally include the elimination of internal activity between or within funds. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes and assessments are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

The Statement of Activities reports the direct expenses of a given governmental function or business-type segment offset by program revenues directly connected with the functional program or segment. Direct expenses are those that are specifically associated with a function or segment. Program revenues include:

- Charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and
- Operating and Capital grants that are restricted to a particular function or segment.

Property taxes, investment earnings, state entitlement payments, and other revenue sources not properly included with program revenue are reported as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each governmental function or business-type segment is self-supporting or drawing from general revenues.

1. b. 2. FUND ACCOUNTING

The fund financial statements provide information about the government's funds, including its fiduciary funds. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Separate statements for each fund category – governmental, proprietary, and fiduciary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds. All remaining governmental and enterprise funds are aggregated and reported as non-major funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements. Fiduciary funds are not reported in the government-wide financial statements because the resources of those funds are not available to support the Town's own programs.

TOWN OF VALIER

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2022

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities, and fund balance are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets. Revenues are recorded when they are both measurable and available. Available means collectible within the current period – collections that occur after June 30 are generally not material. Unavailable income is recorded in governmental funds for delinquent taxes and assessments. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt and compensated absence payments which are recognized when due. Capital assets are functional expenditures in governmental funds, and proceeds from long-term debt or capital leases are reported as other financing sources.

Revenues from local sources consist primarily of property taxes and assessments. Property tax and assessments revenue and revenues received from Montana are recognized when susceptible to accrual. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are measurable and available. Cost reimbursement grant funds are considered to be both measurable and available to the extent the related expenditures were made under the provisions of the grant. When such funds are received before the expenditure was incurred, they are recorded as unearned grant revenues. All other revenue items are considered to be measurable and available only when cash is received by the Town.

Proprietary fund financial statements use the economic resources measurement focus and are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. On an accrual basis, revenue from special assessments is recognized in the fiscal year for which the assessments are levied. Revenue from grants and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water, and sewer funds are charges to customers for sales and services. The water fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Resources received for capital acquisition or construction are reported as separate items.

Fiduciary fund financial statements use the economic resources measurement focus and are reported using the accrual basis of accounting. For fiduciary activities, a liability to the beneficiaries of a fiduciary activity should be recognized when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets. For example, a liability is recognized when tax collections for other governments occurs, even though it may not be required to distribute the taxes to those governments until a specified time in the future.

Major fund determination – GASB Statement No. 34 requires the General fund be reported as a major fund and that only one general fund be reported. Other individual governmental and enterprise funds should be reported in separate columns as major funds based on these criteria:

- Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10% of the corresponding total (assets, liabilities, etc.) for all funds of that category or type (e.g., total governmental or total enterprise funds), and
- Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5% of the corresponding total for all governmental and enterprise funds combined.

The Town reports the following major governmental funds:

- General Fund – The General fund is the general operating fund of the Town and accounts for all revenues and expenditures of the Town not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund.
- Library Fund – This fund is a special revenue fund established to account for financial resources received and the use of those resources for the operations of the City Library.

TOWN OF VALIER

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2022

-
- BaRSSA HB 473 Allocation – This fund is a special revenue fund established to account for financial resources received and the use of those resources to maintain City streets.
 - ARPA – This fund is a special revenue fund established to account for financial resources received from the federal government and the use of those resources in accordance with the provisions of the American Rescue Plan Act

The Town reports the following major enterprise funds:

- Water Fund – This fund is used to account for financing the activities of the Town’s water distribution operations and to collect and administer water impact fees.
- Sewer Fund – This fund is used to account for financing the activities of the Town’s sewer collection and treatment operations and includes the storm sewer system.

1. b. 3. OTHER FUND TYPES

- Custodial Funds report resources, not in a trust, which are held by the Town for other parties outside of Town’s reporting entity. The following custodial funds are maintained by the Town.
 - Fire Department Relief Association (FDRA) – This fund accounts for the resources collected, held, and disbursed by the City for the Fire Department Relief Association (FDRA) pension plan.

1. c. ASSETS, LIABILITIES AND NET POSITION (FUND BALANCE)

1. c. 1 CASH AND INVESTMENTS

Allowable Depositories – Cash includes amounts in demand deposits, as well as short-term investments as authorized by Montana statutes. Montana Code Annotated (MCA) allows Montana local governments to invest public money not necessary for immediate use in:

- United States government treasury bills, notes, or bonds.
- Certain United States treasury obligations.
- United States government security money market fund, if investments consist of those listed above.
- Time or savings deposits with a bank or credit union which is Federal Deposit Insurance Corporation (FDIC) or National Credit Union Association insured.
- Repurchase agreements as authorized by MCA.
- State of Montana Short-Term Investment Pool (STIP).

Interest earned on the pooled investments is distributed to each contributing entity and fund on a pro rata basis. Investments are recorded at fair market value.

Clearing Funds – Warrants written but not redeemed are reported in the Town’s payroll and claims clearing funds. However, for financial reporting purposes, these are treated as cash reconciling items. Cash in the accounting system is held for warrants which were written but have not been paid by the Town Treasurer. A warrant is an order by which the drawer (the person with authority to make the order) directs the Town trustee to pay a particular sum of money to a payee (person or entity) from funds in the Town treasury which are or may become available.

Statement of Cash Flows – For purposes of the Statement of Cash Flows, the Town considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Restricted Cash – Restricted cash accounts of the enterprise fund are restricted for specific use as required by the bond indenture agreement covenants established with the issuance and sale of the revenue bonds that represent a liability to the enterprise fund. These restricted cash accounts are used to repay current debt, establish a reserve for future debt, and to establish a replacement and depreciation reserve for the purpose of replacing the system in the future.

TOWN OF VALIER

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2022

1. c. 2. TAXES AND SPECIAL ASSESSMENTS

Property Tax Levies – Property tax levies are set in connection with the budget process and are based on taxable values listed as of January 1 for all property located in the Town. Taxable values are established by the Montana Department of Revenue based on market values. A revaluation of all property is required to be completed on a periodic basis. Taxable value is defined by Montana statute as a fixed percentage of market value.

Special Assessments – Special Assessments are set in connection with the budget process and are based on an assessable area. Assessable area means the portion of a lot or parcel of land that is benefited by the special district. The assessable area may be less than but may not exceed the actual area of the lot or parcel. The governing body shall estimate annually, as near as practicable, the costs and expenses covered by the special assessment.

Collections – Property taxes and special assessments are collected by the County Treasurer, who credits to the Town funds its respective share of the collections. Tax levies are collectible in two installments, which become delinquent after November 30 and May 31. After a period of three years, the County may begin foreclosure proceedings and sell the property at auction.

Delinquency – Unpaid property taxes are liens on the property being taxed. Taxes and special assessments that become delinquent are charged interest at the rate of 5/6 of 1% per month plus a penalty of 2%. After a period of three years, the County may begin foreclosure proceedings and sell real property at auction. In the case of personal property, the property may be seized and sold after the taxes become delinquent. The Town receives its share of the sale proceeds of any such auction.

1. c. 3. RECEIVABLES

Accounts receivable represent amounts the Town expects to receive for providing goods or services delivered or used but not yet paid for by customers or amounts due from governmental agencies for costs incurred but not yet reimbursed. All receivables are current and therefore due within one year. Generally an allowance account is not maintained by the Town and the amount estimated uncollectible is considered immaterial.

MCA allows delinquent water and sewer to be levied as a tax against the lot or parcel of real estate to which sewer or water service was furnished after proper notice to the rate payor.

1. c. 4. INVENTORIES

Materials and supplies inventory are carried in an inventory account at average cost and are subsequently charged to expenditures when consumed (using the consumption method) rather than when purchased.

1. c. 5. CAPITAL ASSETS

The Town’s property, plant, equipment, and infrastructure (e.g., roads, bridges, sidewalks, lighting) are stated at historical cost and comprehensively reported in the government-wide financial statements. Historical cost was established when the capital assets were initially recorded by determining the actual cost or estimating the cost using standard costing procedures. The Town considers capital assets to be items with a historical cost in excess of \$5,000 and with a useful life in excess of one year. The costs of normal maintenance and repair are not capitalized. Depreciation on capital assets is provided over their estimated useful lives on the straight-line method. Land and construction in progress are not depreciated. The useful life of depreciable assets has been estimated as follows:

| Capital Asset Classes | Useful Life |
|-----------------------------------|---------------|
| Buildings | 20 – 40 years |
| Improvements Other than Buildings | 10 – 50 years |
| Machinery and Equipment | 5 – 15 years |
| Right-to-use Lease Assets | 5 years |

1. c. 6. DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

In addition to assets, the Statement of Financial Position reports a separate section for Deferred Outflows of Resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and, as such, will not be recognized as an outflow of resources (e.g., expense/expenditure) until that time.

In addition to liabilities, the Statement of Financial Position reports a separate section for Deferred Inflows of Resources. This separate financial statement element represents an increase to net position that applies to a future period(s) and, as such, will not be recognized as an inflow of resources (e.g., revenue) until that time.

TOWN OF VALIER

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2022

Pension Liability – Deferred Outflows and Inflows – The Town recognizes a net pension liability for each qualified pension plan in which it participates. Changes in the net pension liability during the fiscal year are recorded as pension expense, deferred inflows of resources, or deferred outflows of resources depending on the nature of the change and the period incurred. Those changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the respective qualified pension plan and recorded as a component of pension expense beginning with the period in which they are incurred. Projected earnings on qualified pension plan investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense.

Property Taxes and Special Assessments – Deferred Inflows – The Town reports deferred inflows under the modified accrual basis of accounting in the governmental funds for property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. In the governmental fund Balance Sheet, they are reported as unavailable from property taxes and special assessments receivable.

1. c. 7. LEASE RELATED ACTIVITIES

In accordance with stipulations set out in GASB No. 87, the Town considers leases that meet certain criteria as an exchange of the right to use an underlying nonfinancial asset (e.g., vehicle, building, land, office space). For such qualifying leases, when material, at commencement of the lease term:

- Town as Lessor – The Town recognizes a receivable and a deferred inflow of resources on its government-wide financial statements. The Town initially measures these elements at the present value of the payments expected to be made during the lease term. The receivable is amortized and the deferred inflow is recognized as the lease payments are made over the lease term.
- Town as Lessee – The Town recognizes an intangible right-to-use lease asset and a lease liability on its government-wide financial statements and a capital outlay and other revenue on its governmental funds financial statements. The Town measures these items at the commencement of the lease at the present value of the payments expected to be made during the lease term. The lease liability is amortized over the lease term and the right-to-use lease asset is amortized in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset.

1. c. 8. VACATION AND SICK LEAVE

Vacation Leave – Town employees accumulate vacation and sick leave for later use or for payment upon termination, death, or retirement. Town employees earn vacation leave at the rate of 15 days per year during the first 10 years of employment and at increasing rates thereafter to a maximum of 24 days per year after 20 years of employment. There is no requirement that vacation leave be taken, but the maximum permissible accumulation is the amount earned in the most recent two-year period. Excess vacation time is not forfeited if taken within 90 calendar days from the last day of the calendar year in which the excess was accrued, unless management ensures the employee will use the excess vacation leave before the end of the calendar year in which the leave would have been forfeited. At termination, employees are paid for any accumulated vacation leave at the current rate of pay.

Sick Leave – Town employees earn sick leave at the rate of one day per month. There is no limit on the accumulation of unused sick leave. At termination, 25% of accumulated sick leave is paid at the employee's current rate of pay.

Reporting – Liabilities incurred because of unused vacation and sick leave are reflected in the financial statements. Expenditures for unused leave are recorded when paid in governmental funds. Expenses are accrued when earned in Enterprise funds and on the Statement of Activities. At June 30, 2022, the amount expected to be paid within one year related to governmental activities amounted to \$2,091 and is generally paid out of the General fund. At June 30, 2022, the amount expected to be paid within one year related to business-type activities amounted to \$3,488 and is paid out of the fund that incurred the liability.

1. c. 9. NET POSITION AND FUND BALANCE

The Statement of Net Position includes the following:

- Net Investment in Capital Assets – This component of net position is comprised of the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt that is directly attributable to the acquisition, construction, or improvement of these capital assets.

TOWN OF VALIER

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2022

- **Restricted** – This component of net position is restricted externally by creditors (e.g., debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted** – This component of net position is the difference between assets and liabilities that are not reported in the other components of net position.

Governmental fund financial statements include the following fund balances:

- **Restricted** – This balance includes amounts that can be spent only for the specific purposes stipulated by the constitution, external resource providers, or through enabling legislation.
- **Assigned** – This balance includes amounts management has set aside for a specific purpose.
- **Unassigned** – This balance includes amounts that are available for any purpose. These amounts are reported only in the General fund.

At June 30, 2022, fund balance components other than unassigned fund balance were as follows:

| Purpose | Restricted | Assigned |
|------------------------|-------------------|------------------|
| Public Works | \$ 110,757 | \$ 38,675 |
| Culture and Recreation | <u>159,927</u> | <u>0</u> |
| Total | <u>\$ 270,684</u> | <u>\$ 38,675</u> |

When expenditures are incurred for purposes for which both restricted and unrestricted fund balances are available, the Town considers restricted funds to have been spent first. When expenditure are incurred and assigned or unassigned fund balances are available, the Town considers amounts to have been spent first out of assigned and then unassigned funds as needed, unless the Mayor and Town Council has provided otherwise.

1. d. OTHER

1. d. 1. USE OF ESTIMATES

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

1. d. 2. COUNTY PROVIDED SERVICES

The Town is provided various financial services by the County. The County also serves as cashier and treasurer for the Town for tax and assessment collections and other revenues received by the County which are subject to distribution to the various taxing jurisdictions located in the County. The collections made by the County on behalf of the Town are accounted for in a fiduciary fund in the Town’s name and are periodically remitted to the Town by the County Treasurer. No service charges have been recorded by the Town or the County.

NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

At June 30, 2022, cash and cash equivalents for governmental activities, business-type activities, component units, and fiduciary funds were as follows:

| | Governmental Activities | Business-type Activities | Component Units | Fiduciary Funds | Total |
|---------------------------------|--------------------------------|---------------------------------|------------------------|------------------------|---------------------|
| Cash and Cash Equivalents | \$ 474,120 | \$ 487,627 | \$ 76,380 | \$ 1,625 | \$ 1,039,752 |
| Restricted Cash and Investments | <u>0</u> | <u>260,523</u> | <u>0</u> | <u>0</u> | <u>260,523</u> |
| Total | <u>\$ 474,120</u> | <u>\$ 748,150</u> | <u>\$ 76,380</u> | <u>\$ 1,625</u> | <u>\$ 1,300,275</u> |

The carrying amounts of cash on hand, deposits, and investments at June 30, 2022 were as follows:

TOWN OF VALIER

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2022

| <u>Account Type</u> | <u>Amount</u> |
|-------------------------|---------------------|
| Demand Accounts | \$ 822,393 |
| Time Deposits | 135,346 |
| ETFs & Closed End funds | 34,978 |
| Mutual Funds | 26,747 |
| Money Market | 40 |
| STIP | 280,771 |
| Total | <u>\$ 1,300,275</u> |

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that, in the event of a bank failure, the Town’s deposits may not be returned. The Town does not have a deposit policy for custodial credit risk. On June 30, 2022, the Town’s bank balances were exposed to custodial credit risk as follows:

| <u>Deposits</u> | <u>Fair Value</u> |
|--|-------------------|
| Covered by Depository Insurance | \$ 399,961 |
| Collateral Held by the Pledging Bank’s Trust Department but not in the Town’s Name | 39,113 |
| Uninsured and Uncollateralized | <u>526,118</u> |
| Total Bank Balance | <u>\$ 965,192</u> |

Fair Value of Investments – The Town measures and records its investments using fair value measurement guidelines established by GAAP. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- Level 1: Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that a government can access at the measurement date.
- Level 2: Investments whose values are based on observable inputs other than quoted market prices that a government can access at the measurement date.
- Level 3: Unobservable inputs for an asset and may require a degree of professional judgment that a government can access at the measurement date.

At June 30, 2022, the Town had the following recurring fair value measurements.

| <u>Investments</u> | <u>Amount</u> | <u>Fair Value Measurements Using</u> | | |
|------------------------------------|-------------------|--------------------------------------|----------------|----------------|
| | | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
| Debt Securities | | | | |
| Bond Mutual Funds | \$ 40 | \$ 40 | \$ 0 | \$ 0 |
| STIP (State of Montana) | <u>280,771</u> | <u>N/A</u> | <u>N/A</u> | <u>N/A</u> |
| Total Debt Securities | 280,811 | 40 | 0 | 0 |
| Equity Securities | | | | |
| Exchange traded & Closed end Funds | 34,978 | 34,978 | 0 | 0 |
| Equity Mutual Funds | <u>26,747</u> | <u>26,747</u> | <u>0</u> | <u>0</u> |
| Total Equity Securities | 61,725 | 61,725 | 0 | 0 |
| Total Investments | <u>\$ 342,536</u> | <u>\$ 61,765</u> | <u>\$ 0</u> | <u>\$ 0</u> |

Debt and equity securities classified in Level 1 are valued using prices quoted in active markets for those securities.

Custodial Credit Risk – Investments – Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. At June 30, 2022, the Town’s investments were exposed to custodial credit risk as follows:

| <u>Investment</u> | <u>Fair Value</u> | <u>Investment Maturities - Book Value</u> | | | | <u>Credit Quality Rating</u> |
|--------------------------------|-------------------|---|------------------|-------------------|-------------------------|------------------------------|
| | | <u>Less than 1 Year</u> | <u>1-5 years</u> | <u>6-10 Years</u> | <u>10 or more years</u> | |
| iShares MSCI EAFE Small Cap Et | \$ 2,872 | \$ 1,005 | \$ 0 | \$ 0 | \$ 0 | 3 star |
| iShares Core US Aggregate Bond | 2,872 | 2,526 | 0 | 0 | 0 | 3 star |
| iShares Core MSCI EAFE ETF | 4,324 | 4,262 | 0 | 0 | 0 | 3 star |

TOWN OF VALIER

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2022

| Investment | Fair Value | Investment Maturities - Book Value | | | | Credit Quality Rating |
|--------------------------------|------------------|------------------------------------|-------------|-------------|------------------|-----------------------|
| | | Less than 1 Year | 1-5 years | 6-10 Years | 10 or more years | |
| Vanguard FTSE Emerging Mkt ETF | 2,892 | 1,941 | 0 | 0 | 0 | N/A |
| Vanguard Growth ETF | 9,376 | 7,763 | 0 | 0 | 0 | 4 star |
| Vanguard Value ETF | 10,615 | 10,297 | 0 | 0 | 0 | 5 star |
| Vangrd FTSE All-wrld exUS ETF | 3,592 | 2,284 | 0 | 0 | 0 | 3 star |
| Vanguard S&P 500 ETF | 3,592 | 1,800 | 0 | 0 | 0 | 5 star |
| Vanguard Small Cap Value ETF | 4,402 | 1,229 | 0 | 0 | 0 | 5 star |
| Vanguard Ttl BD Market ETF | 2,139 | 1,871 | 0 | 0 | 0 | 3 star |
| Delaware Emerging Markets I | 3,032 | 2,270 | 0 | 0 | 0 | 4 star |
| DFA Global Real Estate Secs I | 1,512 | 1,121 | 0 | 0 | 0 | 4 star |
| Edgewood Growth I | 3,207 | 2,133 | 0 | 0 | 0 | 4 star |
| Federated Instl Hi-Yld BD R6 | 1,456 | 1,301 | 0 | 0 | 0 | N/A |
| Goldman Fs Government I | 1,362 | 591 | 0 | 0 | 0 | 3 star |
| Invesco Small Cap Equity R6 | 3,699 | 3,029 | 0 | 0 | 0 | 4 star |
| MFS Instl INTL Equity I | 2,159 | 1,868 | 0 | 0 | 0 | 5 star |
| Natixis Ls Core Plus Bond N | 5,018 | 4,682 | 0 | 0 | 0 | N/A |
| Oakmark International I | 3,597 | 1,737 | 0 | 0 | 0 | 2 star |
| Principal Midcap R6 | 2,273 | 2,429 | 0 | 0 | 0 | 4 star |
| TRP Emerging Markets Bond I | 1,443 | 1,135 | 0 | 0 | 0 | N/A |
| TRP Equity income I | 2,839 | 3,224 | 0 | 0 | 0 | N/A |
| TRP Mid-Cap Growth I | 1,515 | 1,227 | 0 | 0 | 0 | N/A |
| Total Fair Value | <u>\$ 73,324</u> | <u>\$ 61,725</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> | |
| Total Book Value | <u>\$ 73,324</u> | | | | | |

Morning Star has assigned a 5-star rating system based on a fund's past risk and load adjusted returns versus category peers, for stocks trading at a discount or premium to the estimate of their fair values. They have assigned a rating of 4 or 5 stars for stocks trading at large discounts compared to the fair value estimates and 1 or 2 stars for stocks trading at large premiums to the fair value estimates. Stocks trading very close to the fair value estimates receive a 3-star rating. Also, Morning Star assigned a summary expression forward looking analysis of a fund using a five-tier scale with three positive ratings of Gold, Silver, and Bronze, a Neutral rating, and a Negative rating.

2. a. SHORT TERM INVESTMENT POOL

STIP is an investment program managed and administered under the direction of the Montana Board of Investments (MBOI) as authorized by the Unified Investment Program. STIP invests the operating funds of Montana, participating local government entity funds, and the liquidity requirements of the various pension and trust funds managed by MBOI.

STIP is a commingled pool for investment purposes. The use of a commingled pool allows for simplified investing and accounting, as well as broader investment diversification, and it provides opportunities for fee savings.

STIP is not registered with the Securities and Exchange Commission (SEC) as an investment company and therefore is not required to abide by the SEC's rule 2a-7 of the Investment Company Act of 1940. For financial reporting purposes, the STIP portfolio will be reported on a Net Asset Value basis versus amortized cost starting in fiscal year 2016.

The shareholder's STIP ownership is represented by shares. Shareholders having funds to invest and owning shares are required to give one business days' notice to buy or sell shares. Share prices are fixed at \$1.00 per share for transactional purposes. The STIP investment portfolio consists of securities with maximum maturity of 2 years or less. The portfolio is reported at net asset value for financial reporting purposes.

TOWN OF VALIER

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2022

Purchases of securities other than U.S. government or U.S. Agency obligations are restricted to those which are pre-approved and part of an “Approved List.” STIP may invest only in the following securities and investment vehicles: (1) U.S. Treasury or U.S. dollar denominated securities fully guaranteed by the U.S. Government; (2) U.S. Government Agency securities denominated in U.S. dollars; (3) Publicly traded U.S. dollar-denominated corporate bonds, notes, and medium term notes; (4) U.S. dollar-denominated Commercial Paper (CP); (5) U.S. dollar-denominated Bankers’ Acceptance (BA); (6) U.S. dollar-denominated certificates of deposits; (7) U.S. dollar-denominated Asset-Backed Securities collateralized by credit cards, automobile loans and leases, student loans, and equipment leases; (8) U.S. dollar-denominated Asset-Backed commercial paper; (9) Repurchase or Reverse Repurchase Agreements with an approved primary dealer or the custodial bank and under the terms of a written master repurchase agreement; (10) investments required to implement the bond credit enhancement authorized by Resolution 219; (11) SEC registered 2a-7 Institutional Money Market Funds that are considered “U.S. Treasury” or “U.S. Government” money market mutual funds according to the SEC regulations; and (12) short-term investment vehicles available through the custodial bank.

Fair Value Measurement – STIP categorizes its fair value measurements using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- Level 1: Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that a government can access at the measurement date;
- Level 2: Investments whose values are based on observable inputs other than quoted market prices that a government can access at the measurement date; and,
- Level 3: Unobservable inputs for an asset and may require a degree of professional judgment that a government can access at the measurement date.

For additional information contact the Montana Board of Investments, P.O. Box 200126, Helena, MT 59620-0126 – Telephone (406)-444-0001 or on web at <http://https://investmentmt.com>

2. b. RESTRICTED CASH AND INVESTMENTS

Restricted cash and investments were held by the Town Treasurer at June 30, 2022 as follows:

| <u>Purpose</u> | <u>Water</u> | <u>Sewer</u> | <u>Total</u> |
|----------------------|--------------|--------------|--------------|
| Debt Service Reserve | \$ 115,624 | \$ 144,899 | \$ 260,523 |

The ordinances authorizing the water and sewer system revenue bonds require that the Town establish sinking funds or cash restricted for payment of principal and interest on all revenue bonds. At June 30, 2022, the sinking fund balances were sufficient to satisfy such bond ordinance requirements.

NOTE 3. TAXES AND ASSESSMENTS RECEIVABLE

The Town is permitted by Montana statutes to levy taxes up to certain fixed limits for various purposes. The assessed value of the roll as of January 1, 2021, upon which the levy for the 2022 fiscal year was based, amounted to \$734,059. The tax rates assessed for the year ended June 30, 2022 were as follows:

| <u>Fund</u> | <u>Mill Levies</u> | <u>Taxes Receivable</u> | <u>Assessments Receivable</u> | <u>Total</u> |
|---------------------------|--------------------|-------------------------|-------------------------------|------------------|
| <u>Governmental Funds</u> | | | | |
| General * | 117.37 | \$ 11,975 | \$ 0 | \$ 11,975 |
| Streetlights | 0.00 | 0 | 16,463 | 16,463 |
| Total | <u>117.37</u> | <u>\$ 11,975</u> | <u>\$ 16,463</u> | <u>\$ 28,438</u> |
| <u>Proprietary Funds</u> | | | | |
| Water * | - | | \$ 3,148 | \$ 3,148 |
| Sewer * | - | | 10,821 | 10,821 |
| Total | | | <u>13,969</u> | <u>13,969</u> |
| Totals | | | <u>\$ 30,432</u> | <u>\$ 42,407</u> |

TOWN OF VALIER

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2022

Property taxes or special assessments assessed may be paid under protest and held by the County Treasurer until the action is finally determined to be in favor of or against the governmental entity levying the tax or assessment. Money paid under protest is accounted for by the County in a protested tax fiduciary fund until the final determination. The amount reported above includes \$0 of taxes paid under protest.

NOTE 4. ACCOUNTS RECEIVABLE

Accounts receivable represent the outstanding balances of amounts billed for services the Town has provided for water and sewer. An allowance for doubtful accounts has not been established since the outstanding amount is not material. In addition, Montana law allows the Town to place delinquent utility balances on the tax rolls for collection.

| Fund | Accounts Receivable |
|-------------|--------------------------------|
| Water * | \$ 17,402 |
| Sewer * | <u>25,102</u> |
| Total | <u>\$ 42,504</u> |

* Denotes Major Fund

NOTE 5. OTHER ASSETS

Due from other governments represent amounts due to the Town for costs incurred but not reimbursed by third party governments. The amounts due from other governments as of June 30, 2022 were as follows:

| Fund | Amount | Due From | Reason |
|-------------|---------------|-----------------|------------------------|
| Library * | \$ 39,175 | Pondera County | County Library Funding |

* Denotes Major Fund

NOTE 6. CAPITAL ASSETS, DEPRECIATION, AND NET CAPITAL ASSETS

6. a. GENERAL CAPITAL ASSETS

The schedule of changes in general capital assets for the year ended June 30, 2022 follows:

| Governmental Activities | Balance July 1, 2021 | Additions | Balance June 30, 2022 |
|-----------------------------------|---------------------------------|--------------------|----------------------------------|
| Non-depreciable Assets: | | | |
| Land | \$ 112,100 | \$ 0 | \$ 112,100 |
| Depreciable Assets: | | | |
| Buildings | 666,647 | 0 | 666,647 |
| Improvements Other than Buildings | 138,555 | 0 | 138,555 |
| Machinery and Equipment | <u>197,748</u> | <u>0</u> | <u>197,748</u> |
| Total Depreciable Assets | 1,002,950 | 0 | 1,002,950 |
| Accumulated Depreciation: | | | |
| Buildings | (200,138) | (13,709) | (213,847) |
| Improvements Other than Buildings | (41,346) | (6,024) | (47,370) |
| Machinery and Equipment | <u>(130,674)</u> | <u>(11,245)</u> | <u>(141,919)</u> |
| Total Accumulated Depreciation | <u>(372,158)</u> | <u>(30,978)</u> | <u>(403,136)</u> |
| Net Depreciable Assets | <u>630,792</u> | <u>(30,978)</u> | <u>599,814</u> |
| Net General Capital Assets | <u>\$ 742,892</u> | <u>\$ (30,978)</u> | <u>\$ 711,914</u> |

TOWN OF VALIER

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2022

Depreciation expense charged to governmental functions was as follows:

| Function | Amount |
|----------------------------|------------------|
| General Government | \$ 2,436 |
| Public Safety | 6,037 |
| Public Works | 9,695 |
| Culture and Recreation | 12,810 |
| Total Depreciation Expense | <u>\$ 30,978</u> |

6. b. BUSINESS-TYPE CAPITAL ASSETS

The schedule of changes in business-type capital assets for the year ended June 30, 2022 follows:

| Business-type Activities | Balance July 1, 2021 | Additions | Balance June 30, 2022 |
|----------------------------------|---------------------------------|---------------------|----------------------------------|
| Depreciable Assets: | | | |
| Buildings | \$ 354,286 | \$ 0 | \$ 354,286 |
| Machinery and Equipment | 93,020 | 0 | 93,020 |
| Source of Supply | 988,867 | 0 | 988,867 |
| Pumping Plant | 57,000 | 0 | 57,000 |
| Treatment Plant | 2,711,676 | 0 | 2,711,676 |
| Transmission and Distribution | <u>3,161,632</u> | <u>0</u> | <u>3,161,632</u> |
| Total Depreciable Assets | 7,366,481 | 0 | 7,366,481 |
| Accumulated Depreciation: | | | |
| Buildings | (92,893) | (7,982) | (100,875) |
| Machinery and Equipment | (74,803) | (2,520) | (77,323) |
| Source of Supply | (197,774) | (19,777) | (217,551) |
| Pumping Plant | (22,800) | (1,425) | (24,225) |
| Treatment Plant | (1,251,017) | (43,234) | (1,294,251) |
| Transmission and Distribution | <u>(650,165)</u> | <u>(63,233)</u> | <u>(713,398)</u> |
| Total Accumulated Depreciation | <u>(2,289,452)</u> | <u>(138,171)</u> | <u>(2,427,623)</u> |
| Net Depreciable Assets | <u>5,077,029</u> | <u>(138,171)</u> | <u>4,938,858</u> |
| Net Business-type Capital Assets | <u>\$ 5,077,029</u> | <u>\$ (138,171)</u> | <u>\$ 4,938,858</u> |

NOTE 7. CURRENT LIABILITIES

Current liabilities represent amounts due to creditors, suppliers, or others within a period of time less than one year.

7. a. UNEARNED REVENUES

Unearned revenue, sometimes referred to as deferred revenue, is payment received by the Town from a nonexchange transaction for which not all applicable eligibility requirements have been met. Once the eligibility criteria have been met, the revenues and expenditure/expenses will be recognized.

| Fund | Amount | Purpose |
|-------------|---------------|--------------------------------------|
| ARPA * | 124,330 | ARPA funds received but not expended |

* Denotes Major Fund

NOTE 8. LONG-TERM DEBT

8. a. GENERAL LONG-TERM DEBT

The schedule of changes in general long-term debt for the year ended June 30, 2022 follows:

TOWN OF VALIER

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2022

| Governmental Activities | Balance July 1, 2021 | Principal Payments and Other Reductions | Balance June 30, 2022 | Due within One Year |
|---|---------------------------------|--|----------------------------------|--------------------------------|
| Bonds and Notes Payable: | | | | |
| InterCap Loan | \$ 17,826 | \$ (5,855) | \$ 11,971 | \$ 6,003 |
| Other Liabilities: | | | | |
| Compensated Absences | 5,101 | (919) | 4,182 | 2,091 |
| Accrued Pension | <u>100,750</u> | <u>(31,069)</u> | <u>69,681</u> | <u>0</u> |
| Total Other Liabilities | <u>105,851</u> | <u>(31,988)</u> | <u>73,863</u> | <u>2,091</u> |
| Total Governmental Activities - Long-term Debt | <u>\$ 123,677</u> | <u>\$ (37,843)</u> | <u>\$ 85,834</u> | <u>\$ 8,094</u> |

8. a. 1 INTERCAP LOAN

The Town entered into an InterCap loan in a prior year through the InterCap Revolving Program (IRP) with Montana Board of Investments for the acquisition of equipment. Total payments made in fiscal year 2021 amounted to \$6,149 which included \$294 interest. The loans were issued for the terms and payment schedules as follows:

| Description | Issue Date | Interest Rate | Term | Maturity Date | Amount Issued | Outstanding June 30, 2022 |
|--------------------|-----------------------|--------------------------|-------------|--------------------------|--------------------------|--------------------------------------|
| IRP 2757-01 | 1/20/17 | 1.55 to 3.37% | 7 years | 2/15/24 | \$ 49,000 | \$ 11,971 |

Debt service requirements to maturity for principal and interest for all InterCap long term obligations were as follows:

| For the year ended June 30: | Principal | Interest |
|--|------------------|-----------------|
| 2023 | \$ 6,003 | \$ 186 |
| 2024 | <u>5,968</u> | <u>93</u> |
| Totals | <u>\$ 11,971</u> | <u>\$ 279</u> |

InterCap loans have variable interest rates that are subject to change annually. Interest rates to the borrower are adjusted on February 16th of each year and are based on a spread over the interest paid on one-year term, tax-exempt bonds which are sold to fund the loans.

8. b. BUSINESS-TYPE LONG-TERM DEBT

The schedule of changes in business-type long-term debt for the year ended June 30, 2022 follows:

| Business-type Activities | Balance July 1, 2021 | New Debt and Other Additions | Principal Payments and Other Reductions | Balance June 30, 2022 | Due within One Year |
|--|---------------------------------|---|--|----------------------------------|--------------------------------|
| Bonds and Notes Payable: | | | | | |
| Revenue Bonds | \$ 1,658,246 | \$ 0 | \$ (62,493) | \$ 1,595,753 | \$ 47,003 |
| Other Liabilities: | | | | | |
| Compensated Absences | 7,655 | 679 | (1,358) | 6,976 | 3,488 |
| Accrued Pension | <u>153,995</u> | <u>0</u> | <u>(46,865)</u> | <u>107,130</u> | <u>0</u> |
| Total Other Liabilities | <u>161,650</u> | <u>679</u> | <u>(48,223)</u> | <u>114,106</u> | <u>3,488</u> |
| Total Business-type Activities - Long-term Debt | <u>\$ 1,819,896</u> | <u>\$ 679</u> | <u>\$ (110,716)</u> | <u>\$ 1,709,859</u> | <u>\$ 50,491</u> |

TOWN OF VALIER

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2022

8. b. 1 REVENUE BONDS

Revenue Bonds constitute special obligations of the Town solely secured by a lien on and pledge of the net revenues of the water and sewer systems. These bonds were issued for the terms and payment schedules as follows:

| Description | Issue Date | Interest Rate | Term | Maturity Date | Amount Issued | Outstanding June 30, 2022 |
|----------------|------------|---------------|----------|---------------|---------------------|---------------------------|
| USDA-RD #91-01 | 1/28/11 | 3.38% | 40 years | 1/28/51 | \$ 902,000 | \$ 753,400 |
| SRF #07155R | 5/7/13 | 2.25% | 13 years | 7/1/26 | 449,000 | 147,000 |
| USDA-RD #92-03 | 8/19/15 | 2.75% | 40 years | 8/1/55 | <u>775,000</u> | <u>695,353</u> |
| Totals | | | | | <u>\$ 2,126,000</u> | <u>\$ 1,595,753</u> |

Debt service requirements to maturity for principal and interest for these bonded long-term obligations were as follows:

| For the year ended June 30: | Principal | Interest |
|-----------------------------|---------------------|-------------------|
| 2023 | 47,003 | 47,630 |
| 2024 | 65,919 | 45,909 |
| 2025 | 66,857 | 44,161 |
| 2026 | 69,827 | 42,370 |
| 2027 | 51,826 | 40,516 |
| 2028-2032 | 180,277 | 185,363 |
| 2033-2037 | 210,490 | 155,150 |
| 2038-2042 | 245,823 | 119,817 |
| 2043-2047 | 287,160 | 78,480 |
| 2048-2052 | 275,078 | 31,484 |
| 2053-2056 | <u>95,493</u> | <u>4,193</u> |
| Totals | <u>\$ 1,595,753</u> | <u>\$ 795,073</u> |

The revenue bonds are collateralized by the revenues of the water and sewer systems and the various special funds established by the bond ordinances. The ordinances provide that the revenues of the systems are to be used first to pay operating and maintenance expenses of the systems and second to establish and maintain the revenue bond funds. Any remaining revenues may then be used for any lawful purpose.

The bond ordinances also require that water and sewer rates be sufficient to provide net revenues of not less than 110%. The more significant covenants: 1) require that cash be restricted and reserved for operations, construction, debt service, and replacement and depreciation; 2) specify minimum required operating revenue; and 3) provide specific and timely reporting of financial information to bond holders and the registrar. The Town complied with the applicable covenants.

NOTE 9. DEFERRED INFLOWS OF RESOURCES

The Town reported deferred property taxes and assessments at June 30, 2022 as follows:

| Fund | Amount | Reason |
|--------------|------------------|------------------------|
| General* | \$ 11,975 | Taxes receivable |
| Streetlights | <u>16,463</u> | Assessments receivable |
| Total | <u>\$ 28,438</u> | |

* Denotes Major Fund

NOTE 10 PRIOR PERIOD ADJUSTMENTS

The Town recorded prior period adjustments at June 30, 2022 as follows:

TOWN OF VALIER

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2022

| Fund | Proprietary Funds | Reason |
|-------------------------|----------------------|------------------------------------|
| Water * | \$ 361 | Corrections to Receivable Balances |
| Sewer * | 1,887 | Corrections to Receivable Balances |
| Total | <u>2,248</u> | |
| * Denotes Major Fund | | |
| Governmental Activities | <u>0</u> | |
| Total | <u>\$ 2,248</u> | |

NOTE 11. OTHER POSTEMPLOYMENT BENEFITS

The Town allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the local government is subsidizing the retirees because each participant is charged the same level of premium regardless of age. The Town uses a single premium for both active and retired employees resulting in an implicit rate subsidy (i.e., the older retirees benefit from the Town's blended premium). The Town has not recorded a liability for the implicit rate subsidy as based on an analysis of the cost it is not material to the Town's financial statements. At June 30, 2022 the Town had no retired employees on the group insurance plan.

NOTE 12. RISK MANAGEMENT

The Town faces a considerable number of risks of loss, including:

- Damage to and loss of property and contents
- Employee torts
- Professional liability, e.g., errors and omissions
- Environmental damage
- Workers' compensation
- Medical insurance costs of employees

A variety of methods are used to provide insurance for these risks. Commercial policies, transferring all risk of loss except for relatively small deductible amounts, are purchased for property and content damage and professional liabilities. Given the lack of coverage available, the Town has no coverage for potential losses from environmental damages. The Town participates in three statewide public risk pools operated by the Montana Municipal Interlocal Authority, for workers' compensation, tort liability, and property coverage.

Coverage limits and the deductibles in the commercial policies have stayed relatively constant for the last several years. The premiums for the policies are allocated between the Town's general fund and other funds based upon the insurance needs of the funds. Settled claims resulting from these risks did not exceed commercial insurance coverage for each of the past three years.

In 1986, the Town joined other Montana cities in the Montana Municipal Interlocal Authority which established a workers' compensation plan and a tort liability plan. In 1996, the Montana Municipal Interlocal Authority created a property insurance plan. The 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 with a \$750 deductible per government. State tort law limits the Town's liability to \$1.5 million. The Town pays an annual premium 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.

Separate audited financial statements are available from the Montana Municipal Interlocal Authority.

NOTE 13. EMPLOYEE RETIREMENT SYSTEM

The Town participates in one state-wide, cost-sharing multiple employer defined benefit retirement plan which covers all Town employees. The plan is established under Montana law and is administered by the State. The Town participates in the following Montana administered retirement plan:

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2022

- The Public Employee Retirement System (PERS) covers nonteaching employees.

The plan issues publicly available annual reports, stand-alone financial statements, actuarial valuations, experience studies, and plan audited financial statements. Those reports may be obtained from the following:

Montana Public Employee Retirement Administration

P.O. Box 200131
100 N. Park Avenue Suite 200
Helena, MT 59620-0131
Phone: 406-444-3154
www.mpera.mt.gov

13. a. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES OF RETIREMENT SYSTEMS

The Montana Public Employee Retirement Administration (MPERA) prepares their financial statements using the accrual basis of accounting. For the purposes of measuring the net pension liability, deferred inflows of resources and deferred outflows of resources related to pensions, pension expense, and information about the fiduciary net position and additions to and deductions from fiduciary net position have been determined on the same accrual basis as they are reported by MPERA. For this purpose, member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Revenues are recognized in the accounting period they are earned and become measurable. Benefit payments and refunds are recognized in the accounting period when due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred.

Investments are reported at fair value. MPERA adheres to all applicable GASB statements.

13. b. PUBLIC EMPLOYEE RETIREMENT SYSTEM

The PERS-Defined Benefit Retirement Plan (Defined Benefit plan), administered by the MPERA, is a multiple-employer, cost-sharing plan established July 1, 1945 and is governed by Title 19, chapters 2 & 3, MCA. This plan covers the state, local governments, certain employees of the Montana University System, and school districts.

All new members are initially members of the Defined Benefit plan and have a 12-month window during which they choose to remain in the Defined Benefit plan or join the defined contribution plan by filing an irrevocable election. Members may not be participants of both the defined benefit and defined contribution retirement plans.

The Defined Benefit provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are established by state law and can only be amended by the State Legislature.

13. b. 1. SUMMARY OF BENEFITS

Eligibility for benefits

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; or
 - Age 70, regardless of membership service.

Early Retirement:
(actuarially reduced)

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

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

- Retire before January 1, 2016 and accumulate less than 2 years additional service credit or retire on or after January 1, 2016 and accumulate less than 5 years additional service credit:
 - A refund of member’s contributions plus return interest (currently 2.02% effective July 1, 2018);
 - No service credit for second employment;

TOWN OF VALIER

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2022

- 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 additional service credit:
 - A recalculated retirement benefit based on provision in effect after the initial retirement; and
 - GABA starts on the recalculation 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 additional 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.

Vesting: 5 years of membership service

Member's Highest Average Compensation (HAC):

- Hired prior to July 1, 2011:
 - HAC during any consecutive 36 months.
- Hired on or after July 1, 2011:
 - HAC 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 HAC.

Monthly Benefit Formula:

- Hired prior to July 1, 2011:
 - Less than 25 years of membership service - 1.785% of HAC per year of service credit; or
 - 25 years of membership service or more - 2% of HAC per year of service credit.
- 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; or
 - 30 years or more of membership service - 2% of HAC per year of service credit.

Guaranteed Annual Benefit Adjustment: After the member has completed 12 full months of retirement, the member's benefit increases by the following percentage each January, inclusive of other adjustments to the member's benefit:

- 3% for members hired **prior** to July 1, 2007
- 1.5% for members hired **between** July 1, 2007 and June 30, 2013
- Members hired on or **after** July 1, 2013:
 - 1.5% for each year PERS is funded at or above 90%;
 - 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and
 - 0% whenever the amortization period for PERS is 40 years or more.

13. b. 2. OVERVIEW OF CONTRIBUTIONS

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

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

TOWN OF VALIER

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2022

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

1. Member contributions to the system of 7.9% are temporary and will be decreased to 6.9% on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and additional member contribution rates.

2. Employer contributions to the system:

- a. Effective July 1, 2014, following the 2013 Legislative Session, PERS-employer contributions increase an additional 0.1% a year and will continue over 10 years through 2024. The additional employer contributions, including the 0.27% added in 2007 and 2009, will terminate on January 1 following an actuary valuation that shows the amortization period has dropped below 25 years and would remain below the 25 years following the reduction 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 now directed to member accounts.

3. Non-Employer Contributions:

- a. Special Funding - The State of Montana, as the non-employer contributing entity, paid to the Plan, additional contributions that qualify as special funding. Those employers who received special funding are all participating employers.
 - i. The State contributed 0.1% of members' compensation on behalf of local government entities.
 - ii. The State contributed 0.37% of members' compensation on behalf of school district entities.
 - iii. The State contributed a Statutory Appropriation from the General Fund amounting to \$34,290,660.

13. b. 3. ACTUARIAL ASSUMPTIONS

The Total Pension Liability (TPL) used to calculate the Net Pension Liability (NPL) as of June 30, 2021 was determined by taking the results of the June 30, 2020 actuarial valuation and applying standard roll forward procedures. There were several significant assumptions and other inputs used to measure the TPL. Among those assumptions were the following:

- Investment Return (net of admin expenses) 7.06%
- Admin Expense as % of Payroll 0.28%
- General Wage Growth (includes inflation at 2.40%) 3.50%
- Merit Increases 0.00% to 4.80%
- Postretirement Benefit Increases:
 - GABA. After the member has completed 12 full months of retirement, the member's benefit increases by the following percentage each January, inclusive of all other adjustments to the member's benefit:
 - 3% for members hired prior to July 1, 2007
 - 1.5% for members hired between July 1, 2007 and June 30, 2013
 - Members hired on or after July 1, 2013:
 - 1.5% for each year PERS is funded at or above 90%;
 - 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and

TOWN OF VALIER

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2022

- 0% whenever the amortization period for PERS is 40 years or more.
- Mortality assumptions among contributing members and service retired members and beneficiaries were based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2020 with scale BB, males set back 1 year.
- Mortality assumptions among disabled members are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections.

13. b. 4. DISCOUNT RATE

The discount rate used to measure the TPL was 7.06%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities would be made based on the Board’s funding policy, which established the contractually required rates under the Montana Code Annotated. The state contributed 0.10% of the salaries paid by local governments and 0.37% paid by school districts. In addition, the state contributed a statutory appropriation from the general fund. Based on those assumptions, the Plan’s fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2126. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL. A municipal bond rate was not incorporated in the discount rate.

13. b. 5. TARGET ALLOCATIONS

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

| 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% | |

13. c. SENSITIVITY ANALYSIS

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the below table presents the net pension liability calculated using the discount rate of 7.06% as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower or 1.00% higher than the current rate.

| As of measurement date | 1.0% Decrease (6.06%) | Current Discount Rate (7.06%) | 1.0% Increase (8.06%) |
|------------------------------|-----------------------|-------------------------------|-----------------------|
| <u>PERS</u> | | | |
| Net Pension Liability | \$ 2,878,206,733 | \$ 1,813,221,704 | 919,946,479 |
| Town’s Net Pension Liability | 280,660 | 176,811 | 89,706 |

13. d. NET PENSION LIABILITY

In accordance with GASB Statement 68, *Accounting and Financial Reporting for Pensions*, employers are required to recognize, and report certain amounts associated with their participation in the PERS. Statement 68 became effective June 30, 2015 and includes requirements to record and report their proportionate share of the collective NPL, Pension Expense, and Deferred Inflows and Deferred Outflows of resources associated with pensions. In accordance with Statement 68, PERS have special funding situations in which the State of Montana is legally responsible for making contributions directly to PERS that are used to

TOWN OF VALIER

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2022

provide pension benefits to the retired members. Due to the existence of this special funding situation, employers are also required to report the portion of the State of Montana’s proportionate share of the collective Net Pension Liability that is associated with the employer.

The 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, 2021, and 2020, are displayed below. The employer’s proportionate share equals the ratio of the employer’s contributions to the sum of all employer and non-employer contributions during the measurement period. The state’s proportionate share for a particular employer equals the ratio of the contributions for the particular employer to the total state contributions paid.

| As of measurement date | NPL | | Percent of Collective NPL | | Change in Percent of Collective NPL |
|---|-------------------|-------------------|---------------------------|------------------|-------------------------------------|
| | as of 6/30/21 | as of 6/30/20 | as of 6/30/21 | as of 6/30/20 | |
| <u>PERS</u> | | | | | |
| Town Proportionate Share | \$ 176,811 | \$ 254,745 | 0.009751% | 0.009656% | 0.000095% |
| State of Montana Proportionate Share associated with Employer | <u>51,880</u> | <u>79,921</u> | <u>0.002861%</u> | <u>0.003029%</u> | <u>(0.000168)%</u> |
| Totals | <u>\$ 228,691</u> | <u>\$ 334,666</u> | <u>0.012612%</u> | <u>0.012685%</u> | <u>(0.000073)%</u> |

At June 30, 2022, the employer recorded a liability for its proportionate share of the NPL of \$176,811. At June 30, 2022, the employer’s proportion was 0.009751 percent

The NPL was measured as of June 30, 2021, and the TPL used to calculate the net pension liability was determined by an actuarial valuation as of:

- PERS – June 30, 2020 and applying standard roll forward procedures. The roll forward procedure uses a calculation that adds the annual normal cost (also called the service cost), subtracts the actual benefit payments and refunds for the plan year, and then applies the expected investment rate of return for the year. The roll forward procedure will include the effects of any assumption changes and legislative changes. The update procedures are in conformity with Actuarial Standards of Practice issued by the Actuarial Standards Board.

| <u>PERS</u> | |
|---|--|
| <u>Changes in actuarial assumptions, other inputs, and methods:</u> | <ul style="list-style-type: none"> • The discount rate was lowered from 7.34% to 7.06% • The investment rate of return was lowered from 7.34% to 7.06% |

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.

13. e. PENSION EXPENSE

| | Pension Expense as of 6/30/21 | Pension Expense as of 6/30/20 |
|---|-------------------------------|-------------------------------|
| <u>PERS</u> (as of measurement date) | | |
| Town’s Proportionate Share | \$ 12,491 | \$ 35,215 |
| Employer Grant Revenue – State of Montana Proportionate Share with the Employer | <u>15,934</u> | <u>13,070</u> |
| Totals | <u>\$ 28,425</u> | <u>\$ 48,285</u> |

At June 30, 2022, the employer recognized a pension expense of \$28,425 for its proportionate share. The employer also recognized grant revenue of \$15,934 for the support provided by Montana for its proportionate share of the Pension Expense that is associated with the employer.

TOWN OF VALIER

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2022

13. f. DEFERRED INFLOWS AND OUTFLOWS

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

| | PERS | |
|---|---|--|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Differences between actual and expected economic experience | \$ 1,887 | \$ 1,280 |
| Changes in actuarial assumptions | 26,189 | 0 |
| Difference between projected and actual investment earnings | 0 | 71,628 |
| Changes in proportion and differences between actual and expected contributions | 0 | 0 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 8,087 | 0 |
| Contributions paid subsequent to the measurement date – FY 2021 Contributions * | <u>16,148</u> | <u>0</u> |
| Totals | <u>\$ 52,311</u> | <u>\$ 72,908</u> |

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

| Year Ended June 30 | PERS |
|-----------------------------------|--|
| | Amount of Deferred Outflows (Inflows) to be Recognized as an Increase (Decrease) to Pension Expense |
| 2022 | \$ 8,200 |
| 2023 | (4,780) |
| 2024 | (17,300) |
| 2025 | (22,865) |
| Thereafter | 0 |

13. g. EMPLOYER'S PROPORTION OF PENSION AMOUNTS

| | PERS |
|--------------------------------|---|
| | Employer's Proportionate Share |
| Total Pension Liability | \$ 880,095 |
| Fiduciary Net Position | <u>703,284</u> |
| Net Pension Liability | 176,811 |
| Deferred Outflows of Resources | 52,311 |
| Deferred Inflows of Resources | 72,908 |
| Pension Expense | 28,425 |

NOTE 14 LOCAL RETIREMENT PLANS

14. a. FIRE DEPARTMENT RELIEF ASSOCIATION DISABILITY AND PENSION FUND

Town volunteer firefighters are covered by the Fire Department Relief Association Disability and Pension Fund (the Association), which is established by Montana Law. The Association is managed by a Board of Trustees made up of members of the fire department. A member of a volunteer fire department who has served 20 years or more is entitled to benefits after attaining age 50. Volunteers serving less than 20 years but more than 10 years may receive reduced benefits. The amount of the pension benefits is set by the Association's Board of Trustees.

TOWN OF VALIER

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2022

Montana law requires that the disability and pension fund contain 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. The Town's contribution to the plan for the fiscal year ended June 30, 2022 was \$0. The State contributes, out of moneys received for insurance premium taxes, an amount equal to 1½ mills times the total taxable value of the Town, but not less than \$100. The State's contribution to the plan for the fiscal year was \$0. The plan's benefits are established by the Association's Board of Trustees. Total benefits paid in the fiscal year ended June 30, 2022 amounted to \$0.

No actuarial valuation or report of unfunded past service costs had been prepared for the Association.

NOTE 15. CONTINGENCIES

15. a. FEDERAL AWARDS

The Town participates in various federal grant programs, the principal of which are subject to program compliance audits pursuant to the Single Audit Act as amended. Accordingly, the Town's compliance with applicable grant requirements will be established at a future date. The amount of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Town anticipates such amounts, if any, will be immaterial.

15. b. LITIGATION

The Town is a defendant in various lawsuits. The outcome of these lawsuits is not presently determinable. However, in the opinion of the Town's legal counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the Town.

TOWN OF VALIER

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
 (Determined as of the measurement date)
 For the year ended June 30, 2022

PUBLIC EMPLOYEES RETIREMENT SYSTEM

| Year Ended June 30: | Employer's Proportion of the Net Pension Liability | Employer's Proportionate Share of the Net Pension Liability Associated with the Employer (a) | State of Montana's Proportionate Share of the Net Pension Liability Associated with the Employer (b) | Total (a)+(b)=(c) | Employer's Covered Payroll (d) | Employer's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Payroll (a)/(d) | Plan Fiduciary Net Position as a Per- centage of the Total Pension Liability |
|--------------------------------|---|---|---|------------------------------|---|---|---|
| 2014 | 0.012197% | \$ 151,981 | \$ 1,856 | \$ 153,837 | \$ 138,075 | 111.22% | 79.87% |
| 2015 | 0.013149% | 183,808 | 2,258 | 186,066 | 153,453 | 119.78% | 78.40% |
| 2016 | 0.011857% | 201,968 | 2,468 | 204,436 | 142,027 | 142.20% | 74.71% |
| 2017 | 0.011420% | 222,415 | 2,658 | 225,073 | 141,663 | 157.00% | 73.75% |
| 2018 | 0.008633% | 180,185 | 60,076 | 240,261 | 141,976 | 126.91% | 73.47% |
| 2019 | 0.008646% | 180,726 | 58,589 | 239,314 | 142,656 | 126.69% | 73.85% |
| 2020 | 0.009656% | 254,745 | 79,921 | 334,666 | 162,010 | 157.24% | 68.90% |
| 2021 | 0.009751% | 176,811 | 51,880 | 228,691 | 172,243 | 102.65% | 79.91% |

These schedules are intended to show information for 10 years. Additional years will be displayed as they become available.

TOWN OF VALIER

SCHEDULE OF CONTRIBUTIONS TO MONTANA RETIREMENT SYSTEMS
 (Determined as of the reporting date)
 For the year ended June 30, 2022

PUBLIC EMPLOYEES RETIREMENT SYSTEM

| Year Ended June 30: | Contractually Required Contributions (a) | Plan Choice Rate Required Contribution (b) | Contributions in Relation to Contractually Required Contributions (c) | Contribution Deficiency (Excess) (a)+(b)- (c)=(d) | Employer's Covered Payroll (e) | Contributions as a Percentage of Covered Payroll ((a)+(b))/(e) |
|--------------------------------|---|---|--|--|---|---|
| 2015 | \$ 12,645 | \$ 0 | \$ 12,645 | \$ 0 | \$ 153,453 | 8.24% |
| 2016 | 11,871 | 0 | 11,871 | 0 | 142,027 | 8.36% |
| 2017 | 11,857 | 0 | 11,857 | 0 | 141,663 | 8.37% |
| 2018 | 12,025 | 0 | 12,025 | 0 | 141,976 | 8.47% |
| 2019 | 12,269 | 0 | 12,269 | 0 | 142,656 | 8.60% |
| 2020 | 14,194 | 0 | 14,194 | 0 | 162,010 | 8.76% |
| 2021 | 15,264 | 0 | 15,264 | 0 | 172,243 | 8.86% |
| 2022 | 16,148 | 0 | 16,148 | 0 | 182,050 | 8.87% |

These schedules are intended to show information for 10 years. Additional years will be displayed as they become available.

TOWN OF VALIER

NOTES TO THE SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY AND
SCHEDULE OF CONTRIBUTIONS TO MONTANA RETIREMENT SYSTEMS
(As of Measurement Date)
For the year ended June 30, 2022

NOTE 1. PUBLIC EMPLOYEE RETIREMENT SYSTEM

1. a. CHANGES OF BENEFIT TERMS

The following changes to the Public Employee Retirement System (PERS) plan provision were made as identified:

2017:

Working Retiree Limitations – for PERS

Effective July 1, 2017, if a PERS retiree returns as an independent contractor to what would otherwise be PERS-covered employment, general contractor overhead costs are excluded from PERS working retiree limitations.

Refunds

- 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.

Interest credited to member accounts

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

Lump-sum payouts

Effective July 1, 2017, lump-sum payouts in all systems are limited to the member's accumulated contributions rate than the present value of the member's benefit.

Disabled PERS Defined Contribution (DC) Members

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

Changes in Actuarial Assumptions and Methods

Method and assumptions used in calculations of actuarially determined contributions

The following Actuarial Assumptions were adopted from the June 2019 Experience Study:

| | |
|-------------------------------|--|
| General Wage Growth* | 3.50% |
| Investment Rate of Return* | 7.65% |
| *Includes inflation at | 2.75% |
| Merit salary increase | 0.00% to 8.47% |
| Asset valuation method | Four-year smoothed market |
| Actuarial cost method | Entry age Normal |
| Amortization method | Level percentage of payroll, open |
| Remaining amortization period | 30 years |
| Mortality (Healthy members) | For Males and Females: RP 2000 Combined Employee and Annuitant Mortality Table projected to 2020 using Scale BB, males set back 1 year |

TOWN OF VALIER

NOTES TO THE SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY AND
SCHEDULE OF CONTRIBUTIONS TO MONTANA RETIREMENT SYSTEMS (continued)
(As of Measurement Date)
For the year ended June 30, 2022

| | |
|-------------------------------|--|
| Mortality (Disabled members) | For Males and Females: RP 2000 Combined Mortality Table, with no projections |
| Admin Expense as % of Payroll | 0.28% |

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

The actuarial assumptions and methods utilized in the June 30, 2020 valuation, were developed in the six year experience study for the period ending 2016.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
Budget and Actual
ALL BUDGETED MAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2022

| | General | | | Library | | |
|--|--------------------|-----------------|-------------------|--------------------|-----------------|-------------------|
| | Original Budget | Final Budget | Actual | Original Budget | Final Budget | Actual |
| REVENUES: | | | | | | |
| Taxes and Assessments | \$ 99,257 | \$ 99,257 | \$ 101,974 | \$ - | \$ - | \$ 102,508 |
| Licenses and Permits | 3,200 | 3,200 | 4,914 | - | - | - |
| Intergovernmental Revenues | 58,521 | 58,521 | 61,931 | - | - | 2,258 |
| Charges for Services | 51,300 | 51,300 | 47,231 | 450 | 450 | 402 |
| Fines and Forfeitures | - | - | - | - | - | - |
| Miscellaneous | 500 | 500 | 2,094 | 5,643 | 5,643 | 2,489 |
| Investment and Royalty Earnings | 40 | 40 | 193 | - | - | - |
| Total Revenues | <u>212,818</u> | <u>212,818</u> | <u>218,337</u> | <u>6,093</u> | <u>6,093</u> | <u>107,658</u> |
| EXPENDITURES: | | | | | | |
| Current: | | | | | | |
| General Government | | | 91,688 | | | - |
| Public Safety | | | 64,891 | | | - |
| Public Works | | | 45,911 | | | - |
| Culture and Recreation | | | 49,582 | | | 75,446 |
| Total Expenditures | <u>244,908</u> | <u>244,908</u> | <u>252,071</u> | <u>98,976</u> | <u>98,976</u> | <u>75,446</u> |
| Excess (Deficiency) of Revenues Over Expenditures | <u>(32,090)</u> | <u>(32,090)</u> | <u>(33,734)</u> | <u>(92,883)</u> | <u>(92,883)</u> | <u>32,212</u> |
| OTHER FINANCING SOURCES (USES): | | | | | | |
| Fund Transfers In | | | - | | | - |
| Total Other Financial Sources (Uses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Net Change in Fund Balance | <u>(32,090)</u> | <u>(32,090)</u> | <u>(33,734)</u> | <u>(92,883)</u> | <u>(92,883)</u> | <u>32,212</u> |
| FUND BALANCE: | | | | | | |
| Beginning of the Year | | | 152,015 | | | 124,585 |
| End of the Year | | | <u>\$ 118,281</u> | | | <u>\$ 156,797</u> |

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
Budget and Actual
ALL BUDGETED MAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2022

| | BaRSAA HB 473 Allocation | | | ARPA | | |
|--|--------------------------|-----------------|------------------|--------------------|-----------------|-------------|
| | Original Budget | Final Budget | Actual | Original Budget | Final Budget | Actual |
| REVENUES: | | | | | | |
| Taxes and Assessments | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Licenses and Permits | - | - | - | - | - | - |
| Intergovernmental Revenues | 28,792 | 28,792 | 60,469 | - | - | - |
| Charges for Services | - | - | - | - | - | - |
| Fines and Forfeitures | - | - | - | - | - | - |
| Miscellaneous | - | - | - | - | - | - |
| Investment and Royalty Earnings | - | - | - | - | - | - |
| Total Revenues | <u>28,792</u> | <u>28,792</u> | <u>60,469</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| EXPENDITURES: | | | | | | |
| Current: | | | | | | |
| General Government | | | - | | | - |
| Public Safety | | | - | | | - |
| Public Works | | | 23,988 | | | - |
| Culture and Recreation | | | - | | | - |
| Total Expenditures | <u>23,988</u> | <u>23,988</u> | <u>23,988</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Excess (Deficiency) of Revenues Over Expenditures | <u>4,804</u> | <u>4,804</u> | <u>36,481</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| OTHER FINANCING SOURCES (USES): | | | | | | |
| Fund Transfers In | 1,440 | 1,440 | - | | | - |
| Total Other Financial Sources (Uses) | <u>1,440</u> | <u>1,440</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Net Change in Fund Balance | <u>6,244</u> | <u>6,244</u> | <u>36,481</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| FUND BALANCE: | | | | | | |
| Beginning of the Year | | | 23,988 | | | - |
| End of the Year | | | <u>\$ 60,469</u> | | | <u>\$ -</u> |

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

TOWN OF VALIER

NOTES TO THE SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the year ended June 30, 2022

NOTE 1. BUDGETS

Budgets were adopted in accordance with Montana budget laws which are consistent with generally accepted accounting principles (GAAP). Annual appropriated budgets were adopted for all funds of Town of Valier Town. All annual appropriations lapsed at fiscal year end, unless the Town elected to encumber supplies and personal property ordered but not received at year end. The Town did not use a formal encumbrance system.

1. a. GENERAL BUDGET POLICIES

Budgeted funds were those for which a legal budget must be adopted to have expenditures as noted above. The Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual was prepared on the modified accrual basis of accounting and contains financial information for only the major and special revenue budgeted funds.

- The Water and Sewer funds were major funds but were not included because they are enterprise funds.

1. b. BUDGET OPERATIONS

The Town operated within the budget requirements for incorporated cities or towns as specified by Montana law. The financial report reflected the following budgetary standards:

- A local government shall submit a complete copy of the final budget together with a statement of tax levies to the Department of Administration by the later of October 1 or 60 days after receipt of taxable values from the Department of Revenue.
- Local government officials may not make a disbursement or expenditure, or incur an obligation, in excess of the total budgeted appropriations for a fund.
- The governing body may amend the budget during the fiscal year by conducting public hearings at regularly scheduled meetings. Budget amendments providing for additional appropriations must identify the fund reserves, unanticipated revenue, or previously unbudgeted revenue that will fund the appropriations.
- The governing body and each municipal city or town are legally limited to the amount of appropriations and to the classifications in the annual appropriation resolution when making disbursements or expenditures or incurring liabilities, except where appropriations have been adjusted according to procedures authorized by the governing body for:
 - Debt service funds for obligations related to debt approved by the governing body
 - Trust funds for obligations authorized by trust covenants
 - Any fund for federal, state, local, or private grants and shared revenue accepted and approved by the governing body
 - Any fund for special assessments approved by the governing body
 - The proceeds from the sale of land
 - Any fund for gifts or donations
 - Money borrowed during the fiscal year
- If an expenditure is to be financed from a tax levy required to be authorized and approved at an election, the expenditure may not be made or an obligation may not be incurred until the tax levy is authorized and approved.
- At the end of a fiscal year, unencumbered appropriations lapse unless specifically obligated by the Town.

NOTE 2. BUDGET AMENDMENTS

The Town approved a budget amendment in the general fund for \$33,531. The budget amendment used general fund cash reserves.



STROM & ASSOCIATES, P.C.

Certified Public Accountants

3203 3rd Ave N. Suite 208
PO Box 1980
Billings, MT 59103

Phone: 406-252-2765
E-mail: audit@stromcpa.net

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

INDEPENDENT AUDITOR'S REPORT

Mayor and Town Council
Town of Valier
Pondera County
Valier, Montana 59486

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 *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Town of Valier (Town) as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated August 3, 2023.

Report on Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, as described in the accompanying Schedule of Findings and Responses as item 2022-001, that we consider to be a material weakness.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of 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 determination of financial statement amounts. 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.

Town's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Town's response to the findings identified in our audit report and described in the accompanying Schedule of Findings and Responses. The Town did not provide a response to the findings identified in our audit as described in the Schedule of Findings and Responses. Montana law provides if a response is not included in the report the audited entity has 30 days to provide a response to the State.

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.

Strom & Associates, P.C.

STROM & ASSOCIATES, PC
Billings, Montana
August 3, 2023

TOWN OF VALIER

SCHEDULE OF FINDINGS AND RESPONSES

For the year ended June 30, 2022

Prior year findings/status

The following is the status of prior year findings and updated for the fiscal year ended June 30, 2022.

2021-001 – Expenditures Exceeding Appropriations Implemented

Current year findings

2022-001 Streetlights receivables balances

Criteria: Amounts reports for taxes receivable and deferred revenue, using upon receipt revenue recognition, should be reported based on the balances provided by County reports. Accounting records should agree with amounts reported.

Condition: Street lights receivables balance per County records was \$16,463. The amount reported in the Streets lights fund was \$30,432, and the financial records reported a balance of \$(16,463). This has been corrected for financial reporting.

Effect: Street lights taxes receivable and related deferred revenues were overstated by \$13,969 and did not agree with underlying accounting records. This has been corrected for financial reporting.

Context: Taxes receivable and related deferred revenues are adjusted once per year to agree with County records. In addition, street lights taxes receivables on County records are co-mingled with Water and Sewer delinquent receivables and need to be reconciled out as part of the yearly adjustment.

Cause: For reporting, the Water and Sewer delinquent taxes were not properly separated from the Street lights balance, resulting in the overstatement. Financial accounting records were also not properly adjusted to report the reconciled County balance in the Street lights fund.

Recommendation: We recommend the Street lights taxes receivable and related deferred revenue be reconciled to the County special assessment receivable reconciled for Water and Sewer delinquent balances each year.